Recession Proof Portfolio – Protect your portfolio from external shock
(First of its kind feature in Indian equity advisory industry only at Paul Asset)

First Consideration –

If equity market collapse by 50% (or more) then it is next to impossible to earn 20%-30%+ return exactly on the same duration. Till date across the world we have never seen such track record from any fund manager. The reason is simple. Best swimmer in the world can’t survive during Tsunami. If atom bomb blast then it doesn’t matter how fast you can run or how well-protected is our house, you can’t save yourself. Similarly during stock market crash it doesn’t matter how well-experienced or well-qualified an analyst/investor is, it is next to impossible to earn such return. Our target is to generate 8%-14% annualized return via proper asset mix while equity market collapse by 50% or more. Over the period of 10-20 years you can expect 20%-30% annualized return from our “Recession Proof Portfolio”.

Further recession-proof model portfolio will be a continuous process to balance portfolio as per the market situation. It’s not a one-time activity.

Gold – the best hedge against equity –

If you follow the price trend for the last 30 years, you will find gold and equity normally moves in opposite direction. During bull-run in equity market, return from gold remain subdued (in most of the cases). Similarly during 2008-2012 gold emerged as the best performing asset class while equity market lagged behind. So, proper balancing between gold and equities over the entire market cycle will save our portfolio from sudden shock.

The following diagram will help you to understand the co-relation between gold and equity market movement-
**Portfolio balancing strategy at Paul Asset-**

We at Paul Asset will suggest our clients to balance their portfolio as per the following chart. (Excludes fixed deposit and real estate investment) Just have a quick look on the chart, after that we will discuss in details regarding the various asset class and investment option -

<table>
<thead>
<tr>
<th>Phase/Asset Class</th>
<th>Example (Year)</th>
<th>Gold</th>
<th>Equity (Largecap defensive)</th>
<th>Equity (Selected small &amp; midcap)</th>
<th>Cash equivalent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Phase of bull run</td>
<td>2014</td>
<td>0%</td>
<td>5%</td>
<td>90%</td>
<td>5%</td>
<td>100%</td>
</tr>
<tr>
<td>Middle Phase of bull run</td>
<td>2015</td>
<td>10%</td>
<td>10%</td>
<td>80%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Peak of bull run</td>
<td>2007-2008</td>
<td>20%</td>
<td>20%</td>
<td>50%</td>
<td>10%</td>
<td>100%</td>
</tr>
<tr>
<td>Bubble burst</td>
<td>Jan, 08</td>
<td>20%</td>
<td>20%</td>
<td>0%</td>
<td>60%</td>
<td>100%</td>
</tr>
<tr>
<td>Bear Phase</td>
<td>Feb,08-Mar,09</td>
<td>20%</td>
<td>20%</td>
<td>30%</td>
<td>30%</td>
<td>100%</td>
</tr>
<tr>
<td>Recovery Phase</td>
<td>2009-2010</td>
<td>10%</td>
<td>10%</td>
<td>80%</td>
<td>0%</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Gold –**

The easiest and hassle-free option to invest in gold is via Gold ETF. Nothing to worry about purity, minimum maintenance cost, easy to liquidate and above all you can cash-in your investment within 2 days. Investing in Gold ETF is nothing but investing in gold indirectly via electronic format. If you have physical gold or jewelry then also it is recommended to keep Gold ETF in your portfolio as per the above allocation. Buying and selling Gold ETF is similar like buying/selling stocks. No need to open separate trading or demat account, your existing demat a/c is sufficient enough. There are several Gold ETF listed in NSE. There are price variations but over any period of time all those will yield almost same return. Investing in any one of them will serve the purpose. However considering trading volume and liquidity, here are top 3 Gold ETF that you can consider investing –

1. Goldman Sachs Gold Exchange Traded Scheme (NSE - GOLDBEES)
2. UTI Gold Exchange Traded Fund (NSE – GOLDSHARE)
3. R*Shares Gold ETF (NSE- RELGOLD)
P.S – Don’t rush to buy Gold ETF right now. Invest systematically; through out 2015 gold may remain range bound. Basic Google search will help you to know more about Gold ETF and it’s functioning.

**Large-cap defensive stocks** –

Not every large-cap stock is defensive. For example, we can’t consider large-cap stocks like Tata Steel, Tata Motors, DLF, Reliance, Larsen and Toubro as defensive. Those are cyclical stocks, i.e. performs great while overall economy is doing good but economic downturn affect their business. By the term “defensive” we are referring business those are not related with economic cycles. For example – FMCG and Pharma companies (to some extent few software companies). Demand of medicine, packaged foods, personal care products etc won’t be affected by any economic downturn. Thus few great businesses on those sectors always have predictable earning. Companies like ITC, HUL, Nestle, Sun Pharma, Lupin can be categorized under “defensive stocks”. Further today’s defensive may not remain the safe bet in future.

Note – Identifying quality large cap stock is easy. There are many research reports are available at free of cost. However over-allocation in large cap stocks will reduce your overall portfolio return. Stocks like Reliance, ONGC, SBI etc can’t generate huge return like quality midcaps. Further, it is not like that only large cap stocks offer safety. Even few quality mid cap and small cap stocks also offer safety with better return. Visit this link to get the details http://www.paulasset.com/articles/large-cap-stocks-steady-return/

**Equity (Quality small-cap and midcap)** –

We recommend high quality small-cap and mid-cap through our multibagger stock tips service. Investing on those will serve the purpose.

P.S – There are 5000+ small cap and mid cap stocks in the market. However 90% of them have poor quality business, investing on those will badly affect your portfolio. Very few selected high quality mid cap and small cap stocks generally outperform large caps by wide margin. So, you need to be very selective. We at Paul Asset help retail investors to find out high quality mid cap and small cap stocks from the universe of 5000+ names that usually outperform any large cap stock.

**Cash Equivalent** –

By the term “cash equivalent” we are considering the liquid cash that can be utilized to invest within 2 days period. It can be parked at bank’s savings account or any other liquid debt fund.

P.S - We are not considering fixed deposit in the above discussion. At any point of time fixed deposit and related debt scheme should occupy 10%-20% of your overall
investment. More than that will reduce overall portfolio return and less than that may poses risk during emergency requirement.

**How the feature “Recession-proof portfolio” will work?** (For members in Diamond package)

We always suggest investing a pre-defined amount each and every month. Suppose an investor is investing 20,000 per month. So every month as per the market condition, we will provide a chart mentioning out of that 20,000 how much to invest in Gold ETF, how much to large caps, mid caps and small caps. Thus over a period of time your overall portfolio can align with the above mentioned asset allocation chart. *(We are in middle of bull-run. So, gradually within 2015 we suggest to make overall allocation as 10% each in Gold ETF and large-cap defensive)* For investment in Gold ETF, one can choose any one from the above-mentioned 3 gold funds. For large-caps we will separately publish a list of stocks as per the situation. For quality mid-caps and small-caps you need to replicate our “Monthly Portfolio Allocation Guidance”. Further during “Quarterly Portfolio Review” you need to mention the allocation of those different asset classes and there we will guide for any necessary changes (if any). For May,2015 “Recession Proof portfolio” model will be published at the same time during “Monthly Portfolio Allocation Guidance”

So, the feature “Recession Proof Portfolio” will work only in the conjunction of “Monthly Portfolio Allocation Guidance” and “Quarterly Portfolio Review”, which are part of our Diamond package offering. This is why “Recession Proof Portfolio” can’t be offered among Silver and Trial Members. This report is available at free of cost for all members. So, members in Trial and Silver package can utilize the above asset allocation chart for reference. From time to time you will receive notification on “market phase” whether we are in middle/peak of bull-run.

**Points to remember –**

1. Investment in direct equity with proper guidance or with proper knowledge will always yield better result than mutual fund investing. Visit here to know more [http://www.paulasset.com/articles/mutual-fund-or-direct-equity-investing/](http://www.paulasset.com/articles/mutual-fund-or-direct-equity-investing/). This is why we are omitting equity mutual fund from the above discussion.
2. Don’t rush right now to invest in gold. Right now (May,2015) we are in the middle phase of bull run and gold price will remain range bound for the entire 2015. So, you have enough time in hand to re-balance your portfolio.
3. Don’t invest any amount in equities and gold that you need to withdraw within the next 1-year. (Most Important) Park that fund in short term fixed deposit as your emergency fund.