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Why risks are as important as returns for equity investors

In a video interview, Rajesh Kothari of AlfAccurate Advisors says investors should shift their focus towards the risk-adjusted returns they can get from buying equities.

Investors in India typically start a conversation with their wealth manager by asking about the returns they can potentially get.

Yet since returns have primarily come from the fixed income asset class, it is more important to understand what kind of risk one is willing to take.

This is according to Rajesh Kothari, founder of AlfAccurate Advisors, who explains that his firm's strategy is to manage and mitigate risks.

And he believes there are only two ways to do this – have a long-term investment horizon, and diversify.

DIVERSIFICATION COUNTS

Indeed, he believes that diversification is one of the most important tools available to an equity manager. This should be done across sectors and companies.

Further, managers should shun seasonal themes, which Kothari equates with 'rain' or 'drought'.

Never try to predict which theme is going to work, he advises. In the last 15 years, for example, he says the industry has seen many mutual funds try to predict themes like infrastructure, banking and technology.

MANAGING RISK

Yet, in buying into such business, he says there are three risks investor are taking on – governance risk, business-cycle risk, and technology risk.

And regardless of how well a manager or investors might think they know an individual company, there is no definitive way to predict risk, adds Kothari.

He also believes that staggering portfolio investments over a period of time can also be effective in mitigating risk. According to Kothari, exit strategies are also as important as the initial investments. ■

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