Asset Allocation

I believe that more than finding alpha in your domestic market, it is more important that you create a portfolio where you optimally allocate to different asset classes to maximize sharpe (risk-adjusted returns)

**Kinds of diversification**:

1. Microeconomic: Multiple stocks from one country’s market
2. Macroeconomic: Investing in multiple countries
3. Asset Class: Investing in Multiple Asset Classes

**Micro-economic:**

We try to pick the best stocks in a country for which we use the following strategies:

1. Turn-arounds
2. Value + Momentum
3. Rising small-cap
4. Emerging Sectors

**Macroeconomic:**

We diversify across countries and invest in emerging markets with high growth potential or developed markets that are currently undervalued:

1. Emerging Markets
2. Undervalued developed markets

**Asset Classes:**

Diversifying between equities, gold, cryptocurrency, and commodities.

1. Equity
   1. India
   2. China
   3. US
   4. Japan
   5. Taiwan
2. Cryptocurrency - Solana
3. Gold + Bitcoin

The purpose of the asset allocation module is to give weights as outputs to each of the identified assets classes.

**Broad Asset Allocation Output Example:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset Class** | **Sub-asset Class** | **Allocation Weight** | **Allocation Weight**  **(Sub-asset Class)** |
| **Equity** |  | **70%** |  |
|  | India |  | 60% |
|  | China |  | 30% |
|  | US |  | 10% |
|  | Japan |  | 0% |
|  | Taiwan |  | 0% |
| **Cryptocurrency - Solana** |  | **10%** |  |
| **Gold + Bitcoin** |  | **20%** |  |

We classify the asset classes into two groups – **growth** and **hedge-against-risk.** Equity and cryptocurrency are the growth asset classes while gold and bitcoin are the hedge-against-risk asset classes.

The fundamental idea behind this asset allocation framework is that – during periods of stability and peace, growth expectations are high and therefore growth classes will outperform. This outperformance lasts for a while, till the euphoria reaches a level which is unwarranted, debt levels rise, and conflicts, if any, make things worse. When this happens, we increase allocation to hedge asset classes.

**What are the factors that affect allocation to growth asset classes?**

Current Valuation:

1. P/E
2. Buffet Indicator (market cap / gdp)
3. Debt to GDP
4. Liquidity
5. Geopolitical Conflict
6. Inflation

Forward Looking (Predictive)

1. EPS growth forecasts
2. GDP Growth Forecast

Every factor is scored out of 100, and based on the total score, the final allocation to growth asset classes is determined.

The primary equity asset class is the Indian stock market. The secondary asset classes are the US, China, Japan and Taiwan markets.

This is the algorithm that will define the allocation.

1. A function which determines if the Indian market is overvalued. If not, all equity exposure is allocated to the Indian market.
2. If the Indian market is overvalued, we check the other equity markets. If all of them are overvalued, equity allocation is reduced to 0
3. If there is any equity market that is not overvalued, we direct our investment to that market.
4. We have two cryptocurrency options – If allocation to equity is strong, we allocate more to solana.

The remaining allocation is split between gold and bitcoin.