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Retail investors should assign 60% weightage to large cap stocks in their portfolio: Experts

NEW DELHI: The S&P BSE Sensex, which rose 30 per cent in the calendar year 2014, looks all set to touch fresh record highs in the year 2015 and large cap stocks are likely to lead the rally, say experts.

For the year 2014, the Sensex outperformed with annual return of 30 per cent, whereas FD rates were 9 per cent and gold gave negative returns. There are typically five asset classes to choose from for retail investors, namely - equities, gold, fixed income, currency and commodities.

Equities as an asset class is likely to outperform other asset classes in the year 2015 and retail investors should look at buying quality stocks on every dip.

"For retail investors our advice is to invest wisely in equities, in 60:40 ratio - with 60% of portfolio to be assigned for large caps and 40% for mid-caps," says Vivek Gupta, CMT - Director Research, CapitalVia Global Research Limited.

"In the year 2015 we are expecting good returns in the mid cap sector, but as risk is high, we cannot put high stakes on it. It is best to concentrate on solid stocks with great long-term growth potential and use the strategy of buying in dips," adds Gupta.

He further adds that mutual funds can also be a great option if direct market participation is not feasible or in case there is less risk appetite.

Considering the fact that equities are likely to outperform other asset classes, investors should remain cautious while picking stocks for their portfolio. One can look for a company that offers unique products or has a foothold in a niche market.

Consider stocks that are fundamentally solid - a strong cash position, little or no long-term debt, growing revenues, ongoing profitability, and a good growth strategy, say experts. It is also good to look for stocks that return income to investors in the form of a share repurchase program and dividends.

"Equities as an asset class are much more likely to outperform the other asset classes. Fixed income investments are being peddled by many on the basis that the RBI will cut interest rates and hence one should invest in them to capture the one-time upside to the principal," says Dr Vikas V Gupta, Executive Vice President at ArthVeda Fund Management Pvt. Ltd.

"However, go into equities with a consciousness of your own risk appetite and allocate a portion for the long-term. Start with a reasonable lump-sum of about 10-20 per cent of your financial corpus and then add SIPs so that in 6 months you have about 30% of the financial corpus," he adds.

Gupta is of the view that one should stick to index-oriented funds and safer large cap strategies. Small and midcaps also have a role in investors' portfolio, but to a lesser extent.

Experts across Dalal Street advise investors that they should not chase past returns; i.e. since BSE Small Cap has given 100% returns in the last one year, so one should not get enticed that that will continue in the future.

It is expected that 30 per cent CAGR in EPS is possible over the next 5 years, according to our market analysis, says Gupta. This is likely to provide very high returns over the next 5 years.

However, retail investors should develop their own understanding of equities and read up Ben Graham's Intelligent Investor before jumping lock-stock-and-barrel into equities, advise experts.

"As far as retail investors are concerned, the current set-up of Indian equity markets is unprecedented. The next three-five years look very good from the corporate growth and return perspective," says Vikas Khemani, Edelweiss Financial Services.

"People have to invest in equities. You can have a systematic investment plan. Obviously, one has to look at one's own risk-reward profile. But in my opinion, for every retail investor, equity exposure has to be a significant part of their savings pool," he adds.

Khemani is of the view that at least 15% to 20% return over the next four-five years will come from equities. And the best part is that it is also tax free. So, equities are definitely a great asset class for any retail investor, he concludes.