



FINANCIAL ANALYSIS

Asset allocation

How money is divided between shares, bonds, gold and cash, and why the split shapes the range of outcomes

Market figures as on 31 August 2026; SEBI scheme categories as on 20 March 2026

For training and education only. Not investment advice.

Asset allocation is the decision of how much to hold in each kind of asset. It comes before choosing a scheme.

Different assets react to different things. Holding more than one kind changes the range of results a portfolio can have. It does not remove risk, and it does not assure a return.

The main asset classes

Asset class	What the investor holds	What it is mainly exposed to
Equity	A share in the business of companies	Company profits, and the price the market puts on them. Prices can swing widely.
Debt	A loan to a government or a company, in return for interest	Interest rates (bond prices fall when rates rise) and the borrower's ability to repay.
Gold and silver	A commodity, held directly or through a fund	World prices and the rupee's exchange rate. It pays no interest or dividend.
Real estate	Property, or units of a REIT or InvIT	Rents, property prices and interest rates. Property itself can be slow to sell.
Cash	Bank balances and very short-term deposits	Inflation. The value may not keep pace with rising prices.

A general description for training. A REIT is a real estate investment trust; an InvIT is an infrastructure investment trust.

How a mix changes the range of outcomes

ASSUMED OUTCOMES

₹1,00,000 is held for one year.

Asset A ends the year between 20% down and 30% up.

Asset B ends the year between 4% up and 8% up.

- 1 All in A: the year ends between ₹80,000 and ₹1,30,000. The range is ₹50,000 wide.
- 2 Half in each, weak year for both: $₹50,000 \times 0.80 + ₹50,000 \times 1.04 = ₹40,000 + ₹52,000 = ₹92,000$.
- 3 Half in each, strong year for both: $₹50,000 \times 1.30 + ₹50,000 \times 1.08 = ₹65,000 + ₹54,000 = ₹1,19,000$.
- 4 The mix ends between ₹92,000 and ₹1,19,000. The range is ₹27,000 wide: a smaller fall and a smaller rise.

The mix narrowed the range at both ends. It gave up part of the rise to limit the fall.

Invented figures to show the arithmetic only. They are not estimates of what any asset will do.

Strategic and tactical allocation

Strategic

- A long-term target mix, such as 60% equity and 40% debt
- Set from the person's goals, time horizon and ability to take risk
- Changed when the person's circumstances change
- Kept in place by rebalancing

Tactical

- A temporary tilt away from the target mix
- Made on a view of where markets or interest rates are heading
- Helps only if the view proves right, and in time
- More shifts can mean more cost and more tax

A tactical shift is a forecast put into action. Forecasts can be wrong.

Rebalancing: back to the target mix

THE SET-UP

The target mix is 60% equity and 40% debt.

₹10,00,000 is invested: ₹6,00,000 in equity and ₹4,00,000 in debt.

Assume that in a year equity rises 25% and debt rises 5%.

- 1 Equity: ₹6,00,000 $\times$ 1.25 = ₹7,50,000. Debt: ₹4,00,000 $\times$ 1.05 = ₹4,20,000. Total ₹11,70,000.
- 2 Equity is now ₹7,50,000 $\div$ ₹11,70,000 = 64.1% of the portfolio, not 60%.
- 3 The target on ₹11,70,000 is ₹7,02,000 in equity (60%) and ₹4,68,000 in debt (40%).
- 4 To rebalance, ₹7,50,000 – ₹7,02,000 = ₹48,000 moves from equity to debt.

Rebalancing brings the level of risk back to what was chosen. It is not a way of earning more.

Illustration with assumed figures. The returns are invented and are not a forecast.

Risk capacity and risk willingness



Risk capacity

How much loss the person's finances can absorb. It depends on facts: how steady the income is, when the money is needed, who depends on them, and what they owe and own.



Risk willingness

How much rise and fall the person can live with. It is a matter of temperament, and it shows most clearly in what they did the last time their investments fell.

The two can differ. A questionnaire captures only part of either, so the conversation matters.

Schemes that allocate inside the fund

SEBI's categories set how far each type of scheme may move between asset classes.

SEBI category	What the rule says
Multi Asset Allocation Fund	At least three asset classes, with at least 10% in each. Foreign securities do not count as a separate asset class.
Balanced Advantage / Dynamic Asset Allocation Fund	Equity and debt only, with the split managed dynamically. SEBI sets no fixed range.
Aggressive, Balanced and Conservative Hybrid Funds	Fixed equity ranges: 65% to 80%, 40% to 60%, and 10% to 25%. The rest is in debt.
Life Cycle Fund	A target-date fund on a glide path. A 30-year fund holds 65% to 95% in equity at the start and 5% to 20% in its last year.

Source: SEBI Master Circular for Mutual Funds, 20 March 2026, paras 3.8.3 and 3.8.4 and Annexure 1B (categorisation circular of 26 February 2026).

One marker for each of three assets

Equity is quoted as an index level, debt as a yield, cash as a rate. These are levels on a date, not signals.

EQUITY: NIFTY 50

24,080

Closing level of the index of 50 large companies on 31 August 2026: 24,080.40.

DEBT: 10-YEAR G-SEC YIELD

6.95%

Yield on the 6.94% Government security maturing in 2036, on 31 August 2026: 6.9497%.

POLICY RATE: REPO

5.50%

RBI's policy rate, raised from 5.25% on 7 October 2026 (5.25% on 31 August).

Sources: NSE Indices daily index close file, 31 Aug 2026; FBIL G-Sec prices/yields, 31 Aug 2026; RBI Monetary Policy Statement, 7 Oct 2026.

If you learnt this from older material

What older material says

- SEBI's 2017 list of 36 scheme categories
- 'Solution oriented' schemes for retirement and children
- Debt funds held three years get indexation, so shifting to debt is tax-light

What holds now

- Categories were redone by SEBI's circular of 26 February 2026
- Dropped as a category (funds may continue); Life Cycle Funds are new
- Debt fund units bought from 1 April 2023: gains taxed at slab rate

Sources: SEBI Master Circular for Mutual Funds, 20 March 2026, Part IV of Chapter 3; Trustner Academy verified fact sheet (investments), 7 Oct 2026; HSBC Mutual Fund Tax Reckoner 2026-27.

Four things people get wrong



'Diversified means it cannot fall.'

A mix can still lose value. It changes the range of outcomes; it does not remove loss.



'More schemes, more diversification.'

Five equity schemes are still one asset class, and they can hold many of the same shares.



'100 minus your age is the rule.'

It is a rule of thumb, not a regulation. It ignores income, goals and obligations.



'Rebalancing costs nothing.'

A move between schemes is a redemption. Tax and exit load can apply.

A mutual fund distributor explains these ideas. We do not prescribe an asset allocation.

Check yourself

Q1

A 50:50 portfolio holds ₹5,00,000 in equity and ₹5,00,000 in debt. Assume equity falls 20% and debt rises 4%. What is the equity share now, and what move restores 50:50?

Q2

What does SEBI's rule require of a Multi Asset Allocation Fund, and how does a Balanced Advantage Fund differ?

Q3

A client asks: 'Just tell me what percentage I should keep in equity.' What can a mutual fund distributor do, and not do?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Hybrid categories, their equity ranges, the multi asset rule and Life Cycle Funds: SEBI Master Circular for Mutual Funds, 20 March 2026, paras 3.7 to 3.8.4 and Annexure 1B.
- Nifty 50 close 24,080.40 on 31 Aug 2026: NSE Indices daily file. 10-year G-sec yield 6.9497% on 31 Aug 2026: FBIL G-Sec yields. Repo rate 5.50%: RBI Monetary Policy Statement, 7 Oct 2026.
- Debt fund tax and the 2017 category count: Trustner Academy verified fact sheet, 7 Oct 2026. REIT and InvIT classification (para 13.13) and the 26 August 2026 date (para 3.8.9): SEBI Master Circular.
- Assets A and B, the 60:40 and 50:50 mixes and all returns in the examples are invented. They are not forecasts and not suggested allocations.

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