Publication: Times Of India Mumbai;**Date:**Jan 8, 2007;**Section:**Times Business;**Page Number:**23

PENNY WISE

HOW TO MAKE YOUR ENTIRE PORTFOLIO ADD TO YOUR WEALTH

GAURAV MASHRUWALA

Usually, we tend to look at investments which are newly made or those performing well. In fact, these days most of us evaluate our equity portfolio, as we get daily prices only in the case of equities. Another reason could be the buoyancy in the stock markets. When there is a downturn, even equity is ignored. Ideally, we should evaluate our entire wealth—equities, debt-based investments and property. Property includes real estate, bullion and other collectibles. Only if our entire wealth surges, will we become wealthy.

Our wealth portfolio will have good, bad and average performers. They all constitute our wealth and hence, all must be evaluated.

So how does one calculated one's cumulative wealth index? To begin with, choose any one asset class for this year, say, equity or debt or property.

Suppose we choose to track equity. Then we must find out the value of our entire equity portfolio at the beginning of the year/period. This should include direct equity, equity-based mutual funds, equity under portfolio management services and ULIPs with equity exposure.

There will be two to three stages before we get on to calculate the returns accurately.

First, note down three values for the entire equity investments. Market price at the beginning of the period (say January 1, 2007), dividends received during the period and selling price or closing price on (say March 31, 2007). At the end of the year, we must observe how these prices have moved every quarter. To get a rough estimate of returns, calculate sales price or closing price (+) dividends received (-) purchase price or price at the beginning of the period. Obviously, this is a very simplistic way of calculating returns. A slightly better method is to convert returns into percentages. This will give a more accurate picture of your equity portfolio.

The final stage is to calculate IRR (internal rate of return). This is needed because, in real life, we will have multiple purchases, multiple dividend receipts and several redemptions and sales. IRR gives the most accurate indicator of returns. If you are familiar with MS Excel, use the IRR function to calculate returns.

Next year, add one more asset class. It could be property or debt. It is very easy to calculate returns from debt-based investments, as there are no market movements—unless we are trading in bonds and G-sec. Over a period of two-three years, we must ensure to learn to calculate returns of our entire wealth.

While there could be some technicality involved in calculating cumulative wealth index, if we want to nurture and grow our wealth we must also learn to track its growth.

The author is a certified financial planner