

Prevent your investments from the rupee depreciation

Manoj Ghinwala, a senior manager, wants to ensure that his children go abroad for higher studies in about four years. He has been earning well and has built a sizeable corpus for his children. However, the falling rupee has left him worried. Banks are unable to help him hedge the increasing cost of fees and expenses that he is likely to incur if the rupee continues to depreciate. How can Ghinwala manage this risk?

The exchange rate risk that Ghinwala faces arises from the fact that his earnings are in rupees and the expenses on children's education will be in dollars. Any appreciation in the rupee will work in his favour, while depreciation will increase the cost of education. Ghinwala may not be able to forecast the direction of the exchange rate correctly. Therefore, he should try not to speculate on the value of the rupee. Currency derivatives may turn out to be a risky choice not suitable for his term of four years. Trying to time the market might create problems if the rupee appreciates.

He has a clear need and hedging is a better alternative. He needs to consider ways to earn dollar income from rupee investment. International investing might be a good choice and he could consider investing in dollar-denominated bonds, ETFs and other similar products. He may also like to look at international funds that invest in global markets.

He should, however, be careful not to choose risky investments. Some funds invest in a few countries or themes and may carry equity and country risks. Other funds are global only in name as they may invest up to 65% in India to provide tax benefit to investors. Some have high costs and a very small size. Ghinwala should pick while focusing on his need to earn a dollar income that will help manage his currency risk.

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