EXPRESS CLINIC

NAME: **BHARAT SAPAT, 37**
RESIDES IN: PUNE
PROFESSION: SERVICE IN A PRIVATE LIMITED COMPANY

NET ANNUAL INCOME
(₹ 9, 60,000)

OTHER DETAILS: WIFE SHEETAL IS A HOME-MAKER, DAUGHTER TINA IS 6 YEARS OLD

STATUS & GOALS

BHARAT HAS JUST TAKEN A HOME LOAN OF ₹ 20 LAKH. HIS IMMEDIATE OBJECTIVE IS TO BUILD HIS FINANCES TOWARD MEETING HIS GOALS AND COMMITMENTS, ENSURE ADEQUATE FINANCIAL SECURITY FOR HIS FAMILY AND TO HAVE A COMFORTABLE LIFE AFTER RETIREMENT.

NEEDED

A financial plan that will meet his goals and help him earn good returns.

MONTHLY INCOME (Post Tax) **₹ 80,000**

NET MONTHLY SURPLUS **₹ 22,390**

GOALS:

IN ORDER OF PRIORITY

TINA'S EDUCATION (2023)
(Inflation 10%)

CURRENT VALUE	FUTURE VALUE
₹ 25 lakh	₹ 78.46 lakh

RETIREMENT PLANNING (2032)
(Inflation assumed: 8 per cent by 2016)

CURRENT VALUE	FUTURE VALUE
₹ 38,000	₹ 1,57,000 per month

TINA'S MARRIAGE (2030)
(Inflation 8%)

CURRENT VALUE	FUTURE VALUE
₹ 15 lakh	₹ 64.73 lakh

CORPUS REQUIRED
₹ 3.46 crore
(Life Expectancy 78 years, Inflation 8%, Growth of Corpus at the rate of 7%)

FINDINGS

BANK ACCOUNT
Balance in savings bank is ₹ 35,000. There is no other liquid investment available to fund any emergency needs, be it a medical emergency or provision of expenses including EMIs in a situation of a job loss.

HEALTH INSURANCE
No personal health insurance cover is available. Employer provides a health cover of ₹ 4 lakh. There is no clarity available on the benefits under the health insurance cover provided by the employer.

LIFE INSURANCE
There is one life insurance policy in Bharat's name with a sum assured of ₹ 1.15 lakh for which he pays an annual premium of ₹ 2,400. In case of death of the sole earner, the family will have to bear the burden of the home loan without any resources to repay it and also continue to lead a normal lifestyle.

INVESTMENTS
Currently, Bharat invests ₹ 3,000 per month in PPF. There are no other investments. He holds gold worth about ₹ 1.65 lakh, most of it in the form of jewellery. There is a small amount of silver too. Financial goals have not been factored in while making investments.

RETIREMENT
Bharat has bought a plot of land towards his retirement planning. The current value of the plot is ₹ 1.7 lakh. His current PPF balance stands at ₹ 1 lakh. He has withdrawn his PF from his earlier employer. His current PF balance is ₹ 22,000.

LIABILITIES
He has a home loan of ₹ 19.90 lakh for 20 years at floating rate of interest. His EMI is ₹ 19,610. There is no insurance taken to cover this liability.

EXPENSES
There is a tilt towards spending on lifestyle products at the cost of basic financial requirements like health and life insurance. This needs to be checked. Lifestyle expenses should happen only after basic needs are met.

RECOMMENDATIONS

EMERGENCY FUND
Liquidity available currently is low. This will lead to enormous problems if an emergency situation arises. He needs to urgently build up an emergency corpus of ₹ 1.37 lakh. This will cover three months of expenses including EMIs. For this he needs to hold his lifestyle expenses for the present and ensure funding an emergency corpus in the form of fixed deposits or investment in liquid funds.

Express Tip: Always keep 3-6 months of expenses in ready-to-use form. Never forget to include EMIs as it is also an expense.

HEALTH INSURANCE
Consider a floater policy for at least ₹ 5 lakh for the family, in addition to the employer provided health cover. Later, opt for additional individual cover for at least ₹ 5 lakh each.

Express Tip: Health insurance is primarily required to avoid using funds allocated to other long term goals. Ensure that you are adequately covered at all times.

LIFE INSURANCE
There is a requirement of ₹2crore life cover. Go for term plan costing an average ₹60,000 per annum. Split the plan into three portions that have tenures co-inciding with children's goals and your own retirement.

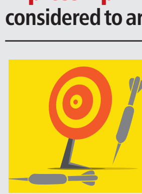
Express Tip: Always insure before investing.

CHILDREN'S GOALS
For Tina's education, you will need to invest ₹19,700 per month for 12 years and for her marriage you will need to invest ₹ 5,000 per month for 19 years.

RETIREMENT PLANNING

EPF and PPF will provide support to retirement corpus creation. At the current rate of investment, PPF should grow to about ₹23 lakh till retirement. EPF (assuming 7 per cent growth in income) should add another ₹49 lakh. The balance corpus needed to be generated is ₹2.65 core. This will require a monthly investment of ₹15,200 till retirement.

Express Tip: All sources of funds should be considered to arrive at the retirement corpus.



OTHER FINDINGS
Current monthly surplus is not sufficient to make investments towards the desired financial goals. The total monthly investment required to provide for all the listed goals would be approximately ₹40,000. Bharat will have to curtail expenses and find ways of increasing his income to meet his desired goals. The immediate requirement is to avail of health and life insurance cover followed by emergency fund. Continue with the investments in PPF. Also, it is very important not to withdraw your PF amount when changing jobs. This error, results in huge losses in the long term in terms of losing the effect of compounding growth on the PF corpus.

CONCLUSION

Prioritising needs is essential in financial planning. Knowing your priority will aid the funds to be allotted to the correct requirement. One needs to curb irrational lifestyle expenses if basic needs are not getting covered in the regular income. Do a regular review to check whether you are on track to meet your goals.

PLAN BY: KIRAN TELANG,
CERTIFIED FINANCIAL PLANNER,
MEMBER OF THE FINANCIAL PLANNERS' GUILD, INDIA(www.fpgindia.org)

For expert guidance on your financial planning email us your details at
expressmoney@expressindia.com

■ SMART STRATEGY

Look beyond past returns to choose the best fund

A good fund captures the rising market but protects the downside in a falling one

RITU KANT OJHA

THE last 4-5 years have been very interesting for the Indian equity markets. They tested the patience of investors and merit of fund managers. The extremes of highs and lows made investors sit up and closely watch the stocks picked by their funds and fund managers. Some schemes beat the benchmark indices in the rising market of 2006-07. They also managed to limit the losses in the 2008 crash. But many failed.

"Last four years have seen all cycles of the markets - massive uptick, downtick, panic, mania, bull run, bear phase etc. Stocks defensive in 2008 are aggressive now. The performance of funds vary depending on stock selection," says Sankar Naren, chief investment officer, ICICI Prudential AMC.

Though long-term annualised return is normally used to gauge a fund's performance, a look at the 'up capture' and 'down capture' ratios would help zero in on the best one.

Up/downside capture ratio shows you whether a given fund has outperformed—gained more or lost less—compared with a benchmark during periods of market strength and weakness, and if so, by how much. Broadly there are four different combinations of up/downside capture ratios.

HIGH UPSIDE — HIGH DOWNSIDE

These are the funds which outperform the benchmark index during a rising market. During a correction or bear phase, same funds carry the risk of falling more than the index. For example, the SBI Magnum Midcap Growth scheme gave excellent annual returns of 47 per cent and 71 per cent, respectively during 2006 and 2007, when the equity markets were breaking all previous record highs. In 2009 when markets recovered after 2008 crash, it gave a whopping annual return of 104 per cent.

However, during the 2008 crash, the same fund eroded in value by 72 per cent. From January this year to September, it fell 16.73 per cent. The five year annualised return of the fund is a mere 2 per cent. This is explained by its up capture and down capture ratios. According to Morningstar, a global mutual fund research company, the 5 year up capture ratio of the fund is 104.21 while the down capture ratio is 119.7. This means that while the fund manager ensured outperformance during a bull run, it could not limit the downside while the markets were correcting. Data indicates that the fund value fell 19.79 per cent more than the benchmark. This is true across categories – be it large cap, mid cap or small cap funds. Several funds like Taurus Starshare, L&T Opportunities, JM Basic, LIC Nomura MF Equity, and Sundaram India Leadership funds show similar traits.

LOW UPSIDE — HIGH DOWNSIDE

It indicates that while the fund failed to match the return of the index in a rising market, it fared equally bad by giving higher negative returns than the index in a falling market. For example, Principal Growth Fund, a large cap oriented scheme. Its 5 year up capture ratio is 81.55 while the down capture is 99.

This is more risky than the previous category since the scheme fails to outperform the index in a rising market, it falls equally or more than the index in a falling market. This shows in its annual returns of 2007 and 2008. In the bull run of 2007, it yielded 53.28 per cent while in the next year, the scheme fell 63.69 per cent. January to September this year, the fund value plunged 23.25 per cent while its 5 year annualised return is negative 0.67 per cent. Some of the other schemes that fall in this category are BNP Paribas Midcap, ICICI Pru Midcap, SBI Magnum Multicap, and L&T Contra.

THINKSTOCK

HIGH UPSIDE — LOW DOWNSIDE

This is the smartest set. These are schemes which on one hand beat the benchmark index in a rising market, and on the other, protect the downside in a falling market. Most top funds that have performed consistently and have a good 5 year annualised return fall in this category.

For example, IDFC Premier Equity Plan A, a small and midcap oriented fund. It has a 5 year up capture ratio of 104.5 and the down capture ratio of 74.46. The fund returned 110 per cent in 2007 while it fell 53 per cent in 2008. The 5 year annualised return of the fund stands at a staggering 23 per cent. January to September this year, it has dropped 8 per cent.

It gave better returns than the benchmark during the rising market and protected the downside when the markets crashed. Some other funds in this category are HDFC Top 200, HDFC Equity, Canara Robeco Equity and UTI Dividend Yield.

"The hallmark of a good fund manager is not how s/he performs when the markets are going up but how s/he performs when the chips are down. The fund should not fall more than the benchmark index. Else what is the point of investing in a mutual fund," says Sanjay Sachdev, president and CEO, Tata AMC.

LOW UPSIDE — LOW DOWNSIDE

This category may not beat the benchmark when the markets are rising but would not fall much in a falling market. They can be a good choice for risk averse investors who would like to invest in a fund that would protect the downside in a falling market.

UTI MNC fund is an example. The 5 year up capture ratio of the fund stands at 67.67 per cent while the down capture is 52 per cent. This means that while the fund did not match up the benchmark index returns, it captured the losses of falling market up to only 52 per cent. In 2007, the fund gave a return of 32.45 per cent while it fell 42.78 per cent in 2008. The 5 year annualised return remains at 13 per cent. January to September return this year stands at 1.34 per cent which is not bad considering most of the equity funds gave negative returns.

The other funds in this category are Birla Sun Life MNC, UTI Equity, and ICICI Pru Dynamic.

It may be a smart strategy to have a look at the up and down capture ratios of the funds before finally taking a call on the choice of fund. Websites such as www.morningstar.co.in, have such details about each equity fund. "Investors must stay away from such funds that fall too much in a falling market. Funds with high up capture and low down capture ratios are ideal for investors," suggests Dhruva Chatterji, senior research analyst with Morningstar, India.

You must not look at only the recent past performance as that may be misleading. Do check how the fund performed both in the rising market as well as the falling market. ◆

—*ritukant.ojha@expressindia.com*

WINNERS & LOSERS

Category (Mutual Fund Schemes)	Upside Capture	Downside Capture	5 Yr Return Annualised
High Up & High Downside			
SBI Mag Sec Umb Emerging Bus Gr	108.27	104.82	10.62
Taurus Starshare Gr	108.54	104.90	8.37
Low Up & High Downside			
BNP Paribas Mid Cap G	89.58	106.19	0.89
ICICI Pru Midcap Gr	92.58	103.15	3.60
High Up & Low Downside			
IDFC Premier Equity A Gr	104.51	74.46	23.05
HDFC Top 200 Gr	100.14	83.35	13.21
Low Up & Low Downside			
UTI MNC Gr	67.67	52.28	13.23
Birla Sun Life MNC Gr	72.37	58.55	12.92

(Source: Morningstar India) *(Up/ downside capture ratio for 5 years)*

■ TAKING WINGS

ROHINI FERNANDES AND RADHIKA NAIR
Animal Angels Foundation

ABOUT ME

Name	Rohini Fernandes and Radhika Nair
Age	30
Hometown	Mumbai
Family background	First gen entrepreneur
More than 1 company?	No
Education	Masters in Clinical psychology
Graduated from	Mumbai University
Former employer	None
Former designation	None
Area of responsibility	Clinical Psychologists, Certified Practitioners
Favorite book/movie	**Book:** All books by Gerald Durrell

MY BUSINESS

Company Name	: Animal Angels Foundation
Founded in	: January 2005
Headquartered in	: Mumbai
Company website	: www.animalangelsfoundation.com
Industry	: Mental Health
Stage of the company	: Scaling up
Source of idea	: Built passion into a business

NUMBER CRUNCHING

	2009	2010
No. of employees	: 02	04
No. of locations	: 08	10
No. of customers	: Over 150	Over 250
Turnover	: Approx ₹ 10 lakh	Approx ₹ 10 lakh
Profits	: ₹1-3lakh	₹1-3lakh
Initial funding	: Family members	
Primary source of additional funding	: Angel investors	
Raised capital?	: No	

National Entrepreneurship Network, a non-profit organisation that supports high-potential entrepreneurs, contributes to this weekly feature

MY GAMEPLAN

AT Animal Angels Foundation we practice animal-assisted therapy (AAT) to treat children, adults and senior citizens with developmental disorders, psychiatric disorders, physical disabilities, physical illnesses and behavioural/emotional problems. Our therapy pets assist us in helping people cope with life's day-to-day challenges such as loss, stress, loneliness and illness, in learning new skills and in speeding up their recovery process.

At AAF each of our client goes through a pre-therapy, mid-therapy and post-therapy evaluation; wherein the therapist helps a client achieve a variety of physical and psychological goals in one session, something that is not always possible with other therapies.

The best advice I got...
To treat our work and ourselves as professional business women; to use our head as well as our heart while making decisions. This way we can run a successful business and change lives. And this piece of advice has helped us reach our goals.

The defining moment…
Was when a child who had never spoken in school said our therapy dog's name - 'bye Casper' - loudly while leaving the class. This happened when we were just starting out and struggling to make ends meet. It reinforced our faith in our work and motivated us to keep trying.

What keeps me awake at night…
Our passion for helping people enhance the quality of their lives through our therapy animals. Also, our belief in the power of our therapy animals in healing people. We want the whole nation to be aware of it and want to expand and make AAF an all India venture. We want our amazing co-therapists (our dogs) to touch the lives and hearts across the country.

I thought I would give up...
Many people in India were not aware of this concept of AAT. We faced a lot of obstacles, the main being that institutes were too apprehensive to allow us to practice AAT with their clients. They told us that if human therapists could not produce much change in these clients then animals would not be able to help them at all.

My word of advice for others...
As Robert Browning said, "Ah! But a man's reach should exceed his grasp, or what's a heaven for!?" We believe that anyone can achieve their dream if they are willing to fight for it. It's not going to be easy but with hard work, patience and persistence victory will be theirs. It is also very essential to believe in yourself and your work, and if you are passionate about your work then it helps you get through anything. ◆