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EXPRESS CLINIC

NAME: **GEETANJALI AND PUNEET SHARMA**, 32
RESIDES IN: HARYANA
PROFESSION: DENTISTS WITH THE GOVERNMENT OF HARYANA

NET ANNUAL INCOME
(₹ 12LAKH)

OTHER DETAILS: SON RIDHAAN, 2 YEARS

STATUS & GOALS

THE SHARMAS HAVE A SECURE JOB WITH GOVERNMENTOF HARYANA. THEY WANT TO BE SURE OF BEING ABLE TO MEET FINANCIAL GOALS FOR THEIR SON RIDHAAN'S FUTURE AND FOR THEIR OWN RETIREMENT.

NEEDED

A financial plan that will provide the couple high returns and provide for their goals.

MONTHLY INCOME (Post Tax) **₹1,00,000**

TOTAL EXPENSES **₹ 52,000**

NET MONTHLY SURPLUS **₹ 48,000**

GOALS

IN ORDER OF PRIORITY

RIDHAAN'S EDUCATION
(Inflation assumed 10% by 2025)

CURRENT VALUE	FUTURE VALUE
₹ 15,00,000	₹ 57 lakhs

RIDHAAN'S MARRIAGE
(Inflation assumed 8% by 2033)

CURRENT VALUE	FUTURE VALUE
₹ 10,00,000	₹ 68, 50,000

RETIREMENT PLANNING (2038)
(inflation at 8% returns in post retirement-8%)

MONTHLY EXPENSE	FUTURE VALUE (2037)	CORPUS REQUIRED
₹ 34,300	₹ 2,54,000	₹ 8.24 crore

OBSERVATIONS

LIFE INSURANCE COVERAGE
Geetanjali: **NIL**
Puneet: **₹ 75lakh**
Total premium paid: **₹ 16,500 annually**

HEALTH INSURANCE
Provided by employer for self and dependents to the extent of 70 per cent of actual expenses incurred.

FINDINGS

EMERGENCY FUND
Balance in savings bank is ₹ 50,000. Fixed deposits worth ₹ 2 lakh are available.

HEALTH INSURANCE
Only employer provided cover is available which provides decent coverage including that for dependent parents.

INSURANCE
Puneet has a term plan of ₹ 75 lakh. Geetanjali has no life cover.

INVESTMENTS
There are mutual fund investments worth ₹ 2.75 lakh. Physical gold worth ₹ 16.5lakh. Total PPF balance in both accounts stands at ₹ 1.15lakh.

RETIREMENT
Being government employees, 10 per cent of their basic salary goes to NPS, with an equal contribution from the government. Currently no other provisions towards retirement planning.

LIABILITIES
Currently there is a vehicle loan outstanding of ₹ 60,000. They intend to repay it by the end of the year. Home loan of ₹ 35 lakh is under process. Expected EMI will be ₹ 39,000. EMI starts after possession of property, expected in May 2013.

OTHER INVESTMENTS
Geetanjali has started purchases in gold ETF. The family holdings in gold are on the higher side. Any more investments in gold currently are not recommended.

Current holding in MF of ₹ 2.75 lakh is in tax saving funds, accumulated through SIPs. There is a need to reconsider this investment in view of DTC which might come in from April 2012. ELSS funds may no longer be covered under tax saving instruments. Besides, SIPs in ELSS funds increase the actual lock-in period of the holdings.

RECOMMENDATIONS

EMERGENCY FUND: There is adequate amount of ₹ 2.5 lakh kept as emergency funds. Being in a secure job environment, they will require lower amount of emergency funds. They can consider moving ₹ 1 lakh from FD to short term bond funds to earn better returns.

Express Tip: Always keep 3-6 months of expenses in ready to use form. Do not forget to include EMI's in the expenses. Too much money in emergency fund can affect portfolio returns.

HEALTH INSURANCE: Good coverage is available from employer. There is no need for a separate personal health insurance cover. For the amount which will not be covered by the employer, you can consider creating a corpus through SIPs in balanced funds, which can be utilized if need be. Sufficient funds are available to meet this goal.

Express Tip: One should make an effort to avoid using funds from other goals to meet requirements in adverse health situations.

LIFE INSURANCE
Puneet is adequately covered in terms of life insurance, even after considering the home loan of ₹ 35 lakh. Geetanjali should consider a term plan of ₹ 25 lakh. This cover is available for a cost of ₹ 3,600 to ₹ 8,700 depending on the insurer and mode (online/offline) you select.

Express Tip: Always insure yourself before you start investing.

ACCIDENT INSURANCE
Both Puneet and Geetanjali should get a personal accident insurance cover of ₹ 25 lakh. This will pay monthly instalments for about 2 years in case of temporary total disablement due to accident.

Express Tip: Accident can affect ability to work and hence incomes temporarily or permanently. Accident insurance covers this risk.

RIDHAAN'S GOALS
Earmark the existing SIP of ₹ 8,000 per month towards education goal. Another SIP of ₹ 2,000 will be needed to meet this goal. Start an additional SIP of ₹ 2,000 per month for the wedding goal.

RETIREMENT
NPS contributions will contribute significantly to the retirement kitty. Assuming a 10 per cent return on the contributions over the entire earning period, with income increase considered at 10 per cent per anum, each of them should be able to build up a corpus of ₹ 3.94 crore though this mode. In addition, PPF contribution at the existing rate of ₹ 60,000 per anum should yield an additional ₹ 56 lakh at retirement, and fulfill retirement needs.

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

CONCLUSION

Financial planning is an ongoing process and based on many assumptions. Situations change and the changes may not be as anticipated. Do a regular review to check whether you are on track to meet your goals.

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THINKSTOCK

■ INVESTMENT

Time to accumulate for long-term

A correction in the markets seems likely. In this scenario, investors should allocate in equities and increase allocation with further correction

SANDEEP SINGH

The Bombay Stock Exchange's benchmark 30-scrip index, Sensex, fell by over 700 points in a day for a second time in the last seven weeks. It lost over 900 points in the last two trading sessions itself. There is no denying that stock markets may remain weak for some time as sovereign risks across Europe and recessionary fears in the US gather momentum. Experts say that while volatility is expected to prevail, investors should not repeat the mistake they committed during the 2008 fall when they exited the markets. They should rather consolidate their holdings with every fall.

ALL IS NOT WELL?

Things across the globe are changing fast and certainly not for good. Concerns over a likelihood of recession in US have gained credence after the Federal Reserve presented the latest economic outlook. There is also growing fear of weakness in banks in the European region. While Greece, Portugal and Ireland have already sought funds from the European Union, Spain and Italy may need them too. On top of this, reports of a slowdown in China and Germany have only added to the anxiety of traders and investors.

India is not isolated in this world of turmoil. "While 25-30 per cent of our GDP growth is connected to global markets, one-third of our floating stocks are held by foreigners. Hence the global volatility will affect the Indian markets," says Sandesh Kirkire, CEO, Kotak Mahindra AMC.

A sharp depreciation in rupee by over 10 per cent in just about a month added to the growing woes of the government that has been on a war against inflation for over 18 months now without any success. The Reserve Bank of India has raised key policy rates by 12 times to counter inflation and while it has not received the desired result, high input costs and a sluggish 3.3 per cent growth of industrial output in July indicates that the performance of Indian companies in the second quarter may be below expectations.

With these pressures in the horizon, there is no likelihood of any sharp revival in foreign institutional investors' inflow in the near future. Investors globally are looking to take refuge in safer currencies and bonds, stability in the domestic currency in the coming days may lead them to India.

"While foreign institutional investors will look at India, they will wait for the current volatility in the rupee to stabilise and start to appreciate," said CJ George, MD, Geojit BNP Paribas Financial Services.

10 BEATEN DOWN BLUE CHIP COMPANIES

	Change*
Tata Motors	-46.7
SBI	-44.4
Tata Steel	-39.4
L&T	-34.4
ICICI Bank	-33.9
RIL	-33.3
Infosys	-33.0
Axis Bank	-32.3
ONGC	-30.2
TCS	-20.5

**Change in the stock value on Friday over their 52-week highs*

THE SILVER LINING

Amidst all negativities, the Indian economy has a glimmer of hope. With a slowdown in growth and demand worldwide, commodity prices will soften and a fall in oil prices can come as a big positive for India which imports more than 70 per cent of its oil requirement.

"It is now clear that developed markets are going through a bad phase and in a low growth phase there will be a commodity slump. In such a scenario, there will be lesser pressure on the Indian currency and the input cost too would fall, and these are a few positives for our economy," says Kirkire.

Others agree and feel that a drop in commodity prices was certain.

"When the global economy slows down, the commodity prices come off and there is every likelihood of a softening in the commodity prices. We have not seen a meaningful dip in commodity and would like to see a more meaningful dip in crude," said Sankaran Naren, CIO, ICICI Prudential AMC.

A dip in crude prices would mean a dip in inflation too. And with inflation coming down, the Reserve Bank of India may go for a series of rate cuts that may push growth and we may be at the end of the interest rate hike period.

"It is a complex market for the investors as things are still complicated in Europe and the US and high interest rates in India are killing growth. However we may be at the end of the high interest rate regime," said George.

WHAT SHOULD THE INVESTOR DO?

It is a bad market for traders but not so bad for long term retail investors. While the Sensex is trading at a discount of 18.6 per cent to its value a year back, the average return of the large equity funds is down by 17 per cent and so are their NAVs in the same period and thus it throws open a good opportunity to consolidate holdings for better long term returns.

Even blue chip stocks with strong fundamentals are trading at a discount of up to 40 per cent or even more over their 52-week highs (see table). "As we are towards the end of a rising interest rate cycle, this is the time when investors should look at companies that have a good management, strong fundamentals and have taken a beating," said George.

While stocks pose opportunity, mutual funds too pose opportunity and hence investors must continue with their systematic investment plans. "Almost everything looks corrected and thus investors should maintain their asset allocation in equities and slowly increase their allocation with further correction," said Naren. ◆

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■ WEALTH MANAGEMENT

Building a balanced portfolio

ADHIL SHETTY

A portfolio is considered balanced if it can withstand the pressure of rough market conditions. A balanced portfolio is not a universal constant. It is directly correlated to the situation and need of an investor. A portfolio, which is balanced for X might not be balanced enough for Y as the commitment, situation and needs might be quite different for both. Before building a portfolio one must take into consideration the risk profile, expected return, economic condition, inflation and available investment options.

BEFORE STARTING

The first rule of the game is gauging the risk tolerance which will ultimately help in allocating assets towards various investment options. Factors which generally govern risk tolerance are age, current income and expected growth, current and anticipated financial commitments and the tax bracket you fall into. Please refer to the table above to figure out your risk tolerance.

RISK PROFILE

Characteristics	Situation	Risk Tolerance
Age	Young	High
	Old	Low
Current/Future Income	Good/Increasing	High
	Normal/Stable	Low
Financial Commitments	No	High
(Marriage, Planning for Children, Medical)	Yes	Low
Tax Bracket	Lower	High
	Higher	Low

BUILDING IT

A balanced portfolio has the following characteristics.

- Shields against worst case scenario
- Constant cash flow
- Potential for capital Preservation
- Potential for capital Appreciation
- Requires Minimum Monitoring

As you have researched your risk profile, expected return and economic condition by now, let's start building the actual portfolio by identifying investment avenues that fulfil the above conditions.

INSURANCE: Buying insurance should be the very first option, as this is the instrument which acts as the saviour in unforseen circumstances. It also helps in saving tax if chosen prudently. You can buy life insurance, general insurance or can take an exposure using the ULIP (Unit Link Investment Plan) route. This is a combination of mutual funds and insurance offered by various life insurance companies.

DEBT INVESTMENT: Every investor needs constant cash flow. Investing in debt instruments fulfills this need. If you are watchful and invest around the peak of the interest rate cycle, you can very well fight inflation too. In times of economic downturn shifting to debt investment will help in capital preservation plus constant cash flow. The options available here are investments in fixed deposit, public provident fund, KVP, NSC and infrastructure bonds.

EQUITY INVESTMENT/REAL ESTATE/LAND: To reap the benefits in good market conditions you need to invest in instruments like equity and mutual funds which grow with the economy and generate returns, which are way above debt investment returns. The investment options available here are individual stocks, mutual funds, Equity linked saving schemes, ETFs, commodities and gold.If you want to reduce the monitoring effort and you have a long term investment horizon you can invest in real estate and land too.

All said and done if you want to create a really stable portfolio, it is a really good idea to make an effort to learn all you can about the various techniques of investing and all the available investment options. Here, it really pays to be Jack of all trades and master of none. ◆

—Author is CEO, Bankbazaar.com