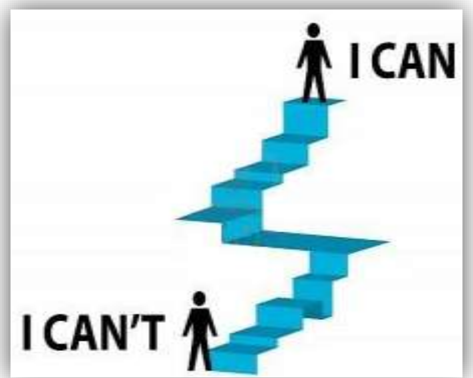

Financial
Planning

Normally, people always think it is not really possible to fulfill all their goals or dreams without having a High Salary or belonging to a rich family. But it is not the truth. With the help of **Financial Planning** you can achieve all your life goals or dreams.



DO YOU WANT TO KNOW HOW?

Let us first know - what is Financial Planning?

Financial planning is the process of achieving your life goals by using different investment options with your current resources through proper and disciplined money management. So Financial Planning is not only about money, but it is all about life, about fulfilling your wishes, dreams, aspirations and your enjoyment in achieving them.

There are only 3 major components in the Financial Planning process:
Current Resources (CR)
Investment Options (IO)
Financial Goals (FG)

Financial Planning: CR + IO = FG

What does a Financial Planner do?

The **Financial Planner** first makes a note of your financial goals and its priorities. Then the planner analyses your current financial situation, recommends the right plan with proper asset allocation, monitoring it regularly, rebalance your portfolio from time to time based on your changing life style and investment opportunities.

The Pre-Work

Organize: Make a habit to organize all your financial papers and any documents which you think may be important.

The Financial Pyramid

The Financial Pyramid is the most essential part of the Financial Planning process. The Financial Pyramid is the only picture to help you understand the necessary steps to reach Financial Freedom.

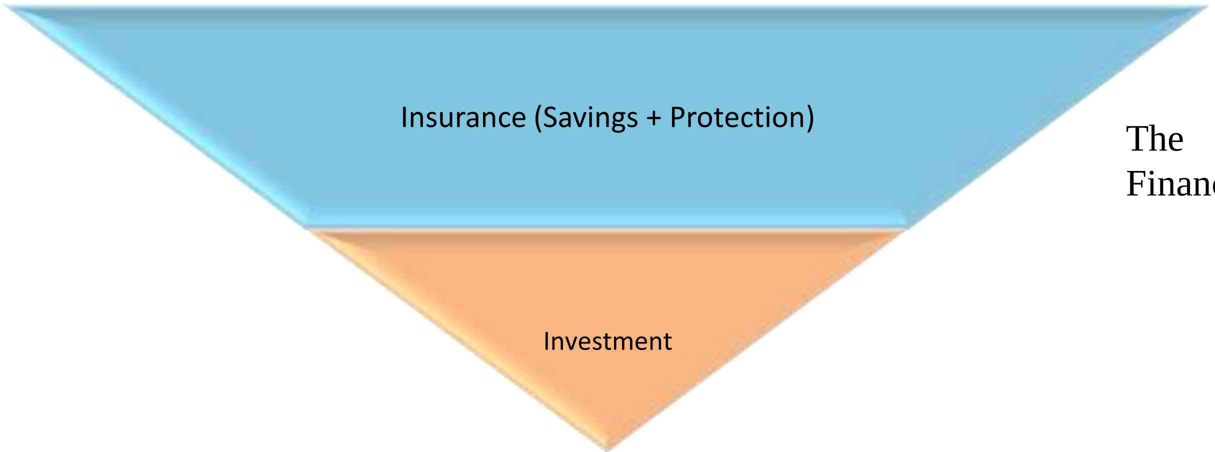
Wealth Creation

Emergency & Debt Planning

Protection/Risk Management

Foundation of Planning

Ideal Foundation



Risky Foundation

The following process is important in Financial Planning:

- Protection Planning (Insurance)
- Emergency Cash Flow Planning (Emergency Fund)
- Debt Reduction Planning (Loan)
- Investment Planning (Achieving Goal)

Steps for setting Financial Goals:

1. Write your goals and be specific:

When you write your financial goals it will help you to visualize them. It should be specific and realistic.

2. Identify your time-specific goals:

Short -Term Goals: The goals which you want to achieve within 1 year. For example: your child's play school admission.

Medium–Term Goals: You want to achieve these goals within 5 years. For example: your child's school admission.

Long–Term Goals: Goals that you want to achieve after 5 years. For example: Retirement, Child's Education and Marriage.

3. Priority.

After listing your Financial Goals, it's time to number them according to your priority.

4. Analysis of your Current Financial Situation

Cash Flow Statement

It will give you the full information of your income and expenditure.

Net Worth

Net Worth is an overall statement of your assets and liabilities.

Net Worth = Asset – Liabilities

Importance of Cash Flow Statement and Net Worth in Financial Planning

Both the Cash Flow and Net worth Statements will give you a real picture of your present situation and help you make realistic financial goals. Update it regularly. These two vital documents do not replace each other; but they are supportive documents to each other.

Budgeting

In financial planning, budgeting plays a very vital and important part. Budgeting will give you the exact picture of your expenses and spending habits. This will help you to plan your expenses and spending habits more efficiently. If you do not know where you are spending your money just keep a track on your spending habits on a monthly basis. This sounds ridiculous, but believe us, this will definitely help you to reduce your unnecessary spending.

Proper usage of credit card:

It's an unique tool for cash free purchase payment for interest-free grace period with redemption points.

5. Set-up a plan towards your financial goals.

Now you know your needs, your time frame and resources to reach your financial goals. All these informations are crucial. Without the above steps it is really impossible to set up a plan.

Now it's time to implement the plan.

Categories of Financial Goals

1. Protection:

The main purpose of insurance is to provide protection against any unseen eventuality or financial replacement. So you need adequate Life, Disability, Accidental, Hospitalization and Critical Illness Insurance. Without proper protection, your whole financial plan is at risk, because it is the foundation of the Financial Pyramid.

Can you build your dream house in a weak foundation?

What types of Protection do my family and I need?

Life Insurance:

The purpose is to maintain at least normal life style in your absence. So you need to have right amount of protection for your family. Always remember that life insurance is never an investment or tax-saving instrument.

Critical Illness Insurance:

It is also called as the **Living Death.** Now-a-days due to the very hectic life style chances of suffering from cancer, heart attack, stroke and other major illnesses are increasing. And with the help of modern medical benefit, the survival rate has also increased.

Hospitalization Insurance:

It will take care of you and your family's hospitalization cost at the time of any medical emergency otherwise you have to pay from your savings or you have to borrow from someone for which your financial planning might get hampered. It is also advisable to go for an annual health check-up for your family. This will not only help in creating wealth but also if fewer claims are done then the premium might get reduced.

Disability Insurance:.

The purpose is to get financial assistance when one is disabled.

Household Insurance:

You should have it for your entire household assets.

Do I need to have all of them?
The answer is obviously **YES**. Each and every insurance plan has a different purpose and you need all to protect your financial plan.

How much Insurance do I need?
This is the most vital and important question in financial planning when it comes to purchasing insurance. It depends on your Assets, Liabilities and your Future Goals. As most of the employers are not providing complete family health insurance, and not only that, if you do not buy it now, then it will be very difficult for you to buy a new policy at the requirement time or after retirement. If you want to buy it at the time of your retirement, you will not get all the benefits and the premium will also be very high.

2. Emergency Fund:

In financial planning after protection Emergency Fund plays an important role. The purpose of it is to help you in your bad time, so don’t touch it with out an absolute emergency. Keep minimum 3 months expenses in emergency fund.

Can I use my credit card as an emergency fund?
You can use it at an emergency but you should pay your dues within the due date and avoid having any outstanding payable against your card.

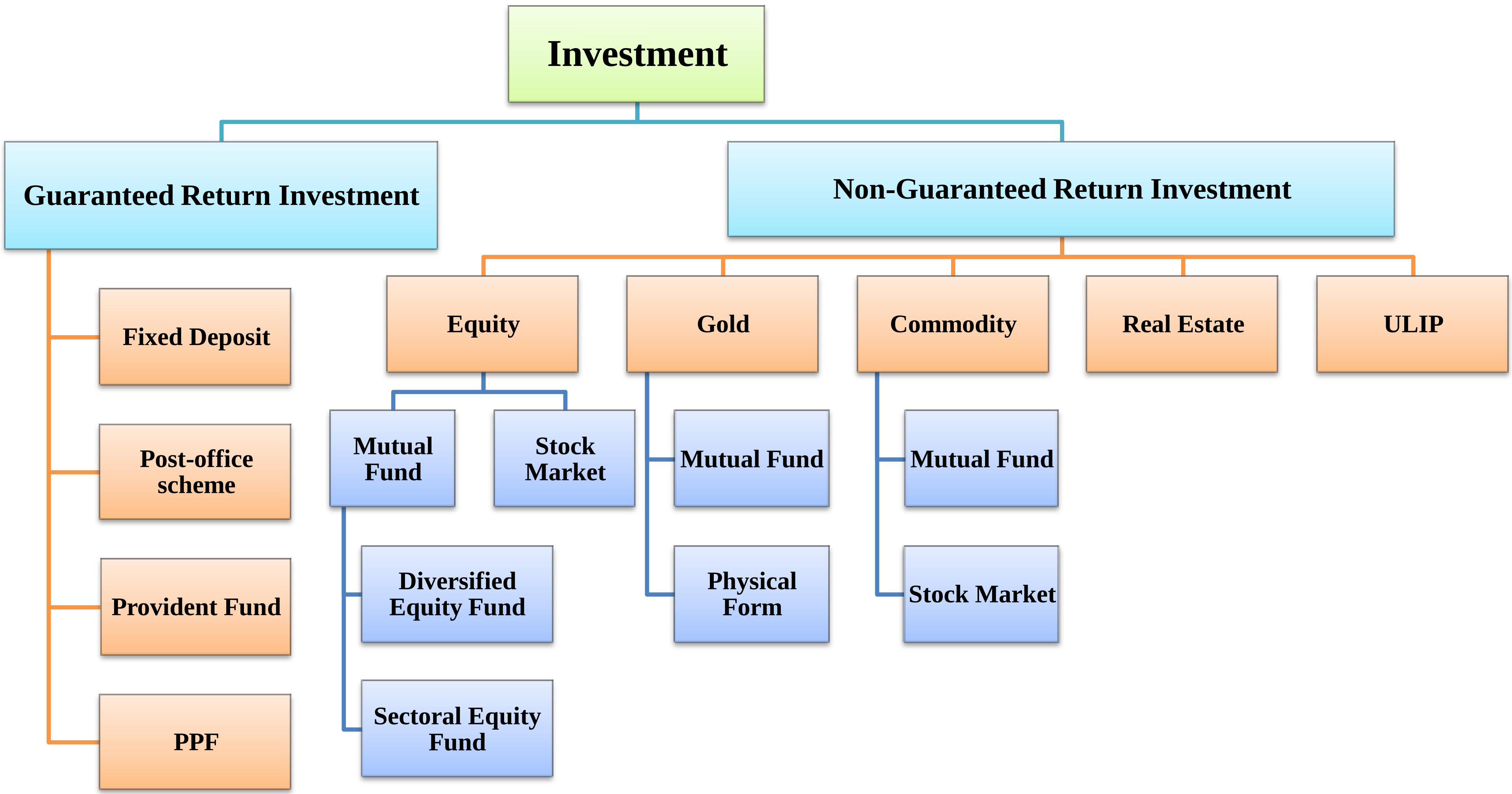
3. Debt Reduction Planning

Transfer your existing high interest loan balance to low interest loan. Lowering the interest rates will in turn reduce your EMI amount. This will automatically increase your Net worth and improve your cash flow, as cash flow is the king when it comes to building wealth.

4. Investment Planning

Wealth Creation: Now it’s time to create wealth for your Retirement, Child’s Education and Marriage, Dream Holiday, because you have provided security, emergency fund and reduced debt for you and your family.

Investment Choices: Investor can create wealth through investment. Two types of investments are available:



The two asset categories have the following characteristics.

Guaranteed Return Investment – These schemes offer guaranteed return with very low risk and liquidity which varies from high to low. The main purpose of these schemes is to provide a fixed regular earning. Generally Guaranteed schemes do not beat inflation. It's a real concern for those who totally depend on guaranteed schemes as the returns gradually decreases.

Non-Guaranteed Return Investment – These schemes offer high returns with low risk in long-term and high risk in short term. Wealth creation is only possible through Non-Guaranteed Return Investment because most of the time it beats inflation. Among the asset categories, Equity have historically had the highest returns in case of long term investment horizon. In case of Gold, it gives you more return than guaranteed schemes which is less volatile than equity, and it also beats inflation.

Whatever the investment choice one does, every one should always remember the following :

It is the **SILENT & INVISIBLE KILLER** of your investment return. Generally we do not consider it. As cigarette is injurious to your health, in the same way it is injurious to your financial planning.

What is it ? → **INFLATION** ←

The following tables are showing the impact of inflation.

Savings A/C & FD Return After Tax & Inflation												
Scheme	Amount	Return %	Return	Tax Rate	Tax	Post Tax Return	Post Tax Value	Inflation	Inflation Erosion	Net Value	Net Loss	Loss %
Savings A/C	100000	4.00%	4000	30%	0	4000	104000	9%	9360	94640	5360	5.36%
Savings A/C	400000	4.00%	16000	30%	1800	14200	414200	9%	37278	376922	23078	5.77%
Fixed Deposit	400000	9.00%	36000	30%	10800	25200	425200	9%	38268	386932	13068	3.27%

Savings A/C & Money Manager Fund Return After Tax										
Scheme	**Amount**	**Return %**	**Return**	**Tax Rate**	**Tax**	**Post Tax Return**	**Post Tax Value**	**Difference**	**Post-tax return%**	**Difference %**
Savings A/C	250000	4.00%	10000	30%	0	10000	260000	0	4%	0
Money Manager Fund	250000	8.00%	20000	30%	0	20000	270000	10000	8%	4%
Savings A/C	400000	4.00%	16000	30%	1800	14200	414200	0	**3.55%**	0
Money Manager Fund	400000	8.00%	32000	30%	0	32000	432000	17800	**8%**	**4.45%**

Bank FD & MF Debt Fund Return After Tax										
Scheme	**Amount**	**Return %**	**Return**	**Tax Rate**	**Tax**	**Post Tax Return**	**Post Tax Value**	**Difference**	**Post-tax return%**	**Difference %**
Bank FD	400000	8.00%	32000	30%	9600	22400	422400	0	**5.60%**	0
MF Debt Fund	400000	8.00%	32000	30%	0	32000	432000	9600	**8%**	**2.40%**
Bank FD	400000	8.00%	32000	30%	9600	22400	422400	0	**5.60%**	0
MF Debt Fund	400000	12.00%	48000	30%	0	48000	448000	25600	**12%**	**6.40%**

Occasions	Current Cost	Inflation	Term	Future Cost
Higher Education (MBA)	1500000	10%	15	**6265872**
Child Marriage Exp.	1000000	7%	19	**3616528**
Household Exp.	40000	7%	25	**34173138 (corpus)**
Medical Exp.	50000	10%	25	**7078448 (corpus)**

It means that your investment amount gets eroded and your purchasing power decreases gradually. So if you want to beat inflation, your maximum investment should be in **Non-Guaranteed Return Investment** .

Liquidity – It means that you have the option to withdraw the money whenever you want. Our advice is that do not put maximum amount in long term locking investment.

Tax Benefit – When you invest your money, you should also check whether you will get tax exemption and tax free returns. It will not only increase your real return, but also reduce your tax liability.

Risk versus Reward – Please remember that all investments involve some kind of risk. When you are investing in stocks or mutual fund you are taking the risk of short term volatility which may reduce your investment value in short term, but in the long run you will definitely get more return than guaranteed product. The reward for taking the risk is the chance for a greater investment return. But when you are investing in a guaranteed product, the upper return is limited with no volatility and do not beat the inflation.

Asset Allocation

Asset allocation means distributing your investment in different asset classes like equity, gold, debt, and cash. There is no single asset which offers positive real returns under all conditions.

Your Asset allocation depends on the following:

Time Horizon –It means when you require money for your particular goal. It may be short, mid and long term horizon. Without time horizon, Financial Planning is really impossible.

Risk Appetite - It means how much financial loss you can manage for time being, say few months or years, to achieve your particular goal. It is only applicable for non-guaranteed investment. It is very rare that long term horizon investors lose their money in non-guaranteed investment. Based on risk appetite, the investors can be classified into three categories - conservative, moderate and aggressive.

Different Life Stages – Each and every life stages have different goals and liabilities. A young person with less/no dependents and liabilities have different goals, rather than a person with dependents and liabilities.

Past Experience – Every individual have their own past investment experience in different asset class and this experience plays a vital role for future investment plan.

Net Worth – A positive net worth person's asset allocation will be different from a negative or equal net worth person.

Why Asset Allocation is so important?

Asset allocation is like Balanced Diet. Without Balanced Diet we can't live healthy. Without Asset allocation it's really tough to achieve financial goal.

What asset allocation is best for me?

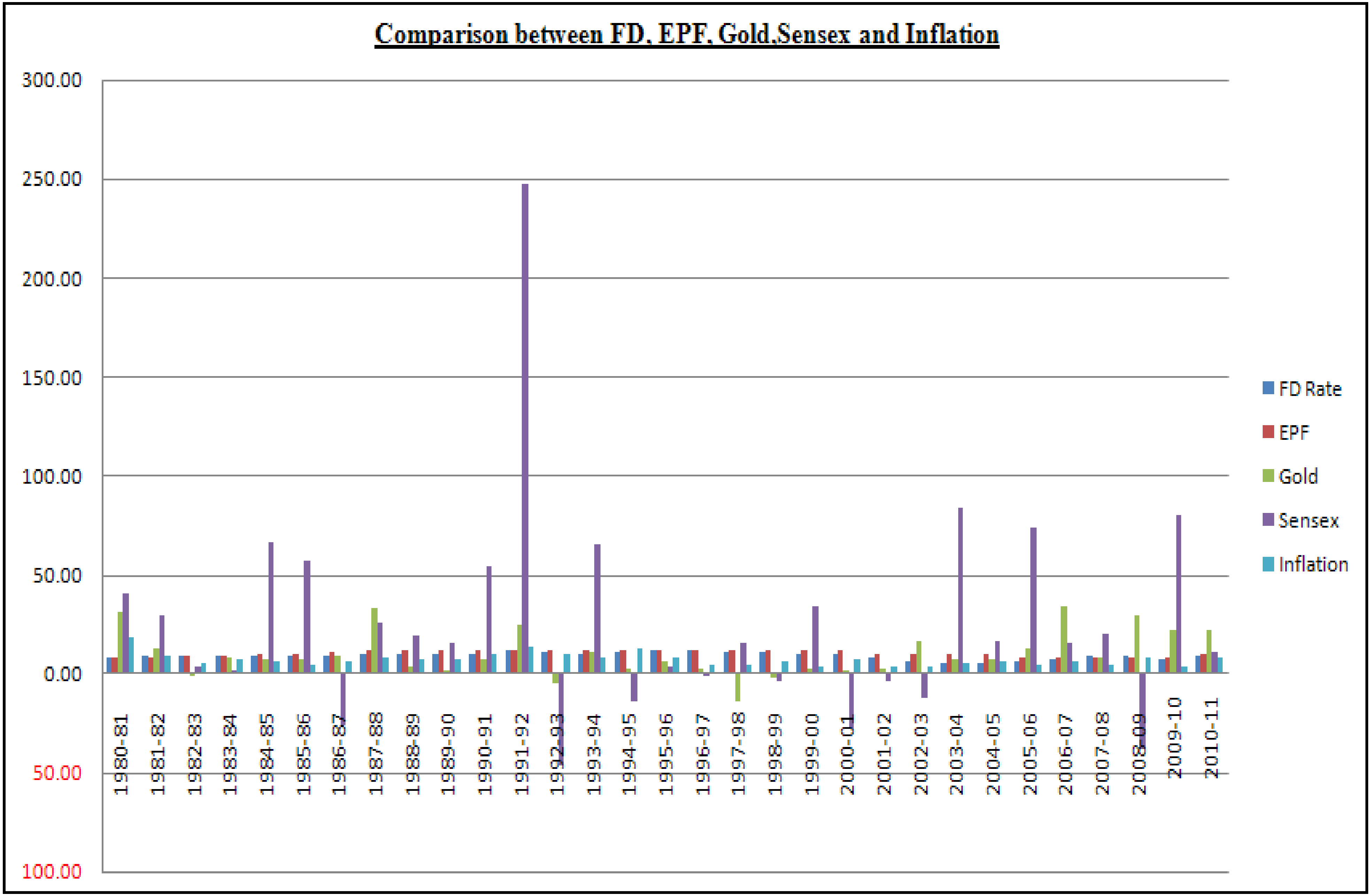
There is no specific answer for this. Each and every individual have different Asset Allocation based on their time horizon, risk appetite, different life stage, past experience and net worth. Please remember no Asset Allocation strategy is fixed for life, it's a changing process based on your current situation.

The below table shows the different asset class pre and post inflation returns.

Pre and post inflation returns of different asset classes

Pre-Inflation Returns					Inflation	Post-Inflation Returns				
Financial Year	**FD Rate**	**PPF**	**Gold**	**Sensex**		**FD Rate**	**EPF**	**Gold**	**Sensex**	**Your Return**
1980-81	8.50	8.00	31.39	40.56	18.24	-9.74	-9.99	13.15	22.32	3.93
1981-82	9.00	8.50	12.92	29.29	9.33	-0.33	-0.83	3.59	19.96	5.60
1982-83	9.00	8.50	0.20	3.71	4.9	4.10	3.85	-4.70	-1.19	0.51
1983-84	9.00	9.00	7.89	1.40	7.53	1.47	1.62	0.36	-6.13	-0.67
1984-85	9.00	9.50	6.75	65.91	6.47	2.53	3.43	0.28	59.44	16.42
1985-86	9.00	10.00	7.13	56.64	4.41	4.59	5.74	2.72	52.23	16.32
1986-87	9.00	12.00	9.32	-26.11	5.82	3.18	5.18	3.50	-31.93	-5.02
1987-88	10.00	12.00	32.66	25.43	8.14	1.86	3.36	24.52	17.29	11.76
1988-89	10.00	12.00	3.01	19.20	7.46	2.54	4.34	-4.45	11.74	3.54
1989-90	10.00	12.00	1.70	15.86	7.46	2.54	4.54	-5.76	8.40	2.43
1990-91	10.00	12.00	6.88	54.23	10.26	-0.26	1.74	-3.38	43.97	10.52
1991-92	12.00	12.00	24.51	246.93	13.74	-1.74	-1.74	10.77	233.19	60.12
1992-93	11.00	12.00	-4.51	-46.78	10.06	0.94	1.94	-14.57	-56.84	-17.13
1993-94	10.00	12.00	10.43	65.71	8.35	1.65	3.65	2.08	57.36	16.19
1994-95	11.00	12.00	2.99	-13.71	12.6	-1.60	-0.60	-9.61	-26.31	-9.53
1995-96	12.00	12.00	6.22	3.24	7.99	4.01	4.01	-1.77	-4.75	0.38
1996-97	12.00	12.00	2.28	-0.17	4.61	7.39	7.39	-2.33	-4.78	1.92
1997-98	11.00	12.00	-14.27	15.82	4.4	6.60	7.60	-18.67	11.42	1.74
1998-99	11.00	12.00	-1.82	-3.92	5.95	5.05	6.05	-7.77	-9.87	-1.64
1999-00	9.50	12.00	2.94	33.73	3.27	6.23	8.73	-0.33	30.46	11.27
2000-01	9.50	11.00	1.82	-27.93	7.16	2.34	4.34	-5.34	-35.09	-8.44
2001-02	8.50	9.50	2.36	-3.75	3.6	4.90	5.90	-1.24	-7.35	0.55
2002-03	6.00	9.00	16.45	-12.12	3.41	2.59	6.09	13.04	-15.53	1.55
2003-04	5.25	8.00	7.25	83.38	5.46	-0.21	4.04	1.79	77.92	20.88
2004-05	5.50	8.00	7.46	16.14	6.48	-0.98	3.02	0.98	9.66	3.17
2005-06	6.50	8.00	12.29	73.73	4.38	2.12	4.12	7.91	69.35	20.87
2006-07	7.00	8.00	33.91	15.89	6.5	0.50	2.00	27.41	9.39	9.82
2007-08	8.75	8.00	8.17	19.68	4.8	3.95	3.70	3.37	14.88	6.48
2008-09	8.75	8.00	28.95	-37.94	8	0.75	0.50	20.95	-45.94	-5.93
2009-10	7.00	8.00	22.33	80.54	3.6	3.40	4.90	18.73	76.94	25.99
2010-11	9.00	8.00	22.01	10.94	8.2	0.80	1.30	13.81	2.74	4.66
Average	**9.15**	**10.16**	**10.05**	**25.98**	**7.18**	**1.97**	**2.98**	**2.87**	**18.80**	**6.66**

Source: RBI


Comparison between FD, EPF, Gold,Sensex and Inflation
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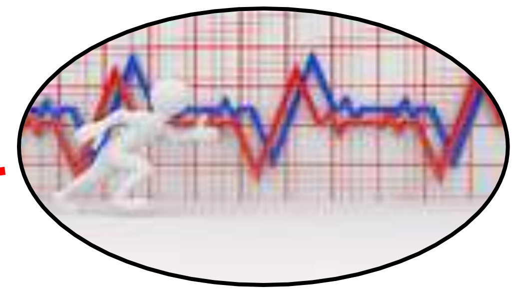
FD Rate
EPF
Gold
Sensex
Inflation

Market is continuously
going up
I am happy .

Market is continuously
going down
I am worried.

Market is tremendously
volatile
I am confused.



What should I do in these 3 different situations?

The answer is : **Rebalancing**

What is Rebalancing?

It’s the ultimate art and science of wealth creation. Rebalancing is the periodic adjustment of your portfolio to protect your current gain with effective risk management to achieve your financial goal.

Why is rebalancing important to my asset allocation?

The market may move up and down in different situations, which is quite natural. The main reason for rebalancing is to protect the current equity valuation when the market rise and buy equity when the market fall based on the market conditions. If you apply this strategy, you might achieve your goal before the actual time. Rebalancing your portfolio on a regular basis maintains the desired return in your investment strategy - it is one of the important key for effective risk management.

When to consider Rebalancing?

You can rebalance your portfolio in the following situations:

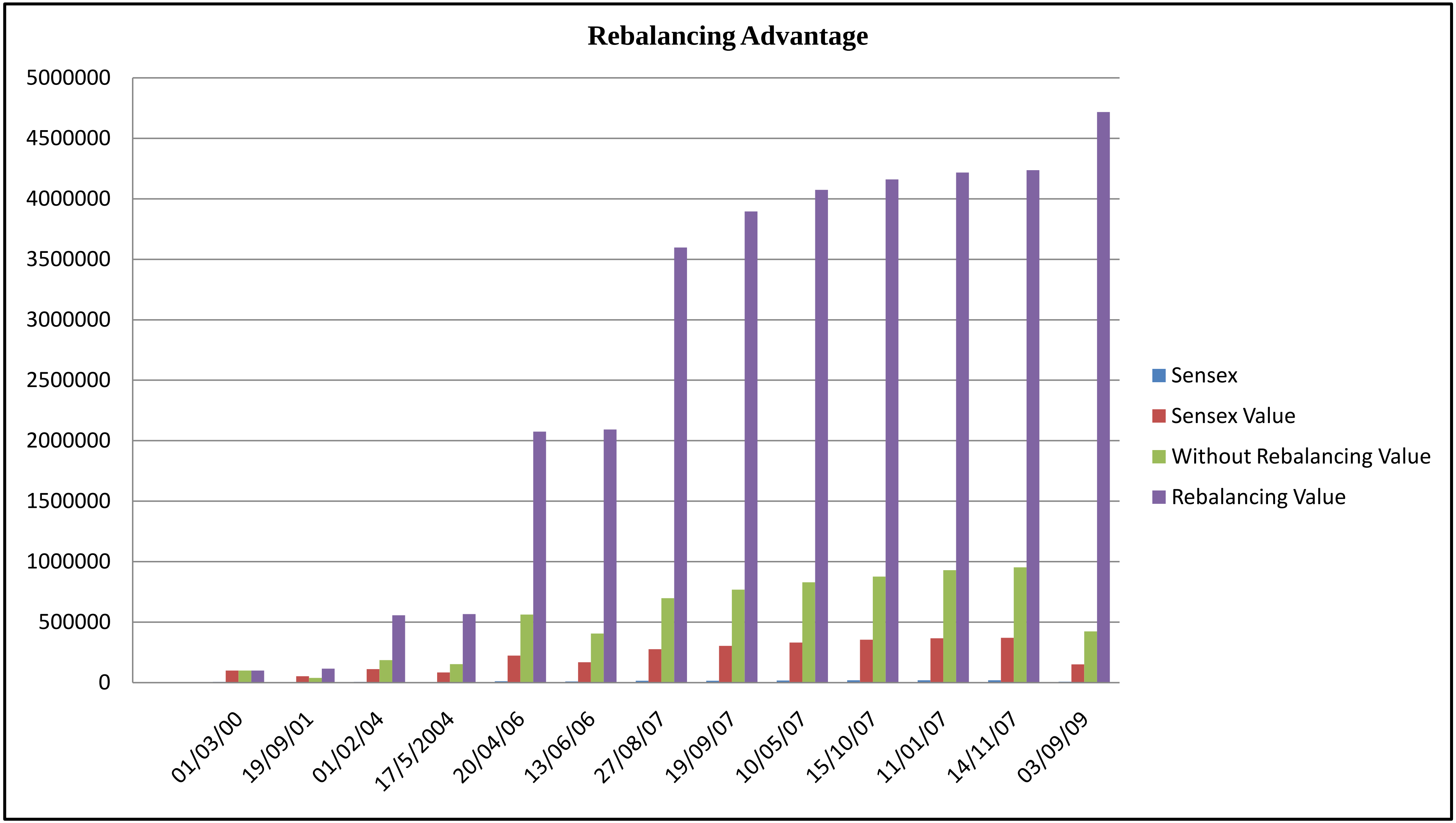
1. When you reach your target return. Say for example, when you have achieved your target return of 15% per annum from your equity investment, and then switch partially or your full investment to debt to protect your target returns. Then use the amount to buy equity when market falls at a lower price.

2. When equity market gives you an unexpected return. As was seen on 21.09.2010 when SENSEX jumped to 20000 from 8160 on 09.03.2008, then you should encash this life time opportunity.

3. If you see that the market might fall for a longer period, then switch from equity to debt with small loss to protect your investment from a bigger loss with higher opportunity to enter in equity.

Advantage of Asset Allocation & Rebalancing

Date	Debt			Equity			Sensex	Sensex Value in Rs.	Without Rebalancing Value in Rs.	Rebalancing Value in Rs.	Rebalancing Gain in Rs.
	Buy	Sale	Remaining Value	Buy	Sale	Remaining Value					
03/01/00	100000	0	100000	0	0	0	5375.11	100000	100000	100000	0
19/09/01	0	115223 (100%)	0	115223	0	0	2804.16	52169	38339	115223	76885
02/01/04	557829	0	0	0	557829 (100%)	0	6026.59	112120	185609	557829	372220
17/05/04	0	566974 (100%)	0	566974	0	0	4505.16	83815	153957	566974	413017
20/04/06	2075752	0	0	0	2075752 (100%)	0	12039.55	223987	563651	2075752	151101
13/06/06	0	2092490 (100%)	0	2092490	0	0	9062.65	168604	406155	2092490	1686336
27/08/07	719390	0	0	0	719390 (20%)	2877561	14842.38	276132	698172	3596952	2898779
19/09/07	951841	0	1674531	0	951841 (30%)	2220962	16322.75	303673	769806	3895493	3125687
05/10/07	957221	0	2637372	0	957221 (40%)	1435832	17773.36	330660	829454	4073204	3243750
15/10/07	758990	0	3401581	0	758990 (50%)	758990	19058.67	354573	876909	4160570	3283661
01/11/07	482886	0	3895803	0	482886 (60%)	321924	19724.35	366957	929847	4217726	3287879
14/11/07	330351	0	4236241	0	330350 (100%)	0	19929.06	370766	954188	4236241	3282053
09/03/09	0	4717711 (100%)	0	0	0	0	8160.40	151818	424294	4717711	4293417
Compounded Annual Growth Rate							4%	4%	16%	47%	



Note: Rebalancing does not mean that you are buying at the lowest level and selling at the highest level.

Importance of Will and Power of Attorney in Financial Plan

In financial planning, people often forget a very important aspect - Will and Power of Attorney, though it does not help you directly to reach your financial goals.

What is a Will?
A Will is a legal document in which a person gives instruction about the distribution of his/her assets and who will become the legal guardian for his/her minor. A Will is your final wish. So always update it. It is always advisable to register your will.

Important Parties in a Will

The Executor
This is the person who is responsible to execute your wishes, look after your taxes and execute your will as per your wishes.

The Beneficiary
The Beneficiary is the receiver of your assets. You may have many receivers in your will. It is advisable that even if you have a small asset update it annually or whenever your situation changes. Otherwise it can cause family disputes. A Will can reduce the chances of any disputes significantly.

Power of Attorney:
Power of Attorney is the right which you give to someone to act on your behalf. There are two types of power of attorney.

Power of Attorney for Personal Care
This is the right which you give to someone to make decisions regarding your health on your behalf when you are unable to do it.

Power of Attorney for Financial Matters
You are giving the right to someone when you are unable to make financial decisions.

Financial Planning is an on-going process…..

And it secures you and your family's future.

Disclaimer:

This document has been prepared for information sharing. Our views are only for reading purpose and it should not be taken as an investment advice. The readers are requested to make their own investigation and take professional advice from a Financial Planner to make the best financial plan.

Relationship beyond advising.

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Child's Future Planning, Risk Management Planning,
Wealth Management Planning, Equity, Commodity,
Currency, Mutual Fund, Fixed Deposit, Bond,
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