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AS YOUR INVESTMENT KNOWLEDGE RISES, SO WILL THE RETURNS.

Presenting the Master Your Money e-book

moneycontrol

MASTER YOUR MONEY

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INTRODUCTION

Make your money work in a disciplined manner to create wealth

Managing your money is never an easy task. There are a plethora of investment options to choose from ranging from equity, debt, commodities, real estate and insurance among others. Even within these broad categories choices have to be narrowed down to individual stocks, good real estate bets and mutual fund schemes that hold the potential of generating high returns.

The task of money management remains tricky even in times like the present when economy is in good health and the stock market is pushing higher on the back of bright growth projections. Amid fears of possible negative impact of demonetisation, the economy grew by 7 per cent during October-December 2016, according to government data. Global rating agency Fitch has predicted India's growth at 7.1 per cent in the current fiscal, after which it will pick up pace and race higher to 7.7 per cent in the next two fiscals.

Along with good growth projections for the economy, the strong showing of the BJP in the recently concluded state elections have strengthened Prime Minister, Narendra Modi's hands and brought about hopes for fresh reforms and an impetus for the development agenda of the government.

Stock Market

The stock market is on a roll. The BSE Sensex raced to a fresh 52-week high of 29,614 on March 16, and is slowly inching towards its all-time high of 30,024 touched in March 2015. A Moneycontrol.com survey showed that an overwhelming 14 out of 18 fund managers and analysts polled were bullish about the stock

market trading in the of 30,000-35,000, with a couple predicting it will move higher to 40,000. The Sensex was at 26,595 on January 2.
But the question to ask is whether we are entering a risky zone? While there may be optimism all around, one cannot look away from the fact that equity markets are risky. Even if you like stocks, it would be wise to be very selective in your picks and spread your investments over various asset classes, with a fair sprinkling of debt to balance your portfolio risk.

Mutual Funds
Mutual funds remain one of the best investment vehicles for the general investor as it helps you to tap both equity and debt under one roof. Also, your money is managed by trained professionals and is prone to less volatility due to investment risk being spread across various asset classes and stocks.

Not surprisingly, as the stock market moved up, the inflows into equity mutual funds has been strong. The industry's asset under management rose to a record high of Rs 17.89 lakh crore at the end of February, 2017, with strong inflows in equity, income and money market segments.

We strongly suggest taking the mutual fund route to investing whether it be to take advantage of rising stock markets or for fixed income investment. It would be wise to invest through a systematic investment plan (SIP) in equity funds as it will help in averaging your investments according to market movement.

Real Estate
While the stocks market is on a high, the real estate sector has been going through an extended period of slowdown, hit hard by the government's demonetisation move. Sales have been down and inventory piling up. A recent survey by property consultant Knight Frank of home sale trends in eight major cities revealed offtake had dropped 44 per cent between October and December 2016, while new launches were lower by over 60 per cent, making 2016 one of the worst years for Indian real estate.

However, amid the gloom, there may be a silver lining for homebuyers. Property prices have come down sharply, while home loan rates have come down to one of the lowest in recent times.

If you and end-user, this might be as good a time to find the right property and seal the deal. While the property may be available cheaper, your EMI would be low. However, if you are looking at property as an investment option, you have to be extremely selective. Also you might have to moderate your expectations since the upside on a property investment might not be too much in the near future.

Insurance

One of the basic pillars of a good financial portfolio is having adequate insurance, both for life and property. Buying adequate life insurance is a must in an uncertain world to protect one's dependents from the impact of a sudden loss of income should the breadwinner meet with unfortunate death.

While insurance also offers investment gains by endowment plans or the market-oriented Unit Linked Insurance Plans, the best life insurance cover remains Term Insurance. It provides a high insurance protection at low premium rates.

Besides life insurance, buying enough insurance for your property and belonging and motor insurance is also a must for a balanced financial portfolio.

Borrowing

With the RBI progressively bringing down its repo rate to 6.25 per cent, lenders too have reduced their interest rates for different type of loans, including the most sought after categories – home loan and vehicle loans.

Hence, if you are looking to buy that dream home of your or your new vehicle, this might be a good time to go ahead with the purchase.

However, even as you scout for loan, you should keep it within manageable limits that can be serviced through your current income. Try to avoid high-cost personal loans, which lenders are trying to push due to the high liquidity. Otherwise you run the risk of falling into a debt trap from which it is difficult to extricate oneself.

In this e-book we try and get you some insight into the various aspects of financial planning and investing. There are some all-weather tips on investing that will hopefully help you to grow your wealth.

HOW YOU SHOULD BE DECIDING YOUR ASSET ALLOCATION?

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There is no fit for all answer for asset allocation approach. Your financial situation decides what mix of assets you should follow for your investments.

Many investors fail to follow a defined asset allocation approach. There are two reasons for it. One is the fascinating returns produced by any asset class which lures them to chase it. The other reason is lack of awareness which also leads to investing more in asset class which might not suit their risk appetite. Result of this issue is that investors have to rejig their portfolio soon but with a disappointment. So what is the right approach for your investments?

There is no fit for all answer for asset allocation approach. Your financial situation decides what mix of assets you should follow for your investments. While many advise a standard age formula, financial planners go by the actual assessment of one's risk tolerance.

Here are some of the methods which investors will come across and are the beneficial:

1. **The standard age formula:** It has been the easiest advice received by investors - Invest in equities according to your age. So if you are 30 then 100-30 i.e. 70 percent is what should be the equity exposure. This age formula actually brings to the table that as you grow older your equity exposure should keep on reducing which means as you reach fifties 100-50 i.e. 50 percent is what should be exposure towards equities. In the first instance the strategy seems quite simple and sounds good. But standard formulas in investing cannot be taken as an outright advice. Simply because even at age 24 you might not be able to invest more if you have loads of liabilities and dependents while at age 58 you may be in situation to take higher exposure in equities if you are free from all responsibilities. NPS auto allocation feature is based on a standard reducing strategy. If you start with 50 perecnt, every year the exposure in equities is trimmed based on a lifecycle matrix. This kind of strategy may work well for investors who do not understand asset allocation but surely not a fit for all approach.

2. **Your risk appetite:** Risk appetite is simply how much exposure you are willing to take in growth assets. This appetite varies with your financial situation. So even in your retirement you are ready to experience the volatility of equity markets with higher exposure but in mid 40s you may not do so. This difference in appetite comes from your financial situation where you may or may not be free from responsibilities or you may or may not be knowledgeable about the markets.

3. **Investing with thumb rules:** Investors will read a lot of thumb rules related to investments which float around. Take exposure in equities as per goal horizon or invest your money as per your loss tolerance level or play safe and take a 50-50 approach are few of the thumb rules which has been popular across the globe. But thumb rules are a standard approach which may or may not work in your situation. There are various other factors which need to be aligned to see if any of them does make sense in your financial decisions.

4. **Assessment of personal risk:** This is the most common approach taken by financial advisors. Investors are asked certain questions related

to their experience or their thinking about investing and based on the result an asset allocation is advised. But even this approach is not good if the recommendation does not take your financial situation in consideration. The strategy will run into troubles as just 10 or 15 questions cannot judge your tolerance towards volatility in your investments unless other variable like goal horizon, your liabilities etc. are assessed.

5. **Following a friend:** Many investors follow their friends/ relatives for their personal investments. So if a close friend had made money in a good stock they follow the same. Or if you have a friend investing for a long time he is treated as an expert whose advice you wish to follow. But remember that every financial situation is unique and what other can adjust with is completely different from what you can do. Your friend may have adjusted for his financial requirements which you are still to do or his financial requirements may be completely different from what you have. So depending on other advice without knowing your situation is not the right approach for your asset allocation.

How should you go about it?
There is no standard formula for asset allocation. Your age, do you have dependents or not, your liabilities, your current financial situation i.e. how much you are able to save and what provisions you have done for your goals, your current investments, and many other factors decide what allocation will suit your financial situation. Without analyzing these factors any approach you follow or are advised to follow may not bring the desired outcome.

WHAT MATTERS WHEN YOU PLAN TO INVEST IN MF FOR LONG-TERM?

Arnav Pandya
Financial Advisor & Writer

There is quite some effort that a lot of people put in when they are planning their long term investments.

One of the goals of many investors when putting money into mutual funds is to have a long term outlook. This is a positive thing because it enables them to start off on the right footing but one also needs to keep the period under consideration in perspective. This is due to the fact that a very long period could well mean that there is additional work that needs to be done and this would need a change in the manner of dealing with the investment from the investor. This is essential for the investment to be successful and hence here is a look at this condition and how it should be tackled.

Very long outlook

There is quite some effort that a lot of people put in when they are planning their long term investments. It is now common for a lot of people to say that they are willing to invest for periods that could be 15-20 years away from the current time period. This is a good thing as far as the overall planning is concerned because it means that the investor is taking a long term outlook for their investments. This will help them to select assets and options which will be useful for them and hence has to be considered in this perspective. The challenge here is to ensure that the start of the planning process which has been made properly is now being carried to its logical conclusion in an effective manner.

One time investment

The other thing that many investors think about when they have this kind of long term outlook is that they want to make an investment and then wait out the entire period for it to deliver returns. They think about choosing mutual funds for this purpose and again while the intent is right there will need to be some tweaking done on this front. The main thing that needs to happen is that the investor should be ready to choose a fund and then hold it for some time in their portfolio. This will have to be followed by a review of the investment at some point of time and if needed there might have to be some changes made in the funds chosen.

Constant evaluation

A mutual fund scheme might look to be a good performing one at a certain point of time. It could have a great track record too and this would increase the confidence of the investor that they would be able to gain from the rise that would come into the future. However it is not that every fund would continue its amazing run for an indefinite period of time. There are chances that the investment could become an ordinary performing one after some time and this would begin to show clearly for the investor. The decision for the investor at this point of time would be to see if they should continue with the fund or change this.

Mental preparedness

The need to change the fund would be an important part of the whole journey and hence there has to be mental preparedness from the side of the investor to ensure that they are able to do this when the need arises. Having a long term outlook and then selecting a fund does not end the work for the investor because a part of this remains and this is to constantly check that the goals are being met and the investment is on target. This is important and it is something that needs to be taken into consideration so that if such a situation is faced the investor does not end up being surprised and they are able to take action in the matter.

YOU CAN DO A LOT MORE WITH A TERM PLAN THAN JUST COVER LIFE

Adhil Shetty
CEO, BankBazaar.com

Term life insurance plans can offer adequate cover. The term plan market has evolved and insurance products now offer several add-ons and riders.

We're hurtling to the end of the financial year 2016-17, and this is the time many of us look to save taxes by buying insurance and investment products – even products that combine insurance and investment.

If you still haven't zeroed in on an insurance product of your choice, here's a suggestion: give term insurance a chance this year.

A typical term life insurance plan is a plain life cover with no investment or maturity value. It comes with low premiums and its basic objective is to offer a sizeable sum assured to adequately cover your life risks. How cheap are term plans? Let's say you're a 30-year-old male, earning Rs. 500,000 a year, have no tobacco habit. You can avail a term plan worth Rs. 1 crore lakh for 30 years, and your premiums will start from Rs. 7300.

But to the discerning investor, term plans can offer this and much more. The term plan market has evolved and insurance products now offer several add-ons and riders. If you're not aware of these many features, let's give them a quick look.

Monthly Income

When you buy a term plan, you usually get the option of selecting a lump sum or monthly pay-out. Your sum assured will be paid to your nominees either in one full payment or in multiple monthly payments over several years. The monthly income option also comes as an add-on wherein your nominees will be paid a monthly income over and above the sum assured. This monthly income would be a fixed percentage of the sum assured. For example, a well-known insurer offers a term plan that pays 0.4% of the total sum assured as monthly income for 10 years. Additionally, this add-on also has an increasing income variant wherein the assured income would rise by a fixed percentage at the end of every year. For example, if the monthly income is Rs. 40,000 in the first year, it will be Rs. 44,000 in the second year, and so on.

Accidental Death & Accidental Disability Rider

If you live or work in an accident-prone environment, you may consider adding an accidental death or accidental disability rider to your term plan. These riders would provide a lump-sum pay-out to you or your nominees over and above the sum assured.

Critical Illness Riders

The treatment of a critical illness such as cancer can drain the wealth of a family. A health insurance obviously helps; so does a critical illness rider on your term plan. Upon the diagnosis of a critical illness defined in your insurance policy, you will be paid a lump sum. This would keep you safe financially while you seek treatment for your illness.

Terminal Illness Rider

If the insured person is diagnosed with a terminal-stage disease, some term plans provide him the option of receiving a part or the whole of the sum assured. This unlike the usual term plan pay-out which only happens upon the insured's death.

Premium Waiver

One of the best features of term plans is the low premium costs. Even then, some policies offer the waiver of premium on certain occasions. These can be when the insured suffers a disability, a critical illness or a terminal illness. With a premium waiver, the policy continues to remain in force.

Premium Return

Term plans are pure insurance plans and don't have a maturity benefit – unless you have a premium return plan. In it, if you survive the insurance term – which could be anywhere from 10 years to 40 – the aggregate of your premiums paid are returned to you

A term plan is a must-have financial tool with persons with dependents. In the case of their untimely death, the term plan can replace the income needs of the dependent in the long run. If you're looking to buy life insurance this quarter, give term plans a chance, and use some of these many add-ons and riders to further boost your cover.

THINGS TO KEEP IN MIND WHILE BUYING A HOME

Shweta Jain
Chief Operating Officer, International Money Matters

It is really important that we do think of the financial implications the house will have on other aspects of our lives.

While the effects of demonetization still unravel, one of the things that might be positive for individuals is that the property prices might get more reasonable as the government tries to fight black money, make the real estate sector more transparent and focus on affordable housing. Although there is a lot of excess inventory built in a few cities, builders have not cut property prices. A home is a dream come true for most of us, so when it comes to buying that first property, we usually think with our hearts rather than our wallets. While sometimes, it's alright, a house is a major purchase and is usually our biggest investment . So, it is really really really important that we do think of the financial implications the house will have on other aspects of our lives.

A few things you must do:
Buy a house that you like and in vicinity that you would like to live in: While the budget is something that we probably cannot tamper

with too much, what you definitely would not like to compromise is on the quality of life. The area that you live in should be to your liking and proximity to schools, hospitals etc, whatever matters to you should be considered before finalizing the house. Prepare a list of items you would and would not like to compromise on: like the size of the house, locality, builder, floor etc. All of these will have material impact on the cost of the house.

EMIs should not exceed 30-40% of your income: While this is the thumb rule, you should consider what seems comfortable to you. You should also account for EMIs moving higher at a later point in time if rates increase or if you would like to reduce the tenure of the loan. The loan tenure is usually 15-20 years which is a long period of time and we don't know what could happen in the interim, so keep your commitment here lower than 40% of your monthly income.

Take a floating rate of interest: At this point of time, when rates are moving downwards, it is a good idea to opt for floating rate of interest. This means that if rates are cut, your rate of interest might also be lowered although it may not be by the same quantum. Do shop around for competitive rates of interest before finalizing. Usually, home loan providers will give discounts/ offers to new customers.

Check your loan eligibility before buying a house: Your eligibility for buying the house depends on your occupation, your monthly income, the value of your property (if you have one identified) and the number of dependants.

Get the documents vetted by a lawyer: Many skip this as they consider it an additional cost but knowing if the title is clear and if they have the required approvals & certificates will help you sleep soundly.

Keep an emergency budget of six months of EMI handy at any point in time so that even in the worst scenario, you don't have to fall behind on payments.

Insuring the loan usually happens at the time of the loan, so do ensure you have taken care of that too. This would mean that in case of your untimely death (before paying off the loan) the loan is insured and hence liability would not be passed on to your loved ones.

A few things to avoid when buying your first home:
Do not take a loan for down payment: I know of various individuals who take personal loans to either fund a part of the down payment amount or the registration costs. Personal loans are one of the most expensive loans and hence must be avoided for this purchase at least.

Do not stretch your budget: I know you'd justify this by saying it's a "once in a lifetime" purchase. But trust me, there are so many other expenses that come along and if you stretch the initial budget, everything else also is a factor of this and costs surge!

Do not forget to provide for furnishing expenses: Newsflash! Interiors, furniture, appliances- they all cost. You have to account for these too.

Also a word of caution to end the article with- do not fall prey to schemes that look unrealistic. Be it in terms of costs, timelines promised- anything which seems too good to be true, probably is. Stay away!

Do not let it be your only investment: The biggest lesson I've learned from thousands of interactions is that usually this is your only investment. People who have taken loans for buying property (and most of us have) want to then close the loan at the earliest, thereby not building on your portfolio at all. The only asset you have is your home. How reassuring! So, while this can be your biggest investment, don't let it be your only one!

THINKING OF TAKING A HOME LOAN? HERE IS HOW TO GO ABOUT IT

Adhil Shetty
CEO, BankBazaar.com

Banks have their reservations as well. With housing prices going up constantly and banks having a good deal of NPAs, lenders also evaluate the property and the borrower's profile before handing out loans.

Buying a house is often a big, complicated decision and finding the right lender to support the purchase is one of the most important steps towards attaining your dream. You must compare all terms and conditions and understand the loan structure before you zero in on a bank.

Banks have their reservations as well. With housing prices going up constantly and banks having a good deal of NPAs, lenders also evaluate the property and the borrower's profile before handing out loans. So, before you approach a bank for loan, you must have an understanding of the parameters on the basis of which a loan is sanctioned.

Here is an easy and effective comprehensive guide to understand home loans from a lender and borrower's perspective.

1: Eligibility criteria and documentation

Banks and NBFCs have various parameters upon which they calculate a candidate's potential to repay a loan on time. From the age of the applicant to the nature of employment and the average monthly income to work experience, banks evaluate a candidate's profile in detail to determine eligibility for a housing loan.

2: Importance of credit score

Banks and lending institutions often refer to the credit score of an applicant in order to get an understanding of his lending and repayment habits. A personalized credit score like the one offered by CIBIL is considered healthy if it is over 750. If a housing loan is rejected due to poor score, reapplying for it will only bring down your score further. However, do remember that you need to have a credit history established for the banks to refer to in order to determine whether you are a good potential for loan.

3: Loan amount and tenure

The total loan amount you are eligible for is decided by a team of in-house experts who use various yardsticks to reach at an amount depending on the valuation of the property. Banks usually lend anywhere between 80 and 90% of the price of the property. The remaining needs to be raised by you towards making down payment. The tenure of a home loan usually ranges between 5 and 20 years, although some banks extend the tenure to even 30 years. The longer the tenure, the more you pay towards interest.

4: Home loan interest rates

Home loans can be availed at both fixed and floating rate of interest. There are two types of fixed rate of interest: one stays constant through the tenure and the other gets revised regularly as per the prevalent repo rates controlled by the Reserve Bank of India.

In a floating interest rate scenario, the loan rate of interest is linked to the bank's base rate or MCLR. Your loan EMIs can therefore vary with every change in those rates. However, you have the choice of converting from a fixed rate loan to a floating rate one, or vice versa.

5: EMI and pre-EMI payment

An Equated Monthly Installment (EMI) is the monthly payment you make to the bank or lender towards loan repayment. EMIs can be fixed or they can vary each month depending on your home loan interest type. While a property is under construction, the full loan amount is not paid to the builder. During this phase, borrowers can pay pre-EMI towards the repayment of the interest on the amount disbursed by the bank.

6: Pre-payment of home loan

Paying off loans early is always a healthy habit and you can pre-pay your home loan by paying an additional sum over your regular EMI. Through pre-payment, you can either choose to reduce the number of EMIs or the tenure of your loan.

7: Tax savings

You are ordinarily allowed tax deductions of Rs. 150,000 towards principal payments and Rs. 200,000 towards interest payments in a year for your home loan.

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