



## Ask the Right Questions

Since 2008 financial regulators have passed many regulations on product manufacturers, agents and advisors to prevent mis-selling. The idea behind all the regulation is to reduce or abolish commission in financial products, so that agents do not get induced by the same and suggest the product as per the clients' need. Every investor of ULIPs or poorly a performing mutual fund claims that they were mis-sold the product by unscrupulous agents. But I don't believe this statement as I believe that if you are not ready to purchase, no one can sell you anything. Had your equity-linked products been performing these days you would not have been worried.

When you are not clear of what to buy and do not have adequate reasons for your investment, no product will help you. With "reasons for your investment", I am referring to your financial goals. Moreover, when you ask for a product, you should expect the same and not the solution of your financial requirement. For financial solutions you need to ask for advice. As good advice comes at a cost and people

are still not ready to pay for that, they deal with the seller only - bankers, insurance or mutual fund agents. This means that after some years this sale will also be called as mis-selling.

### 1. Where to invest these days?

The words "these days" clearly indicate that you



don't have any particular timeframe, goal in mind and you only are interested in capturing the trend. Sometimes you have already done your homework and have a particular asset class in mind, but you want to verify the same with the seller. The product manufacturer knows this behaviour, and launches those products which satisfy this latent desire. The best examples are new fund offers (NFOs) of gold savings funds in the last few

months or infrastructure NFOs in the last few months of 2007. For some time, you feel proud of your decision but then when that investment starts falling, you start terming it as mis-selling.

### 2. Which SIP is better to invest ?

Thanks to investor awareness camps and TV shows, this question is very common. You have started feeling that a SIP is an investment product where you will never lose money. But you also know that this investment is for the long term, and you invest accordingly. After three years when you see that SIP has not performed you start looking at options and cancelling that SIP. Then when some advisor explains to you the features of the SIP and how it is linked to market's volatility, you start feeling cheated and blame the seller.

### 3. Tell me a safe product with good returns

This question is asked by investors who have seen returns which equity can

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#### Financial Life Planning

It focuses on the human side of financial planning. It's about scratching under the surface to reveal what really matters to someone and then building a personal and financial plan that is in keeping with their money goals.

**Prakash Praharaj, CFP<sup>CM</sup>**

# Why Saving for Single Goals does not make sense?

“I want to give my son the best education. I want him to go to US for graduation and post-graduation”, gushed Govindan. Hari, his son was in 7<sup>th</sup> standard and obviously the apple of his eye. Govindan had put him in an International school and was paying close to Rs.2 Lakhs per annum. Govindan could afford this in view of his decent earnings; that he had just one child helped, as he could direct all his resources for his benefit.

I wanted to know whether Govindan was aware as to how much might be required for this US education. Govindan was not very clear. He estimated it could cost him Rs.50-60 Lakhs. I had to correct him there. It would take between Rs.12-20 Lakhs pa, depending on the college, I had informed him. Obviously he did not expect such a huge expense and he gasped. This was virtually double of what he thought, he might have to spend.

*If we take all these goals together, it will be difficult for Govindan to achieve them. Having a very aggressive goal like sending one's child abroad for complete education abroad, can jeopardise other goals, as one might commit too much money towards one goal, to the detriment of the others.*

He recovered his mirth quite soon... “My son will get scholarship. If he gets scholarship, I might end up spending much less than Rs.60 Lakhs, won't I?”, he asked hopefully, looking at me and expecting my assent. I had to traverse this minefield gingerly. I agreed with him that, such is the case, if he does get scholarship. I added that getting scholarship at graduate level is a very tough task and it is better to plan for a full-fee scenario. Govindan had another brainwave –“My son can always take a loan, can't he?”, he wanted to know. I had to agree that it was possible, but we would still need to validate whether a Rs.50 Lakhs loan might be available.

“But Govindan, you need to also look at the various other goals – not just sending your son abroad”, I said. “For instance, you have been wanting to build another floor in your home; you wanted to renovate this house. We had estimated that this may take Rs.30 Lakhs. Also, you need to look at your retirement corpus. You will need to provide for your mother too. All these goals have to be kept in mind too, apart from son's education”, I added.

Govindan is already 44 and wants to retire by 50. So, that's another goal. If we take all these goals together, it will be difficult for Govindan to achieve them. Having a very aggressive goal like sending one's child abroad for complete education abroad, can jeopardise other goals, as one might commit too much money towards one goal, to the detriment of the others.

This is precisely what happens in many cases... people take a huge pension policy as they suddenly wake up to the fact their retire-

ment is coming up in 10 years time and they are not prepared for it. Sometimes, they commit huge sums towards child's education, towards a home or other goals. People get carried away on emotive goals like a home and child's education. The mistake is not evaluating the impact on the other goals. This problem is compounded by the fact that there are specific products available to satisfy a certain type of goal.

For instance, there are children's insurance policies which are purportedly for meeting the education requirements. There are pension policies for meeting retirement needs etc. The problem is that, the agent who interfaces with you would just want to get out the maximum amount you could afford, in the plan that he has. He is not going to agonise over whether your other goals will be jeopardised. This is the classic problem, we financial planners face. We find when clients come to us, they have dug themselves into a pit and we need to completely redo their investments, based on their overall requirements, overtime.

This is precisely what a Financial Plan would help you to avoid. A Financial Plan is a blueprint to achieve one's goals, with the finances available at one's disposal. The plan will also make it clear whether all goals can be achieved or some may have to be scaled down, staggered ( time-frame wise ) or dropped altogether. This will have to be done based on the priorities assigned to the various goals. High-priority goals will have to be retained, though it may have to be scaled down depending on the situation. The plan will come up with the strategy for achieving these goals and will direct investments into appropriate instruments, as per the tenure of the goals.

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After a lengthy discussion, I was able to convince Govindan to scale down this education goal, so that it does not jeopardise the others. Now, we have decided that Hari will pursue his graduation in India and go abroad only for his post-graduation. Govindan had very reluctantly agreed. Govindan however saw a silver lining – “ What if he scores so well that he gets a scholarship for graduation?”, he leaned forward enthusiastically, with the coffee in left hand precariously poised that it's contents may spill on me. I agreed that this possibility will sort out the problem and advised Govindan to have his coffee in peace, so that I could have mine. We settled down and started enjoying our coffees, with the confidence that all goals can be achieved, now that we have corrected the education skew.

# Teach your Kids about Money

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I have been watching my child's activities since he was two. Most of the time, he would copy me. When I talk on phone he also puts the mobile on his ears. Similarly when I buy something he likes to pay the shopkeeper, since he has seen me doing the same. A little grown up, now he knows what an ATM (money dispensing machine) is and considers every visit an adventure. I am sure, very soon he will be aware of banking activities.

Although, these activities are fun for children, they can be a good source for teaching them about money. Piggy banks have been there since I was a child. Probably the absence of something like an ATM and not so complex financial markets didn't give enough reason to inculcate the learnings. However, with change in scenario the money management skills need has aroused. Although teens is the age when the child learns about creating a budget etc., there are numerous ways through which children can be taught about the importance of money from a very young age. These learnings can go a long way in changing the personal finance behavior of your children and when they grow up they have a higher probability of making prudent decisions.

Following are few ways where you can make your kid understand the value of money which helps in bringing in discipline when he/she starts managing own his/her personal finance.

## 1. Set examples:

Children from a very young age have the habit of copying the activities of others, especially their parents. Take this opportunity to teach your kids. Take them to vegetable stores, banks, etc. where the kid will learn what is done with the money. Make the child make and receive payments with their own hands. This helps in generating interest and the child slowly learns how money can be used.

## 2. A piggy bank:

This is one of the favorites among children and the easiest way to teach kids about saving money. Give some money regularly to the child to deposit in the piggy bank. In India, we have so many traditions of giving blessings to the child in form of money, especially by grandparents. Make sure these go in the piggy bank. This form of education helps in teaching the child why money is being accumulated.

## 3. Monitor pocket money:

All parents give their children pocket money when they start going to school. Monitor it closely to make sure the child is not getting into bad habits. Teach the child to deposit part of the money to buy something that they want.

## 4. Set goals for the child:

Set some goals for your child like buying a toy or bicycle on their birthday and teach the child to save money for the goal. Piggy bank savings if utilized for the goal, instill a lesson that savings lead to great rewards.

## 5. Earn while you learn:

You can learn when you are earning. In other words, money is not available free but you need to earn it by doing some work. This mantra has been used by many companies to instill the required knowledge in their employees, especially freshers. You can teach your child this lesson easily by giving some household work and paying for it, once it is done.

## 6. Shop around with your child:

Supermarkets or your favorite 'kirana' stores are a great learning source for your children. Prepare a list of requirements along with him/her. Then visit the supermarket or store and buy the items. The child in the process learns how to shop and what is the use of money.

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## 7. Savings:

A very important element of personal finance which starts even with a two-year old child in the form of piggy bank account. Teach your kids how to save money. As they grow older, teach them the importance of savings. Involving your child in household bills is a good learning to teach them how money is used and what things are bought. Through this they will learn the amount of saving one should do in order to purchase such items.

## 8. Investments:

Involve your kid in your investment decisions and make them learn the importance of investment. If following a financial plan, involve them during the review or when making the investment decisions. This will help them by creating awareness and they will be able to take prudent decisions, when they start earning.

## 9. Create new ideas:

Learn new ways to teach your child the importance of money. I have seen some parents creating simple games related with personal finance and playing them with their children to teach them about savings and accumulation. As children, they follow your footsteps and hence the responsibility of inculcating appropriate personal finance behavior, rests on you.

In today's scenario when financial situations can lead to various imbalances in life, it is necessary that the child's upbringing is done in the right manner. Without it, children even commit crimes to fulfill their needs, for a higher lifestyle. There is no age to start teaching your child. At times, you can even involve a financial planner who can help your child to grow with the financial literacy required for prudent decision making.

# Don't Place all your Eggs in the 'Property' Basket

In September this year, I met Deepak and Saloni – a DINK (double income, no kids) couple – who wanted my financial planning services. This young couple earned well, but had parked all their investments in one asset class – property. They had a portfolio of five houses, a term plan, a mutual funds portfolio worth a few thousands and some shares. We started discussions on financial planning. By the time I visited them again – in October – they had added one more property to their list.

I had another interaction with a couple in their forties with a similar story – they too had parked all their investments in property. Four, to be precise. The rest of their money lay in their savings account.

A recent email from a client mentioned that “I am also actively considering investing in real estate – sometime after July next year by re-allocating funds from the MF portfolio... as real estate tends to provide the best long term appreciation.”

We have been taught to ‘invest in property and LIC policies, as their value never goes down and will always fetch you positive returns’.

In the cases I have listed above, and plenty more, property is only investment asset class. There seems to be a craze for buying property so much so that we tend to lose focus on all other forms of investments. This has been further ‘confirmed’ by the boom in real estate over the past 7-8 years.

Disadvantage of investing only in property:

- The biggest disadvantage with real estate is that it is an illiquid investment.
- You need to spend on its maintenance



and also pay taxes and duties. Speculation is rampant in the real estate industry. These speculators make lump-sum purchases during a boom, without bothering about the purchasing cost and the ongoing costs such as maintenance.

Now, I am not implying that real estate is a bad instrument for investment. But it becomes dangerous when it is the only asset class that one invests in. Here, of course, I should mention that the ‘first house’ (which is bought for the purpose of residence) is not being included assuming that it is not for resale.

With the ‘pressure’ created by real estate brokers and builders that the rates are going up every day, lay investors fall for the trap, thinking that it is now or never. With property prices sky-rocketing across urban and semi-urban areas, larger chunks of money are required to fund even the down-payment. For a salaried person,

this may not always be easy.

A number of investors fall for the “initial payment of 10 percent only” trap. Without even calculating how they will service the balance down payment and subsequent equated monthly instalments (EMIs), people rush in in the hope of making a quick buck. They often sell-off the booking when the second instalment becomes due. This is a gamble which could go seriously wrong.

With financial planning and proper management, you can own your dream house.

A few points that one should keep in mind before investing only in property:

1. **Illiquid asset:** Since it is an illiquid asset, it can have serious repercussions in case there is an

**Property prices can fall: We have an innate ‘belief’ that the prices of property only go up.**

emergency. Lack of liquidity can lead to a distress sale. If there is a medical emergency and you require a few lakh rupees, you would have no choice but to sell off the house (which could be worth much more) to fund that immediate requirement.

2. **Property prices can fall:** We have an innate ‘belief’ that the prices of property only go up. This is a generalised statement. It could always happen that the area / locality / city where you have purchased your property may not grow due to certain factors, beyond your control.

3. **Long-term returns may not be the best:** Another strong notion that we carry is that property gives the best returns in the long term. Now this is true depending on your definition of ‘long-term’. If in your definition, long-term is 3-5 years, then you may be right. But it has been seen that over 25-30 year periods, equities have delivered the best returns. There are studies to prove this.

Can affect your goals: Financial planning through property alone is like putting all your eggs in one basket. It can affect meeting your goals since there may not be a buyer when you wish to sell, at the time of your goal.

One should have a robust, diversified and liquid portfolio, to ensure sufficient liquidity before ‘investing’ in property.

People should carefully plan their investments to meet their goals in an organised and structured manner with due importance to asset allocation. Putting all the eggs in to one basket could lead to severe consequences.



# Budget 2012-13: What it means to you?

Budget 2012 takes away more than it gives. While on one hand, if the personal income tax benefits have bought some cheer, the increase in service tax has forced one to review their household budgets.

Let's figure out what how the 'aam admi' is impacted.

- Changes in Income tax slabs:** In line with the DTC provisions, the exemption limit for the general category of individual taxpayers has been enhanced. The new income tax slabs will be as follows
- Deduction on **interest on bank savings account** up to Rs 10,000.
- Deduction of Rs 5,000 for **preventive health check-up** within the existing limit of Rs 15,000 / Rs 20,000 u/s 80D

- Senior citizens** who do not have any income from business do not have to pay advance income tax

Men & Women who are not senior citizens	Revised tax slabs
Income up to Rs 2 lakh	NIL
Income above Rs 2 lakh and up to Rs 5 lakh	10 per cent
Income above Rs 5 lakh and up to Rs 10 lakh	20 per cent
Income above Rs 10 lakh	30 per cent

- Increase in Service tax and Excise duty from 10% to 12%** will increase all around expenditure. Now people will have to fork out more money for eating out in restaurants, travelling, monthly mobile bills, purchasing refrigerators, computers, cars etc.

## Budget 2012 – provisions impacting our investments

- ⇒ **Securities transaction tax** has been reduced from 0.125% to 0.10% for delivery based transaction. This will impact the returns of all the equity investors (direct or through mutual funds)
- ⇒ Investors with annual income up to Rs 10 lakh can invest up to Rs 50,000 in the designated schemes under **“Rajiv Gandhi equity savings scheme”** and get tax deduction of 50%. This will be available to new investors only. The scheme has a 3-year lock in. However, still lot of clarity is required on this proposal.
- ⇒ **Life insurance policies:** To qualify for the deduction u/s 80C and section 10(10D), your life insurance policy premium should not exceed 10% of the sum assured. This will apply to policies purchased on or after April 1,



2012. In other words, all the regular premium life insurance policies, except pension plans issued after 1st April 2012 have to offer a protection cover at least 10 times the annual premium.

⇒ With the increase in service tax rates to 12.36% (from April 1, 2012) your **life insurance and health insurance premiums** will go up.

⇒ Also the eligibility age for senior citizens has been **reduced from 65 to**

**60 years** and this will benefit them.

- ⇒ In case of sale of residential property purchase at the time of making payment or crediting any sum by way of consideration for transfer of immovable property (other than agricultural land), the transferee/purchaser shall deduct tax, at the rate of 1% of such sum, if the consideration paid or payable for the transfer of such property exceeds:

- Rs 50 lakh in case such property is situated in a specified urban agglomeration; or
- Rs 20 lakh rupees in case such property is situated in any other area.

No property will be registered without the proof submission of this TDS.

Exemption from Capital Gains tax on sale of residential property, if sale consideration is used for subscription in equity of a manufacturing SME for purchase of new plant

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give in the long term but wants that without volatility. Product manufacturers understand this and they come out with capital protection oriented schemes. Even insurance companies innovated and launched highest net asset value (NAV) guaranteed plans. Your attraction to these products is very normal as you like complex products. No agent would be wrong if he sells you these products as you yourself have demanded such product. And after the completion of the tenure of the product which may be 3, 5 or 10 years, when you get your capital back with or without 6-7% return, you blame the seller.

### 4. Looking for a child plan or retirement/pension plan


You never want to plan for your kid's future or your retirement, but are always on the lookout for a child plan or a pension plan. And after some years when you come to know that this product carries so many charges, it starts bothering you. It bothers you more when you find that these charges have gone into your agent's pocket, as commission. You continue the investment for the minimum tenure required and then you start looking for someone who can ratify your decision to surrender this plan. So get mis-sold at two points – one at the time of investing and the other at the time of surrender which might not be advisable at that time.

### 5. Suggest something new



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Here regulators have played their part by putting restrictions on the launch of NFOs with same features. Even insurance companies are slowing down their launch of new products, after the rationalization of the commission structure on Unit Linked Insurance Plans (ULIPs). But you are still on the lookout for newer options. To satisfy such demand, the seller offers you Portfolio Management Schemes (PMS) or structured products – one that your demand for a new product has been taken care and the other is of your liking for complex products, as you think that the more complex a product structure is, more justified is the fund manager's job.

### 6. Do you charge?

Why do you expect to receive good advice if you ask such kind of question? By asking such a question, you are indirectly asking the advisor to become a seller. If you want him to advise you according to your needs and help you in purchasing those products which will cost you less and fetch you good returns, if you want him to work for you and not for product manufacturer, then you need to compensate him adequately. For good advice you should ask "How much do you charge?"

There's very old saying that "If you do not ask the right questions, you do not get the right answers." In today's uncertain scenario, and complex financial world one needs to have clarity on what one actually wants. Either you ask for a particular product after understanding your needs, goals and financials or hire a financial planner for advice. But more importantly you need to ask the right questions to get the right solutions.

**Max Secure Financial Planners**, by providing fee based advice, are not only independent of product sales but also provide unbiased recommendations by keeping the clients interest uppermost in mind by creating a road map leading to their financial freedom.

### Vision

To provide affordable fee based financial planning services, by adhering to professional practice standards and Code of ethics as prescribed.

### Mission

Nurturing and maintaining long-term relationship based on trust with clients by keeping their interests uppermost in mind, providing unbiased advice & financial planning services using six steps planning process, promoting financial literacy.

Being **CFP<sup>CM</sup> professional** we are committed to the professional practice standards and code of ethics laid down by **Financial Planning Standards Board India**. CFP<sup>CM</sup> Certification is a mark of excellence granted to individuals who meet the stringent standards of education, examination, experience and ethics.

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