

Basics of Financial Planning

*If you born poor
its not your mistake
but if you die poor
its your mistake
- Bill Gates*



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Why we need to plan ?



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Its risky to die early, but its more riskier to live long.



Life is not easy ...

People change the basic principal

EARN - SAVE = SPEND

and now.....

Life is not easy ...

EARN – SPEND - EMI = ???

Don't confuse with
"Spending for Life"
Or
"Life for Spending"





Why we need to plan ?

- Generation Gap
- Changes in Life Style
- Increasing Inflation – The new Demon
- Absence Social Security System

Generation Gap



- Absence of Joint Families and Business
- Less Dependency
- Parents support us and we support parents
- Diminishing value of culture and respect



Ever changing Lifestyle...



✓ My dad had one pair of shoes and used it for five years. I have five pair of shoes and use it for one year.

✓ In today's wired world people connect less emotionally more electronically.

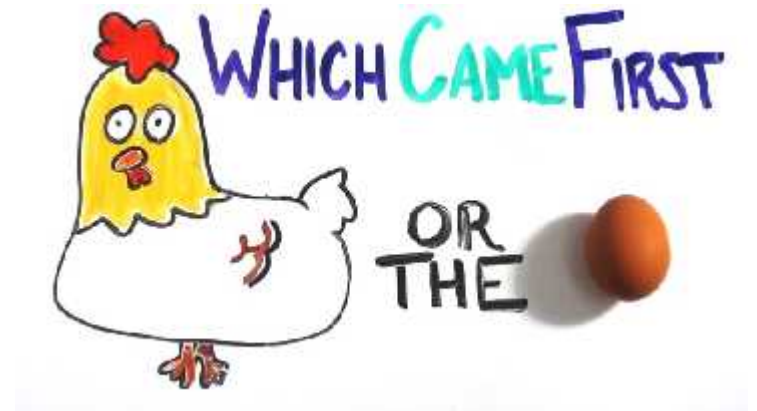
✓ High stress level.



What Come First ?



- Plan for Child Education
- Plan for Child Higher Education
- Buying a new house property
- Foreign Tour
- Plan for Child Marriage
- Retirement Planning



Inflation



If you have expenses TODAY

Rs. 1,00,000/-

Per month

The value after **35 years.....**

(with Inflation of 8%)

Inflation



Rs. 14. 78 Lacs

Per month

Rs. 1.77 Crore p.a.

(Just to maintain the same Life Style)



***“Shauk toh maa baap ke paiseo se poore hote hai,
Apne paiseo se toh jarurate poori hoti hai”***

Why Planning is Important



IF YOU DIE EARLY

A good and decent **TERM PLAN** to cater your needs.

IF YOU DON'T DIE EARLY

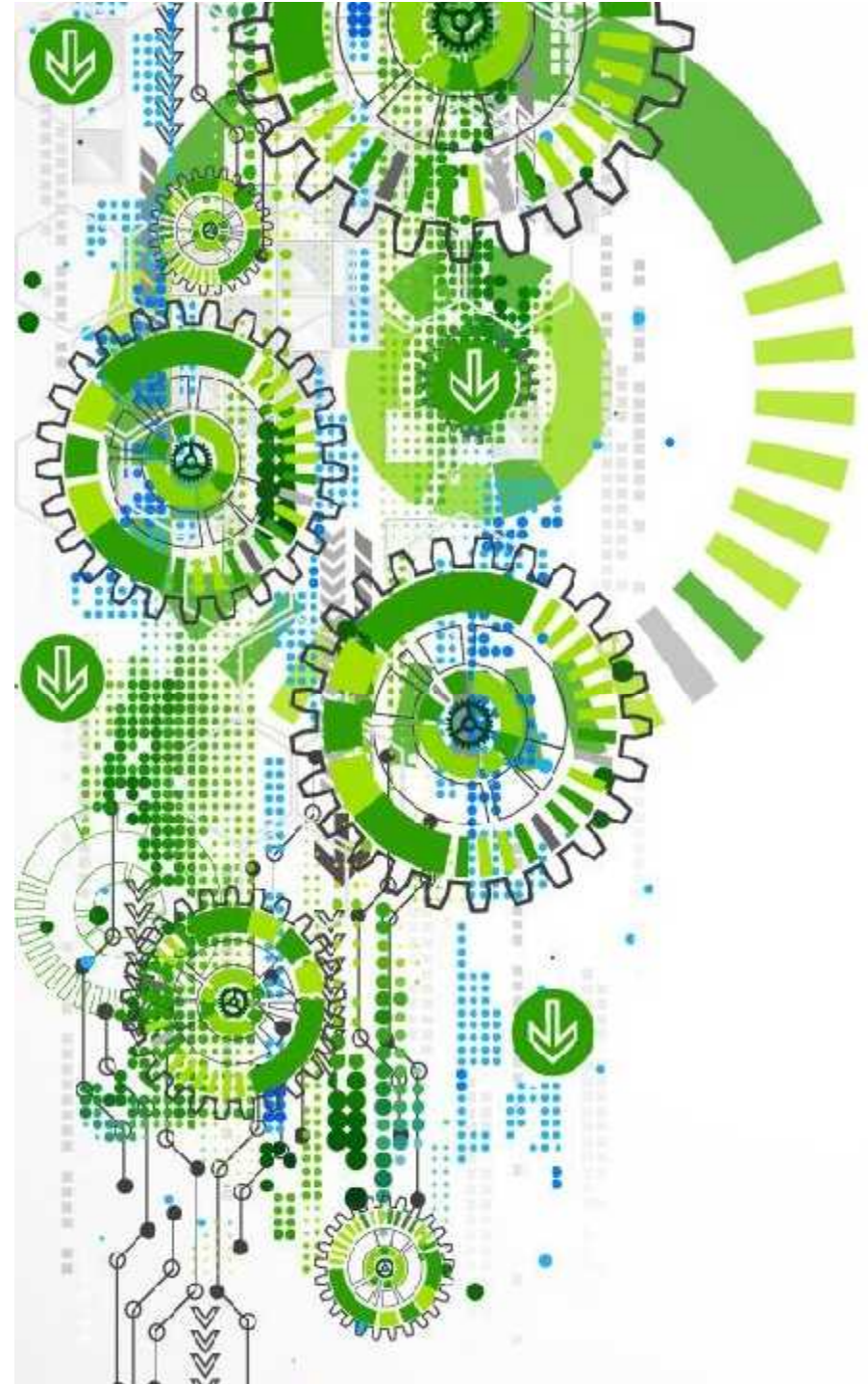
Discipline approach towards investment.



Financial Planning

Financial planning is the **long-term process** of wisely managing one's finances so one can achieve his **financial goals**.

It is your roadmap to Financial Health, & Sustainable Wealth creation.





What is the procedure of Financial Planning

Set your Life's Goals

Analysis Risk Profile, Time and Inflation

Choose Right Asset Class

Review

Some Popular Goals



GOAL	PRIORITY	TIME TILL GOAL OCCURS
Child's College Education	High	9 Years
Child's Marriage	Medium	12 Years
Retirement	VERY High	25 Years
Foreign Vacation	Low	16 Years



ASSET CLASSES TO INVEST

DEBT ASSET CLASS

- ✓ Fixed deposit
- ✓ Corporate Deposit
- ✓ Debt Mutual Fund
- ✓ Various Govt. Schemes

EQUITY ASSET CLASS

- ✓ Direct Equity
- ✓ Equity Mutual Fund

ALTERNATE ASSET CLASS

- ✓ Gold Investment
- ✓ Real Estate
- ✓ Art Investment



Don't confuse Saving with Investment?

If you have Rs. 1000 and you don't want to spend this money, can put it in piggy bank, burry in the wall, put it at a secret place, etc. etc. But these all will not give you anything extra, if you want to earn something extra from that Rs. 1000, you should invest it in some financial product.

WHAT IS DEBT?



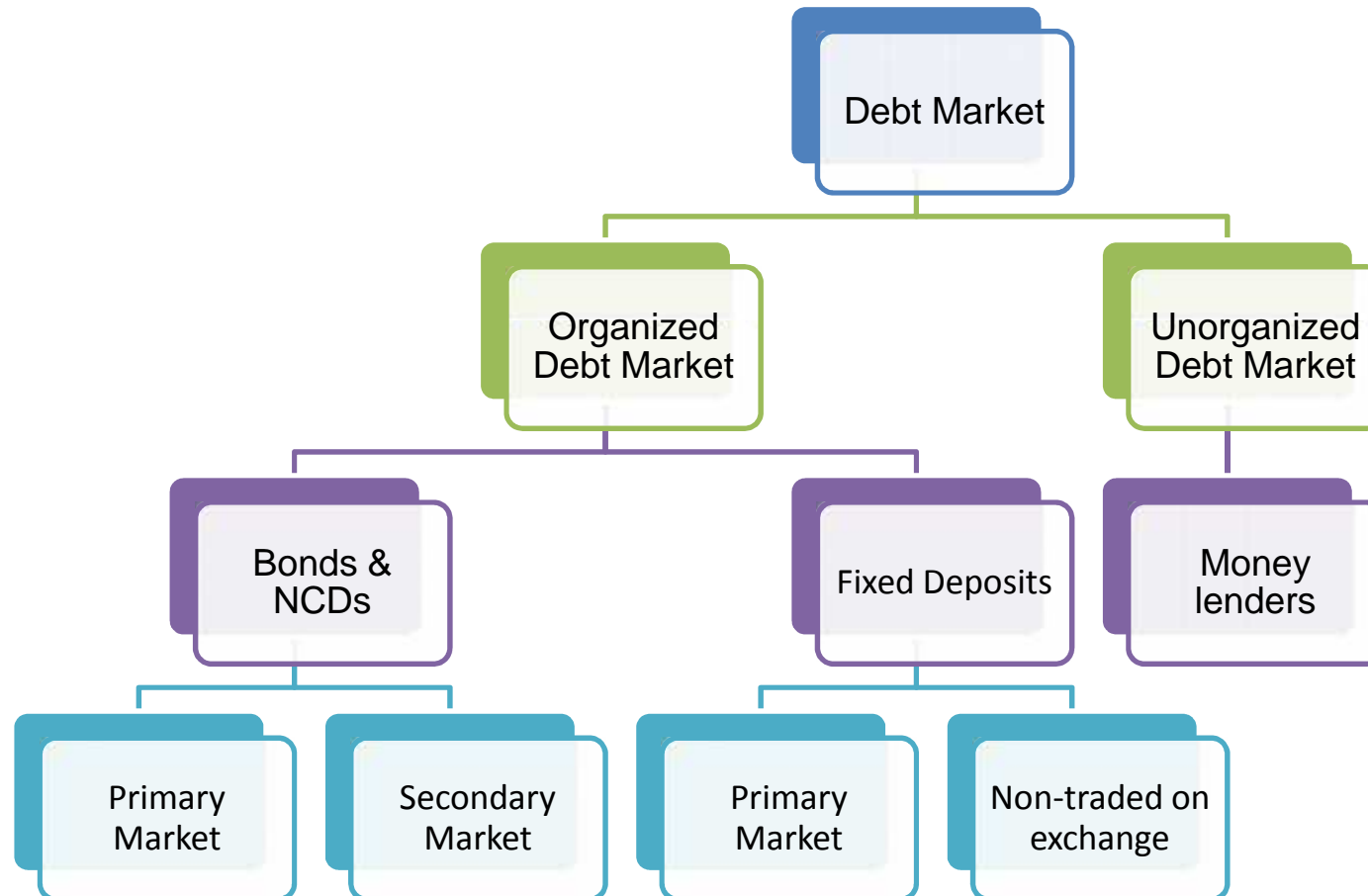
In English the meaning of **debt is LOAN**, the same is the meaning of Debt in investment.

It is a **CONTRACT** between issuer and investor on pre-determined rate of interest, maturity and the repayment of the principal amount.

The major investor in this are **institutional investor (corporate, Banks, Insurance etc.)**

Instrument Features:

- ✓ **Maturity:** The period of bonds, it is life span of bond, after this bond doesn't exist in the market.
- ✓ **Interest/Coupon:** This is a amount that issuer pays to investor to on daily/weekly/monthly/quarterly/annually.
- ✓ **Principal Amount:** This is a money that an investor invest.



FD v/s Bonds & NCDs



• Fixed Deposits

- Issuer is a bank & Corporate
- It has a fix tenure
- It has fix interest rate
- It is non-traded in exchange
- Investor have to hold it till maturity
- Penalty on pre-matural

• Bonds & FDs & NCDs

- Issuer is a Corporate
- It has a fix tenure
- It has fix interest rate
- It is traded in exchange
- Investor can sell in exchange before Maturity
- No penalty on pr-matural, because one can trade in the market

Risk Associated



Default risk: A company unable to pay back capital or/and interest amount.

To reduce that risk, there are few agencies who tracks the fundamental situation of the company and give rating the particular company. These agencies are known as **Credit**

Rating Agency. (Ex. CRISIL)

AAA+, AAA- Most fundamental company safest company to invest, and it gradually reduces its quality with **AA, A, BBB, BB, B CCC, CC, C, and** is default company.

Lower the credit rating, higher the interest rate that a company offers to its client.



Public Provident Fund

EVERYTHING ABOUT IT



1. The Public Provident Fund Scheme is a statutory scheme of the Central Government of India.
2. This account can be opened in the name of any individual or minor under guardianship.
3. Account can be opened by residents only.
4. HUF cannot open PPF account effective 13th May, 2005.



5. No age is prescribed for opening a PPF account.
6. After 15 years, this account can be extended for 1 or more block of 5 years.
5. Rate of Interest on PPF varies from 8% to 9%. This rate every year is decided by the Govt. ***and at present is 8.1 % (F.Y. 16-17) (8.7% F.Y. 2015-16)***



8. Nomination facility is also available.
9. One deposit with a **minimum amount of Rs.500/- is mandatory** in each financial year. Minimum Investment to be done is INR 500 and maximum permitted investment is **INR 1,50,000 in an year effective Aug, 2014.** Only 12 deposits can be made in an year. The deposits shall be in multiple of Rs.100/- subject to minimum amount of Rs.500/-.
10. Tax benefit is available for invested amount u/s 80C.



The balance amount in PPF account is not subject to attachment under any order or decree of court in respect of any debt or liability.



- One person One PPF account
- Best for long term investment.
- The best time for deposit in the PPF a/c is between 1st to 5th of the month.

(Interest is calculated on the balance between 5th and last day of the month)



- One can avail loan from 3rd Financial Year to 5th Financial Year.
- Interest rate charged is 2% more than the prevailing interest year.
- Loan is to be repaid within 36 months.
- Maximum 2 times loans can be availed.



- Withdrawal can be from the end of 6th Financial Year.
- Maximum amount which can be withdrawn is limited to 50%.
- After 15 year, full amount can be withdrawn if the same is not carried forward to another block of 5 years.
- One withdrawal can be made every year starting from the 7th Financial Year.

Debt-Based Mutual Fund



- ✓ Investment through Systematic Investment Planning
- ✓ Dividends are tax free in the hand of Investor.
- ✓ Capital gain tax applies at the time of selling of units (sub. To Indexation).
- ✓ BETTER THEN BANK FDRs





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Financial sector reforms

Pensions

Under the National Pension System (NPS), the efforts of the government has been to widen the reach of the scheme beyond employees who are within the government fold.

Till 31 December 2015, a total of 112.82 lakh members/ subscribers have been enrolled under the NPS.



National Pension System

REAL ESTATE



Real estate is profitable option to invest one's money in but it is not risk free.

Risk involved in real estate investment are

- ✓ Getting bad tenant.
- ✓ Market decline.

GOLD



Physical gold

Gold ETFs

Gold Monetization Scheme

GOLD



Gold is risky as gold price can fluctuate sharply.

Therefore only 10-15% of the portfolio should be allocated in gold.

Physical gold is more risky than gold ETFs, E-Gold and Gold FOF.

Unlike other type of gold investment physical gold is not price transparent.

Buy back of physical gold is not on market prices but after deducting high making charges.

Gold Monetization Scheme



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The Minerals and Metals Trading Corporation (the government agency that deals in all metals) has estimated that there is about 25,000 tonnes of unutilized gold available in India. Even then, every year 95% of the annual demand for gold is fulfilled by imports.

This has resulted in reducing the Current Account Deficit (CAD) which is the difference in the inflow and outflow of Foreign Currency in a country. The CAD is now at 1.3% of the Gross Domestic Product (GDP) as compared to 4.3% in 2013.



ALL YOU NEED TO KNOW ABOUT THE GOLD SCHEMES

India is the world's largest buyer of gold with estimated holdings of 20,000 tonnes, worth over Rs 55 lakh crore. The three schemes launched by PM Narendra Modi on Thursday, and described as "sone pe suhaga", are meant to recycle a part of the huge pile of unused gold and reduce import of coins and bars. A part of the gold collected through the monetisation scheme will be lent or sold to MMTC and RBI for minting of coins and auction. **HERE'S HOW THE SCHEME WILL WORK FOR YOU**

1 GOLD MONETISATION SCHEME

Tenure*	Interest rate (%)
1-3 years	Banks to decide
5-7 years	2.25
12-15 years	2.50

PREMATURE WITHDRAWAL: Allowed after minimum lock-in period with penalty

INVESTMENT LIMIT: Min 30 gram of jewellery, bars, coins. No maximum limit



WHERE TO BEGIN

- 1 Go to BIS-certified Collection and Purity Testing Centres
- 2 Comply with KYC (know-your-customer) norms and regulations
- 3 Bank will issue deposit certificate equivalent to 995 fineness of gold

WHAT HAPPENS TO THE GOLD DEPOSIT SCHEME, 1999? You can continue till maturity or withdraw prematurely



“ India has no reason to be described as a poor country, as it has 20,000 tonnes of gold... the gold available with the country should be put to productive use, and these schemes show us the way to achieve this goal

— Narendra Modi, PM

2 SOVEREIGN GOLD BONDS

TENURE: Eight years

PREMATURE EXIT: Allowed from fifth year

INTEREST RATE: 2.75% a year, payable semi-annually on the initial value of investment for the bonds issued in 2015-16

INVESTMENT LIMIT: Minimum of 2 units (equal to 2 gram) and max of 500 gram in a financial year.

WHERE TO BUY: Banks and designated post offices

ISSUE DATE: Nov 26, 2015

HOW IT WORKS

- 1 Price linked to previous week's (Monday-Friday) simple average of closing price of gold of 999 purity

published by the India Bullion and Jewellers Association Ltd. Redemption price to be based on same formula



2 Comply with KYC norms – Voter ID, Aadhaar Card, PAN, TAN, Passport

3 Payment through electronic transfer, cash payment, by cheque or demand draft

4 Investors to get stock/holding certificate. Bonds can also be kept in demat form

5 They can be used as collateral for loans

DISTRIBUTOR'S COMMISSION: 1% of investment amount

TAX: Income and capital gains tax payable

3 INDIA GOLD COIN

WEIGHT: Available in 5, 10 and 20 grams

PURITY: 24 karat, 999 fineness



WHERE TO BUY: Initially available at designated and recognised MMTC outlets. Will be sold through banks and post offices later



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EQUITY ASSET CLASS

Equity Mutual Fund

Equity Shares

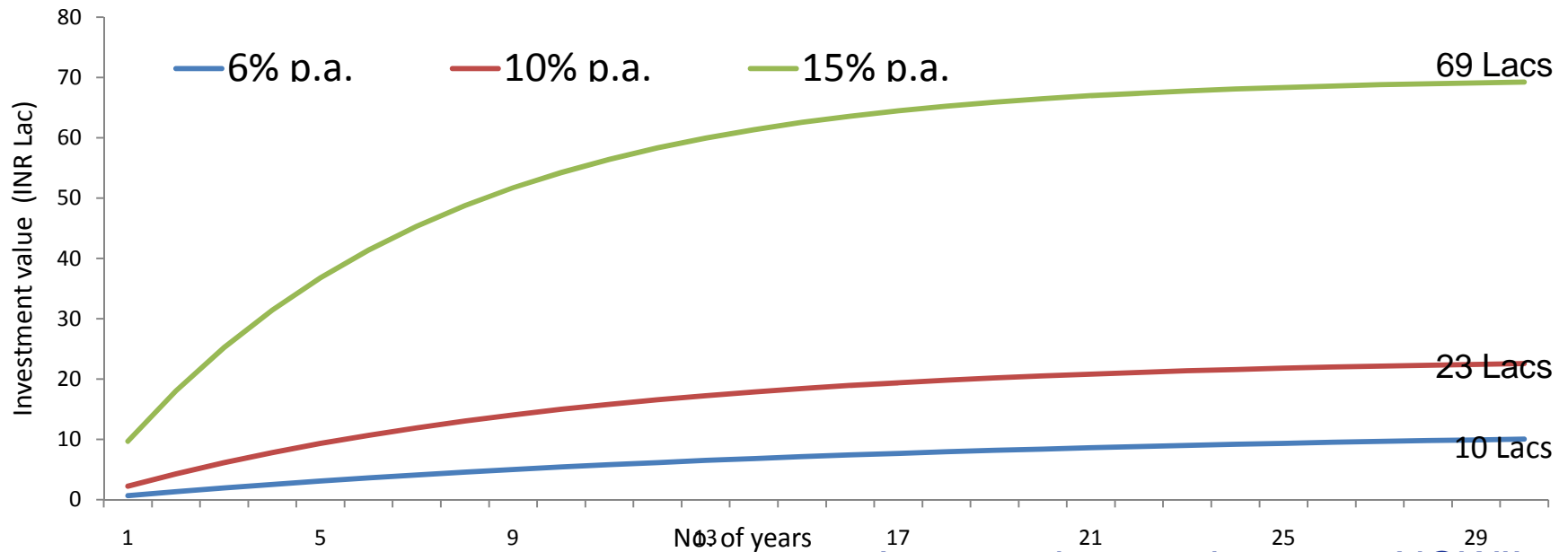
Investment in equity is risky person should invest in equity depending upon their Risk appetite and risk tolerance.

The Power Of Compounding



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Time: Start Early & Invest regularly
Even small amounts can grow substantially



Getting rich is simpler than you think

Its never late; early means NOW!!

Rs.1000 invested every month for 30 years

Note: Investments in securities are subject to market risks. The purpose of this slide is to explain the concept of Power of Compounding assuming constant rates of return

Financial Assets – Risk Matrix



Capital Growth

Risk: Medium to High
Period: 3 years and above

Stocks

Growth
Funds

Income

Risk: Medium to Low
Period: 6 months to 3 years

Bonds
Debentures

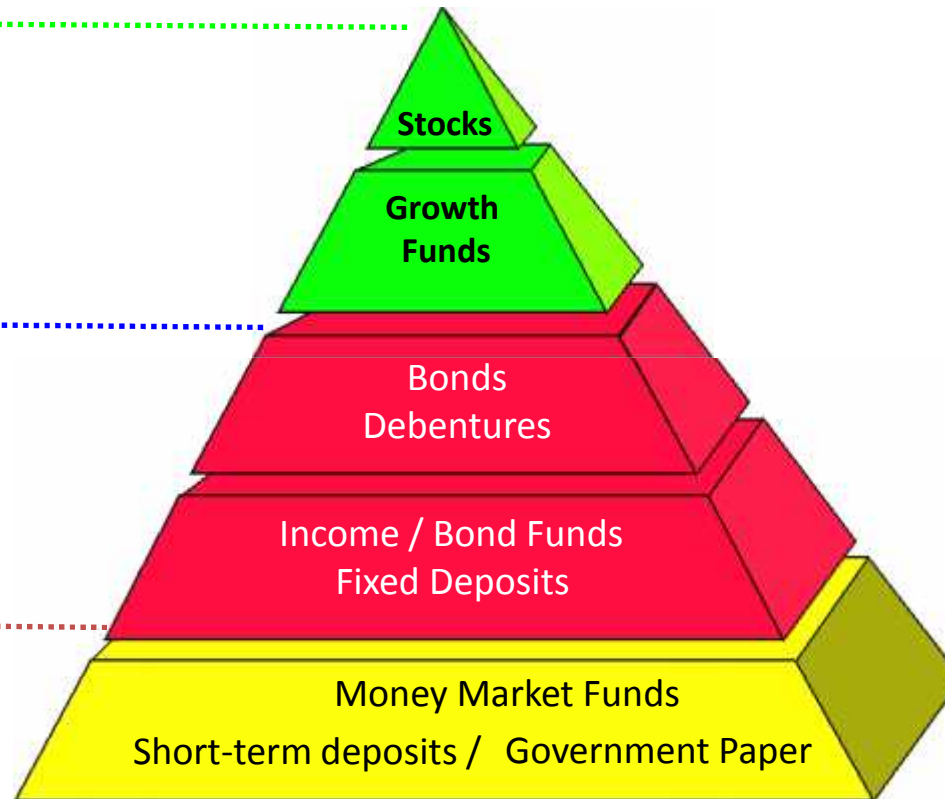
Income / Bond Funds
Fixed Deposits

Capital Preservation

Risk: Low to Medium
Period: Less than 6 months

Money Market Funds

Short-term deposits / Government Paper





SIP - The Best Method of Investing

Systematic Investment Plan (SIP) means investing a fixed amount at fixed regular intervals i.e monthly or quarterly

SIP combines the benefit of Rupee Cost Averaging & Power of Compounding..

- Buy more units when the market is down
- Buy less units when the market is up
- Over time the market fluctuations are averaged
- Savings on the cost per unit
- This leads to Higher Returns

SIP – Rupee Cost Averaging

Month	Amount Invested	Rising Market		Falling Market		Volatile Market	
		NAV	Units	NAV	Units	NAV	Units
1	1000	10	100.00	10	100.00	10	100.00
2	1000	12	83.33	8	125.00	12	83.33
3	1000	14	71.43	6	166.67	8	125.00
4	1000	16	62.50	4	250.00	10	100.00
Total	4000	52	317.26	28	641.67	40	408.33
Average Purchase Price		13		7		10	
Average Cost Per Unit		12.61		6.23		9.80	

Note: Mutual funds investments are subject to market risks. SIP does not assure a profit or guarantee protection against a loss in a declining market.



GETTING PERSONAL

Even the Worst of SIPs Would have Given you More Than your PPF Returns

Regular investments in mutual fund equity schemes have been rewarding for investors in the last 15 years. Investments in equity schemes done through systematic investment plans (SIPs) have outperformed traditional products such as fixed deposits and public provident fund (PPF). Tax-saving fixed deposits and PPF have returned a little over 9% every year in the last 20 years. Meanwhile, average returns in equity schemes through SIPs – an equivalent of recurring fixed deposits of banks – over a 15-year period have been 21.54% every year with the worst performer giving 13.71%.

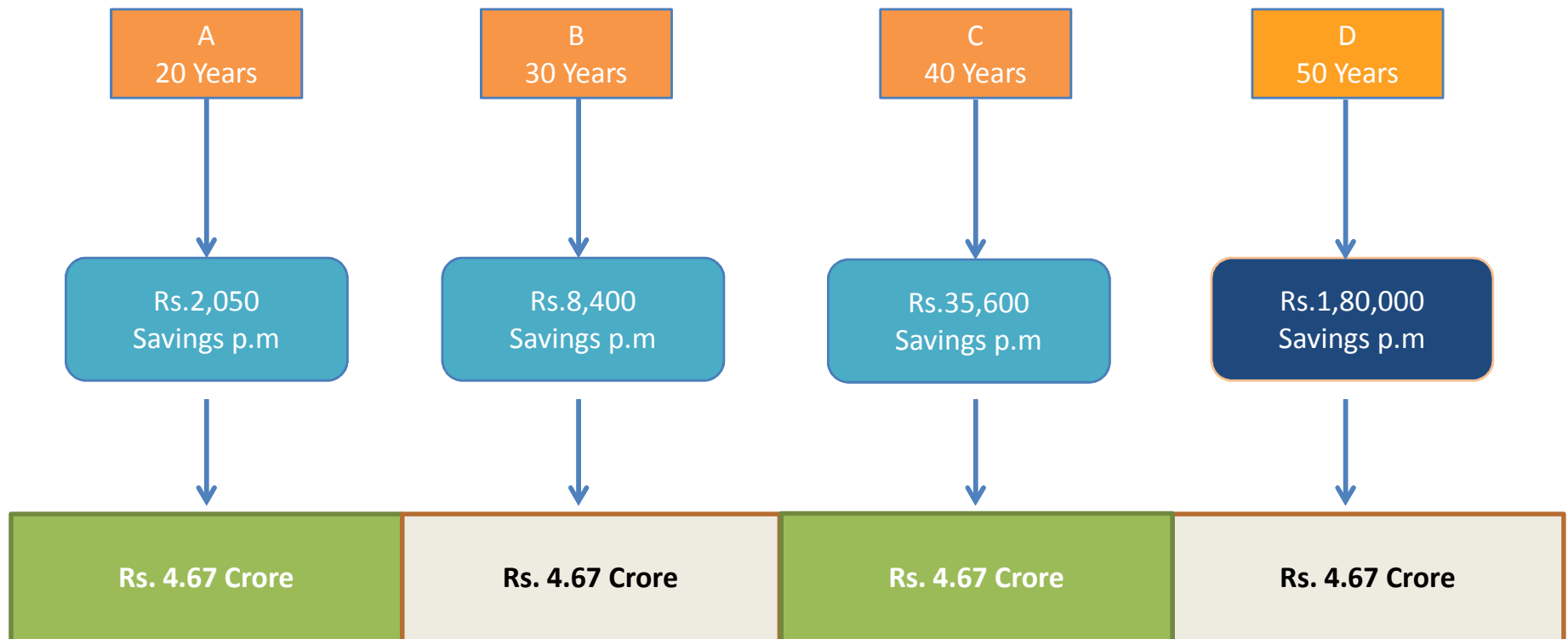
Contributed by **Prashant Mahesh & Rathina Sabapathy**

SIP Tenures	5-year	10-year	15-year
Investment Amount (₹)	6 lakh	12 lakh	18 lakh
No of Schemes	145	75	28
Average Return (%)	20.57	15.49	21.09
Average Value (₹)	10.03 lakh	27.28 lakh	1.09 crore
Best Fund Return (%)	34.03	24.72	26.62
Worst Fund Return (%)	9.48	9.2	13.71



Note: SIP amount of ₹10,000 per month; Return is annualised.
Data for Diversified Equity Mutual Fund Schemes; Data as on 30th June 2015

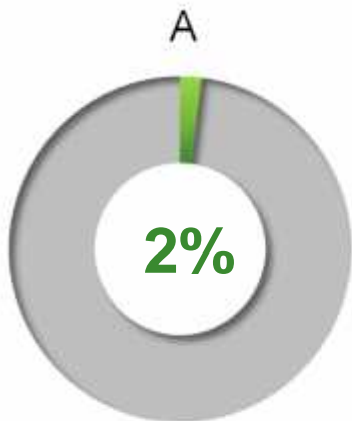
SIP The Best Method of Investing



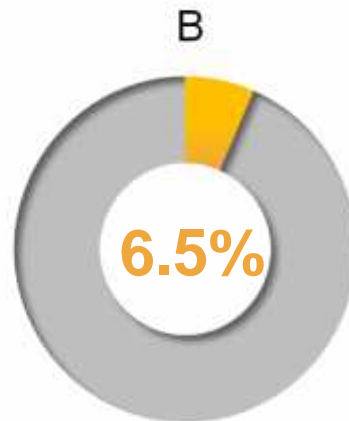
Compounded Rate of Return assumed @ 15% p.a (Age 60 Years)

Starting Early – Huge Impact on Wealth Creation

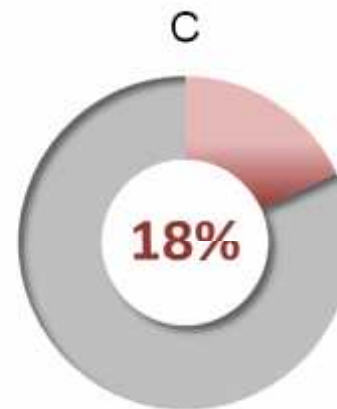
Capital Deployed



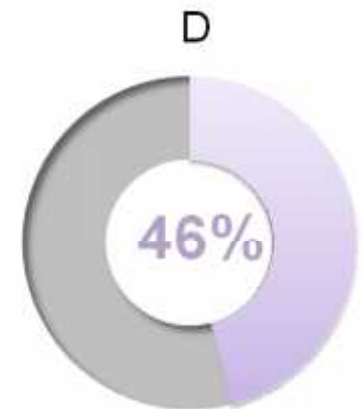
Inv. - Rs.9.84 Lacs
Appn - Rs.4.57 Crore



Inv. - Rs.30.24 Lacs
Appn - Rs.4.37 Crore



Inv. - Rs.85.44 Lacs
Appn - Rs.3.81 Crore



Inv. - Rs.2.16 Crore
Appn - Rs.2.51 Crore

SIP Advantage - Slow & Steady Wins the Race



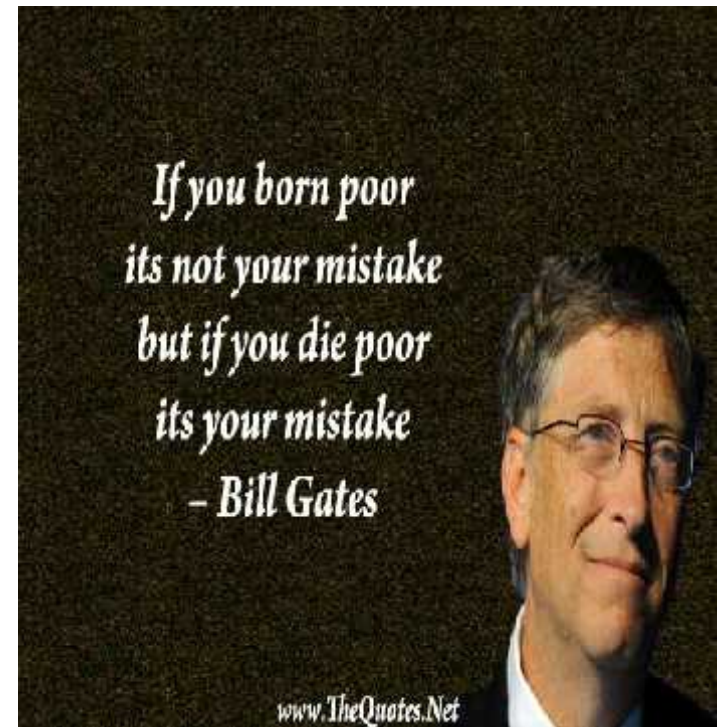
- Most easiest way to invest
- Most efficient way to invest
- No drain on wallet – Small is Big
- No sentimental pressure of market volatility
- Long term investment horizon gets built-in

Small Investment Ticket size makes it possible for everyone to participate and get good Returns

Final Note...



- Plan Today for Better Tomorrow.
- The best age to start for your retirement is either 20 or NOW
- Stick to basic, basic is always beautiful.
- Always educate your kids about our inheritance values, cultures and roots.
- Don't forget to prepare your WILL.





Guru mantra

Earn – Save- Spend

Don't create wrong Assets

Wealth don't work for money

Ensure your lifestyle isn't your biggest liability.

Saving and splurging gives you same pleasure only the order changes.

Donate generously.

Just for you....



"Investment is a boring activity . It is better to get bored and be wealthy than to get excited and end poorly. "

“it’s make you more beautiful...”



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