BASICS OF
INVESTMENT PLANNING
WHY INVESTMENT IS NECESSARY?

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The basic reason for this is that money doesn't retain its value. Prices rise and what was worth a hundred rupees last year is probably worth ten or twenty rupees more this year. Inflation eats away at your savings, bit by bit.

- Inflation in India over the last thirty years, it has varied over a wide range but has rarely fallen below five or six percent per year for a sustained period. The long- term average over this entire period is about eight percent (8%).

- Eight percent (8%) doesn't sound all that harmful, It just means that something worth Rs.100 becomes Rs.108. However, that's the annual rate. The inflation rate is a compounding rate and the inflation of one-year feeds into that of the next year and so on. This means that if you had saved Rs.1 lakh in 1982 and just kept it in a drawer or in bank's current account as cash all long then it would be worth no more than Rs. 3,560 today, just 1/28th of its original value.

- And don't think that the future is going to be better anymore. Currently, despite all the efforts of the Reserve Bank, inflation has stayed above seven percent. Economists now say that high inflation is now 'structural', meaning it's integral to the Indian economy and will likely stay that way.

- ***Investment means putting our money into some form whereby it will yield some gains.*** In our country, over the past thirty or forty years the inflation rate has been either the same or a little bit higher than many of the deposits that are available. And that's why we need to not just save, but also to invest our savings.

HOW AND WHERE ONE SHOULD INVEST?

Most of us are familiar with the ‘types of products’ that we can invest in. These ‘types of products’ could be real estate, gold, shares, companies FD, bonds, bank deposits, public provident fund and mutual funds.

- All the knowledge of investment would be wasted if one does not know where and how to invest? Before that what’s important is how much does one invest? The answer to this question would depend on your goals. ***As we know that every person might have different goals and responsibilities to fulfill in life, thus how much to invest would differ from individual to individual.***

- For example- a couple with 2 kids would have different responsibilities to take care of, whereas a retired couple would have different priorities along with different goals to fulfill. Thus, the question of ‘how much to buy?’, should not arise. The important question to ask is ‘how to buy?’

- First of all, ***everybody needs to define their financial goals very clearly*** which is also called goal planning then depending on the goals and the risk you can take, identify and then evaluate the investment.

GETTING STARTED

According to various financial experts one should take care of ‘Hierarchy of Needs’ before his/her goal planning.

So here is Hierarchy of Investing Need:

LEVEL 1: Basic contingency funds. This is the money that you may need to handle a personal emergency. It should be available instantly, partly as physical cash and partly as funds that can be immediately withdrawn. Equal to three-to-Six-month monthly income should be kept in liquid fund.

LEVEL 2: Term Insurance. Calculate a realistic amount which allows your dependents to finance at least short-and medium-term life goals if you were to drop dead be struck with a serious injury or disease. ***You should have an adequate term insurance before you think of any savings.***

LEVEL 3: Investment for short term goals.This is the money required for expenses that you plan to make within the next two to three years. Almost all of this should be in minimal risk, debt fund or debt-oriented hybrid funds should be preferred for investment.

LEVEL 4: Investment for medium to long term goals. This is the money required for expenses that you plan to make for more than five years. This level could be invested in equity and equity - backed instruments. Diversified equity funds or equity-oriented hybrid funds should be preferred for investment avenues.

GETTING STARTED WITH MUTUAL FUNDS

Mutual funds are an excellent choice for most investors. They are simple to use and offer a number of advantages. It is highly regulated by Govt. of India 'SEBI' and fully transparent.

- For the individual investor who doesn’t have much time to study and research investments himself, mutual funds are one of the best options for reaping the benefits of different types of investments with minimum effort and at a low entry point.
- In most funds, it is possible to start investing with as little as thousand rupees or even less. Also, unlike many other investments mutual fund investments are highly liquid.

(A) **THE BENEFITS OF MUTUAL FUND INVESTMENT**

Mutual funds are among one of the safer and cost-effective ways to invest for your financial goals, which could be for short, medium or even the long –term.

(B) **VARIOUS ADVANTAGES OF MUTUAL FUNDS**

Professional Management: As professional managers manage the funds; it means you do not have to worry about when or what to buy and sell. These experts analyze details like companies, economic data and undertake an impact analysis on how global developments will affect your investments.

Diversification: Thesaying **‘**Donotputallyoureggsin one basket’ holds true with mutual funds. The basic premise for diversification is simple: owning a variety of assets that will prosper in different market and economic conditions. Typically, a well-diversified portfolio delivers superior returns on a risk adjusted basis. However, diversification does not translate into higher returns.

Liquidity: Open ended mutual funds are financial instruments that can be easily bought or sold at Net Asset Value per unit (NAV) on any working day. Close ended mutual funds can be bought and sold on exchange after paying brokerage fees.

Performance Monitoring: The value of most mutual funds is reported daily in the financial press and on many internet sites, allowing you to continually monitor the performance of your investment. There are number of research agencies also dedicated to publish regular magazines/papers for investors independently like Morning Star, Value Research & CRISIL.

WHY WE NEED A FINANCIAL ADVISOR?

- ***Any person who earns money either in the form of salary income or in any other form and has financial goals to achieve, needs financial planning advice from a certified financial advisor.*** He will provide the client with a model portfolio, allocate assets depending upon risk and reward trade-off and help the client to meet various goals of life and build wealth over a period of time.

- Even a young, unemployed person may need the help of a financial advisor to invest money which he may receive in the form of cash gifts on special occasions. Each person has a stage in his life cycle, namely childhood, young adult, married with dependents, pre-retirement and post –retirement. The ability to save and invest, the capacity to take risk and the time horizon depends on the life cycle stage he/she is at.

- Financial planning recommendations will therefore be different for different groups of investors. ***Before recommending any product to the client a financial advisor does his own research on various types of investments, their risk and reward features and suggests those that match with the objectives of the client. The financial advisor helps in improving the financial position of his clients.***

- The principle of comprehensive financial planning applies equally to people of all ages and professions.

Golden Investing RULES

RULE-1 **Any Time Is** GOOD **Time To** INVEST. Itisnot when but if you invest that counts more. Do not play the waiting game to enter the market longing for the right time as you may end up losing opportunities.

RULE-2 Start EARLY **To Create Wealth**. Even few years make a huge difference to the value of your investments. We stand a better chance of achieving our financial goal by starting as early as possible.

RULE-3 **Long-term** PAYS. Theprobability of generating a positive return is higher if we invest for a long term. If you have invested for a period of fifteen years, the probability of earning positive return increases to 100 percent.

RULE-4 **Invest** REGULARLY**.** Investing regularly inculcates a disciplined habit in us. Systematic Investment Plans (SIPs) are a suitable way to invest regularly and helps you to ride volatility, by averaging the market fluctuations and lowering the cost of investment.

RULE-5 DIVERSIFY **YourInvestments.** Diversification across asset classes ensures that underperformance by any one asset class is offset by good performance of other assets in the portfolio.

RULE-**6** **Choose** ASSET CLASSES **According To** Goals**.** Before making any investments, define your investment objective and time horizon first, and then choose investment product accordingly.

RULE-**7** REBALANCE **Your Portfolio.** Rebalancing reduces the risk of having a skewed portfolio because of appreciation in value of one or more of the asset classes and helps you to maintain target asset allocation.