Personal Finance

Is it possible to pre-plan and manage it efficiently ?

RAM KUMAR KAKANI

LBSNAA MUSSOORIE

Why are personal finances important?

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- Absence/ shortage of money can lead to an acute sense of insecurity
- It can be a tremendous distraction from our normal work
- *Realization normally comes quite late*
- Thus, Clarity helps

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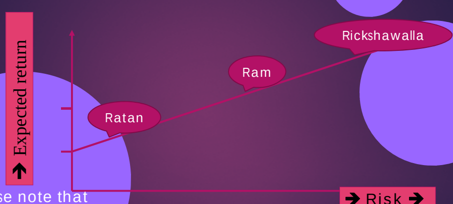
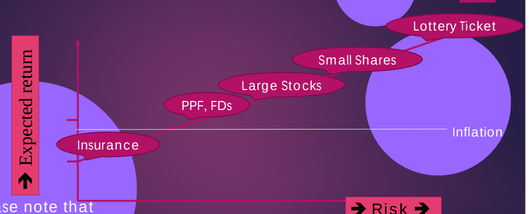
Ratan Tata, Ram Kakani, Rickshawalla …



Please note that
(a)"Risk" here is "Perceived Risk"
(b) "Expected Return" is NOT "Actual Return"
(c) "Investment Decisions" are made based on the "Expected Return"

Risk and Return ….



Please note that
(a) As Risk Increases "Actual Returns" significantly differ from "Expected Returns"
(b) Thus, it is important to not get carried away by High Risk Instruments

Principles of Saving

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- Have just the right amount in liquid investment + Rest in long term deposits/ investments
- Do not let money be idle in savings account OR get carried away by private relationship bankers
- Decide your saving goals and an apt asset allocation:
  - ♦ risk profile (risk averse, balanced, aggressive) ♦ return expectation
  - ♦ investment horizon ♦ financial goals
- Manage Cash Flows (a.k.a. Avoid Asset-Liability mismatch)

Retirement_Planning.xlsx

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Marketing by Financial Services Industry – A Note of Caution

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- Flattery is praise insincerely given for an interested purpose — HW Beecher
- Example 1: Ponzi Scheme
- Example 2: Lottery Ticket

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Investment Options
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- Fixed / Term Deposits and PPFs
- Equity
- Debt
- Insurance
- Mutual Funds (Equity / Balanced)
- Real Estate
- Precious Metals – Gold / Silver

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Insurance
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- Avoid investing in 'investment' type of insurance schemes … in other words, prefer – pure risk instruments
- Protection for the family
- Compulsory regular savings
- Tax Benefits

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Equity Markets – Getting Started
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- Start early and invest regularly
- Stick to shares matching your risk profile (for example, if you are okay with taking risk … then go for small/medium sized companies)
- Liquidity is the single most important factor especially during volatile periods
- When there are gains, separate out money for taxes
- There is no substitute to experience (thus, reflect & have U-Journals)
- Whenever you lose money, take stock of the reasons

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Equity Markets – Some Thumb Rules
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- Never invest in businesses you don't understand
- Avoid investments in companies with a shady management record
- Understand a company's corporate characteristics before investing
- Invest when others are exiting / avoiding (bear sentiment)
- Exit when others are investing (bull sentiment)
- Be patient

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Advantages of Equity Investment
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- Capital appreciation
- Annual Dividends
- Loans against equity shares
- Marketability of equity shares
- Long term capital gains abolished
- Shareholding in demat form

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Investing in Mutual Funds
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Mutual Funds are investment conduits which pool the savings of many individual investors and combine them into a fairly large and well diversified portfolio of investments. Many types:

- Equity
- Balanced
- Index

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Advantages of Mutual Funds

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- Expertise of professional management
- Spread of risk
- Freedom from emotional involvement
- Automatic re-investment of dividends and capital gains
- Liquidity
- Freedom from housekeeping
- Income tax exempt

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Public Provident Fund

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- Maturity for 15 years, 5 year extensions, up to a maximum of 30 years
- Min. Rs. 500 p.a.; max Rs. 150,000 p.a.
- 8.83% interest rate (compounded annually)
- Loan facility
- Tax benefits - Maximum

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Real Estate

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- Plan in the next 5 to 20 years to have your own house or apartment
- **Biggest RISK: Investments in real estate are not liquid**
- Facilitates diversification of portfolio besides sense of security; may also bring in rental income (but … there can be monitoring costs)
- Do not make investment on the basis of hype… time your entry correctly
- Avail loan from Banks / Govt. on easy terms
- Also get … tax benefits

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Gold

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- The Annual Return (compounded) since 2000 works out to 14%
- Has outperformed other asset classes in the last one decade …
  - However, past need not reflect the future
- Provides an excellent hedge against inflation (and extreme uncertainties)

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Take homes

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- Every time you invest, clearly write down the reasons for the same
- Cash (and to some extent precious metals) are the best (unwritten) insurance products
- Do not roll over your credit card bills
- Never extend your investment portfolio beyond 10-15 diverse products (including Shares, Mutual Funds, Insurance, Real Estate etc.)
- Review your portfolio – every quarter **(not every day)**

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Take homes

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- Never Put off financial planning
- Appreciate the power of compounding
- Never Live beyond your own means
- Never invest (or blow up money) by borrowing
- Do not rely too much on tips i.e., investment advisory services
- Do not have unrealistic expectations

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Take homes

- Never put more than one-fourth of your money in one investment product
- Never invest in avenues where you're either not sure of the business model or it's too complicated
- Never be a part of Ponzi Schemes, Pyramid Schemes, Lottery Tickets etc.
- Do you think money can buy you happiness?
- My take … **IMPOSSIBLE**

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THANK YOU

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