NSDL
Technology, Trust & Reach

The Financial Kaleidoscope

Defining the different shapes of investment

February 2019

From The Editor's Desk

Dear Reader,

A country's financial prosperity is the sum total of the financial well being of its population. In the Indian context, Generation Y (born between 1980 and 1990, also known as millennials) is the largest group of earning population today. However, Generation Z (born between 1990 and 2000) is set to overtake the millennial population by 2020. Given this, it is important to inculcate healthy financial habits among these two groups for a better future.

To build a better future with all the luxuries to enjoy, it is important that you start investing from an early age, be it minimum as ₹ 500/- a month. You can choose from a plethora of options available to invest. The crux of enjoying your life to the fullest is by **"investing at an EARLY age"**. With a longer time horizon available and ability to assume higher risk, you must exploit the power of compounding.

This issue covers the aspirations of millennials and Gen Z, their financial habits and what makes them tick. We will also look at some of the best practices to manage money, budget expenses and the basics of getting started with investment.

As quoted by Robert Kiyosaki "Don't let the fear of losing be greater than the excitement of winning".

We are happy to mention that previous issue of the newsletter on income tax was received well by our readers. We wish to convey our sincere thanks to all those who took out time to share words of appreciation and feedback. We, the Team NSDL, look forward to your continued patronage. Please feel free to send your views, feedback and comments to us at info@nsdl.co.in.

Regards,

NSDL

Characteristics of Millennials and Gen Z

Millennials and Gen Z comprise more than half of India's working population. Compared to the previous generation (that is Gen X), Gen Y and Z are characterised by higher wages and disposable income. This has not only changed the consumption dynamics in India but also has a bearing on their financial habits. Following are some key differences that set them apart from the rest:

- Living in a hyper connected world, the Gen Next has been exposed to global brands and trends. They spend comparatively more on clothing, travel, electronics and luxury brands.
- They are an instant gratification generation and look at short term goals, so their savings are significantly lower.
- From an investment perspective, they are more open to experimenting and have a higher risk appetite. They are willing to invest in products such as equity and derivatives which are riskier in nature.
- Credit is a lot more accessible in the form of credit cards, loans, EMIs and peer-to-peer lending. So, their financial risk profile is significantly higher.
- While the earlier generation was content with a stable 9 to 5 job, the next generation is a lot more ambitious and independent.
- Buying a house, getting married and raising children were some of the most important life goals of Gen X. Millennials and Gen Z on the other hand, want to 'live life' and not get bogged down by responsibilities like buying a house, they prefer renting which gives them a sense of freedom.

Financial Management for Gen Next

Why savings are important for Gen next?

When you are young and starting off your career, it is probably your first step towards freedom and financial independence. So, it is not difficult to get carried away when it comes to spending. This results in savings taking a back seat. However, it is important to remember, that as you hit your 30s and 40s, there would be larger expenses that you may need to incur. Additionally, with every passing year, you are that much closer to retirement. These factors clearly point towards the need for having a clear plan and a corpus to meet these eventualities. So, while there is no reason for you to not enjoy life, planning and investing for the future is equally important. Think of it as investing in your own future.

Budget your expenses and spend what's left

The first step towards saving money is to understand where your money comes from and where it goes. The best way to do this is to maintain a budget sheet which will enable you to understand patterns of spending and managing a household budget. This allows you to prioritise spending and avoid unnecessary expenses that eat your finances. This will also help you take stock of your current financial position including assets and liabilities which will allow you to align it with your financial goals.

Balance your savings and expenditures

Balancing your savings and expenditures is a perpetual struggle. There is always a thing you have wanted for a long time, and now that you have money to afford it, it is easy to get tempted. While there is no solution to that except self-control, a good way is to adhere to the 50-30-20 rule of Needs, Wants and Savings. Spend 50% on basic needs - rent, food and transport; 30% on discretionary expenses like eating out, shopping and holiday and save 20%. The key is to remember that you should spend from what is left and not the other way around.

As Warren Buffett rightly says "Do not save what is left after spending; instead spend what is left after saving".

Plan a contingency fund

Misfortune can strike in several forms - an accident, a sudden illness, losing a job or may be something else. However, the expenses do not stop. This makes it critical for you to have a contingency fund that is readily available during such situations. You should have at least 3 months' worth of funds to meet the daily expenses without causing additional financial strain. Remember that these funds should only be accessed during contingencies and should be prioritised over any other expense or Investment.

Mind your debts

Loans and other debts are the biggest drain on your finances. Just like money, the interest on outstanding liabilities also compounds and can drag you down. So, before you take a loan, be certain about the need for it and ensure that you are able to repay it at your given financial situation. If it is a soft or a low-interest debt, it is advisable to invest the money and repay the debt from the returns you earn on the investment.

Pay off your education loan

Education loans have become a common practice for funding higher education. While it is a good practice in financial freedom, it can easily become a financial strain right at the start of your career. Before choosing a loan, perform your due diligence to understand the inclusions, exclusions, rate of interest (and whether fixed or floating) as well as repayment terms. This is likely to be your first liability once you start earning, so make it a priority to stick to the repayment schedule. Defaulting on a loan damages your credit score which can hurt you in the long run.

Plan for retirement

Unlike previous generations, millennials and Gen Y aspire to retire early to enjoy the fruits of their labour and hard work. However, this also means fewer years of active work and regular income. Even if you do not intend to retire early; like ageing, it is an eventuality. Without a regular cash flow and the increasing cost of living, can put you under financial duress during your most vulnerable years. So, if you have not thought about it till now, start doing it by following some basic principles of investing. One of the ways of doing it is by having a separate bucket for retirement when planning your investments.

It is understandable that you may not make enough money when starting out or that you may be paying off an education loan. But it is important to have an eye on your retirement plan and goals at all times. The key here is to increase your contribution towards the retirement corpus as your salary increases. The best way to do this is to earmark a percentage of your income and not having a fixed sum. This will ensure an incremental contribution during your most productive years which will benefit you in the long run.

Plan Well and Follow Through

Identify Goals

The key to achieving your goals is to identify them and place them on a time horizon. Jot down all your aims - not only in terms of money or property but also aspirations in life - an overseas holiday, a dream car or an expensive interest you want to pursue, anything. Also, consider major life events such as marriage, purchasing a house etc. that would require additional financial resources. The best way to do this exercise is to follow the **SMART** formula - make sure your goals are **S**pecific, **M**easurable, **A**ttainable, **R**elevant and **T**imely. It is important to do this exercise in all earnest because it forms the foundation of your financial planning. A gap or a miscalculation could jeopardise the overall plan and all your other financial goals.

Develop Investment Strategy

Visualising your goals and understanding the current financial status will help you to identify the gaps and set measurable targets. This, combined with your risk appetite and the timeframe you have set for these goals, will influence and shape your investment philosophy. The next step in this phase is to identify the avenues and options to build your investment portfolio.

Execute and Follow-through

Having a plan is a good start, but the success and effectiveness of the plan depend on how well you execute it. For this, it is important to maintain discipline when it comes to managing expenses and saving. If you are unable to stick to your investment schedule and commitments, the plan can get easily derailed and you will not be able to meet your targets.

Investment Strategy

Why invest

In order to achieve your goals and create wealth, it is important for you to ensure that you make money work for you. While saving is important, it does not grow, and over a period of time, its inherent value and purchasing power will decrease. In order to stay in sync with your goals, it is important to invest your money in products that will yield healthy returns. Additionally, once you retire, the cash flow stops and the only way to ensure a comfortable standard of living is by ensuring that your investments today help generate for a happy post-retirement life. You can also plan to start investing in National Pension System (NPS) which at the time of retirement will provide you with an aid for your retirement expenditure.

Diversify your portfolio to reduce risk

Returns on investment and safety, share an inversely proportional relationship. Safer investment options tend to yield lower returns and vice versa. However, when you are young, it is important to make the money work for you today for a better tomorrow. The key is to diversify your investment portfolio that balances risks and returns based on your financial objective. This also ensures that your risk is hedged, so in case of a failed investment, you are able to cut down your losses while still giving yourself a chance to generate higher returns.

Start early

The key to achieving your financial goals is to start early, no matter how small your investment is. Thanks to Albert Einstein who explained the concept of **'Power of Compounding'** to the world with such ease. As said, **"Compound interest is the eighth wonder of the world. He who understands it, earns it, he who doesn't pays it."** A smaller investment today is always better than postponing your investment decisions until you think you have enough money.

For example, if you start investing at the age of 25, an investment of ₹ 5,000 per month for the next 40 years would be equal to a total of ₹ 24 lakh. Assuming a return of 8% per year, at age 65, you will have a sum of ₹ 1.75 crore. Alternately, a similar investment after waiting till you turn 35, would return a corpus of ₹ 74 lakh on an investment of ₹ 18 lakh. Almost half of what you would get if you started early.

Avenues of Investment

Fixed Deposit (FD)

A Fixed Deposit is one of the most common forms of investment. It is essentially a sum of money deposited with a bank for a fixed period of time on which you earn a fixed return in the form of interest. While it yields low returns, it is a relatively secure investment option.

Recurring Deposit (RD)

A Recurring Deposit is an investment tool available to savings account holders. It inculcates the discipline for saving by empowering the bank to make deposits of an agreed amount from your account at a set interval. RDs can be started with a small amount and the timeframe could range from a few months to a few years, making it a good savings cum investment option for beginners. RDs offer a lot more flexibility and can be easily accessed in case of emergencies.

Mutual Funds

A Mutual Fund is a pool of money collected from multiple investors which then is invested in stocks, bonds and other asset classes. Managed by professional fund managers, the collective return on the corpus is distributed equally among investors based on the number of units they hold. Based on their appetite for risk, investors can choose between debt or equity focussed schemes. Mutual Funds offer a middle ground between risk and returns and are a good option for those who do not have time to manage their investment portfolio on a daily basis.

Equity Market

Stocks or Equity Shares are a lucrative form of investment and offer higher rate of return on investment. However, a lot of factors play a role in how your investment performs. Investment in equity requires a good understanding of capital markets and regular monitoring to manage a profitable portfolio. This is more suitable for millennials who are a few years into their work-life and earn enough to diversify their investment towards a high risk, high return option.

Systematic Investment Plan (SIP) Approach for investments in mutual funds and equities

For most of us, investment of small amounts at regular intervals is a better approach than investing lump sum amounts in equities or mutual funds. Not only it brings certain amount of disciplined approach for investments, it also benefits from averaging the effects of periodic ups and downs of the stock market.

While there are number of investment options available, selection of particular option, is a matter of careful consideration. It is better to take help from a registered investment advisor or a qualified finance professional to design a suitable portfolio for you. STAY AWAY from unregistered chit funds, multi-level marketing schemes and ponzi schemes offering too good to resist kind of returns, at all costs. They are just not worth any consideration.

Insure Your Well-being

Insurance is a product that provides financial protection against multiple risks including medical issues and even loss of life. It is a critical component and should be given due importance in your financial planning process.

Term insurance is one such insurance policy that offers substantial life cover over a long period of time against a relatively small premium. These policies are for a fixed duration and depending on the policy could even offer cover against serious illnesses that you may suffer from at a later stage in life. While most young professionals may not feel the need for insurance, starting early in your insurance planning offers the following benefits:

Lower insurance premium

An insurance premium is linked directly to your age and state of health. So, the older you grow, the greater is your risk of contracting lifestyle issues like diabetes, high blood pressure and obesity. Additionally, the risk of serious diseases also increases with age. So purchasing a term plan that offers long term protection is cheaper when you are healthier. Insurance providers are particular about this and even early signs of a potential health issue can substantially increase your premium payout.

Providing for your dependents

If you are the chief breadwinner in a family, an accident or loss of life could put a tremendous amount of stress on your dependents. Insurance covers them against such eventualities and ensures that they live a good life.

Save Tax

While not a primary motive, insurance helps you save on tax. As per section 80C of the Income Tax Act, you can claim a deduction of up to ₹ 1,50,000 per year as payment towards insurance premium. Additionally, the payout in case of death or maturity of the policy is also exempt from tax under certain circumstances under Section 10(10)D of the Income Tax Act.

Managing Your Credit Health

What is a Credit Score?

A Credit Score tells us about an individual's creditworthiness, what a medical check-up does for health. It is a parameter used by lenders to gauge your ability to repay debts and is a standardised score available to all banks and NBFCs that lend money. Calculated by a Credit Information Company, it is based on factors such as the history of debt repayments (include loans and credit cards), current levels and nature of debt.

Why is Credit Score Important?

It is critical for you to maintain a healthy credit score because it is one of the most important factors that determines your ability to avail a loan of any kind. You can get your Credit Score from any RBI-registered Credit Information Company to check your creditworthiness, scored out of 900, on an average, a score of 750 or more is considered healthy.

How to Improve Your Credit Score?

Since this is a measure of your creditworthiness, it is important to have a healthy record and consistent schedule of repaying your debts, this includes all loans and EMIs, utility payments and credit card dues. Additionally, ensure that you don't raise any red flags pertaining to banking transactions such as dishonoured cheques or extended overdraft in your bank accounts.

Safeguard Your Money

Millennials and Gen Y are digital natives. They like to remain connected at all times and conduct a lot of their day-to-day transactions online. This has given rise to a new breed of financial fraudsters and cyber criminals who prey on unsuspecting users. Below are some best practices to protect yourself from being a victim of financial fraud:

Passwords

- Do not share your password and PIN with anyone.
- Change your password and PIN regularly.
- If you suspect being hacked, change your password immediately.
- Have unique passwords for all your finance related accounts.
- Do not save passwords for financial accounts on your mobile or computer.
- Storing details of credit cards etc. in different Apps / mobile device, may be convenient, but if the device is lost or misplaced, it can be equally dangerous.

Phishing and telecalling

- Do not open emails or click on suspicious sources.
- Do not download files from unverified sources.
- Do not share sensitive information like bank details or credentials with telecallers.
- If an offer is too good to be true, it most probably is a scam.
- Always report suspicious emails and calls to your bank and relevant authorities.
- Always shop from secured sites that start with "https://".

Devices and computers

- Do not conduct any financial transaction on shared computers and devices.
- Protect your phone and computer with antivirus and malware software.
- Regularly update the software and apps on your computer and mobile.
- Do not connect your device to public or unsecured internet connection.
- Download the apps from reliable source only. Grant permission to only those app which you are comfortable with.

Debit and credit card frauds

- Review your card transactions regularly, report any suspicious transaction.
- In case of a lost or misplaced card, block it immediately.
- Do not share your debit/credit card details.
- Do not lose sight of your card while paying at a restaurant or a store.

Resources for Financial Education

RBI - Financial Education Initiative

https://rbi.org.in/FinancialEducation/Home.aspx

SEBI - Investor Education Portal

https://investor.sebi.gov.in/iematerial.html

National Centre for Financial Education

http://www.ncfeindia.org/downloads

National Institute of Securities Markets

https://www.nism.ac.in/index.php/financial-education

There are many online tools and mobile apps that claim to help in taking investment decisions, doing comparisons, maintaining and monitoring portfolio. Some of known providers are Mint, Walnut, Money control, ET Money, etc.

NSDL has developed a mobile app which is useful in monitoring portfolio held in demat form. This mobile app is completely free and available on Play Store as well as App Store.

Blog

Gen-Next: Investing for the Future

By Udayan Ray
Founder, FundooMoney Media

Almost of 50% of India's population is below the age of 30. Across the world, this section of the population is referred to as Generation Z. The members of Generation Z exhibit certain behavioural patterns. Modifying some of them is essential to their well being, especially financial wellbeing.

Generation Z spends more time on their smartphones than other generations who spend more time on televisions and laptops, among other things. Having grown up during the social media and ecommerce boom, they are more comfortable with the technology and gadgets than other generations. That is also the reason they spend significant amount of time in social media, catching up with friends and updating themselves on the latest in their favourite social media networks.

The large amount of time spent online also fuels their buying habits, especially through ecommerce platforms. In many cases, the online purchases are financed through credit cards and other form of loans which require repayment through equated monthly instalments (EMIs). As with many aspects of online behaviour, online purchases and investments run the risk of being made without due consideration to various important aspects. It is here that an action plan can come in handy. Here are some suggestions that need to be there in such an action plan -

- Before making an online purchase, ask yourself whether your life would be worse off without making the purchase and if it can be delayed.
- Pay for online purchases through debit card, cash and online wallets. The immediate impact on the home budget will trigger a rethink.
- Make a home budget and earmark various amounts to different expense heads. This will ensure that you never go overboard with any unnecessary purchase.
- Ensure that home budget generate savings that can be earmarked for investments for future needs like buying a home.
- Ensure that EMIs for all loans don't exceed 50% of take home pay; avoid expensive personal and credit card loans.
- Once you repay the loans, continue keeping aside EMI amounts and direct them to supplement investments.
- If you are new to any category of investments, before making an online investment, consult a qualified advisor or expert.

Generation Z has the potential of benefitting from some of the remarkable opportunities ever. The key for its members is to ensure that they get to make the most of them.

Transfer of securities held in physical mode – clarification

SEBI has clarified the following regarding transfer of securities held in physical mode:

1. Investors may continue to hold the shares in physical form even after April 01, 2019. However, any investor who wants to transfer shares (which are held in physical form) after April 01, 2019 can do so only after the shares are dematerialized.
2. The transfer deed(s) lodged prior to deadline and returned due to deficiency in the document may be re-lodged for transfer even after April 01, 2019.
3. Investors can continue to demat their physical shares, transmission (i.e. transfer of title of shares by way of inheritance / succession) and transposition (i.e. re-arrangement / interchanging of the order of name of shareholders) in physical shares even after April 01, 2019.

Reference: Circular No. NSDL/POLICY/2019/0019 dated April 01, 2019, available on NSDL website: **www.nsdl.co.in**

Training Programmes for Participants:

NISM certification programme for Participants

To facilitate officials of Participants to prepare and appear for NISM - Series VI - Depository Operations Certification Examination (DOCE), NSDL conducted a training programme at Mumbai in March 2019.

CPE Training Programme for Participants

NSDL, a NISM accredited Continuing Professional Education (CPE) Provider offers CPE training programmes in different modules for eligible associated persons. In February and March 2019, NSDL conducted 14 such training programmes at Ahmedabad, Chennai, Hyderabad, Jaipur, Kolkata, Lucknow, Mumbai, New Delhi and Pune.

Training Programme for Issuers and Registrar & Transfer Agents

NSDL conducted a two days training programme for Issuers and Registrar & Transfer Agents at Mumbai in February 2019.

Investor Education initiatives undertaken by NSDL

NSDL conducts Investor Awareness Programmes (IAPs) throughout the country to ensure investors are aware of different aspects of investing. Till date, NSDL has conducted over 3,400 programmes which have been attended by more than 3.33 Lakh investors. Feedback received from investors during these IAPs is extremely encouraging. While schedule of these programs is published online at **https://nsdl.co.in/Investor-Awareness-Programmes.php**, we shall be happy to conduct IAPs for your organization / institute / society. Help us in driving the investor education initiative further by writing to us at **info@nsdl.co.in** about such programmes to be conducted.

More the education, more the prudence.

Admission to these programmes is free for all investors.

Forthcoming Investor Awareness Programmes

Sr. No.	Date	Venue	City	State/Union Territory	Timing
1	23-Apr-19	Hotel Excellency, 74C, Jhunjhunwala Garden, Unit – 2, Ashok Nagar, Bhubaneswar – 751009, Odisha	Bhubaneswar	Odisha	05.30 p.m. onwards
2	24-Apr-19	Grand Residency Hotel, Link Road, Badambari Colony, Palamandap, Cuttack – 753012, Odisha	Cuttack	Odisha	05.30 p.m. onwards
3	24-Apr-19	Crescent Restaurant and Banquet, Opp. Raj Party Plot, Near Indira Gandhi Statue, Lambhvel Road, Anand – 388001, Gujarat	Anand	Gujarat	06.00 p.m. onwards
4	26-Apr-19	Hotel Ashirwad, Near Super Bakery, Sakar Complex, 1st, New VIP Road, Sardar Estate, Vadodara – 390019 , Gujarat	Vadodara	Gujarat	06.30 p.m. onwards
5	27-Apr-19	Hotel Grandeur, White House Lane, Opposite Monghabhai Hall, Bechar Road, Valsad – 396001, Gujarat	Valsad	Gujarat	11.00 a.m. onwards
6	28-Apr-19	Hotel Gangotri, Zadeshwar Road, Bholav, Bharuch – 392012, Gujarat	Bharuch	Gujarat	10.30 a.m. onwards
7	04-May-19	Hotel Ranjee's, CF–2 Shaheed Path Opp. BBD Viraj Tower, Vikrant Khand, Gomti Nagar, Lucknow – 226010, Uttar Pradesh	Lucknow	Uttar Pradesh	06.00 p.m. onwards

Schedule is subject to change. Please visit https://nsdl.co.in/Investor-Awareness-Programmes.php for updated schedule.

Question for Knowledge Wins contest !

What is Systematic Investment Plan?

Send your replies providing your name, address and contact no. with the subject 'Knowledge Wins Contest - February 2019' to info@nsdl.co.in

Terms and Conditions

- NSDL shall be solely responsible for the execution and administration of this Contest.
- This Contest is only open to Indian Citizens. (NSDL employees are not allowed to participate in this contest.)
- All personal details submitted must be accurate and complete and are subject to proof upon request by NSDL.
- NSDL reserves the right, at any time, to verify the validity of entries and entrants and to dispqalify any entry not submitted in accordance with these Terms or which tampers with the entry process.
- NSDL reserves the right to discontinue the contest at any given point of time without prior intimation.
- All prize drawings will made on a strictly random basis and the decision made by NSDL will be final

Your suggestions for newsletter are valuable to us. Send in your suggestions mentioning your name, address and contact number with the subject "Suggestions for the newsletter" to info@nsdl.co.in

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- **For any grievances, you can email us at relations@nsdl.co.in**
- **To know more about NSDL Certification Program, you can email us at trainingdept@nsdl.co.in**
- **For any other information, email us at info@nsdl.co.in**

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