NSDL
Technology, Trust & Reach

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The Financial Kaleidoscope

Defining the different shapes of investment

Achieve your Goals through FINANCIAL PLANNING

From The Editor's Desk

With the uncertainty in market conditions, Financial Planning is absolutely essential to create a steady portfolio and generate adequate returns. A wisely created and finely executed financial plan helps to achieve your financial goals and keeps your future financially secured. Although, financial planning is not rocket science, many people are apprehensive to the term 'financial planning' and the know-how associated with it. It actually pays to engage a qualified investment advisor for the purpose of planning your finances. However, with some amount of guided help and home work, you can also do it by yourself. Through proper financial planning you can save and as a result earn enough. This will help to plan your financial needs, such as children's education, their marriage, your dream vacation or a new home better. Most importantly it will provide steady income post your retirement.

This issue attempts to provide insights on the basics of financial planning.

Regards,

NSDL

To fulfil the basic needs of every individual, it is very important to have a proper financial plan in place. If you wish to fulfil the desires of your life, money plays a very important role. This can be achieved only through proper financial planning. Though money can't buy you everything, but certainly money in your hands can at least satisfy your basic needs. Then there is another ever present issue of wants exceeding the means. For most of us, our means (i.e. income) are generally short for our needs. This is where Financial Planning comes to our rescue.

In very simple words, Financial Planning is the process to understand our needs and financial goals, quantify them and match them with expected income over a sufficiently long time horizon. The objective of financial planning is to ensure that the right amount of money is available at the right point in the future to achieve an individual's life goals.

Since, needs and goals of each individual are different, financial planning is required to be done for every individual separately. However, there are some basic concepts or fundamental principles which are applicable to all of us.

Benefits of Financial Planning

Let's take a look at how planning ahead financially can give you a solid start for a secure future:

Create your own wealth

Most of us prefer to buy things at the last moment and then pay the interest and principal amount over the course of next few months. But how many have actually stopped and thought – am I overpaying when I buy things at the last moment? Well, most of the times you do. If you start planning today for something you want to buy in the near future, your savings will buy that thing in a more cost-effective way than your instalments will ever do. These savings will earn interest for you (as opposed to you paying interest in instalments) and create substantial wealth in the long run if you plan your finances in a phased manner.

Manage your Income, Cash Flow and Capital

Through planning, it is possible to manage your income in an effective way. It is certainly a plus if you can understand, well in advance, the money you will need to spend for your monthly expenditures, how much taxes you need to pay and ultimately how much you are going to save. Keep a careful track of your spending patterns and expenses. It will help in generating more cash flow for you. Just be cognizant in your spending and budget your money for an increased cash flow, resulting in an increase in capital. All this can help you to invest more for your future.

Secure your near and dear ones

Your family needs to benefit from any decisions you take, financially or otherwise. By following a meticulous plan for your investments and returns you will be providing them with financial security – a gift of supreme value. Having the correct amount of insurance coverage and policies will provide peace of mind to you and your loved ones.

Enhance your financial understanding

If you have a good grasp of your own finances and how they work for you, you are one happy individual. Financial planning gives you an edge over others by providing a better understanding of financial concepts and helping you to achieve proper control over your investments. All assets look desirable from a distance. But many of them have unseen liabilities attached to them. The knowledge of the real value of an asset comes with a good grasp on the financial basics. You can plan ahead by considering your objectives, risk appetite and personal preferences and then invest in the right assets to meet your needs and goals in an effective way.

Spend freely

Who wouldn't want a lavish life and spend freely over vacations? It is possible if you plan your monthly budget and maintain your expenses on a regular basis. Planning helps in avoiding unnecessary expenses. Plan ahead and spend freely knowing that your savings are not going to be hampered in any way.

Healthy Standard of Living

How do you plan to support your current, if not an improved lifestyle in the future? People who plan ahead and save money as per their requirements are able to accumulate enough wealth to lead a comfortable life. Having a financial goal and a plan which supports your goal will help you grow your money in a logical way.

Get Started: How to do Financial Planning?

Well, if you have come this far, you really are interested in understanding the basics of formulating a financial plan. Please remember, people who breeze ahead in their life getting what they want, are usually the ones who financially plan ahead. They set individualistic goals and achieve them with the financial know-how. Having a good plan in place is the only way to have sound financial security. Financial planning can be done individually if you have the required financial knowledge. However, it is generally better to take the guidance of SEBI registered advisors or experts in this field. A professionally qualified and registered financial advisor can save a lot of your valuable time and also lets you to benefit from his experience and skills.

You just need to follow the simple steps enlisted below to open the gates of a financially secured life -

Step 1: Planning and setting realistic goals

Every individual have different financial goals. Financial goals are nothing but targets which are driven by specific future financial needs. Set a goal for yourself. For instance – your goal could be to arrange ₹ 25 Lakh for higher education of your child when he / she graduates. Another example of your goal could be to arrange a defined amount of money for destination wedding of your son or daughter when he or she turns, say 25 years. What about the dream vacation you always wanted? Jot down your goals with absolute clarity – there should be no confusion about your requirements. Start by asking yourself a question – What do I want in the next 10 years? Give a detailed answer, avoid general statements like, "I want a lot of money." Keep your goals realistic. You can succeed only with clearly defined attainable goals. It is important to be clear about your goals and these goals are achievable only when you put a time frame on them. If you want a house, when do you want it? It cannot be a vague time in the future – write down the time frame in measurable years – say, I want to own a house by the time I turn 50 years i.e. in say 10 years from now.

Setting a goal does not mean that's permanent and one cannot change it ever. It is rather prudent to periodically review your goals and make required adjustments.

Step 2: Start saving

The key to any sound savings plan is to learn to control your expenditures. If your expenditures increase in a direct proportion to your increase in income, no matter how much you earn, it is never going to be enough. A lot of people are stuck in this vicious circle.

After enlisting your expenditures, determine where you might be spending too much. Track your money. Where does it go? What are your expenses? Can you cut down the frivolous spendings? You also need to take into account the expenses that you do not incur every month – car repairs, Annual Maintenance Contracts, even insurance premiums. Develop a detailed monthly budget for your money.

And, when you are doing this exercise, please remember that it is okay to treat yourself once in a while. Look for ways to save, but don't be too harsh on yourself. You will also want to free up some part of your income for creating a cushion in advent of unexpected expenses. This way, you won't be left out in the open to deal with emergencies.

Step 3: Insure yourself

If you have a family, it goes without saying that you need to have an insurance coverage to protect your loved ones against unexpected crisis. Plan for adequate health insurance, term insurance, car or bike insurance cover etc. taking into account your financial situation. Insure your family against the unexpected expenses to avoid any financial burden in the future.

Step 4: Build a Portfolio

After you insure yourself and your family, monitor your other additional expenses and save wherever you can. The next step is to start looking for avenues to invest the savings in. For new and seasoned investors alike, the approach to start a portfolio is to invest in assets which are well diversified – some with low risk - low returns such as Fixed Deposits (FDs), Recurring Deposits (RDs), PPF etc. and some with high risk - high returns such as Equities etc. Then there are some assets which carry medium risk and offer medium returns, for example, balanced mutual fund. Always ensure to have an adequate mix of financial products in your portfolio. You can manage your portfolio perfectly by matching your investments with your risk appetite. Your investments need to be spread across different asset classes so that even if one of your investments fails to achieve the expected results, you are compensated to some extent by returns earned in different investments. It is nearly a universal truth that not all the asset classes perform too well or too bad, at the same time.

Step 5: Keep track of your investments

Investing in an asset and then forgetting all about it is not an ideal strategy to achieve your goals. The excuses are endless – I do not have the time or I am simply not interested in the short term. But this habit can wreck more damage than do you good. You need to manage your financial plan with periodic check-ups to ensure that it remains consistent with your personal financial situation. This is necessary as over a period of time your goals may change, so will your income, debts, family needs and health.

With NSDL CAS, you can view all your investments in securities market for example, equity shares, preference shares, mutual fund units, bonds, debentures, sovereign gold bonds, government securities, commercial paper, certificates of deposit etc. at one place. This would help you monitor composition of your portfolio and changes in the total portfolio value. You can also keep your insurance policies in electronic form through your e-Insurance Account (eIA) held with NSDL National Insurance Repository (NIR).

Step 6: Keep an alternate plan ready

For every financial goal in your plan you must have an exit strategy in place. For instance, your son may desire to pursue a management course abroad, requiring more money than what you had planned for his MBA degree within country. For such a case, you must have ability to free some of your other investments to meet the demands.

Financial planning requires some groundwork. But once you master the art of managing your finances, it will help you to achieve your dreams. There are various factors that affect the formulation of each individual's financial plan. These factors influence a person's ability to take risks and the amount of savings he/she can actually manage to convert into investments. Some of them are listed below:

Personal factors:

Lifestyle

The house you live in, the car you own, the vacations you take every year and your ability to guilt-spend in a greater capacity – all these are indicators of your standard of living or 'SOL' as it is popularly called. SOL is a major factor which decides the path your investments are going to take in the future. As said, higher the standard of living, greater would be the investments.

Appetite for risk

Many a times, windfall gains are a direct result of higher risks taken. However, there is a downside to this – you can lose everything you own too. Each person has their own appetite for taking risks. Some are naturally more comfortable taking risks than others. The other category of people who like to take either no risk or measured risk are termed as being **'risk averse'**. Your financial plan will shape up in line with your capacity to take risks. It goes without saying that your returns are directly related to your risk appetite.

Age

Age has a direct relation with one's financial goals and also is important factor while choosing the investment products. The golden rule is to start investing as early as possible. If you are asking the question today – when should I start investment? Then the answer is – You are late, sir. You should have started investment yesterday.

The simple idea behind starting investment early is that it gives you the benefit of time being on your side. Early investors are able to choose to invest in High risk high return products since they can afford to take more risk and in case of losses rebuild or repair their portfolio over a period of time.

Apart from above, there are other factors which affect the creation of your financial plan, such as level of income, education and knowledge. They determine the diversification of your portfolio and also how much risk you take while investing.

External Factors

Socio-economic circumstances

These circumstances include economic cycles of a country, political and global issues. If a country is doing well, businesses grow well and investments pay good returns. If a country is facing a downslide, investments can get stuck in the rut. Similarly, political stability of a country also decides the prosperity of an economy. It has significant impact on the performance of investments. Global issues like increase in the price of oil or even some other country going down economically, impact the investments in India. As a result, the graph of the global economy is also an important indicator of our growth.

Interest rates

The rates at which individuals and businesses borrow and lend to the banking sector and other lending institutions are determined by the interest rates in the economy. Usually, when people want to borrow more money to grow their businesses, interest rates in the market increase.

Inflation

Expected rate of inflation has a direct impact on financial planning. If the inflation rate is high, an investor needs to look at an investment product which gives higher returns. For example, if the inflation rate is 4%, then an investor should look at an investment product which gives at least 14% returns so that the real returns is 10% (14% - 4%) in hand of the investors.

Planning a good portfolio

How much funds do you want to allocate to different assets in a portfolio? An ideal portfolio plan must lay down an investor's goals, risk tolerances and expectations regarding returns. Once this trio is spelled out, the percentage of money allocated to different assets such as stocks, bonds or real estate can be laid down with surety.

It is rightly said, ***"Do not keep all your eggs in one basket"***. An investor can construct his/her portfolio by following a systematic approach. Enlisted below are the steps you need to follow:

Decide an ideal asset allocation for you

There are several factors which affect portfolio allocations for different individuals. One such important factor is risk tolerance or an appetite for risk. A conservative investor's portfolio will largely comprise of large-cap value stocks, bonds and liquid cash. The main goal of a conservative portfolio is to protect its value. As opposed to this, a person who has a high-risk tolerance will have small-cap and mid-cap growth stocks, a high yield bond exposure and maybe, exposure to real estate. A moderately aggressive portfolio satisfies an average risk tolerance, attracting those willing to accept more risk in their portfolios in order to achieve a balance of capital growth and income.

The time horizon of the investment also needs to be considered while building a portfolio. As a general rule, investors should move to a more conservative asset allocation as the goal date approaches, to protect the portfolio's principal that has been built up to that point.

Building a desired portfolio

A perfect portfolio does not exist. You simply cannot go out and shop for a 'one-size-fits-all' portfolio. Every individual is desirous of a different mix of asset allocation and tries to divide their capital accordingly between them.

For instance –

- Investors always choose stocks that satisfy their level of risk – sector, market cap and stock type are factors they consider and then carry out an extensive analysis on each potential investment avenue to determine its pros and cons.
- For bonds, the factors to be considered are maturity, the bond type and rating. The interest rate matters as well.
- Mutual Funds are the safest bet of the lot and allow an investor to hold stocks and bonds that are professionally researched and tracked by experts. They do charge a fee for their services but it assures you that your portfolio is in good hands. It is always advisable to analyse the details of the scheme you are going to invest in as well as the fund manager.
- Exchange-traded funds are essentially mutual funds that trade like stocks. ETFs cover a wide range of asset classes and can be useful for rounding out an investor's portfolio.
- Cash and cash equivalent are important part of any portfolio. Big or small, no portfolio is complete without cash as part of it.

Your Questions Our Answers

1. **What is Time Value of Money (TVM)?**

   The concept of Time Value of Money (TVM) says that money available today is more in worth than the same amount available in future. Why so? Because money in hand today has the potential to earn more money for you. TVM changes with the interest rates in the market, the time period of the investment and also on how many times the interest is compounded each year.

2. **What is meant by the power of compounding?**

   Einstein quiet aptly described it as the eighth wonder of the world. Simply put, compounding means earning interest on interest. Even if you start with a small sum of money, it can lead to a linear growth in your investments and savings over a long time. When your investments are paying you compound interest, your principal amount keeps on getting bigger as all the interest earned per year is continuously added to it. The principal will be more every subsequent year and, each succeeding year's interest will be correspondingly greater than in the past years.

3. **What is Rule of 72?**

   The Rule of 72 tells you how long an investment will take to double, given a fixed annual rate of interest. **As per this rule – Years taken to double investment = 72 / Rate of annual return.**

   So, if you expect to earn say 9% on an investment, you can expect your invested money to double in 72/9 i.e. 8 years. Similarly, if you want your investment to double in 4 years, the investment needs to grow at a compounded rate of 18% (i.e. 72/4). So you will have to look at an investment product which will give you 18% rate of return if you want to double your investment.

4. **What is a Portfolio?**

   Group of different financial assets – stocks, bonds, mutual funds, gold, real estate etc. – is called a portfolio. Portfolios can either be held and managed by individual investors and/or they can be managed by finance professionals.

5. **When I make a financial plan, what should it include?**

   A financial plan should include a review of your net worth, goals and objectives, investment portfolio, cash flow, investments, retirement planning, tax planning, insurance needs and most importantly the period you want to achieve this. These inputs will help you formulate a sound strategy for implementing your goals.

6. **What should I look for in a financial planner?**

   A financial planner should work towards the goals set by you. His or her loyalty should be to the client, not the product(s) he or she is trying to sell. Many times, this is not the case. Some advisors may try to market a particular product rather than have your well-being on mind. Choose a financial planner who is qualified and registered with SEBI. He/She should be able to create customized financial plans which provide income and growth for clients.

7. **Is a financial plan a guarantee to achieve all my goals?**

   A financial plan can only tell you the necessary steps to achieve your goals, but it cannot ensure that you will always attain them. There are a lot of things at play which may be beyond your control – inflation, recession, political changes, individual circumstances – which might change the course of your expected results.

8. **What is the ideal time to start a financial plan?**

   Start as early as you can. The earlier you start your financial planning, better the results will be. It gives you more time to plan and gives your money a chance to grow linearly. Planning early increases the possibility of better returns and simultaneously reduces your risk.

Blog

Importance of Financial Planning

By Ashwini Paralkar
Financial Market Expert

What is the importance of financial planning? To many, this question may seem meaningless today, but the fact is most people are actually striving to get themselves financially secured. But some of them who know the importance of financial planning have achieved their goals within the time frame as defined by them. Many think that financial planning is done only by rich people. But the fact of life is unless one, be it a business man or a salaried person or a housewife does not carry out financial planning, it would be difficult to achieve the desired goals. You need to understand the importance of financial planning in today's world. You need financial planning for everything. You need it to buy a house you always desired, children's education, owning a car etc.

Financial planning helps you understand your desires and goals better. It shows you what you need to do in order to achieve them. By planning your finances, you plan for the future. You will be able to gain a better perspective about how much money you would have in the coming years. Most important of all, it offers the common man peace of mind; a peace of mind that goes a long way in creating a healthier financial future.

Life is on a constant roll – we marry, have children, fall ill, lose a job, it could be anything. In trying times, financial planning helps you to deal with the changes in your life by giving you a well-equipped arsenal at your disposal. One more thing - financial planning is not only about making investments. In fact, it deals with much more complex things such as risk management, tax planning, insurance and is also a guidance for managing your life in a better way. Returns should not be your only goals with financial planning. It should rather be looked at as a wholesome package to manage your financial life in a brilliant way.

Training Programmes for Participants

- **NISM / NSDL-DO training / 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 Chennai in February 2018.
- **CPE Training Programme for Participants**
  NSDL, a NISM Accredited Continuing Professional Education (CPE) Provider offers CPE training programmes in different modules like Depository Operations, Mutual Fund, Currency Derivatives, Equity Derivatives, Securities Operations and Risk Management etc. for eligible associated persons. In February 2018, NSDL conducted eight such training programmes at Ahmedabad, Chennai, Kolkata, Mumbai and New Delhi.

Investor Education initiatives undertaken by NSDL

- **Investor Awareness Programmes:**
  In order to reach out to investors that are spread across the country to apprise them about the facilities available in NSDL depository system and educate them about financial markets, NSDL conducts various Programmes with Participants, Housing Societies, Institutions like SEBI, NSE, corporates etc. and also participates in various events. During February 2018, NSDL conducted / participated in 48 such programmes / events which were attended by more than 4,400 investors. Details are mentioned below:

Sr. No.	Particulars	
1	**Joint Awareness Programmes with Participants**	**No. of Programmes**
	Nirmal Bang Securities Private Limited	5
	CSE Capital Markets Private Limited	4
	HDFC Bank Limited	4
	Kotak Securities Limited	4
	Sharekhan Limited	4
	ICICI Bank Limited	3
	Yes Bank Limited	2
	Acumen Capital Market (India) Limited	1
	Geojit Financial Services Limited	1
	Goldmine Stocks Private Limited	1
	Jhaveri Securities Limited	1
	Karvy Stock Broking Limited	1
	KIFS Trade Capital Private Limited	1
	Patel Wealth Advisors Private Limited	1
	Peerless Securities Limited	1
	Shah Investor’s Home Limited	1
	Stock Holding Corporation of India Limited	1
	The Kalupur Commercial Co-Operative Bank Limited	1
	Total	**37**

2	**Joint Awareness Programmes with other Institutions**	**No. of Programmes**
	Securities and Exchange Board of India	2
	National Stock Exchange of India Limited, Integrated Enterprises (India) Private Limited and Nanayam Vikatan	1
	Narnolia Securities Limited	1
	Total	**4**

3	**Workshop for Colleges**	**No. of Programmes**
	'Spandan' event organized by Xavier Institute of Engineering, Mumbai	1
	'Pareto Time' event organized by Kirori Mal College, Delhi	1
	' Srijan 2018' event organized by Shri Shikshayatan College, Kolkata	1
	International Management Research Conference 2018 titled “Building Blocks for Strong India Incorporation” organized by Alkesh Dinesh Mody Institute for Financial & Management Studies	1
	Total	**4**

4	**Participation at Events**	**No. of Programmes**
	6th edition of Finbridge Expo organised by Armstrong Exhibition and Conferences Private Limited at Mumbai, Maharashtra	1
	ICC Mutual Fund Summit 2018 organised by Indian Chamber of Commerce at Kolkata, West Bengal	1
	Total	**2**

5	**Corporate Awareness Programmes**	**No. of Programmes**
	Frudenberg Gala Household Private Limited, Mumbai, Maharashtra	1
	Total	**1**

What are the benefits of financial planning?

Send your replies providing your name, address and contact no. with the subject 'Knowledge Wins Contest - March 2018' 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 disqualify 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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