

Plan for a Better Future



From The Editor's Desk

Dear Reader,

As quoted by Dr. John F Demartini, **"Don't spend your life working for money; save money and hire it to work for you"**. The Love of Money is purported, in some circles, to be the "Route of all Evil". In other circles, the Lack of Money is supposed to be the "Route of all Evil". Yet money is not evil or good. Money simply is what it is...a way to barter for goods and services. Money is neutral and it is an essential part of survival in our modern world. Yet the world today cannot function without money. How to make money and how to keep some of what you make is the key to success of a good financial planning.

Financial Planning, in part, helps to demystify money and finances. Systematic Investment Planning should be an integral part of any educational curriculum today. The purpose of financial planning is to help you make the most of your financial resources by setting realistic goals and finding a way to reach them.

Financial planning assists you in your personal and financial circumstances so that you may identify potential problems and opportunities. It helps you in decision making and avoids costly mistakes by ensuring that you are fully informed about all possible choices. Also, in the event of a crisis situation, financial planning can be particularly important to your family to provide information they will be needed to understand the details of your finances and financial plans. From time to time you may be faced with making 'out-of-the-ordinary' financial planning decisions, the ones which may require a customized analysis to fully understand the options available to you.

Financial planning may be necessary when life events occur, such as Personal events like marriage, purchasing of house, disability etc., Employment related events like job offers, job severance, benefit plans, stock options, pension choices, business start-up etc. Life-event financial planning decisions are often hasty and emotionally driven. The foundation for all financial planning is effective cash management. For most individuals and families, money is a limited resource. Consequently, your financial objectives must be prioritized and your cash inflows allocated accordingly. If you experience cash shortfalls on a regular basis, you will eventually deplete your existing assets and fail to achieve your financial goals. Also, without positive cash flows, you cannot invest. As Benjamin Franklin once said, **"Money makes money. And the money that money makes, makes more money."**

Financial planning at an early age can enhance your Retirement planning in a better way. Retirement planning can provide you with peace of mind by assessing the adequacy of your financial resources for retirement. Retirement planning will provide you with a notion of whether or not you will have sufficient resources for retirement. If you plan to retire within the next 5 years or if you have already retired, financial planning will help to identify the rate of return required to achieve your desired retirement lifestyle.

We hope that our previous issues of Kaleidoscope have helped you nurture the diversified fields of investments. In this issue of Kaleidoscope, we will provide insights on essentials of effective financial planning.

Best Regards,
NSDL

Click & Find: Basic of Financial Planning

In our previous issues of The Financial Kaleidoscope, we have talked about the basic concepts of investing, such as the need to invest, inflation, real return, reinvestment, and compounding. These are the building blocks of any investment strategy. Let us now talk about the concept of financial planning and its benefits.

What is financial planning?

Financial planning is the step-by-step process of developing a personal roadmap for your financial well-being. The inputs to the process of financial planning are:

- a) your finances – your income, assets and liabilities;
- b) your goals – your current and future financial needs; and
- c) your appetite for risk

The output of the financial planning process is a personal financial plan that tells you how to invest your money to achieve your goals, keeping in mind your risk appetite, inflation, real returns, and taxes.

In short, financial planning is the process of systematically planning your finances towards achieving your financial life goals.

Life goals

Who doesn't nurture dreams of owning a bigger house or car, exploring the world, giving their children the best possible education, a blissful retirement, and so on? Basically, these dreams are life goals. And one surely needs money to achieve them. Consider this example.

Mr. and Mrs. Bhanot, aged 35 and 32 respectively, have a three year old daughter. Both work in private sector companies. Mr. Bhanot plans to retire when he's 50. From their current one bedroom rented suburban Mumbai apartment, the Bhanots hope to move to their own two bedroom apartment costing around ₹2 crore within the next five years. They own a small car, for which they have availed of a loan. Mr. Bhanot reckons that he will need ₹30 lakh for his daughter's higher education 15 years later. He also wants to build a corpus of ₹3 crore for his retirement.

The goals are charted out, alright. But what's important is to distinguish the short-term goals from the long-term goals. As a general rule, any life goal that needs to be met within five years can be considered as short-term. Beyond that, any other goal can be classified as long-term. By this classification, the Bhanots' goals can be classified as follows:

Short-Term Goals	Long-Term Goals
2BHK apartment	Daughter's higher education
	Retirement corpus

Using a similar yardstick, you may classify your own life goals. Each of your goals, whether short-term or long-term, needs financing. Carefully planning your finances in order to have the right amount at your disposal at the right time is what financial planning is about.

“Did You Know”

NSDL is amongst 11 entities to receive an "in-principle" approval by the Reserve Bank of India (RBI) for starting Payment Bank.

“Quote of the month”

"If you don't study any companies, you have the same success buying stocks as you do in a poker game if you bet without looking at your cards." - **Peter Lynch**

Get Started – The Financial Planning process

Hopefully, you're now convinced that you definitely need a piece of the action. The next question is "where does one begin?" You could either retain a financial planner to develop a financial plan for you or do it yourself. When you actually get right down to it, financial planning consists of a series of steps. This section examines each of these steps in detail.

Step 1: Identify your current financial situation

Sit down with all the earning members of your family and gather all financial information (about your sources of income, debts, assets, liabilities, etc.). You will have a clear picture of your current financial situation and you could then study it under the basic heads that it is spread out in.

Step 2: Identify your goals

Ask each member from your family to list what they think are current and future family goals. Prioritize each goal by establishing consensus and put a time period against each, i.e., when you will need the finances to achieve that goal. Quantify each goal by putting a financial value to each one. This exercise allows you to clearly distinguish between your short-term and long-term goals, and how much money you need for each.

Step 3: Identify financial gaps

Once you know where you stand financially, i.e., your present assets and liabilities and your potential to save, and where you want to be in terms of the financial goals that you want to achieve, a simple calculation gives you an idea of the shortfall. You begin to see clearly the sum of funds you need for specific goals with respect to the time factor. This is important because it paves the way for you to identify the right investments that will generate the necessary income within the time required to cover the shortfall so that you can achieve your goals.

Step 4: Prepare your personal financial plan

Once you have a bird's eye view of your financial gaps, you need to review various investment options such as stocks, equity mutual funds, debt instruments such as PPF, bonds, fixed deposits, debt funds, etc. and identify which instrument or a combination thereof best suits your needs. The time frame for your investment must correspond with the time period of your goals.

Step 5: Implement your financial plan

It's now time to put things into action. Gather necessary documents, open necessary bank, demat, trading accounts, communicate with brokers and get started. **Most importantly, start investing and stick to your plan.**

Step 6: Periodically review your plan

You may have implemented your financial plan and put it into full-fledged action. However, financial planning is not a one-time activity. A successful plan needs serious commitment and periodical review (once in six months, or at a major event such as birth, death, inheritance). You should be prepared to make minor or major revisions to your current financial situation, goals and investment time frame based on a review of the performance of your investments.

If you are not inclined or not comfortable developing your own plan (feel this is just beyond you) you can always consult professional financial planners, who will take you through the whole process. As financial planning is supposed to see you through your life, the process is continuously reviewed and fine-tuned to account for changes in your life and in the financial environment.

Blog

Financial Planning

By Mr. Vivek Pai, MD,
Aroha Capital and volunteer, IAIP*

An intuitive way to think about financial planning is in buckets. The first and foremost bucket is to **PROTECT** yourself and your family against catastrophic loss of life, and loss of good health. The financial instruments that fall in this bucket are termed life, accident, health and critical illness insurance. A second bucket that most of us would have is the **CONSERVE** bucket, where we would have earmarked money for very specific goals that fall in the immediate future – for example a car, a house or a holiday or any expenditure that falls within the oncoming 5 years. The CONSERVE bucket by its relative short-term horizon demands safety of capital. The financial instruments in this bucket are typically debt mutual funds. A third bucket would be the **GROW** bucket. Into this bucket we place our long-term visions such as funding our retirement and/or creating a corpus for our children's education. This bucket demands growth and compounding and does not mind some amount of capital fluctuation. The financial instruments that fall in this bucket are typically equity mutual funds and direct holding in company stock. These instruments jump around a lot in the short-term but in the long-term; outstrip returns from the first two buckets. As the GROW bucket funds our long-term visions, we stay focused for the long-term and not worry too much about short-term fluctuations.

The act of placing our financial goals into the buckets of PROTECT, CONSERVE and GROW is in an essence financial planning. A comprehensive financial plan takes into consideration the current financial state of affairs of an individual and juxtaposes it against her ability to meet her financial goals. It will bring to sharp focus the contradictions that are inherent in our desires for financial freedom, our ability to fund that freedom and the ways and means to bridge the gaps.

*IAIP - Indian Association of Investment Professionals



Understanding Financial Lingo

- 1. Annual Report:** Annual Report is a yearly record of a publicly held company's financial condition. It includes a description of the firm's operations, its balance sheet and income statement. SEBI rules require that it be distributed to all shareholders. A more detailed version is called a 10-K.
- 2. Earnings Report:** Think of an earnings report as a public company's "report card." It's also called an income statement and it reflects the company's earnings, expenses and net income.
- 3. Net Worth:** A person or company's net worth is the amount of liabilities subtracted from assets. Liabilities can include mortgages, loans, credit card debt and more. Assets can include investments, real estate, savings, personal property and more.
- 4. Asset Management:** The professional management by a financial services company of a client's investments is called asset management. The investments can include securities, such as stocks, bonds and mutual funds, and tangible assets such as a real estate.
- 5. Portfolio:** A portfolio can be composed of bonds, common stocks, preferred stocks and other securities. Portfolios can be managed by financial professionals and/or held by investors.
- 6. Prospectus:** The Securities and Exchange Board of India (SEBI) requires a securities issuer to file a prospectus. It's a legal document that gives a potential investor details about the investment offering so that he or she can make an informed decision about the purchase.
- 7. Certified Financial Planner^{CM} (CFP^{CM}):** A Certified Financial Planner^{CM} is a mark of excellence granted to individuals who meet the stringent standards of education, examination, experience and ethics. It is the most prestigious and internationally accepted Financial Planning qualification recognized and respected by the global financial community. Financial Planning Standards Board India (FPSB India) is the principal licensing body that awards CFP^{CM} Certification in India through an agreement with FPSB Ltd.
- 8. Financial Advisor:** A financial advisor provides financial advice to clients and is compensated in return. Financial planners, investment managers, and those who sell financial products can all be financial advisors.

NSDL Articles

NSDL amongst 11 entities to receive an "in-principle" approval by the RBI for starting Payment Bank

Reserve Bank of India (RBI) has granted in-principle nod to NSDL & 10 other entities which include Aditya Birla Nuvo Ltd., Airtel M Commerce Services Ltd., Cholamandalam Distribution Services Ltd., Department of Posts, Fino PayTech Ltd., Reliance Industries Ltd., Dilip Shantilal Shanghvi, Vijay Shekhar Sharma, Tech Mahindra Ltd. & Vodafone m-pesa Ltd. to start Payment Banks.

What is a Payment Bank?

A Payment Bank differs from conventional banks as it cannot lend to its customers. It is allowed to take deposits, allow remittances and provide simple financial products. Payment Banks are expected to reach customers mainly through their mobile phones rather than traditional bank branches.

Functions of Payment Bank

- ✓ Payment Banks can't offer loans but can raise deposits of upto ₹1 lakh, and pay interest on these balances just like a savings bank account does.
- ✓ They can enable transfers and remittances through a mobile phone.
- ✓ They can offer services such as automatic payments of bills, and purchases in cashless, chequeless transactions through a phone.
- ✓ They can issue debit cards and ATM cards usable on ATM networks of all banks.
- ✓ They can transfer money directly to bank accounts at nearly no cost being a part of the gateway that connects banks.
- ✓ They can provide forex cards to travellers, usable again as a debit or ATM card all over India.
- ✓ They can offer forex services at charges lower than banks.
- ✓ They can also offer card acceptance mechanisms to third parties such as the 'Apple Pay.'
- ✓ They can't issue credit cards

Why Payment Banks going to be a game-changer?

This is for the first time in the history of India's banking sector that RBI is giving out differentiated licenses for specific activities for pushing financial inclusion in the country. It's a step to redefine banking in India. RBI expects payment banks to target India's migrant labourers, low-income households and small businesses, offering savings accounts and remittance services with a low transaction cost. Payments Banks will enable poorer citizens who transact only in cash to take their first step into formal banking. It could be uneconomical for

traditional banks to open branches in every village but the mobile phones coverage is a promising low-cost platform for quickly taking basic banking services to every rural citizen. The innovation is also expected to accelerate India's journey into a cashless economy.

India's domestic remittance market is estimated to be about ₹800-900 billion and growing. With money transfers made possible through mobile phones, a big chunk of it, especially that of the migrant labour, could shift to this new platform. Payment banks can also play a crucial role in implementing the government's direct benefit transfer scheme, where subsidies on healthcare, education and gas are paid directly to beneficiaries' accounts.

Subscription to *SPEED-e*

During August 2015, five more Participants have subscribed to the *SPEED-e* facility viz.,

- Nikunj Stock Brokers Ltd. (DP ID IN302994)
- Indiabulls Ventures Limited (DP ID IN302236)
- Consortium Securities Private Limited (DP ID IN302316)
- SBICAP Securities Limited (DP ID IN306114)
- Integrated Master Securities Private Limited (DP ID IN300724)

Clients of the above mentioned Participants can now avail the facility of submitting various instructions through *SPEED-e* facility.

This takes the total number of Participants who have subscribed to *SPEED-e* to 175.

Investor Education initiatives undertaken by NSDL

➤ **Joint Awareness Programmes with Participants:**

In order to reach out to investors that are spread across the country and to apprise them about the facilities available in NSDL depository system and the awareness on stock markets, NSDL conducted 19 Joint Awareness Programmes in association with Axis Securities Limited, BMA Wealth Creators Limited, ICICI Securities Limited, Peerless Securities Limited, Ventura Securities Limited, Jhaveri Securities Limited & Shah Investor's Home Limited at various locations during July 2015 which were attended by more than 1,100 investors.

➤ **Programme towards Women Empowerment:**

Women play an important role in day to day finances of the households. Therefore, to reach out to women to impart basic knowledge about investing and about demat & to further equip them to take more knowledgeable investment decisions, NSDL in joint association with Lokmat conducted three Women Empowerment programmes for around 265 women in July 2015 covering topics such as SIP, Mutual Funds, Demat and other NSDL products.

➤ **Training Programmes with Participants:**

To spread awareness about Depository related services & the new features introduced in NSDL Depository system, NSDL conducted a training programme for branch officials of 'Muthoot Securities Limited' during July 2015. This programme was attended by around 45 branch officials of Muthoot Securities Limited.

➤ **Events conducted by NSDL during July 2015:**

❖ **Events conducted in association with Institutions:**

In July 2015, NSDL organised an event titled "Putting Investor First" in association with CFA Institute in Mumbai to build awareness of the duty to protect investor interests at all times, and to ensure that all investment professionals understand their primary role is to serve and protect investors. This event was attended by more than 250 delegates. Further, NSDL also sponsored an event titled "Finance Fair 2015" in association with National Stock Exchange (NSE). This event was attended by more than 1,000 investors. Various aspects on Depository related services were explained to these investors attending this event.

❖ **NSDL Brand Ambassador:**

NSDL has been carrying out various Investor Education initiatives like Investor Depository Meets (IDMs), Corporate Awareness Programmes (CAPs), promotion through media etc. in order to educate the Investors. Apart from these initiatives, in order to reach out to students, NSDL has been conducting educational programmes like workshops for students from various colleges across India, sponsorships and setting up of stalls during college festivals. NSDL launched an initiative called "NSDL Brand Ambassador (NSDL BA)" last year for student community education and to popularize demat products and related concepts amongst eight different colleges in Mumbai which was appreciated by various Institutes.

In order to keep the same temperament amongst different colleges, NSDL conducted an NSDL Brand Ambassador (NSDL BA) contest at SIES College of Commerce & Economics, Mumbai during July 2015. More than 80 students participated in this Brand Ambassadorship programme. Mr. Tejas Sridhar & Ms. ShreeLaxmi Haridas Menon from SIES College of Commerce & Economics were selected as the Brand Ambassadors of NSDL for year 2015. NSDL BA's will be acting as face of NSDL in their colleges and will help NSDL to spread awareness about the depository and its related features to other students of colleges.

Your Questions Our Answers: Financial Planning



1. What is financial planning?

Financial planning is the process of managing your funds to achieve your desired goals in the required time frame. It involves analyzing your existing financial position, expected future cash flows, inflation and identified financial objectives to develop a comprehensive financial planning roadmap. This is aimed at making available the right amounts of funds at the right time in the future.

2. Why is a financial plan required?

A financial plan helps drive your financial decisions to a defined goal. It helps you determine how much to save today for the future you planned for, how much returns to expect on your savings and where to invest your savings to ensure you get the returns you desire.

3. What are the types of needs that I plan for?

There are various kinds of needs, some of which are listed below -:

- ✓ Retirement
- ✓ Child's Education
- ✓ Child's Marriage
- ✓ Asset purchase
- ✓ Insurance
- ✓ Investment
- ✓ Tax planning
- ✓ Medical emergencies

4. Who can draw up your financial plans?

You can make use of the skills of a financial planner who can help you with the financial planning process. A financial planner is aware of the range of investment and insurance products available for you to choose from and can suggest solutions that are in line with your needs, profile and situation.

5. Where can I invest my savings to get the desired returns?

Once you have determined how much you wish to invest, you need to decide where to invest. There are various investment options available depending on your risk – return profile. The various products available are:

- ✓ Mutual fund schemes
- ✓ Equities
- ✓ Bank deposits
- ✓ Bonds
- ✓ Insurance Plans

6. What is my risk – return profile?

Every individual has their own risk taking capacity. Your risk-return profile is your level of risk tolerance. A high risk venture is normally associated with high returns. You could be one of the following three risk-return profiles or somewhere in between them:

- ✓ **Conservative** i.e. you take minimal risks ensuring your funds are secure. You prefer investing in post office deposit schemes, bank fixed deposits, government bonds
- ✓ **Moderate** i.e. you are willing to take some risks and prefer investing in mutual fund schemes
- ✓ **Aggressive** i.e. you are willing to take high risks and prefer investing in equity, commodities markets and you may even be speculating for returns.

7. Would a financial plan guarantee the achievement of your goals?

A financial plan can tell you what is required to achieve your goals, but it cannot ensure you attain them. There are many circumstances beyond your control such as inflation, recession, political changes, your individual circumstances etc., which might hamper the achievement of planned results.

8. When should I start my financial plan?

The sooner you start your financial planning the better it is as it gives you more time to plan and gives your money more time to grow. Planning early increases your return possibilities while simultaneously reducing your risk.

9. How do I begin the financial planning process?

All financial plans begin with goal setting. You need to identify the time period for which you wish to plan and define goals in measurable units that you wish to achieve within this period.

The nature of the goals and the goals themselves vary depending on the individual. For a young individual who has started with his first job, the goal can be the purchase of a car. For an individual who has been working for the past few years, his goal can be the buying a house.

10. How do I allocate funds to various instruments?

Once you have identified the amount that can be invested, you need to know how much of those funds to put in the various kinds of investment options available. Today, there is a wide array of investment options to choose from. The selection depends on your needs, profile and your individual circumstances.

11. How do I track my investments?

After investing, you need to ensure that you are getting the desired results from your investments. At regular intervals you need to track the performance of your investments.

For instance, in case you have invested in a mutual fund scheme, then the total value of your investments will be the product of the total units you have and the NAV of the units. The difference between this value and the amount you have originally invested will give you the returns on your investment.

12. Is insurance cover a part of financial planning?

Insurance planning is an integral part of financial planning. An insurance plan takes care of the unforeseeable demands on your finances. For instance, an unfortunate illness requiring a surgery can be covered under a medical insurance plan and you need not dig into your savings and other investments to pay for it. In effect, insurance helps to keep your financial plan on track.

Importance of Financial Planning

Many people might wonder what all the fuss is about when it comes to financial planning. They may overlook its need and feel almost certain that they can manage just fine without financial planning. But chances are high that they may find, and that too when it's too late, that they don't have the means to achieve their life goals.

For example, people today realize the importance of living life to the fullest. Consequently, many opt for early retirement from full time jobs, as compared to a few decades ago, when most people worked until the maximum retirement age of 58-60 years.

The average person can, today, expect to live a healthy life well into his or her seventies or eighties, which means that retirement life is almost as long as working life. Financially, it implies that savings (after taking into account inflation) should be enough, not just to maintain the same lifestyle for almost 25-30 years, with no new income, but also to take care of medical expenses, which are usually higher the older a person gets. Planning for all this is a tall order for anyone. That's why it's critical for everyone to plan their finances from an early age.

Benefits of financial planning

Here's a list of the benefits that a well chalked out financial plan can bring about:

- ✓ Helps monitor cash flows and reduces unnecessary expenditure.
- ✓ Enables maintenance of an optimum balance between income and expenses.
- ✓ Helps boost savings and creation of wealth.
- ✓ Helps reduce tax liability.
- ✓ Maximizes returns from investments.
- ✓ Ensures better wealth management to achieve life goals.
- ✓ Financially secures retirement life.
- ✓ Reviews insurance needs and therefore also ensures that dependents are financially secure in the unfortunate event of death or disability.
- ✓ Lastly, it also ensures that a will is made.

Read and Win!

Why is Financial Planning essential?

Send your replies providing your contact details (Name, address and contact no.) with the subject 'Knowledge Wins Contest - August 2015' 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 be made on a strictly random basis and the decision made by NSDL will be final.

KNOWLEDGE WINS Contest

Lucky 25
Winners will
Win Free
Goodies



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



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