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PRIMER ON
PERSONAL FINANCE

Your step-by-step guide to wealth creation

Specially crafted for investors by NSDL IPFT

NSDL Primer on Personal Finance

Your step-by-step guide to wealth creation

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FOREWORD

In today's fast-paced world, we often hear that "happiness matters more than money." While this is undeniable, financial security is vital in maintaining that happiness, especially when life throws unexpected challenges. This is why understanding personal finance is more important than ever—it gives you the freedom to face any financial storm confidently.

But what exactly is personal finance, and why should it be a priority for young professionals and investors today? As the global economy evolves, so does the need for smarter financial planning. When we were kids, we learned to save money in piggy banks. The same principle applies to adulthood, but the stakes are higher.

Starting early with a solid financial strategy can give you a competitive edge. Whether it's setting aside a portion of your salary or strategically growing your investments, the habits you form now will shape your financial future. This book is designed to be your go-to guide, offering practical, step-by-step advice on building wealth and securing your future.

So, whether you're just starting as a novice investor or looking to enhance your financial goals—welcome to the journey of smart investing!

Mr. S. Gopalan
Interim Managing Director,
National Securities Depository Limited (NSDL)

CHAPTER 1

Personal Finance – What and Why

Just earning money is not enough. You need to smartly manage your money by saving today and investing for tomorrow. By practicing personal finance smartly, you will be able to handle budgeting, banking, insurance, loans, investments, retirement planning, and much more.

Personal Finance - The Nuts and Bolts

All of us would love to be in control of our finances. In this chapter, you will learn what personal finance is and the importance of knowing it to help you become more efficient in managing money.

Left on its own, money can be a bad master. You may find yourself working too hard for too little money. So, it is necessary to understand the concept of personal finance to manage your money smartly, even if you earn less. Personal finance helps you to have a tight grip on your money and utilise it wisely.

You need not be super-rich to have a good financial life. Your monthly salary has little to do with deciding whether you are an expert in personal finance or not. You may earn Rs. 50,000 or Rs. 5 lakhs a month, but more income is no guarantee that you manage your finances well. Many individuals earning higher incomes suffer from money management problems to similar lower income earners.

Acknowledging Unawareness Can Result in Better Learning

If you think, you are not proficient in money management, you are on the right track for a good reason. The first step in attaining expertise in personal finance is to accept that you are not doing it well enough.

Just like life, solutions in personal finance only prove effective if you admit there is a problem. Doing so will enable you to develop an open-minded approach to learning the nitty-gritty of personal finance and absorb the concept with more clarity.

But what if you are already well-versed in managing your finances? We recommend you continue reading this book because you may find useful insights that may sharpen your personal finance skills.

What Is Personal Finance?

You may not realise this, but your life is deeply connected with numbers. In school, you had to score well in academics to secure admission at a highly reputed college. Similarly, while participating in any sport, your victory depends on fairing numerically better than your opponent. If you wish to emerge as the best performer at your workplace, you need to deliver a higher quantitative output compared to your colleagues. It is all about attaining measurable goals.

Personal finance is about meeting various financial goals that need to be clear and simple. A financial goal may be saving

money for an overseas vacation with your family in 6 months or making a 30% down payment for your dream house in 12 months when you take a home loan. Additionally, a financial goal can be future-oriented, such as building a corpus worth Rs. 25 lakhs for your kid's higher education or earning lifelong income through pension investment plans even if you are a private sector employee.

In football, one goal rarely ensures a win. Likewise, in life, different financial goals are running simultaneously. It is never about doing one thing at a time. So, you will need to save for your family holiday in a few months, arrange funds to pay for your home loan's down payment, and do intelligent investment planning to meet your kid's future financial needs. Like a big railway junction, financial goals, like trains, crisscross all the time. So, you need to ensure every goal has a smooth sailing in the stipulated period.

Financial goals are all about money. So, achieving them depends on your income, expenses, savings, and investments. If you develop a solid plan balancing these aspects, success will knock on your doorstep. However, as you may know, it is challenging to make and follow an impressive financial plan. If you are earning well, your expenses tend to get out of control, as you spend more. When your expenses are on a tight leash, you are saving too little to invest.

It is quite rare that anyone earning a high income consistently spends very little. There will always be financial constraints. For instance, the month when you

get a salary hike will coincidentally witness a high expense, as you will end up spending more. Additionally, you may end up making impulse-driven financial decisions fueled by your desires.

You need to be a smart decision-maker to make the most of your income and savings. Knowing how to differentiate between good and bad advice and being disciplined about your financial decisions can do wonders for your and your family's monetary future.

Developing expertise in personal finance comprises gathering knowledge of eight core areas, which include budgeting, banking, insurance, loans, investments, retirement planning, estate planning & will etc. Through the chapters in this book, we have focused on these subjects.

Why Should You Learn Personal Finance?

We live in a world where instant gratification is the norm. People want to experience things quickly. They do not want any delays, be it in a train journey, food delivery, or when it comes to investments. Learning takes time. But what if you do not learn? The answer is easy—you will end up making costly mistakes that can harm your financial health.

Here are four reasons why it is crucial to learn about personal finance.

1. To Be Financially Literate

India is home to over 1.4 billion people. However, the high number of financial scams and victims falling prey to them indicate that the population's financial knowledge level is poor.

People may understand general concepts like returns and profit. But are they aware that returns come with a risk factor? Unfortunately, academic literacy and financial literacy differ like chalk and cheese. Financial literacy is about making informed and effective decisions with all financial resources.

You need to understand the fundamentals of money management to successfully use financial services like banking, insurance, mutual funds, or stocks. So, knowing personal finance is critical to making the right financial choices.

2. To Live Within Your Means

Your dreams may be sky-high like owning a big car, buying a palatial house, going for annual overseas vacations, and wearing expensive clothes. It is great to have such aspirations, but problems may arise if you expect all your dreams to become reality instantly. In a world driven by

money, living within your means is important.

You need to analyse the pros and cons of every financial decision. For an average middle-class family, affordability is a big factor. If you do not live within your limits and let your emotions rule, you will find yourself seeking financial favors. Loans are your future income that you have borrowed today. Loans may help you bridge financial gaps, but you need to repay them, resulting in a future liability.

Once you gain knowledge about personal finance, you will naturally try to live a life as per your income and expenses. Additionally, you will become disciplined in money management since you will understand financial matters much better.

3. To Save and Invest

Savings and investments are an integral part of personal finance. Merely earning money cannot solve problems. As Indians, our mindset has been to save our earnings. Unfortunately, most individuals tend to store their savings in idle assets like gold and non-financial assets like real estate.

Even today, people find it safer to 'invest' in savings accounts of banks. However, it is not the best investment because the returns generated from a savings bank account are very low. If you consider inflation, the returns can drop to zero. Money kept locked in gold and real estate was useful in generating returns decades ago, but today

you need to look beyond these traditional investment avenues to generate wealth. It is advisable to invest only a certain percentage in these avenues to diversify your investment portfolio. For instance, if you wish to invest in gold, experts suggest that this investment should comprise only 15% of your entire portfolio.

DID YOU KNOW?

Every one of two Indians keeps aside 10-30% of their regular income as savings instead of investing it.

Many people do not understand the difference between saving and investing. So, they are forced to live with poor returns despite the availability of good alternatives at their fingertips.

Having an in-depth knowledge of personal finance arms you with the skills to save and invest properly, as per your

financial goals. It gives ideas about how much you should save, which investment options to consider, and the projected returns after adjusting for taxes and inflation.

4. To Understand Taxes

Do you know that your bank deposit's interest income is taxed? Do you know the tax you will pay on your fixed deposits (FDs) as per your income tax slab? So, if you fall in the highest tax slab of 30%, your FD interest income will be added to your income and taxed at the same rate. Additionally, if you plan to sell any owned property, you will be liable to pay taxes. Many people do not know the effect of taxes on their investments. So, when they have to pay the tax later, they realise their mistakes. However, it is too late by then.

You may know the importance of earning a profit on investment. However, your profit will be taxed as per applicable rules. The good news is that you may save tax by making various investments. For instance, Section 80C of the Income Tax Act, 1961 gives every individual the opportunity to lower their taxable income up to Rs. 1.5 lakhs. By using this investment opportunity, you can reduce your taxes.

Developing expertise in personal finance will empower you to understand taxes and benefit from various taxation rules. Saving your money from unnecessary taxes will help you grow your wealth faster.

KEY TAKEAWAYS

- Learning about personal finance, which is managing your money independently, is essential to help you budget, spend, save, and invest over time
- Dreaming big is great, but you need to take small steps consistently to transform your desires into reality
- Saving and investing are as crucial as earning income
- Having in-depth knowledge about risks and rewards can help you make informed financial decisions
- Being focused and disciplined can play an integral role in achieving your financial objectives
- Caution is key
- Considering the impact of inflation and taxes on your financial plans is necessary

CHAPTER 2

The Need for Savings

If you save Rs. 50 per day from the age of 20, by the time you are 75, you will save Rs. 10 lakhs. If you saved Rs. 100 every day, this amount becomes Rs. 20 lakhs.

None of us can predict the future. Saving money can help you become financially secure. You can use the safety net in case of an emergency. Begin your journey into the world of savings today.

Why Is It So Important to Save Money?

Most of us tend to save after spending. However, it should be the other way around. One should make it a point to save first and spend later after what has been saved. Many find it difficult to save money from the monthly income. In this chapter, you will learn about the concept of saving, a few useful ideas to help you achieve your objective of saving smartly, and the different avenues where you can safeguard your hard-earned money.

You feel on top of the world when your salary gets credited to your bank account or when you earn sufficient profits from your business. However, once you receive the money, unfortunately, the race to finish it begins. By the end of the month, a meagre amount is left. This sums up how the average month of a middle-class working

professional starts and ends. Until a few years ago, Indians were known to be proficient in saving. But the massive wave of consumption has meant that saving money is now only an afterthought.

You put in immense effort daily at your workplace, for which you receive a monthly salary that enables you to fund your immediate requirements and other materialistic desires, such as buying designer clothes or the latest electronic gadgets. But what would be your plan of action to manage certain inevitable expenses in the future? Would you intend to wait to organise the funds when situations arise, or do you wish to be financially prepared beforehand? It is quite understandable that, in all likelihood, you would choose the latter approach like any sensible financial planner. In the future, you may require funds to fulfill various financial commitments like your kid's education and wedding.

So, it is necessary to inculcate the habit of savings right now, as the money earned today gets locked aside for tomorrow.

What Is Saving?

Saving is the money that you earn but not spend. Let us make you understand this with an illustration. Suppose your monthly salary is Rs. 56,000 and your monthly expenses amount to Rs. 39,000 per month, then in this scenario, your monthly savings would be Rs. 17,000 (Rs. 56,000 - Rs. 39,000).

An effective way of saving is by reducing idle expenses. Considering the above illustration, if you earn Rs. 56,000 monthly but end up spending Rs. 52,000 every month, you are saving only Rs. 4,000 per month. However, if you reduce your expenditure by Rs. 6,000, your monthly spending will drop to Rs. 46,000 from Rs. 52,000, ensuring you save Rs. 10,000 per month.

You may also consider increasing your savings by supplementing your primary earnings with additional income streams, such as taking up freelance assignments in your area of expertise or doing some side hustle like stand-up comedy gigs if you have a funny bone or anything related to performing arts like singing, dancing, and acting at live events if you have the flair for that. However, this is easier said than done. In today's stressful and demanding professional environment, doing one full-time job can take a toll on anyone's health due to long working hours and a lack of work-life balance. So, following this approach requires nerves of steel and high energy levels at all times. However, eventually, you may burn out. So, it would be wiser to control your expenses and spend as per your requirements instead of overworking and not giving time to your loved ones.

How can you become a smart money-saver?

1. Establish your budget

Plan a budget for every month preferably on the last day of the previous month. For instance, plan your budget for August preferably on the last day of July. Jot down the estimated expenses to be incurred on restaurants, groceries, utilities, entertainment, and personal care. Do not wait for the month-end to review. Instead, monitor how the plan is working every week. This would help you to keep track of expenses and avoid spending more, resulting in savings.

DID YOU KNOW?

India's household savings have been on the decline. The savings rate of the Gross Domestic Product (GDP) was 11.5% in FY 2020-21 and it dropped to 6% in FY 2023-24.

2. Budget with cash and envelopes

If you have a habit of spending when not needed, try the age-old envelope budget system. Divide the money into envelopes. Doing so will automatically set a limit for almost all types of spending.

By following this system, you are less likely to overspend. You will have more self-control and ultimately save money.

3. Set up automatic savings

It is the easiest and most effective way to save money. Ask your employer to deduct your income and put the deducted sum into a Voluntary Provident Fund (VPF), in case it is available.

Alternatively, you may consider investing in Systematic Investment Plans (SIPs) of mutual funds or purchase equity shares by opting for the 'auto debit' facility which is available to demat account holders, ensuring that the money is debited from your bank account automatically on a selected date and invested in your preferred SIP so that you do not end up spending unnecessarily.

With no human intervention, you will end up saving automatically for a better financial future without even realising it.

DID YOU KNOW?

A monthly SIP of Rs. 1,000 for 20 years can help you earn nearly Rs. 8 lakhs as return on investment at 10% expected return on investment.

4. Calculate purchases by hours

Want to buy a fancy pair of designer shoes? Take the price of the product you're considering to purchase and divide it by your hourly wage.

So, if you earn Rs. 350 per hour and work for 10 hours per day, your daily income will be Rs. 3,500. Similarly, your weekly income will be Rs. 17,500, considering you work 5 days/50 hours per week (Rs. 350 multiplied by 50 hours).

By doing this calculation, you will make a rational decision whether the new pair of shoes costing Rs. 15,000 is worth the weekly income you earn for working 50 hours or not.

5. Unsubscribe from marketing emails

Receiving marketing emails from stores and outlets where you spend the most money can tempt you to bring out the shopaholic within you. They lure you to spend more.

An easy way to avoid this is by clicking on the unsubscribe link, usually found at the bottom of the email. The moment you unsubscribe from such emails, life becomes much easier. If you don't get to know about deals, chances are high that you will spend less and save more.

6. Keep one day per week as a 'no spend day'

You spend every day you do not earn every day, as salary comes once a month. To have a level playing field, reserve one day a week when you will not spend any money.

Stay indoors and play board games or watch a movie with your dear ones. This is how you can save the money you would have spent if you were out with friends or family.

Go-to Avenues for Saving Money

Once you have taken steps to curtail costs, you need to park your savings carefully.

Do note that saving is a very different concept from investing. In savings, you are more concerned about 100% principal protection instead of returns on investment. Following are popular avenues to help you fulfill this objective.

1. Bank Savings Account

This type of bank account helps you save money regularly or in a lump sum. The money saved in banks is secure. When saving, you may make cash deposits or transfer funds online to your account.

2. Post Office Savings Account

Apart from banks, many people save money in post office accounts. At least one deposit or withdrawal in three financial years is mandatory to keep a post office savings account active.

3. Provident Fund

An example of mandatory saving, PF was designed for any employee to save for retirement and build a significant corpus over a period. However, many people use PF as a saving mode by asking their employers to deduct extra money from their salary and transfer it to PF. However, remember that you cannot easily liquidate the money in your PF unlike a bank account and post office savings account.

4. Small-Saving Schemes

The Government of India has launched different small-saving schemes, such as the National Savings Certificate (NSC) and Kisan Vikas Patra (KVP) to facilitate nominal income earners. Like PF, these schemes are not very liquid because they have a period when one cannot withdraw or transfer money. Although small-saving schemes are popular, the restriction to withdraw for a particular period can be a minus point if you need funds urgently.

KEY TAKEAWAYS

- Save first and then spend
- Create a budget and follow it diligently for the rest of the month
- Save for a rainy day when you anticipate not having any income
- Control spending to help boost savings
- Use the automatic saving route and switch to the age-old cash envelope system to limit spending
- Use a combination of bank and post office savings accounts to save money regularly
- Choose saving options that offer the facility of quick liquidity and withdrawals

CHAPTER 3

Wealth Creation

Many earn and save money. But only a handful can create wealth. There is no magic formula or shortcut for wealth creation. You need to stay disciplined, focused, and invested for the long term.

In this chapter, you will find ways to implement different investment ideas and let your money work as hard as you do. Here, you will discover how wealth creation is about giving yourself many investment options and choosing the right ones to help you deliver desired outcomes.

What Is Investing?

For most people, the only genuine way to attain financial security is to save and invest over a long period. If you wish to achieve economic stability and get over the impact of inflation, you need to invest your savings wisely in profitable investment avenues. This is the essence of investing.

Let us explain the need for investment with a simple illustration. Imagine your monthly take-home pay is Rs. 45,000 and your household expenses are Rs. 40,000. So, in this case, your monthly savings are Rs. 5,000. However, will this nominal amount deposited in your bank prove sufficient during an unforeseen scenario when you may have no income? If you need Rs. 40,000 per month to manage your household expenses during a situation when

you have no stable earnings, you will need to have savings for at least eight months or more, which means Rs. 5,000 x 8 needs to be accumulated in your bank account. It is much easier said than done because it would be difficult to save for eight months without earning a single penny during this duration.

This is when the concept of investing comes to your rescue. You need to save Rs. 5,000 per month starting today to generate a saving of Rs. 40,000 for the future by investing your savings wisely.

You need not be an MBA or an investment genius to achieve this objective. You need to create an intelligent investment plan and stick to it.

Investing: An Act of Commitment

You invest with an expectation to earn additional income. Legendary investor Warren Buffett has an interesting way of defining investing. He calls it the process of laying out money now to receive more money in the future. Investing has only one goal of growing your money over time by investing today in the right investment avenues and diversifying your investment portfolio.

DID YOU KNOW?

According to PGIM Mutual Fund's recent Retirement Readiness Survey, 51% of Indians are unprepared for their retirement, with many not having started financial planning for retirement.

When you earn a salary, you have no pressure to spend it on materialistic requirements, such as clothes, entertainment, and the latest gadgets. You feel that doing so gives you instant gratification, making your life wonderful and enjoyable.

However, investing is a different ball game altogether because it requires prioritising your financial future over your present desires and lifestyle. All you need to do is invest a small amount across worthwhile long-term avenues consistently to reap the benefits in the future.

How does investing differ from saving?

Saving and investing may seem the same to the common man. Generally, people tend to use these terms interchangeably. But these two concepts are different.

Here is an illustration to give you a better understanding. Haresh is a software engineer earning Rs. 65,000 monthly. Now taking care of all his expenses, he has savings of Rs. 18,000 remaining in his bank account. Now, if he retains this amount in his bank account, it is his saving. However, if he puts this money into investment avenues like stocks and bonds, his savings of Rs. 18,000 becomes an investment.

Investing originates from saving. Simply put, saving is keeping aside the money you do not spend now but wish to access quickly with no risk.

Do note that not all savings are investments. Investing is buying assets such as stocks, bonds, mutual funds, gold, or real estate. Generally speaking, an investment may either fall in the category of income-oriented or growth-oriented. For instance, if you deposited Rs. 2,000 in a savings bank account with a return of 4% annual interest, it would grow to Rs. 2,080 a year (before taxes). However, if you invest the same amount in a mutual fund earning an average of 10% a year, your investment would grow to Rs. 2,200 (before taxes).

Making the correct choice between saving or investing

depends on your goal. If just saving works for you, continue doing that without investing. But if saving alone cannot help you, supplement saving with investing.

What are financial goals?

The word 'goal' may remind you of a visual of a goalpost and a football screeching past the goal line into the net. As you may know, 11 players work together in a football team in synergy to score a goal. Similarly, your financial goals require coordination.

A financial goal is your monetary objective and it is determined by the future requirement for money. Different financial goals arise during various phases of life. For instance, building a substantial retirement corpus 25-30 years from now maybe your long-term financial goal to help you achieve monetary freedom post-retirement. Similarly, arranging funds for your kid's wedding which may happen after 10 years, or making the down payment for your home loan can qualify as another long-term financial goal. Conversely, saving money for a foreign trip that you plan to go on seven months later is your short-term financial goal.

Once you acknowledge the need to achieve different financial goals during various stages of life, you start moving on the right track. Many people fail to accept the importance of accomplishing these goals due to which they falter in financial planning.

Different types of financial goals

Regardless of your age, setting financial goals is very important. The secret ingredient is to set up personal financial goals as per your projected monetary needs. For instance, if your monthly expenses would be Rs. 50,000 at the age of 60, you would need to have a stable income worth Rs. 60,000 at that time to meet the expenditure and have some savings in your bank account.

Recognising your aspirations and future needs is 50% of the job done. The next 50% comprises setting up a plan to attain these goals.

When it comes to breaking down financial goals, we can categorise them into three main types, short-term, medium-term, and long-term.

Short-term Goals

These are tasks that you may accomplish within 1 year. As you can understand, short-term goals are something that you aim to achieve soon.

For instance, paying off credit card dues is a short-term goal. Similarly, a few other examples in this category may include buying household furniture, doing minor home improvements, or saving money to pay the down payment for a car loan or two-wheeler loan. Additionally, arranging funds for going on a family holiday or buying gadgets comes under short-term goals. These goals are the easiest and quickest to attain.

Medium-term Goals

In this category, you may achieve your financial objectives between 1-5 years. As you can see, medium-term goals take longer time than short-term goals.

Before setting medium-term goals, be certain about the aspirations you wish to accomplish in the next few years. Having clarity about this will guide your saving and investing motives.

Do remember that medium-term goals may be the hardest to achieve because they fall between short- and long-term goals. Short-term goals get complete attention since they always seem so close. Long-term goals also get a decent amount of attention because financial commitments like arranging sufficient funds for your kid's higher education or building a sizable retirement corpus for your economic stability hold high relevance. So, this results in medium-term goals getting less time and importance.

A good way to constantly track and monitor medium-term financial goals is to write them in a diary and review their progress every three months, ensuring they get adequate attention. So, in case you find out that you are falling behind, you will get time to get back on track and achieve these goals.

As it takes around 5 years to accomplish medium-term goals, you may stay invested and not become risk averse. Contrary to short-term goals, which get accomplished

during a maximum timeframe of 1 year, medium-term goals allow you to strike a balance between risk and reward.

Long-term Goals

These goals generally take over 5 years to achieve. Long-term goals hold significant importance for you and your family. The time frame is longer in case of these goals because:

1. The financial requirement will arise after a long time. For instance, you will retire once your age is 60. You cannot prepone your retirement to the age of 35.

2. The amount required is high. So, you need to save and invest for long. For instance, if you expect to send your kid abroad for higher education at Rs. 30 lakhs and can invest only Rs. 4,000 per month, you will need 20 years to accomplish this target if the investment gives you a 10% return annually. Even if you double the investment to Rs. 8,000 per month, you will reach only Rs. 16.5 lakhs in 10 years.

This indicates that efficient planning to achieve your long-term financial goals will result in systematic execution. Remember, these are crucial life goals, and you cannot compromise on them.

Contrary to short- and medium-term goals, long-term goals give you the luxury of time. However, there is also a risk involved in achieving them because too much time can compel you to keep delaying the inevitable when taking

action to accomplish these goals. So, you need to be on the right track at all times.

Investment planning for building a substantial retirement corpus or arranging finance for your kid's higher education cannot wait for another 5 years when the time arises. You may not want to see yourself working for an extra duration of 5 years until you turn 65 just because you did not save and invest smartly. So, start planning for your long-term financial goals without delay to bridge the gap between your kid's academic aspirations and the cost involved in fulfilling them. If you do not have the funds to meet these inevitable expenses, your kid may be forced to take an education loan to fulfill their dreams which might put an unnecessary burden on them because of a delay in investment planning from your end. So, take proactive measures now to accomplish your long-term financial objectives.

What is risk tolerance?

Any investment has two friends, Mr. Risk and Mr. Return. If you become more friendly with Mr. Risk, your investment can get more of Mr. Return. However, more risk can also mean incurring losses if the time frame is too short. So, you as an investor, need to identify the level of your risk-taking ability. The extent to which you can take risks is your risk tolerance. It is the degree of variability/swings in investment returns you are willing to withstand. Simply put, if you were expecting a 10% return on investment but only earned 5%, how comfortable

would you be with a 5% lower return? If you were comfortable, your risk tolerance level would be relatively high and vice-versa.

Let's look at another instance. You invested with an expectation to earn a 20% annual return but instead incurred a 4% loss. Will you be comfortable if such a situation arises? If yes, your risk tolerance level is extremely high and vice-versa.

The different levels of an investor's risk tolerance are:

Conservative

Investors in this category focus on preserving capital, even if it means missing out on potential returns.

Moderately Conservative

Investors in this category wish to preserve capital but are willing to accept a small degree of risk for gains.

Moderate

Investors in this category aspire to reduce risks and enhance returns equally.

Moderately Aggressive

Investors in this category aim to earn long-term returns but are willing to accept significant risk.

Aggressive

Investors in this category have the highest risk appetite. They want to maximise returns and are willing to endure excessive volatility and significant losses.

It is critical to have a realistic understanding of your ability and willingness to bear risk. The ability to tolerate large swings in the value of your investments will tell you about your actual comfort level.

Be genuine about your fears and worries. You may wish to give an impression to people that your risk tolerance is high, but a small swing in returns on investment may shock you. If this trend continues, accept that your perception of yourself is wrong.

As a thumb rule, you earn higher returns when you take higher risks. If you take lower risks, you might not earn substantial returns. As beautifully stated by the legendary Indian business tycoon, not taking any risk in today's evolving world is a recipe for failure.

If you take very high risks while investing, you might panic and sell your investments at the wrong time. This may

defeat the entire purpose of your investments.

If you take low risks, you may never achieve your financial objectives in time, negating the purpose of investing. So, you need to develop a balance between risk and return to invest smartly by spreading your investments across different high-risk, medium-risk, and low-risk avenues.

How Can You Start Your Investment Journey and Reap Benefits?

When figuring out how to invest money, it is always better to start with the basics, such as the specific goal behind investing and the investment avenues/instruments you may consider. The goal can be short-, medium-, or long-term, which we have explained earlier. We will later explain the different investment avenues that you may tap.

The entire experience of how to invest can vary depending on your experience as an investor. Here are a few tips for different target groups, new and experienced investors. You may follow these ideas depending on your current level of experience as an investor.

Guidelines for novice investors

When you invest money for the first time, you have no track record, which is a pro and a con. The positive takeaway is that you are a fresh investor and do not have any expectations or burdens. However, your lack of

experience makes you vulnerable to mistakes.

Remember the golden rule that you are investing with the belief that the value of that particular investment will grow over time. Investing is not a get-rich-quick route. You need to be patient and stay invested for a long duration to ensure your investment grows consistently.

With the requisite time and discipline, you may build a substantial investment corpus by investing a nominal amount regularly in the right instruments/avenues.

Guidelines for seasoned investors

If you have some experience, you already know how this game works. You may have sound knowledge, but every investing journey is unique. So, it is necessary to stay grounded and not expect miracles.

The fate of an investment does not change because you have decided to give it a try. Just like you, thousands of investors are buying and selling the same investment instruments such as shares, etc. Having a calm mind and belief helps the process immensely. A new beginner may have setbacks initially. However, as an experienced market player, you may be aware that being patient and persistent pays in the long run.

Investment Avenues You May Consider

1. Fixed Deposits (FDs)

An FD is a safe investment instrument. FDs help you grow your savings and ensure the security of the principal invested. By investing in an FD, you get reasonable flexibility, assured returns, and high stability.

You may either invest in bank FDs or eligible non-banking financial companies (NBFCs), which are regulated by RBI to collect deposits. Bank FDs offer more security compared to their NBFC counterparts. FDs require a one-time investment. So, if you wish to start new FDs, you need to invest more separately. This way, you may have multiple FDs with different maturity values and durations.

FDs can generate interest income for varying periods, ranging from 1 week to 10 years. You may choose between two types of FDs according to your financial objectives and requirements.

Cumulative FDs	Non-cumulative FDs
Functionality: Interest gets compounded annually and is reinvested with the principal. Interest earned in every financial year gets added to the initial investment. The money invested gets locked until maturity, with no facility to withdraw your investment.	Functionality: Provides regular interest on a monthly, quarterly, half-yearly, or yearly basis, depending on your selected frequency. Offers consistent income at periodic intervals.
Pros: Offers higher returns on maturity. Ideal for meeting long-term financial goals.	Pros: Ensures a steady income flow. Provides flexible payout alternatives based on your monetary requirements.

The interest earned by investing in an FD gets taxed according to your income slab. Some FDs offer a premature withdrawal facility, while others do not. The interest rate of the FDs in the latter category is usually higher. FD is a popular investment avenue because it safeguards the principal and interest.

Additionally, there is another type of FD known as tax-saving FD. As the name suggests, these FDs offer a tax deduction under Section 80C of the Income Tax Act, 1961. You may claim a maximum deduction of Rs. 1.5 lakhs

by investing in them. These FDs have a minimum lock-in period of five years and do not permit a partial or premature withdrawal.

2. Recurring Deposits (RDs)

If you are looking for an avenue that ensures disciplined investing regularly, you may consider RD's. You may invest a fixed sum in an RD by giving your bank a standing instruction to deduct a particular amount every month from your salary bank account and transfer the money to your RD. This avenue gives you the facility to invest regularly. You may withdraw your investment from an RD prematurely after paying a penalty. RD is a useful investment instrument for goal planning, as it enables consistent investing.

3. Public Provident Fund (PPF)

The National Savings Organisation launched the PPF scheme in 1968 to promote small savings. It is an extremely popular long-term investment avenue. It offers decent returns on investment and income tax benefits under Section 80C of the Income Tax Act, 1961.

You may open only one PPF account if you are an Indian citizen; you cannot have multiple accounts. Additionally, you may open a PPF account on behalf of a minor aged below 18 after providing their legal age proof.

You may open a PPF account in designated bank branches

and post offices by submitting an account opening form with your photograph, ID proof, and address proof. If you are an existing bank customer, you may approach your bank, as it may offer you the facility of opening a PPF account online. This procedure may take a few minutes.

Conversely, if you prefer the traditional mode, you may visit a bank's branch or post office to open a PPF account.

Steps to Open a PPF Account Offline

- Get an application form from the nearest post office or bank branch
- Fill the application form and submit it with the required KYC documents like your ID proof, address proof, and passport-size photograph
- Make an initial deposit to activate the account

Deposit-related Details in a PPF

Minimum Amount Required to Start a PPF	Maximum Deposit Allowed in a Financial Year]
Rs. 500	Rs. 1.5 lakhs

Once you have submitted all the documents with the initial deposit, you will get a passbook for the PPF account, which will contain information like your name, account number, and name of the branch where you have opened the account.

Benefits of Opening a PPF Account

- Risk-free interest rate in a scheme backed by the Government of India
- Interest gets compounded annually, ensuring higher returns on maturity for a long-term investment
- Tax rebate up to Rs. 1.5 lakhs under Section 80C of the Income Tax Act, 1961
- Loan facility against the balance amount in the PPF
- Low investment required; you may invest Rs. 500 per year to ensure the account stays active
- Long-term interest guarantee until the maturity period of 15 years with the possibility to extend the PPF in 5-year intervals indefinitely; you need not make any deposits during the extended tenure and have the flexibility to partially withdraw funds
- Partial withdrawal facility available from the 7th financial year
- Flexibility of transferring the account to any branch of the bank/post office without incurring any cost as per your request
- Tax-free investment avenue; PPF falls under the Exempt-Exempt-Exempt (EEE) category. So, any investment made into the account is tax-exempt under Section 80C of the Income Tax Act, 1961. Moreover, the amount you receive on maturity and interest earned are tax-exempt. So, you need not pay any tax.

Things to Remember While Operating a PPF Account

- You may prematurely close the account only after it completes 5 years of operations under certain permissible circumstances like the requirement of funds for your or your family member's medical treatment from a life-threatening ailment, or to meet the expenses towards your or your kid's higher education. Additionally, if you become a Non-Resident Indian (NRI), you may avail of the premature withdrawal facility. However, do note this facility comes at an interest rate penalty of 1%. So, if you earned an interest of 7.10% per year for 5 years, the interest for every year gets reduced to 6.10%.
- You need to deposit a minimum of Rs. 500 each financial year in the PPF to keep it active; if you fail to do so, the account will stand inactive
- You may consider maximising the interest on your PPF account by investing the maximum permissible amount at one go during the start of the financial year. PPF accounts follow an April-to-March year. So, you may deposit the entire amount before 5th April every year, to earn the maximum interest.

4. Post Office Monthly Income Scheme (Post Office MIS)

Another traditionally popular investment avenue is Post Office Monthly Income Scheme Account (MIS). You may start a Post Office MIS with a minimum investment of Rs. 1,500. The maximum investment limit permitted in a Post Office MIS is Rs. 9 lakhs in a single account and Rs. 15 lakhs in a joint account. When it comes to calculating an

individual's share in a joint account, each holder has an equal share. So, if there are 2 joint holders, both have a shareholding of 50% each.

Things to Remember While Investing in a Post Office MIS

1. You may open and transfer a Post Office MIS account. There is no specified limit on opening multiple accounts. However, you may need to adhere to the maximum investment limit by adding the balance to all such accounts. The maturity period of a Post Office MIS account is 5 years.

2. You may open a Post Office MIS account in a minor's name who is aged 10 and above.

3. You may withdraw the interest earned from this account via the auto-credit facility, permitting the transfer of funds into the savings account active at the same post office.
4. You cannot make any withdrawals before the expiry of 1 year from the date of investment. However, you may do premature withdrawals if needed after this period. Here are the norms regarding premature withdrawal from the Post Office MIS account:

If you withdraw between 1-3 years of opening the account, you will be charged a 2% deduction on deposit

If you withdraw between 3-5 years of starting the account, you will be charged a 1% deduction on deposit

So, if you deposited Rs. 1 lakh in the Post Office MIS, you will be charged a deduction of 2% of Rs. 1 lakh if you withdraw between 1-3 years and a deduction of 1% of Rs. 1 lakh if you withdraw between 3-5 years.

5. Government Securities (G-Secs)

G-Secs are short-term and long-term bonds issued by the Government of India to raise funds for their expenditures.

The government pays a specified coupon or interest rate on these bonds either annually, semi-annually, or for any other specified frequency. G-Secs, which have a tenure of less than a year, are known as treasury bills. G-Secs, which mature after a year, are called bonds.

Advantages of G-Secs

- They are backed by the Government of India, ensuring a sovereign guarantee. So, they carry no risk.

- They allow you to lock in attractive interest rates for tenures ranging from 91 days to 40 years. Such long-term interest rate assurance is exceptional because even bank FDs offer a maximum tenure of 10 years.

- They do not have any Tax Deducted at Source (TDS) involved for the interest earned

- They may be held in demat form, ensuring convenience

In 2017, the Reserve Bank of India (RBI) notified that stock exchanges could act as aggregators for non-competitive bidding for retail investors to access G-Secs. Retail investors may buy G-Secs with a minimum investment of Rs. 10,000.

Private sector company platforms, banks, and the National Stock Exchange (NSE) goBID app allow you to invest in G-Secs online. The registration process is simple. You may do it digitally if you have a demat account.

On the NSE goBID platform, choose your registered broker to facilitate this transaction. You may also need to enter information like your personal details and PAN. Once you buy these securities, they get stored in your demat account.

While buying a G-Sec, check the bond's coupon or annual interest rate. Hold the bond until it matures. At maturity, you will get the face value you paid and any remaining interest payout. If needed, you may exit the investment before its maturity.

6. Sukanya Samriddhi Yojana (SSY)

SSY is a government scheme aimed at securing a bright future for the girl child in India. In this scheme, the parents/legal guardians of a girl child invest to build a substantial fund to meet future expenses like her education and wedding.

Any girl who is a resident of India may be a beneficiary of this scheme from the time of opening the account until its

maturity or closure. If you are a parent or legal guardian of a girl child aged below 10, you may consider investing in this avenue for her financial future.

Things to Know About Investing in SSY

- You may deposit the amount and operate the account. However, the girl child needs to mandatorily operate the account after she reaches the age of 18.
- You may open only 1 account per girl child in any authorised post or bank branch. Moreover, you may open an SSY account for maximum two children in your family, even if you have adopted a girl.
- You need to make a minimum investment of Rs. 250 and the maximum amount can go up to Rs. 1.5 lakhs every financial year; the investment tenure is up to 15 years
- You need to take into account that SSY has a maturity period of 21 years from the date of account opening or upon your daughter's wedding after reaching the age of 18 (whichever is earlier). No interest is payable after maturity.
- You may prematurely close the account if the girl child becomes an NRI
- You may withdraw funds from the SSY account for higher education if the girl child has reached the age of 18 or has completed 10th grade in school to meet education-related expenses, such as fees or other charges incurred during admission to an educational institution. This withdrawal has a maximum limit of 50% of the balance in the SSY at the end of the previous financial year.
- You may claim tax benefits when investing in an SSY. You are eligible for a full tax deduction on an investment

up to Rs. 1.5 lakhs as per Section 80C of the Income Tax Act, 1961. Additionally, the interest and maturity proceeds are tax-free, making SSY an EEE investment avenue.

7. Sovereign Gold Bonds (SGBs)

The Government of India launched the Sovereign Gold Bond (SGB) Scheme in in November 2015. Investing in gold is much easier and more convenient with SGBs.

As an investor, you may earn an assured interest rate of 2.5% per annum on the amount of initial investment. You also eliminate the risk and cost of storing gold by investing in SGBs. In this investment avenue, the redemption gets linked to the gold price prevailing at the time of redemption. Additionally, you need not pay any capital gains tax if you hold the SGBs until maturity.

Features of SGBs

- They have a tenure of 8 years, with an option to exit from the 5th year
- You receive a 'certificate of holding' when you invest in SGBs on the date of issuance; you may collect this certificate from the bank's branch or access it directly through an e-mail; the RBI will send it to you via e-mail if you have provided your e-mail ID in the application form
- You may subscribe and hold SGBs in demat form, as it is easy to store. For this purpose, mention the details of your DP ID and DP Client ID in the application form.

How can you invest in SGBs?

The RBI opens issues for subscription in tranches in consultation with the government. The RBI notifies the terms and conditions of the scheme from time to time. The subscription for SGBs will be open as per a calendar. The RBI declares the rate of interest before every new tranche by issuing a press release.

8. Atal Pension Yojana (APY)

It is a pension scheme mainly aimed at the unorganised sector. APY provides you the facility to get a fixed pension of Rs. 1,000, Rs. 2000, Rs. 3,000, Rs. 4,000, or Rs. 5,000 once you reach the age of 60.

In an APY, the pension corpus gets created from the contributions you invested in different assets. The Pension Fund Regulatory and Development Authority of India (PFRDA) manages the collected amount under the scheme.

In this scheme, aspects like the contributor's age and the contribution amount determine the pension. The contributor's spouse may stake claim to the pension upon the contributor's death. If the contributor and his/her spouse both passes away, their nominee will receive the accumulated corpus.

If the contributor dies before reaching 60 years of age, the spouse has the facility to exit the scheme and claim the

corpus. If the spouse does not wish to exit, he/she may continue the scheme for the remaining period.

In order to qualify as an APY subscriber, you need to be an Indian citizen aged between 18-40 and make contributions for a minimum duration of 20 years. All the top banks provide the scheme. You may visit any of these bank branches to invest in an APY or start the process online from the comfort of your home.

As an APY is an automatic investment scheme, all your periodic contributions get debited automatically from your bank account. Any default on your payments will attract a penalty. Default status on your payments for 6 months will lead to your APY account being frozen. If the default continues for 12 months, the account will be closed and the remaining amount will be paid back to the subscriber.

If you wish to exit the APY before turning 60, you may be legally permitted to do so. However, in such a scenario, only your contributions and the net real accrued income earned on these contributions after deducting the account maintenance fee will be returned to you.

9. National Pension System/National Pension Scheme (NPS)

NPS is a voluntary and long-term investment plan for retirement. Like APY, this scheme is also under the purview of the PFRDA. It is open to employees from the public and private sectors and is a self-funded pension system. In this scheme, you may invest as a

subscriber in the pension account at regular intervals. After retirement, you may withdraw a certain percentage of the corpus and receive the remaining amount as a monthly pension.
A certain portion of the NPS investment gets allotted to equities/stocks. However, there is a cap on the equity exposure, which acts like a stabiliser for the risk-return equation.

When it comes to retirement planning, you may choose to invest your money in different avenues. However, according to the PFRDA website, the account maintenance cost under NPS is the lowest compared to similar pension products available in India, such as retirement plans offered by insurance companies and mutual funds.

You may switch between different pension funds and investment options, subject to certain regulatory restrictions. When you invest in an NPS, you may choose between the active choice or auto choice investment as well as the pension fund that manages the investments.

The NPS auto choice investment comprises 3 Life Cycle (LC) funds, LC75, LC50, and LC25. LC75 is an aggressive life cycle fund in which the exposure in equity investments starts at 75% till your age is 35 and it gradually reduces once your age increases. LC50 is a moderate life cycle fund in which the exposure in equity investments starts at 50% until you reach the age of 35 and gradually declines with increasing age. LC25 is a conservative life cycle fund in which the exposure in equity investments starts at 25% until you are 35 years old and slowly reduces as you age.

Tax benefits of investing in NPS

If you are an employed professional, the following table illustrates how you may avail of tax deductions while investing in an NPS.

Sections	Description	Deduction Limit
80CCD (1)	Your contribution towards NPS up to 10% of salary + dearness allowance	Maximum Rs. 1.5 lakhs
80CCD (1B)	Your further contributions to NPS	Maximum Rs. 50,000
80CCD (2)	Your employer's contributions to NPS	Maximum 10% of basic + dearness allowance for private sector employees and up to 14% of basic + dearness allowance for govt. employees

If you are a self-employed professional and invest in an NPS, you may claim a tax deduction of up to 20% of your gross income under Section 80 CCD (1) of the Income Tax Act, 1961 within the overall limit of Rs. 1.5 lakhs per year.

Withdrawal-related Norms in NPS

Once you retire at the age of 60, you need to buy an annuity with a minimum of 40% of the accumulated wealth. You will receive the remaining 60% as a lump sum. In case you receive a

total corpus worth less than Rs. 2 lakhs, you may withdraw the entire amount.

If you have been investing in an NPS for at least 3 years and wish to make an early withdrawal and exit, you may withdraw up to 25% of the investment for certain purposes like meeting expenses for your kid's higher education or wedding, building/buying a house, or paying for your or your family member's medical treatment. However, do note that you may make a maximum of 3 withdrawals, and each withdrawal needs to have a gap of 5 years in the entire tenure.

Account Categories under NPS

Primarily, NPS has 2 account types, Tier I and Tier II. Tier I is the retirement account, which gets various tax breaks while Tier II is a voluntary account, enabling you to invest and withdraw anytime. You may invest in a Tier II account only if you have an active Tier I account.

10. Mutual Funds

A mutual fund offers you as an investor an opportunity to pool your money with other investors. Fund managers manage this pool of money and make decisions to buy and sell on behalf of the investors. Mutual funds invest in stocks, bonds, or other securities, in line with the fund's objective. Asset Management Companies (AMCs) run and manage mutual fund schemes in India. There are over 40 AMCs in the country, and the Average Assets Under Management

(AAUM) in the Indian mutual fund industry stood at Rs. 54.54 lakhs crore as of 29th February 2024. As rightly stated by

While investing in mutual funds, you have the flexibility to choose between regular or one-time investments. In return for your investment, you get a certain number of mutual fund units that you may redeem/sell back to the AMC in the future. Do remember that mutual funds cannot offer you any assured returns. All the returns are linked to the nature and performance of underlying assets like shares and bonds.

DID YOU KNOW?

NSDL has enabled holding of mutual fund units (represented by the Statement of Account) in demat form for its demat account holders. You may use your existing demat accounts to do the same.

Different Types of Mutual Fund Schemes

1. Equity schemes/funds

These funds invest in stocks or shares. Equity funds aim to grow faster than fixed-income funds and contain higher risk. This means there is a possibility of you incurring losses at least in the short term. You may choose from different types of equity funds that invest in large-cap stocks, mid-cap stocks, small-cap stocks, or combinations of these. The recommended minimum tenure for investment in equity funds is 3 years or more. If you sell the units of your equity mutual funds in less than 1 year, you will need to pay a short-term capital gains (STCG) tax. Similarly, if you sell the units after 1 year, you will need to bear the long-term capital gains (LTCG) tax.

Taxation of equity mutual funds

Holding Period	Tax Category	Tax (in %)
Less than 1 year	STCG	15%
More than 1 year	LTCG	10% without any indexation benefits

Additionally, if you receive any dividend income, you are liable to pay tax according to your current tax slab. If the annual dividend received by you exceeds Rs. 5,000, the company distributing the dividends will deduct a 10% TDS.

1. Debt/fixed-income schemes/funds

These funds invest in debt/fixed-income securities and aim to provide you with stable returns and capital protection. So, they are less risky compared to equity funds, ensuring minimal chances of any financial losses. You may consider investing in debt funds in the public or private sector. The minimum recommended tenure for staying invested in debt funds is up to 1 year.

Taxation of debt funds

Debt funds with a holding period of less than 3 years fall under the STCG tax category. Conversely, debt funds with a holding duration of over 3 years bear an LTCG tax. In any of these cases, you need to pay a tax according to your income slab rate, irrespective of your holding period.

2. Hybrid schemes/funds

Also referred to as balanced funds, hybrid funds invest in both equity and debt/fixed-income securities. The allocation mix depends on the specific fund objective. Hybrid funds aim to give the growth benefit of stocks but simultaneously ensure that some portion of the investment remains secure by investing in debt securities. In terms of risk and return, hybrid funds fall between equity funds and debt funds. Hybrid funds are suitable for first-time investors who have previously been exposed to debt funds but are ready to take some more risk. The recommended investment tenure for hybrid funds is 3 years or more.

You need to pay the tax on the gains earned from the

hybrid fund as per the fund's equity allocation. If the net equity exposure is 65%, you will be taxed for this fund like an equity fund. However, if the net equity exposure is less than 65%, you will be taxed like a debt fund.

3. Solution-oriented schemes

These include investing in specific schemes like childcare or retirement planning. Previously known as regular equity or balanced schemes, these schemes are now referred to as solution-oriented schemes. These schemes are open-ended, indicating you may buy and sell their units at any time. Solution-oriented schemes have a minimum lock-in period of 5 years.

You may consider investing in these schemes if you have a specific goal like building a substantial corpus for retirement or to meet the future costs associated with your kid's higher education or wedding. You may consider investing in these schemes if you are unable to select an appropriate mutual fund scheme or rebalance investment. Solution-oriented funds are more attractive in terms of returns compared to the investment plans offered by insurance companies.

On the liquidity front, these schemes score less than other equity schemes due to the compulsory 5-year lock-in period. So, if you are someone who can maintain regular investment discipline and needs a financial cushion to sail through in times of volatility, investing in these schemes may prove worthwhile.

4. Other schemes

A few other types of mutual funds available for investments include money market funds, liquid funds, tax-saving funds, fixed maturity funds, income funds, growth funds, capital protection funds, and pension funds.

Different Modes of Investing in Mutual Funds

1. Lump sum

It is a one-time investment. Many investors prefer this mode because there is no recurring liability. Investing a lump sum is good if you know how to time your investment well. If not, it is advisable to avoid this route. Due to a lack of investment planning, many investors forcefully tend to opt for this investment mode to meet a deadline. Select this route only if you have a higher risk tolerance.

2. Systematic Investment Plan (SIP)

It is a better option for retail investors since it averages the cost of investment. Do note that an SIP enables you to invest a large amount in smaller installments. So, you need not worry about timing the market because you are investing in varying market situations. However, each SIP has a specified restriction on investment. If you wish to continue with automated and worry-free investing, stick to this mode.

A few plus points of investing in an SIP are:

- Flexibility
- Disciplined savings
- Long-term gains

DID YOU KNOW?

According to AMFI, SIP's share in mutual fund inflows has grown from approximately Rs. 7,500 crores in February 2021 to a record Rs. 17,610 crores in December 2023.

3. Systematic Transfer Plan (STP)

Generally, an investor opts for this route when they have a lump sum to invest. Like an SIP, an STP helps spread investments over a period of time to average the purchase cost. This method rules out the risk of getting into the market at its peak. With an STP, you may invest a lump sum in a scheme and transfer a fixed amount regularly to another scheme. You may do an STP from an equity fund

to a debt fund or vice-versa. This approach reduces the risk of investments being impacted when they are nearing maturity. Choosing this route can help you move your money wisely before you need it.

4. Systematic Withdrawal Plan (SWP)

As the name indicates, this is more of a withdrawal route than an investment one. However, SWP is worth mentioning because, at the end of the day, the crux of investment is all about managing your future requirements and expenditures. Let us explain the concept of an SWP with an illustration.

As an investor, you have invested meticulously to build a substantial retirement corpus. Once you retire, you receive the payout as planned and have a good bank balance. However, if you are not proficient in managing the money wisely, you may end up spending it on unnecessary things, exposing the possibility of utilising the corpus and being left with less savings in old age. This is when an SWP comes to your rescue, as it ensures you lead a financially healthy life post-retirement and never run out of money. With an SWP, you pre-decide the amount of funds you wish to withdraw either monthly or quarterly to meet regular expenses, and the balance investment continues to earn returns, prolonging the longevity of your funds.

How to Invest in Mutual Funds

Irrespective of the mode of investment mentioned above, there are 2 ways to invest in mutual funds either through a 'regular plan' or a 'direct plan'. The regular plan involves routing your investment

through a mutual fund broker registered with the Association of Mutual Funds in India (AMFI). Conversely, if you wish to choose the direct plan, you may invest directly in your preferred mutual fund company.

If you opt for the regular plan, you are liable to pay a commission to the distributor due to which your mutual fund scheme will have a slightly lower Net Asset Value (NAV) compared to the same scheme in the direct plan. You may opt for a direct plan only if you have the acumen to analyse and choose the right scheme. If not, you may start investing in mutual funds under the guidance of a registered distributor, and once you develop the expertise, you may invest independently via a direct plan in the future.

Things to Know Before Investing in a Mutual Fund

All the information related to a particular mutual fund scheme gets published by the concerned mutual fund company in the Scheme Information Document (SID), which is available on the websites of the AMFI, SEBI, and your AMC.

You may have come across this disclaimer in all mutual fund advertisements: "Mutual fund investments are subject to market risks. Please read all scheme-related documents carefully before investing". Now, let's discuss these risks.

Market risks associated with equity investment include changes in interest rates, foreign exchange risks, and commodity-related risks. In the case of mutual funds, there are additional risks, such as default risk and reinvestment risk.

Market risks exist in all investments, but the key issue is how a fund manager mitigates these risks without significantly impacting the performance. So, understanding the role of the fund manager is extremely critical for you as an investor. You need to be active in various aspects, such as selecting the investments, re-balancing risk versus return, monitoring the portfolio, formulating the exit strategy, and having complete knowledge of your fund manager and their previous work experiences if you wish to emerge as a successful investor.

Guidelines to Follow

- Read the offer document, such as the SID carefully to learn about some additional aspects like the purpose of your investment
- Focus on the fund's investment objectives. Clearly define the goal of each fund and accept that the fund manager will do their best to meet those objectives.
- Understand and outline the general strategies the fund managers will implement in a fund. Past performance data listed in fund documents is of academic use only and does not indicate what is in store in the future.
- Focus on fees and expenses of owning any fund. For instance, the different types of fees in a mutual fund investment include entry loads, exit loads, switching charges, annual recurring expenses, management fees, and investor servicing costs. Remember, actively managed funds charge more than same-sized passive funds like index schemes and Exchange-traded Funds (ETFs).

11. Insurance Products

The general perception of a life insurance policy among the public is that this product's core motive is to provide financial protection in case of an unfortunate incident. However, over the years, the concept of a life insurance plan has evolved considerably. Today, different types of life insurance policies are available in the market.

The most basic form of a life insurance plan is a term insurance policy, which provides insurance in case something untoward happens with the policyholder during the policy tenure. However, apart from this type, other life insurance policies provide a package of insurance if something unfortunate happens and a return on investment once the policy matures and if the policyholder outlives the tenure.

There is a debate on whether investing in insurance policies can prove to be worthwhile or not in the long run. However, we will explain the pros and cons of that later. As most of these products offer insurance and you need to pay premiums for them, they are relatively unpopular when it comes to making the list of top investment avenues compared to core instruments like mutual funds. However, allocating a certain percentage of your portfolio to the investment products in the insurance segment may be beneficial in the long run. We will provide you with an in-depth explanation of these products in Chapter 5.

12. Direct Equity/Shares/Stocks

Stocks are a type of financial instrument that gives you a share of

ownership in a company. As an investor, you may buy stocks for various reasons:

- Capital appreciation, which occurs when a stock rises in price/value
- Dividend payments, which you may receive when the company distributes some of its earnings/profits to stockholders.

Demat is a form of holding or keeping stocks in an electronic form. It is a viable alternative to holding the securities in the physical/paper format. If you are a starter in stock investments, you will be pleased to know that we at NSDL offer demat account opening services through our Depository Participants (DPs). You will learn more about this in the later chapters.

Stocks are an attractive wealth creation opportunity, providing lucrative returns on investment in the long term. The different categories of stocks include:

1. Growth stocks

These stocks have earnings growing at a faster rate than the average. Growth stocks rarely pay dividends. Investors buy them only in the hope of capital appreciation.

2. Income stocks

These stocks pay dividends consistently. Investors buy them for the income they generate. Income stocks belong to mature companies having years of track record and solid finances.

3. Value stocks

These stocks have attractive pricing and they are cheaper compared to other categories of stocks because they have fallen out of favor among investors due to some issues. These stocks may be either growth-oriented or income-centric. Investors buy value stocks in the hope that someday the stock's price will rebound.

Further Categorisation of Stocks

Another way to categorise stocks is by the size of the company, which is calculated by market capitalisation. There are large-cap, mid-cap, and small-cap stocks. As the names indicate, large-cap stocks have an excellent track record as they are of a reputed organisation, while small-cap stocks do not have a long track record, making them highly volatile. Additionally, there is another category of least-priced stocks that cost a few paise, known as penny stocks.

Things to Know When Investing in Stocks

You may have observed and experienced that certain investment avenues provide assured returns. However, stocks are different because they offer the greatest potential for growth by providing inflation-beating returns. Having said that, stock prices are not one-dimensional, and

they fluctuate as per the financial market's scenario. So, there is no sure-shot guarantee that the company whose stock you bought will grow.

If you are a beginner in stock investing, remember there is a possibility of losing money due to market fluctuations. So, it is advisable to start by buying stocks of established large-cap companies that have a market cap of Rs. 20,000 crore or more, as they command a strong market presence. Additionally, avoid making investment-related decisions based on rumors and speculations. Learning the tricks of smart investing is better than hoping for miracles.

7. Bonds/Debentures

A bond is a debt security in which the bond's issuer is obliged to pay you (the bondholder) an interest (coupon).

Unlike shares, bonds offer a guaranteed return and have a fixed maturity period after which they are redeemed. This makes your entry and exit time defined. Conversely, stocks may be outstanding indefinitely and they do not have a fixed maturity tenure.

The RBI issues bonds in India on behalf of the central government or state governments. Additionally, private sector companies float bonds. Bonds issued by the central government carry a sovereign guarantee and are the safest instrument. They carry virtually no risk and thus offer lower returns. Contrarily, private sector bonds/debt carry higher risk and promise a slightly higher return. In growing

economies, the post-tax bond returns hardly beat inflation. Yet, bonds are favored because of their principal and interest protection benefits.

KEY TAKEAWAYS

- Saving and creating wealth is not enough. You need to invest in the right avenues.
- Understanding your risk tolerance is critical before beginning your investment journey
- Choose investment avenues as per your financial goals
- Taking too much or too little risk are both injurious to your financial health
- Investing in stocks can give you the best returns over a long period while bonds offer capital protection and stability
- Equity mutual funds are an indirect way of investing in stocks
- Investing in different pension schemes introduced by the government can help you earn a stable pension post-retirement even if you are a private sector employee
- Investing in insurance-cum-investment products may fetch you lower returns but offer assured returns.
- Investing in schemes like PPF and SSY can help you save tax and attain long-term financial goals
- Investing in fixed deposits can provide you with the protection of principal and stability of interest income

CHAPTER 4

Asset Allocation

When studying for exams, students try to cover the maximum number of chapters from their course material because they do not know where the questions will exactly come from. Unfortunately, when it comes to investments, we fail to do the same; we do not read in detail about the do's & don'ts of investments. Driven by greed or fear, we invest all our money in few assets like stocks, bank FDs, or gold. The lack of asset allocation has negative effects on wealth creation.

This chapter will answer fundamental topics like the concept of asset allocation, techniques to lower risk by spreading investments in different asset classes, and simple ways to allocate assets efficiently.

What Is Asset Allocation?

Asset allocation may sound like a complex term. But, in practicality, we follow its fundamental principles daily. **Asset allocation** works broadly by dividing your investment across various unrelated asset classes, such as Equity, Mutual Funds, Government Securities, Sovereign Gold Bonds, real estate, physical gold, liquid cash in case of emergencies etc. You may decide how much percent of your investment you wish to allocate to these different asset classes. By spreading your investments across different asset classes, you reduce the risk potential compared to allocating 100% of your investments in a single asset class. Since all the asset classes do not move in tandem, asset

allocation is an easy way to control investment-related risks.

Here's what noted American business author and consultant for Fortune 500 companies, Michael LeBouef, has to say about the significance of asset allocation in any investment portfolio, and we completely agree with him:

What Is an Asset Class?

An asset class is a broad category of investments with similar characteristics, risks, and potential returns. It helps investors categorise their investments and understand the trade-offs between risk and reward.

Different types of asset classes

1. Stocks or equities

An equity investment is the money invested in an organisation by buying its share on a stock exchange. As an investor (shareholder), you may potentially profit from equities if the company's share price appreciates or if you receive quarterly or annual dividends from the company. The main asset class of stocks/equities is further divided into small-cap, mid-cap, and large-cap.

DID YOU KNOW?

The Total Market Capitalization of the Indian Stock Market (Bombay Stock Exchange) is about USD 5 trillion as of June 2024.

Investing in equities (stocks) means owning a portion of a publicly traded company. These shares can be bought and sold on stock exchanges. One way to invest in equities is through mutual funds, which pool money from multiple investors to buy a variety of stocks.

Investors can benefit from equities in two ways: **capital appreciation** and **dividends**. Capital appreciation occurs when the stock price increases over time. Dividends are payments made by the company to its shareholders, often representing a portion of the company's profits.

While equities offer the potential for significant returns, they also carry risks, such as market fluctuations and the possibility of

losing your investment. So, you need to do thorough research about a company before investing in its stocks.

2. Bonds or other fixed-income investments

Fixed-income investments are investments in debt securities. If you invest in these instruments, you will earn a fixed rate of return. All fixed-income investments offer a predetermined return. These investments are less risky than other asset classes.

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It's important to note that while debt assets can provide a relatively stable income stream, they are not risk-free. Factors like interest rate changes and the issuer's creditworthiness can impact their performance. When investing in debt assets, it's essential to consider your risk tolerance, investment goals, and time horizon.

3. Cash or cash equivalents

A big plus point of investing in cash or cash equivalent investments is that you may easily access and liquidate them in the case of a financial emergency. This asset class helps in buying other asset classes during sharp price correction. If you allocate a specific percentage of your investment portfolio to this asset class, that particular portion will be protected from any sharp price drops.

Cash is a simple, liquid form of investment because you can freely choose to spend or save it as per your needs. Keeping it in a savings account is a low-risk strategy, but the interest rate is also quite low at ~3-4% and could easily be overwhelmed by inflation. In other words, this is a safe investment but will not help much with wealth creation. A big plus point of investing in cash or cash equivalent investments is that you may easily access and liquidate them in the case of a financial emergency. This asset class helps in buying other asset classes during sharp price correction.

4. Gold

Gold is a highly liquid but equally scarce asset. It is a luxury product and a promising investment avenue. In an investment portfolio, gold offers long-term returns. It can help reduce losses when the stock market is going through a turbulent phase. It is a liquid asset with no credit risk.

Gold has been a valuable asset for centuries, prized for its beauty, durability, and scarcity. As an investment, gold offers unique characteristics that make it a distinct asset class. Gold is often seen as a hedge against inflation. When prices rise, the value of gold tends to increase, providing a potential safeguard against the erosion of purchasing power. Gold can help diversify an investment portfolio. Its low correlation with traditional assets like stocks and bonds can reduce overall risk. There are many ways to invest in Gold like buying physical gold, Gold ETFs, and Sovereign Gold Bonds (SGBs), which are government securities denominated in grams of gold. They are substitutes for holding physical gold. Investors have to pay the

issue price in cash and the bonds will be redeemed in cash on maturity. SGBs bear interest at the rate of 2.50 per cent (fixed rate) per annum on the amount of initial investment.

5. Real estate or other tangible assets

Real estate and other physical assets fall under a separate asset class. If you wish to invest in avenues that offer protection against inflation, investing in real estate may prove worthwhile.

6. Alternatives

The alternative asset class covers securities that do not come under any of the traditional categories. They are complex in structure and thus, less popular among the general public. They are usually held by high-net worth individuals and institutional investors. Some alternative investments include private equity, hedge funds, artworks, and antiques. With innovations in the financial market, these instruments have become more approachable for smaller investors through ETFs and SIPs.

What Is the Main Objective of Asset Allocation?

The core motive of asset allocation is to minimise losses, as doing so will eventually result in more gains.

Many investors use asset allocation to minimise volatility. If you are unaware of what volatility means, in simple words, it is the swing due to which an asset gets impacted. Here is an illustration to give you better clarity.

If asset 'A' gives a 100% return this year and falls by 50% the next year, it is highly volatile. All investors want to have asset 'A' in their portfolio when it gives a 100% return. However, the same investors will wish to avoid asset 'A' in the year when it falls by 50%.

So, when you invest your money wisely across different assets, you can safeguard your wealth by not heavily investing in assets that are likely to fall in value. By having more exposure to potentially promising assets, you automatically stand a higher chance of earning higher returns on investment.

Allocating or dividing your investment does not mean blindly investing in different asset classes in varying proportions without analytical research. Doing this may prove costly. For instance, in 2008, the value of most of the financial assets fell, and only gold did well. So, if you divide your investments equally among all asset classes, you may still experience losses, particularly during unfavorable market conditions.

Asset allocation works based on a few theories. Firstly, all the asset categories do not fall or rise at the same time. Secondly, all the asset categories do not behave in a similar manner simultaneously to the same market forces.

Why Does Asset Allocation Work?

If you divide your money into different assets, does it work? The answer depends on how you define the 'work' in this context.

If your investments in an asset category are performing poorly, asset allocation will ensure you have well-performing assets in another category.

Any gains in the well-performing asset class may offset the losses in the poor-performing ones. This means both your gains and losses reduce as far as the overall effect on your portfolio is concerned. So, if your goal is to ensure lower risk and minimal losses, asset allocation will wonderfully work for you.

If your goal is to avoid investing in low-performing assets and always stay invested in high-performing assets, this will be tough to achieve. The truth is, neither you nor a skilled investment professional knows the accurate amount of gains or losses one or many assets will make. The benefit is available only in hindsight.

Important Tips While Starting Asset Allocation

You need to acquire sound knowledge of asset allocation if you are a novice investor. Conversely, if you are a seasoned investor, but have put all your investments in only a single asset like stocks, mutual funds, or fixed deposits, it is time to learn about asset allocation and

diversify your financial portfolio across different asset classes. If you have only invested in a single asset and that particular asset has a rough patch for 1 year, your wealth may decline significantly in this scenario.

You may do asset allocation independently by watching financial news and reacting to financial market trends. Alternatively, you may seek professional advice from any investment advisor registered with the Securities and Exchange Board of India (SEBI).

To start doing asset allocation, you need to train your mind well to generate substantial wealth in the long run. Here's what noted American businessman and author Robert Kiyosaki, known for the bestselling book on personal finance 'Rich Dad Poor Dad', says about our mind being the "single most powerful asset."

Returns Generated Across Different Asset Classes from 2019-23

Below is a table representing the statistical data of performance across various asset classes, such as stocks, bonds, gold, and real estate from 2019-23, to give you an idea of which avenue can be more profitable for you if you are planning to invest for a longer duration.

Investment Avenue	Approximate Returns Generated
Stocks/Equities	12-12.5%
Bonds/Debt	6-6.5%
Gold	14%
Real Estate	3%

Factors to Consider While Starting Asset Allocation

1. Number of asset categories to be present in your portfolio

When you are beginning the asset allocation process, you may broadly classify asset categories (classes) into two segments-traditional and alternative. Following is a tabular breakdown of these categories with the investment instruments that come under them.

Traditional	Alternative
Stocks	Real Estate Investment Trusts (REITs)
Bonds	Infrastructure Investment Trusts (INVITs)
Gold	SGBs
Cash	Commodities Real Estate

Select government-regulated assets that have credible markets where you may buy and sell them through registered

intermediaries to ensure proper allocation.

2. Percentage of allocation to different assets

You need to take a tactical call whether you plan to allocate 50% of your investment portfolio to stock and split the balance 50% equally among debt, gold, and cash. Or, if you plan to divide the investment portfolio equally among stocks, debt, gold, and cash, by allocating 25% to each of these avenues. Your decision will depend on your portfolio's size, risk tolerance, investment goals, and estimated investment period.

Fundamentally, all assets have the reputation of generating positive returns, but every asset is unique in some respect. For instance, it is advisable to stay invested in stocks for a minimum duration of three to five years to earn favorable returns. Similarly, you may give avenues like debt and cash 1 year to earn positive returns. So, if your projected investment duration is less than five years, do not include stocks in your portfolio.

3. Asset allocation model

You need to be certain about which asset allocation model to follow to make the most of your investments. The different models include:

Static asset allocation

It involves an annual rebalancing exercise. It is split between different assets at the same level before the year begins.

Tactical asset allocation

As the name indicates, this model involves tactically modifying the proportion of various asset classes in your investment portfolio to benefit from the changing market scenario. Following this model can be useful if you wish to take advantage of short-term bearish and bullish scenarios in debt and equity markets.

Dynamic asset allocation

It is similar to tactical asset allocation. The only difference between the two models is that in tactical asset allocation, you need to buy and sell investments manually, whereas dynamic asset allocation involves the usage of automated systems based on financial models.

Strategic asset allocation

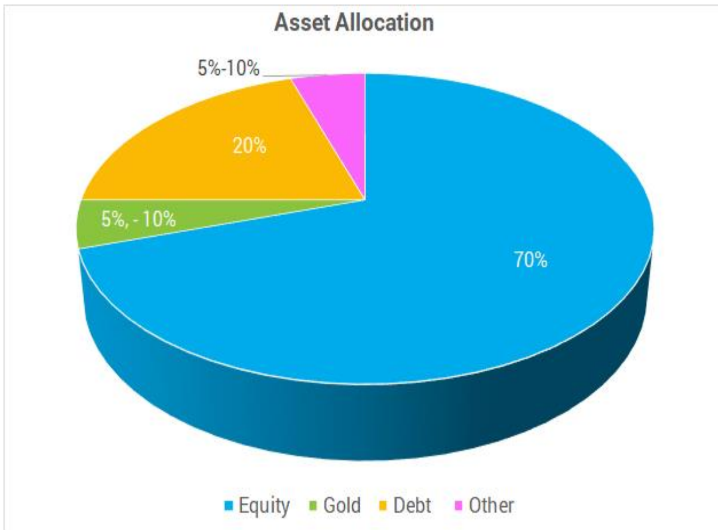
It involves determining and maintaining an appropriate ratio of different asset classes in your investment portfolio based on aspects like your risk tolerance and age. This model involves periodic portfolio rebalancing to ensure the proportion of assets is maintained at the specified levels.

For instance, when you are in your 20s, your risk tolerance is high. So, you may allocate a high proportion of your investment, say about 75%, to the equity asset class. However, once you reach your late 30s or early 40s, your risk tolerance will reduce. So, with this model, the proportion of investment allocated to the equity asset class reduces strategically as you age.

4. Investor's age

Your age is a crucial factor to ensure efficient asset allocation for the long term. A smart approach you may follow while doing asset allocation by age is the 'Rule of 100'.
For instance, if your current age is 30, you may deduct 30 from 100, and the number you get may be the proportion of equity in your investment portfolio. So, in this scenario, you may allocate 70% (100-30) of your total investment in equity, and the balance is other asset classes like debt and gold, as you are a young investor who aspires to stay invested for the long-term. So, as your age increases, you may lower the investments in equity and transfer them to debt and gold for capital preservation.

The following pie chart explains an effective asset allocation for a 30-year-old investor.



Why Is Asset Allocation Necessary?

Asset allocation helps weigh stocks, bonds, and cash tactfully in a portfolio. The critical founding stone for successful asset allocation is portfolio construction. If you invest a majority of your savings in bonds or cash, you will experience low volatility but will be unable to earn lucrative, inflation-beating returns in the long run. Conversely, if you invest heavily in stocks, you may earn substantial returns over a long period.

However, by investing in this asset class, your investment's value may be subject to market swings for durations when the stock market is going through a turbulent phase. So, asset allocation is essential to have a balanced and diversified investment portfolio.

Advantages and Disadvantages of Asset Allocation

Every investment concept has its pros and cons, and asset allocation is no exception.

Advantages

1. Better returns

The frequent adjustments in the mix of assets can possibly provide higher returns on the investment portfolio. The portfolio adjustments can prevent losses from unexpected market downturns and capture the momentum to increase the returns.

2. Adjustment to market changes

Unlike static asset allocation, dynamic asset allocation is highly flexible. A dynamic strategy can quickly respond to market fluctuations. Following this strategy may prove worthwhile and help you generate higher returns than what the stock market would usually offer.

Disadvantages

1. Transaction costs and difficulty in execution

Asset allocation involves frequent rebalancing of weights across different asset classes inside the portfolio, indicating higher transaction costs and portfolio turnover. Additionally, it is hard to achieve accurate asset allocation, given the fluid nature of financial markets. So, following

the asset allocation route for your investment portfolio is not a sure-shot guarantee for success.

2. Active management is required

If your investment company has assigned a portfolio manager to handle your portfolio, that individual's skills play an integral role in maintaining tight control of the portfolio. So, when the portfolio manager quits the company and gets replaced by another professional, the level of skills, market predictability, and execution capabilities also change, as these qualities are subjective and differ among people.

Having thorough knowledge of aspects like entering the right asset at the right time and exiting the wrong asset at the right time becomes extremely critical for dynamic asset allocation to work. So, you cannot be completely dependent on the portfolio manager and need to educate yourself about these concepts to be on top of your game as a well-informed investor.

Why Should You Diversify Your Investments?

Diversification is the practice of spreading your investments, ensuring your exposure to any single type of asset gets capped. This practice is designed to help reduce the volatility of your investment portfolio over time. A key to successful investing is to learn how to balance your comfort level with risk during your investment period.

- If you invest your retirement corpus too conservatively at a young age, there is a high possibility that the growth rate of your investments will not generate

inflation-beating returns

- If you invest too aggressively when you are older, you may end up exposing your savings to market volatility. This would erode the value of your assets at an age when you have fewer opportunities to recoup your losses.

One way to balance risk and reward in your investment portfolio is to diversify your assets. It is a simple and powerful idea of spreading your portfolio across several asset classes. It can help mitigate the risk and volatility in your portfolio, potentially reducing the number and severity of stomach-churning ups and downs. However, do note that diversification does not ensure a confirmed profit or provide 100% protection against losses.

KEY TAKEAWAYS

- Plan your long-term financial future and favorable returns with effective asset allocation of your investments
- Balance risk and reward for the long-term with asset allocation
- Avoid too much exposure of your investment portfolio in one asset class
- Do note that all assets do not move in the same way at the same time. The goal of asset allocation is to protect you from losses. Know your investment goal, period, and risk tolerance and make tactical decisions.
- Take a measured approach if you opt for static asset allocation
- Be particular in effective asset allocation if you do not have the time to re-balance
- Remember that despite best attempts, you may not emerge as a roaring winner because asset allocation (diversification) does not guarantee sure-shot profits

CHAPTER 5

Insurance Fundas

A few years ago, the mere mention of the word 'insurance' brought to mind the spectacled insurance agent who forced you to buy a policy every few years. The selling of insurance may have changed, but its importance still remains the same even today. All of us need financial protection from unforeseen circumstances. With insurance, you can always cover the risk that may arise at any time.

In this chapter, we will learn about the basics of insurance, why you should not mix insurance with investment, and much more. Read on.

Life Insurance – An Understanding

You may have an umbrella at home but use it only for a few weeks in a year. However, you keep it because it will come in handy on a rainy day. The concept of life insurance works similarly. You may not need it now, but you need to invest in it, as it can function as an umbrella in case of unexpected adversities.

You may have different plans for the future, but life is uncertain, and these uncertainties may get the better of you. However, even after a tragic event, your long-term financial goals and obligations as a parent, wife/husband, or son/daughter will remain. Your responsibilities do not change if you are absent or disabled.

Life insurance is a financial cover for protection from risks linked with human life. Events like death, disability, and accidents can cause financial harm. As humans, our lives are subject to risk of death and disability. Irrespective of the cause, the outcome of such risks is always negative.

When an individual dies or gets disabled, it is not only a physical loss but also a financial one. Due to such incidents, the impacted individual's family faces a loss of income. Although it is impossible to value human life in monetary terms, it is possible to compensate for the loss of household income by giving the family financial assistance either in lump sum or installments. You may determine this value based on the loss of income in future years. This value is known as 'sum assured' in life insurance. It is a finite amount provided to the policyholder's family if the policyholder dies or becomes disabled due to an accident during the policy tenure.

Reasons to Buy Life Insurance

Life insurance is needed:

- To ensure financial support for your immediate family if something unfortunate happens to you
- To finance your kid's education and other needs in case of your untimely absence
- To compensate for the loss of income that may arise due to a critical illness or accident

Here are a few core characteristics of a life insurance policy that signify the need to invest in it.

1. It is an investment for your family and not merely for you

You may not realise this, but investing in life insurance is the best way to shield your loved ones. Death is an inevitable event, but its time, place, and cause are not. However, your loved ones will continue to live even when you are not with them. So, buying life insurance is a financial decision based on strong emotions. It is about providing financial comfort to your dear ones and protecting them from future uncertainties.

Life is about meeting responsibilities and keeping promises. Anyone who decides to buy life insurance looks at it from the family's point of view because probably it is the only product where you do not look at your interests.

A life insurance policy is a powerful tool that protects your spouse and children from the financial losses that may devastate their lives.

2. It is bought while living but is useful after death

Life insurance is about life after death. Here, we are not referring to the life of the policyholder, but the financial assurance that the family members will get after the death of the policyholder. Life insurance is about taking care of your loved ones if anything tragic happens to you. The life

insurance policy you buy is to protect and provide financial relief to those who will be left behind, as they will need to continue with their lives even in your absence. So, you need to buy life insurance for their financial safety. While you are alive, you can ring-fence them in such a way that they will always remain financially secure.

DID YOU KNOW?

India's overall insurance penetration dropped from 4.2% in FY 2021-22 to 4% in FY 2022-23 as per IRDAI's annual report.

3. It is an expression of love and caring

Many celebrate Valentine's Day every year to showcase their love and care for their loved ones It shows you care for each other. Similarly, life insurance is about caring for your family. You want to ensure their financial security if you

are suddenly not around. In such a scenario, the proceeds of a life insurance policy will help you keep the promises, ensuring your family does not face any financial setbacks. When you invest in a life insurance policy, you protect your family's financial future by enabling them to maintain their current lifestyle even if you are not with them.

4. It enables your loved ones to buy time

When the main or lone breadwinner of a family dies, life can be difficult. It is impossible to meet expenses without any income. Life insurance acts like a safety net in such turbulent times. It is an alternative to the loss of income. Life insurance ensures that your surviving family members need not have to make tough decisions forcefully.

At a time when your grieving family members may not be in an emotionally stable state to make correct life decisions, life insurance gives them a chance. They get time to adjust to the tragic turn of events. For instance, in case of an unfavorable incident, your spouse ``need not find a new job immediately. Or, your kids need not stop pursuing their education. It is because they would have funds to meet their expenses with the life insurance payout.

Who Needs Life Insurance?

Anyone who has a family to support and earns monthly income needs to buy insurance. Our economic value goes beyond just a few months. In a sense, we are like a bank fixed deposit that pays interest every month to help support and fulfill the family's dreams.

The general rule is you need to buy life insurance if you have dependents. A dependent is an individual who relies on your financial support. They may include your spouse, aging parents, children, siblings, and other relatives. These people may be younger or older than the policyholder. It is because the dependent's age is not as important as the policy's purpose to replace your economic value in case of your absence.

Many people buy life insurance policies when they get married. Others buy life insurance when they are expecting their first child. However, your spouse and children are dependents who may come later in life. Your dependents may also be your parents, and if you are unmarried but the family's sole breadwinner, do not wait until your wedding and buy a life insurance policy without any delay.

In the future, once you reach retirement age, there may be less requirement for life insurance. It is because, by the time you retire, your kids will most likely be financially independent. Additionally, during this phase of life, you will have no major financial obligations like repayment of a home loan and will live on retirement savings. However, if you feel your spouse may need extra money to cover unexpected medical and long-term care expenses, stay invested in a life insurance policy.

Another important reason to buy life insurance is if you have taken a home loan. It is common to sign up for a 20-year home loan. However, what if something adverse happens to you in 10 years? There are life insurance

policies directly linked to home loans. So, in case of the borrower's premature demise, the insurance policy repays the entire loan, ensuring the home remains with the borrower's family.

Different Types of Life Insurance Policies

Term insurance

A term insurance plan is the most basic type of life insurance policy. It provides life insurance coverage with no savings or profits component. It is the most affordable life insurance plan and comes at the cheapest premium compared to other types of life insurance policies. As per a term insurance policy, if the policyholder passes away during the policy period, their beneficiaries receive the sum assured from the insurance company. This amount is known as the death benefit. If the policyholder survives, the beneficiaries do not receive any payout.

Endowment plan

An endowment plan contains life insurance but also offers a maturity benefit. Unlike a term plan, which pays the sum assured only in case of the policyholder's demise, an endowment plan pays the sum assured under both scenarios, death and survival. So, it comes at a higher premium compared to a term plan.

An endowment plan provides you with a combination of insurance and savings. In this plan, the insurance company keeps a specified amount for life cover and invests the balance. An endowment plan offers either a death benefit

when the policyholder dies or a maturity benefit when the policyholder outlives the policy duration. Such plans may offer bonuses periodically to attract customers. Endowment plans are commonly referred to as traditional life insurance policies. They carry lower risk than Unit-linked Insurance Plans (ULIPs) but offer lower returns. Any investment made in an endowment plan and the maturity/death benefit received are tax-free.

Unit-linked insurance plan

It is a combination of insurance and investment. The premium paid towards a ULIP is partly used as a risk cover for life insurance. The insurance company invests a large portion of the ULIP premium in funds. You may invest in different funds offered by the insurer depending on your risk tolerance level. ULIPs are a close competitor of mutual funds when it comes to earning high returns on investment. However, costs associated with the ULIP structure make this investment-cum-insurance product competitive only if you hold it for the long term. ULIPs can help you save taxes on investment, and their corpus is tax-free.

There are many similarities between ULIPs and mutual funds, but ULIPs also contain the plus point of being an insurance-oriented product. Conversely, mutual funds are a pure investment avenue with no insurance benefits.

Money-back policy

A money-back policy is a variant of the endowment plan. In this policy, you get periodic payments over the policy term. Here, you receive a portion of the sum assured at regular intervals. If the policyholder outlives the term, they get the balance sum assured. However, if they do not survive during the policy tenure, their beneficiary gets the full sum assured.

Money-back plans are also eligible to receive the bonuses declared by the company. Like other insurance products, a money-back policy is a tax-saving avenue, and its returns are tax-free for the policyholder/legal heir/nominee.

Why Should You Not Mix Insurance with Other Investment Avenues?

When you invest your hard-earned money somewhere, you may expect returns. This approach holds true, especially for pure investment avenues. So, is a term insurance plan an investment avenue? No. Life insurance is not an investment. In life insurance, if the policyholder dies, their nominee /beneficiary gets the money. In any investment, you, as an investor, enjoy the returns. In the case of life insurance, the death benefit is designed in such a manner that the policyholder cannot reap its financial benefits.

You may wonder how other life insurance policies, barring term insurance plans, give maturity benefits to the policyholder. Well, those policies are not pure term insurance

plans. In their bid to earn some returns from the premiums paid to the insurance company, many policyholders opt for insurance policies that give 'something back'. These policies are not insurance; they have an element of investment. Term insurance is the purest, cheapest, and best form of life insurance. Apart from term insurance, any other form of life insurance is costlier.

Remember the death benefit of a term life insurance policy is its only advantage. When you buy any other form of insurance, such as a money-back plan or an endowment plan, you are not buying pure insurance. You are paying for a package of insurance and investment. With so many investment avenues available in the market, there is little reason to buy an insurance policy for investment purposes.

In a term plan, you pay a premium for covering a specific risk. If the risk doesn't happen, you lose the premium. It is fine because you pay a nominal amount. But if the risk event occurs, your nominee/beneficiary gets the promised money. So, a term plan comes at a low premium. If you wish to invest, consider putting your money in pure instruments like direct stocks and mutual funds. But, do not buy life insurance policies to merely invest.

How Much Insurance Do You Need?

All of us face this question in the process of buying life insurance. While deciding the extent or quantum of coverage, remember that the main objective of insurance is to provide financial support to your dependents. Naturally,

the life insurance cover you determine must support them adequately for the longest period.

The process of how much insurance you need starts by identifying your financial goals. Your goals will remain even if something unfortunate happens prematurely to you. So, the life insurance cover will be the sum of meeting these goals.

Here are two pivotal factors that may help you decide the ideal life insurance amount you may require:

1. Your current income

In case of an untoward event, you will need to ensure your family survives for at least 20 years. So, multiply your annual income by 20. So, if your current yearly income is Rs. 5 lakhs, multiply it by 20 and your life insurance cover should be a minimum of Rs. 1 crore (Rs. 5 lakhs x 20).

2. Your current and future financial liabilities

List your present and future financial liabilities to calculate the required life insurance cover. Your present financial obligations may be a car loan, home loan, and education loan. In case something happens to you unexpectedly, your family will not be able to pay the loan EMIs with the household expenses. So, add these loans to your life insurance coverage. Include future liabilities/long-term financial goals like your kid's education/wedding, as they need to be accomplished even in your absence. So,

estimate the amount for such future liabilities and add to the calculation. For instance, if your total outstanding loans are Rs. 35 lakhs, your insurance cover has to be Rs. 1 crore plus Rs. 35 lakhs. If your future liabilities are worth Rs. 50 lakhs, the total cover amount must be Rs. 1 crore + Rs. 35 lakhs + Rs. 50 lakhs = Rs. 1.85 crore.

Why Are Insurance Claims Rejected?

Even after buying life insurance, many families discover that at the claim stage, their policies are worthless, and they face rejections. Here are some reasons for that:

1. Incorrect information given at the time of application

Insurance operates on the principle of trust. So, any form of misrepresentation of data is bad for life insurance claims. Providing wrong information about age, income, occupation, qualifications, lifestyle, and medical history will open the door for rejected claims in the future.

2. Non-disclosure of medical status

The willful non-disclosure of previous and existing medical conditions, operations, and surgeries leads to claim rejections. The insurance company needs accurate information about your medical history to calculate the policy premium. If you give wrong information, the entire premise of the policy is based on falsehood. When this gets discovered, the insurer may reject the claim.

3. Policy lapse due to non-payment of premium

Do remember life insurance claims are settled only for active insurance policies. If you do not pay the premium within the allocated period, the life insurance policy gets lapsed. This can happen if you have missed paying the premium. If the policy is not active, the insurance company will not entertain any claims. You may consider using the direct bank debit facility to never miss an insurance premium payment.

What Is an Electronic Insurance Account/e-Insurance Account (eIA)?

As the name indicates, an eIA is the portfolio of a policyholder's insurance policies held in an electronic form with an insurance repository. It facilitates the policyholder by providing instant access to the insurance portfolio on the Internet. It helps an eIA holder keep track of their life insurance and non-life insurance policies under one umbrella.

What is the NSDL National Insurance Repository (NIR)?

NSDL Database Management Limited (NDML), formed in 2004, is a wholly-owned subsidiary of National Securities Depository Limited. (NSDL). NDML has received approval from the Insurance Regulatory and Development Authority of India (IRDAI) for setting up an 'Insurance Repository' named NSDL National Insurance Repository (NIR).

NIR facilitates the holding of all types of insurance policies in electronic form in a single eIA. So, you are free from the hassles of holding all insurance policies in physical form. NIR also provides you with the facility to convert existing paper policies into electronic form.

Key Offerings of NIR

- It is an internet-based application
- It allows you access based on login ID and password
- It permits a single view of all insurance policies
- It facilitates online payment of premium
- It helps in sending alerts and messages on transactions and modifications

Benefits Provided by NIR for an eIA Policyholder

1. Policy servicing

NIR enables single request contact details updating, premium alerts and payment for all insurers, an increased number of service touchpoints, and ease in registering bank account details for premium payment and maturity payouts.

2. Convenience

NIR facilitates one-time KYC updating, storage of policies in e-format, retaining all insurance policies under a single umbrella, and the advantage of a consolidated insurance statement annually.

3. Claim intimation

NIR not only provides the facility to an authorised person to get a single view of all policies in case of the eIA holder's death, but it is also useful in one-time claim intimation.

KEY TAKEAWAYS

- Invest in life insurance because it is a financial cover for protection from risks linked with human life. It ensures your immediate family has financial support in case of an unfortunate event leading to your absence.
- Buy life insurance if you have dependents and liabilities. Term insurance is the simplest, best, and cheapest form of life insurance policy available.
- Do not mix insurance with investment
- Ensure the life insurance coverage value you select should support your family for the longest duration
- Remember life insurance claims may be rejected due to false/incomplete information or non-payment of premium. So, make it a point to provide correct information to your insurance provider and pay all premiums on time.
- Open an 'e-Insurance Account' (eIA) to hold policies in an electronic form with an insurance repository
- Utilise the benefits offered by NSDL National Insurance Repository (NIR)

CHAPTER 6

Prepare for Retirement

Turning 60 years old is an uncertain time for most private sector employees. Once they retire, they do not earn any monthly salary. Retirement is about finally getting time, but it also marks a phase when your savings need to fund your expenses. Government sector employees have pensions, but a majority of private sector employees do not have this income alternative. Let us tell you how to prepare for a happy, peaceful, and independent retired life.

Retirement Planning

Every plan is assured of an outcome. Irrespective of whether an individual's age is 30 or 54, retirement is inevitable. The earlier you prepare, the better it will be. At its core, retirement planning is all about ensuring you take care of your daily expenses through a regular flow of income after retirement. Retirement planning involves:

- Doing disciplined saving
- Investing these savings in promising avenues for building a sufficient retirement corpus
- Ensuring a judicious drawdown in the post-retirement phase, as indiscriminate withdrawals may result in the precious corpus getting exhausted quickly

The best way to achieve all this is by joining a pension/retirement plan at an early stage in life. As you work and save, your retirement corpus rises. The day you

retire from professional employment, you receive a steady flow of income as a pension.

You may have successfully overcome many hurdles in your career and personal life. However, living a comfortable post-retirement life is a big challenge. In all the previous challenges, you had a regular income, as you were legally eligible to earn money. However, retirement is all about living without any salary, and it requires mental adjustment.

Having said that, retirement is not an end but a transition in life. It is merely changing the speed of your car from a fast lane to a slower one. Retirement is all about saying goodbye to the usual hustle and reinventing yourself by discovering the hidden talents within you.

How to Prepare for Salary Loss

Receiving your last salary is an emotionally heartening moment because you know you will not receive it anymore. However, the positive side to this development in life is you are aware of this reality for many years. Planning for uncertainties is difficult. However, it is simple to plan for expected life events.

Most people earn regular income in the form of a monthly salary. Due to this stable flow of income, individuals tend to adapt their spending habits according to the monthly salary they receive. For instance, if an individual earns Rs. 65,000 per month, their expenses will be near that figure,

as they have budgeted their costs as per this amount. This happens for months, years, and decades. Then, it is time to retire, but the individual continues to follow the same lifestyle. So, it is necessary to do proper retirement planning and decide what you plan to do with your retirement savings before you retire. You cannot start planning when you retire.

Your entire plan needs to revolve around replacing your pre-retirement salary with a post-retirement income. Here are four simple steps you may follow to achieve this objective:

- Calculate how much money you require to lead a comfortable life in your post-retirement year. Account for aspects like increased medical expenses.

- Have a clear idea of any amount you may receive as a lump sum at the time of retirement; for instance, an Employee Provident Fund (EPF) corpus

- Choose the right retirement plan that enables you to meet your post-retirement expenses. Combine all the available options so that you have a diversified basket, cutting down dependency on a few options.

- Start investing early in retirement planning so that you have time on your side. It will allow you to enjoy the power of compounding.

How Much Post-Retirement Income Is Enough?

One of the most important tasks in retirement planning is to calculate how much post-retirement income you require. This calculation may seem tough given that retirement may be 20-30 years away for a young person. However, you still need a number to get a clear idea.

An easy rule of thumb here is to assume you will need to replace 70% to 90% of your pre-retirement income. So, if you're earning Rs. 40,000 per month after paying taxes, you might need anywhere between Rs. 28,000 and Rs. 36,000 monthly as retirement income to enjoy the same standard of living you had before retirement.

Here is an illustration to give you better clarity on how to arrive at a target retirement corpus to live a comfortable post-retirement life.

Retirement age: 60
Current age: 58
Life expectancy: Until the age of 83
Years after retirement: 23 years
Current annual Expenses: Rs. 1.80 lakhs
Average yearly return on investment: 12%
Average inflation rate per year: 5%
Inflation-adjusted investment return: 7%
Total retirement corpus required: Rs. 15 lakhs

DID YOU KNOW?

With no significant social security provisions, most Indians in the middle- and high-income groups seem to be saving for their retirement on their own.

Steps to Prepare for Retirement

Here are a few steps to ensure effective retirement planning:

- Make it a point to start your retirement planning journey today. Remember, a retirement plan is too late if you never start one.
- Invest a large portion of your earnings and savings into an assured retirement plan that will act like a seed for the retirement tree
- Do not spend your way to post-retirement bliss. Reduce expenses and funnel those savings into your retirement kitty.

- Avoid investing in avenues you are uncomfortable with to earn higher returns, as doing so may backfire
- Ensure you have set realistic goals in mind. Make the mental adjustments required to have an affordable lifestyle in retirement.
- Sell financial assets that are not generating attractive returns. Invest in revenue-generating assets.

Financial planning is the process of meeting your financial goals. 50% of this process involves proper management of your finances, and the balance 50% is all about executing your plans wisely. Make advance provisions for your future financial requirements. Ensure you have a substantial financial corpus to meet your expenses and maintain your lifestyle.

Ideal Investment Avenues for Retirement Planning

Here are a few investment avenues for retirement planning. You may consider investing in a combination of these to build a large corpus and fund your post-retirement life.

1. National Pension System (NPS)

The Pension Fund Regulatory and Development Authority (PFRDA) administers and regulates this system. NPS is a voluntary and defined contribution retirement savings scheme designed to enable you as a subscriber to regularly invest in the pension account, resulting in systematic savings during your working life. Once you retire, you may

withdraw a certain percentage of the corpus accumulated over the years and receive the balance as a monthly pension. If you wish to learn more about how NPS works, we have provided an in-depth explanation in Chapter 3.

2. Employee Provident Fund (EPF)

As a salaried professional, you may consider investing a small portion of your salary every month in an EPF, a retirement benefit scheme. The Employees' Provident Fund Organisation (EPFO) administers EPF in India.

When you start working, you and your employer both start contributing 12% each of your salary (inclusive of basic income and dearness allowance) into your EPF account. A trust pools together the money received from different EPF subscribers like you and invests it. This pool generates interest. The central government and the Central Board of Trustees (CBT), which is EPFO's apex decision-making body determine the annual interest rate. For instance, the annual interest rate was 8.15% in FY 2022-23, and it increased to 8.25% in FY 2023-24.

You receive the compound interest determined by the central government in your EPF account at the start of the financial year on April 1.

At the beginning of every financial year, you will have an opening balance, which comprises the amount accumulated till that point. The interest depends on your EPF balance.

Benefits of Investing in an EPF

- Your employer's contribution to your EPF account is tax-free
- Your contribution is eligible for a tax deduction of up to Rs. 1.5 lakhs under Section 80C of the Income Tax Act, 1961; additionally, the interest you earn and the maturity proceeds are tax-free
- You earn safe returns as a maximum portion of the EPF contribution gets invested in debt instruments, ensuring the safety of the principal invested and interest earned

3. Public Provident Fund (PPF)

It is a popular, long-term investment option backed by the Government of India. It provides financial security with an interest rate of 7.1% and tax-free returns. You may invest anywhere between Rs. 500 to Rs. 1.5 lakhs per year, depending on your financial capability and avail of facilities like loan, partial withdrawals after 7 years from the end of the financial year in which you made the first deposit, and extension of the PPF account after it completes 15 years.

If you wish to seek in-depth information about how PPF functions, we have provided a detailed explanation in Chapter 3.

4. Solution-oriented mutual funds

These mutual fund schemes are highly suitable for a future financial goal like building a substantial retirement corpus. Solution-oriented mutual funds invest up to 40% in equities and the balance in fixed-income securities, ensuring your financial stability. They have a mandatory lock-in period of 5 years. We have provided more information about solution-oriented mutual funds in Chapter 3 to give you a better understanding.

5. Insurance Retirement Plans

These are retirement plans with an in-built insurance component. In order to invest in these plans, you need to make contributions into a pool of funds set aside for your retirement benefit in the future. During the investment stage, insurance retirement plans can put your money in a range of assets, like equity and debt, to generate attractive returns, ensuring you earn a huge corpus in the future. During the investment phase, you may avail of tax benefits under Section 80C of the Income Tax Act, 1961.

Additionally, the maturity proceeds are tax-free. However, income in the form of annuity is not tax-free.

A retirement insurance plan also comes with financial protection in the form of a life cover. This facility is missing in all other retirement options. In the case of an unfortunate event, your family members will receive a sum assured from the life insurance company to help them take

care of their expenses and maintain their lifestyle in your absence. If you survive until retirement age, your regular investments will ensure that you have a large corpus to meet your expenses and maintain the standard of living post-retirement.

All insurance pension plans have two parts. The first part is accumulation, which involves you paying the policy premium. The second part is the distribution of the accumulated corpus, which may be in the form of a lump sum or a regular income through an annuity plan after retirement. An annuity plan is a type of insurance plan that starts paying you an income right from the start as per your selected option.

Pension/retirement insurance plans will most likely have an annuity linkage at the maturity stage. In case of an immediate annuity option, the retirement corpus would be used to get a pension immediately. You need to deposit a lump sum to buy the immediate annuity plan, and the pension will start immediately based on the investment you made. You may choose from a range of annuity options available. In case of the policyholder's death, the nominee/beneficiary will be entitled to get the money as per the selected option.

In a guaranteed period annuity, the policyholder receives an annuity/regular sum for a specific period like 5, 10, 15, or 20 years, depending on the clause defined by the insurance company. In the life annuity option, the policyholder will receive a pension until their death.

6. Senior Citizen Savings Scheme

It is a bank deposit option primarily for senior citizens. The scheme offers a regular stream of income with financial security and tax-saving benefits. It is an apt investment instrument for individuals aged over 60 who do not want any market-linked return but prioritise assured returns.

Prominent Features of SCSS

- It is an effective and long-term investment avenue, offering the security associated with any government-sponsored savings scheme
- It is available through many banks and post offices across India. Senior citizens aged 60 or above may use the retirement corpus to get a pension-type income through SCSS.
- It gives you the flexibility to invest anywhere between Rs. 1,000 to Rs. 30 lakhs, individually or jointly, depending on your financial capacity; however, the amount invested in the scheme cannot exceed the value to be received on retirement
- It provides a high interest rate of 8.2% compared to a savings or FD account in any bank
- It offers a tax deduction of up to Rs. 1.5 lakhs under Section 80C of the Income Tax Act, 1961. However, if the annual interest earned exceeds Rs. 50,000, it is subject to TDS.
- It is a flexible investment scheme with a 5-year tenure, which you may extend for 3 additional years

7. Pradhan Mantri Vaya Vandana Yojana

It is an insurance-cum-pension scheme provided by the Life Insurance Corporation of India (LIC) and backed by the Government of India. It aims to offer senior citizens regular pensions. You may buy this scheme offline from any branch of LIC or online by visiting the insurer's website.

The scheme provides an assured rate of return per annum. You may buy it by paying a minimum lump sum of Rs. 1.5 lakhs. The maximum investment permitted in this scheme is Rs. 15 lakhs. If you invest Rs. 1.5 lakhs, you earn a monthly pension of Rs. 1,000. Similarly, the monthly pension rises to Rs. 10,000 if you invest Rs. 15 lakhs. However, this pension is taxable.

Benefits of the Pradhan Mantri Vaya Vandana Yojana

- No maximum entry age
- Provision of assured pension
- Maturity benefit of receiving the invested lump sum with the final monthly pension if you outlive the policy tenure
- Premature exit permitted if you require funds for the treatment of critical illnesses for yourself or your spouse, with the provision to receive 98% of the purchase price
- Pension gets credited directly to your bank account
- Possibility of having a systematic regular pension post-retirement via a well-structured investment scheme

- Facility to borrow a loan against 75% of your investment once the policy completes 3 years

8. Share Dividend Income

It is a traditional way of generating a regular stream of income. Compared to other options, it is slightly riskier, as the company you hold the shares of declares dividends, which do not come with a guarantee and may stop.

You may earn dividends annually or half-yearly, depending on what the company offers. Typically, public sector undertakings, international organisations in India, and established private sector companies declare regular dividends.

You need to build a sizable portfolio of stocks to generate stable income from dividends. It cannot happen overnight. It will take time and practice to prepare a portfolio of dividend-paying stocks.

9. Reverse Mortgage

It is a way of financing against real estate. It is a useful retirement planning tool, enabling a senior citizen to receive regular income from a lender (bank or a financial institution) against their home mortgage. In a reverse mortgage, the borrower who pledges the property continues to own it and may reside in it until they are alive. They receive a periodic payment on this property. The borrower need not service the loan during their lifetime.

Once they pass away, the lender becomes the property's legal owner.

The lender does the valuation of the mortgaged property at periodic intervals. Currently, big nationalised banks and some private banks offer reverse mortgage loans. Like any other loan, reverse mortgage attracts charges such as a processing fee.

The lender may give you a reverse mortgage loan for a particular tenure, depending on your age. Apart from age, the other factors a lender may consider while calculating the reverse mortgage amount include your property's market value, current interest rates, and the specific plan chosen. Additionally, the house put for reverse mortgage needs to have a residual life of at least 20 years.

Final Thoughts on Retirement Income

With the rising life expectancy in India, post-retirement life span will now be longer than earlier. Life expectancy in India has risen from approximately 62 years in 2000 to around 71 years in 2024, indicating a prominent rise in the number of years an individual may survive. It is wonderful to live a long life. However, you need to have the financial resources to help you sustain your expenses as you age. Additionally, while doing retirement planning, do consider the inflation factor. Currently, the average rate of inflation in India is 5%. If you do not keep this aspect in mind, you may witness a dent in your retirement corpus. Here are a few tips you may follow to ensure you have a large post-

retirement corpus and lead a financially independent life during your senior years.

1. Plan for Medical Insurance

Once you age, medical care expenses are inevitable. Moreover, these costs are subject to a higher inflation rate, and you need to account for them. Many people tend to do retirement planning without buying any medical insurance plan. Do not make this mistake.

With healthcare costs rising at an alarming rate, recognise this risk and get it covered. Without medical insurance, you may need to keep aside a large pool of your retirement savings for medical emergencies during the post-retirement stage of life.

2. Build a Balanced Investment Portfolio

A few popular traditional investment avenues for senior citizens include bank fixed deposits, SCSS, and National Savings Certificate (NSC). These avenues provide assured returns and are not subject to any market volatility.

However, do not build a retirement corpus by investing only in conservative avenues. Invest some portion in avenues like stocks, mutual funds, insurance plans, and government-backed pension schemes like NPS. Avenues like stocks and mutual funds provide attractive returns at a higher risk, ensuring your retirement corpus increases in the

long run. So, maintaining a balanced investment portfolio is necessary.

3. Avoid Reliance on Physical Assets

Many individuals buy fixed assets like a home or land for post-retirement purposes. Traditionally, most Indian families invest in a house. However, a house is not dependable in generating a fixed pension-like payment. You may take a reverse mortgage on the house, but factors like low payout, a lack of understanding, and complex processes are dampeners. So, do not make real estate the focal point of your retirement planning. Similarly, gold cannot be your post-retirement savior. Build a judicious mix of fixed-income and market-linked products to grow your savings and boost wealth.

KEY TAKEAWAYS

- Start your retirement planning journey if you haven't begun. It is never too late to build your post-retirement income. Save a lot, but invest wisely across different avenues.
- Follow a diversified investment approach by investing in conservative and market-linked avenues
- Don't rely on real estate and gold for post-retirement income
- Explore reverse mortgage loans to get retirement income from your residential property
- Account for general inflation and medical inflation when calculating how much corpus is enough for a happy retirement. Pay attention to the taxation aspect when generating regular income post-retirement.
- Stocks generate high inflation-beating returns; lower risk by investing for the long ter

CHAPTER 7

Handing Over Your Legacy

Individuals and families put immense effort to save and invest. However, they do not prepare a concrete plan when it comes to transferring the wealth to their loved ones. After an individual's death, their closest people realise they have been unaware of the financial picture, such as the deceased's investments and other assets. It is important to hand over your legacy systematically. In this chapter, let us understand how you may accomplish this task.

Succession Planning: An Introduction

These are exciting times for Indians and their families. Promising opportunities and wealth creation offer plenty of prospects for sustained growth and asset diversification. Most families are witnessing better times. Indian families are built on values, culture, and tradition, which get passed on through generations.

Like each individual, every family has a vision for the future and is fully committed to success. However, the demise of the main breadwinner/head of the family may lead to disputes. In all likelihood, family members belonging to the current and next generations may have conflicting ideas. So, it is necessary to understand the needs of the next generation and know how to satisfy

them to avoid disputes.

Succession planning is the biggest threat facing all families. The threat is your investments and assets will not be properly handed over to the desired persons due to a lack of preparation. So, you need to give utmost importance to aspects like smooth transfer of ownership and the process of succession planning. If you do not properly address succession change, it could easily result in the family's fragmentation.

Multiple questions need to be answered while planning for succession, as it is not a one-time event but an evolutionary process. Indian families are deeply emotional. Given the fabric of Indian families, conflicts are inevitable. However, managing conflict is the key here.

Estate Planning – Understanding the Concept

You have worked hard throughout your life and built assets. Like most, you did this to ensure the financial security of your loved ones in case something unfortunate happens to you. But do you know what would happen to these assets in case of your untimely absence? Have you given any thought to it? How would your family pick up the pieces and live the life you have planned for them?

The answers to these questions lie in estate planning. You need not have crores in assets to plan. Estate planning is not only for the elite, even the middle class may do it. Estate planning is not for the old. Even those in their late

30s and early 40s may do it. Estate planning is not an activity you may look into after retirement. When you do estate planning well, you ensure passing your assets to the next generation seamlessly.

Debunking Myths About Estate Planning

Myth 1: Estate planning is only for the wealthy.

Fact: Estate planning is essential for all. The process of estate planning does not depend on your monetary assets.

Myth 2: Estate planning is a job after retirement.

Fact: Life is unpredictable. The earlier you plan, the better it is.

Myth 3: Your legal heirs are mature, and they can handle any problem easily.

Fact: Disputes happen over money. With proper estate planning, you remove all chances of a dispute by putting your wishes explicitly.

Myth 4: The nominee will be the beneficiary of assets.

Fact: The nominee is not always the owner of the assets. The legal heir will be the owner. The nominee is merely the trustee of assets.

Tips to Follow for Smooth Succession Planning

Unfortunately, many people tend to postpone their succession planning. Death and poor health do not come with a warning. If you own movable or immovable assets, you need to realise the importance of having a succession plan. It is not about your age; it is about your assets.

1. Be aware of life's complexities

Despite intelligence and practical experiences, most people refuse to believe their family members will not fight over their assets. It is true when you ask them what happens after they are no more. Being optimistic is great, but do not be blind to the realities of life.

2. Learn the facts

Many people hold assets in joint names with a spouse and erroneously assume that if the husband dies, the wife will become the owner automatically. It is not true. If the husband dies without writing a will, his share will first go to his surviving class-1 legal heirs, which include his wife, kids, and mother. They will have equal rights on his share in that asset.

3. List down your assets

Many individuals have acquired precious assets over time but fail to maintain a list of what they own. Even the closest people in their families are clueless about these assets. Make a list of what you own, keep your loved ones

updated about these developments, and consider who should receive how much share.

4. Seek legal advice

Succession planning should involve legal professionals. Just like how you visit a doctor when you are unwell and seek the help of an electrician when the fuse burns, consult a lawyer when you need to plan your succession. Do not attempt to do estate planning independently, as you may make serious errors. Such follies will leave long-lasting negative effects on your family's financial well-being when you are not there with them.

Importance of Estate Planning for a Women

Here are two reasons why estate planning is necessary for a woman:

1. Conventional role of women in an Indian household

Estate planning has a crucial role to play in the lives of many people. But when it is about women, it becomes much more important.

Traditionally, in the Indian culture, due to a lack of economic resources, women find themselves dependent on their parents, husbands, and kids. Generally, in most cases, the wife is younger than the husband. So, there is a high possibility of an average Indian woman outliving her husband. After the

husband's demise, she needs to become individually responsible for managing all financial and other assets. Due to this life-changing scenario, she would need to undergo a complete mental transition because earlier, it was her husband who managed everything.

2. Need to defy societal perception

Many may oppose assets like houses, land, cars, and shares registered under women's names, as the perception is that women may not be equipped to control the assets. After the husband dies, social hierarchy and the weight of traditions may make it extremely difficult for a woman to exert ownership.

The modern working woman may not be different in this aspect. Despite having a professional career and earning independently, she may be asked to seek advice on important financial decisions like investments, taxation, and personal finance from her male relatives.

Without a proper ecosystem, women can never exert their rights and manage assets. So, it is the husband's duty to do efficient estate planning in such a way that his loving wife never faces any legal trouble after his demise.

You need not be a millionaire to have an estate. Your estate comprises your home, other properties, investments, insurance policies, bank accounts, retirement plans, and direct/indirect interests in businesses, if any. Estate planning safeguards your assets should you no longer be able to actively handle them. It also creates a protective ring around your wife's life so that she can take control of

the assets owned by you.

DID YOU KNOW?

The Married Women's Property Act (MWPA), 1874 was created to secure the assets owned by a woman against her husband, his creditors, and relatives.

How Does Estate Planning Work?

Estate planning refers to the process of passing assets and investments from one generation to another or from one person to another. As an owner, you may decide who will **get** what proportion of your estate and how in case of an unfortunate event resulting in your absence. The Indian laws accept estate planning.

Do note that if a tragic event leads to the death of the

breadwinner or head of the family and there is no legal heir, it may create complications for the family. There could be disputes among family members over the estate, harming the family's peace and unity. Opportunistic people may take advantage of this situation, creating more rifts and dividing family members.

What Is a Will and Why Is It Important?

A proper way to do estate planning is by writing a will.

A will is a legal declaration of the intention. The one who makes the will is called the testator. The will tells people what the testator wishes to do with respect to their property after death. So, a will informs the testator's family what will happen to the testator's assets after they die.

Who Is Eligible to Make a Will?

Any individual aged 18 and above of sound mind may create a will. You need to be free from any coercion, fraud, and undue influence while writing the will. A will bypasses unwanted complications and ensures your family will lead a peaceful life in case of your absence.

Can You Revise a Will?

You may modify a will an unlimited number of times, but the process needs to be legally binding.

When Can You Make a Will?

People tend to become incapacitated with old age. The ability to comprehend greatly reduces. So, it is not advisable to make a will during that stage of life. It would be wise to prepare a will at a relatively young age when you are physically and mentally fit.

In Which Scenarios Is a Will Essential?

You need to create a will if:

- You are married or in a relationship to give your life partner the much-needed financial security
- You are married and have dependent kids and parents to ensure everybody gets their due and there are no disputes within the family
- You are diagnosed with a terminal illness

Which Assets Are Covered by a Will?

A will may include all immovable and movable assets like:

- Real estate
- Fixed deposits
- Money in bank accounts
- Stocks/securities
- Bonds
- Proceeds of life insurance policies
- Retirement benefits
- Art

- Precious metals
- Goodwill
- Digital assets like photographs, blogs, websites, email accounts, and social media profiles

Simply put, any asset owned by the testator at the time of death may be included and distributed as per their desire.

Important Terms Related to Estate Planning

1. **Intestate**
   A person who dies without leaving a 'will' is said to have died intestate. Without a will, all legal heirs are entitled to inherit the assets of the deceased.

2. **Testator**
   A person who makes and executes a will.

3. **Testatrix**
   A female who has made a will.

4. **Beneficiary**
   A person entitled to receive the assets under a will. Even a charitable organisation or a public or private trust may be beneficiary.

5. **Executor**
   A person appointed to look after, administer, and distribute the assets of the testator upon the testator's demise.

6. **Probate**
   It is the process to establish if a will is valid. The court certifies whether the will is valid or not.

What Should an Ideal Will Contain?

Badly written wills are a problem. So, you need to write a will properly. A will needs to include:

1. All the necessary identifiers of the testator. Information of identifiers can go beyond basic details like name, age, religion, and address.

2. A declaration made by the testator that the present will is their last will. They need to indicate that all other earlier wills and codicils are revoked. A codicil is an addition or supplement that explains, modifies, or revokes a complete will or a part of it.

3. Clear information about beneficiaries and their relationship with the testator with details like which beneficiary will receive what assets and in what proportion.

4. When the will would be executed after the testator's death and the name of the executor appointed for executing the will.

Attestation of the Will

- A will needs to be attested by a minimum of two individuals as witnesses. They need to sign on the will in the testator's presence.
- The testator must sign the will in the presence of the witnesses. Beneficiaries cannot be witnesses.

Evidence and Registration of the Will

- The process of writing, executing, and witnessing the will ideally should be video graphed so that the video recording becomes evidence
- The will needs to be registered with the sub-registrar of assurance

Benefits of a Will

- It avoids disputes within the family
- It can make provisions for minors and kids with special needs
- It can bypass relatives who may be troublemakers in the future
- It enables the smooth transfer of assets
- It helps you choose your executor
- It helps specify funeral/last wishes
- It prevents legal grief

- It gives your family members a peace of mind

DID YOU KNOW?

As per the law, a nominee is a trustee, not the owner of the assets. For most investments, a legal heir is entitled to the deceased's assets.

About EzeeWill, NSDL's Will Service

Based on interactions with clients, we deploy a panel of experts to prepare the will. The core objective of EzeeWill is to provide a customer-friendly, affordable, and trustworthy service in succession planning and drafting a will in a way that an individual's hard-earned wealth is passed on to their family easily.

Advantages of the EzeeWill Service

- It is an easy process to create a will as per your choice and convenience
- It facilitates the drafting of the will by legal experts having adequate experience and specialisation in the subject matter
- It respects the confidentiality of your personal information
- It is a simple and convenient way to ensure wealth distribution as per your wishes

DID YOU KNOW?

In the absence of estate planning, if an individual dies intestate (without leaving a will), their assets get distributed equally among family members (legal heirs) as per the succession laws of that person's religion.

Trusts for Estate/Succession Planning

Instead of wills, many today are considering setting up trusts to handle the tricky situation of estate/succession planning.

In this scenario, an individual may bequeath all assets upon their demise to a private or charitable trust under the will. A trust swings into action and commissions its activities upon the person's death. The testator may set up a trust for the benefit of family members or individuals whom they wish to include as beneficiaries.

A trust is a good route to address succession-related issues on a long-term basis for the next generation. It is an agreement between the settlor and the trustees to transfer the legal ownership of assets/property to the trustee. It contains an obligation that the transfer of legal ownership is only held for the benefit of the beneficiaries as specified in the trust deed.

Components of a Trust

1. **Author of the Trust /Settlor**

   The person who settles the trust or is its author.

2. **Trustee**

   An individual or an entity appointed by the settlor to administer the trust.

3. Beneficiary

The person or persons for whose benefit the trust is created.

4. Trust-property or trust money:

It may comprise movable and immovable property like cash, jewelry, land, and investment instruments.

Necessary Inclusions in a Trust

- The purpose of creating the trust
- The beneficiaries of the trust
- The identifiable property and details on how it would be transferred smoothly to the beneficiaries under an irrevocable arrangement

Different Types of Trusts

1. Public Trust

It is constituted wholly or mainly for the public for religious or charitable purposes.

2. Private Trust

It is formed for the benefit of one or more individuals. A private trust is governed by the Indian Trust Act, 1882.

However, if such a trust is created by a will, it is usually subject to the provisions of the Indian Succession Act, 1925.

In Which Circumstances Are Trusts Better Than Wills?

1. By adopting a trust route, you may avoid the issue which may arise in a will. Questions about forgery and the testator's mental soundness are raised when it comes to a will. Many family members claim to the courts about issues like the will being unauthentic with incorrect signatures.

2. It takes a longer time for a will to execute. If there is a dispute over a will, it could take years to conclude, resulting in a costly and legally draining process for the testator's loved ones.

3. As compared to a will, a trust deed is highly confidential and undisclosed to anyone. In most cases, you need not obtain a probate while creating a trust. However, a probate is required from a court to validate the legal authenticity of a will.

Advantages and Disadvantages of a Private Trust

Advantages

- It resolves most of the problems that occur in the case of a will. It may be beneficial in the management and distribution of assets.
- It has a more efficient structure compared to a will

DID YOU KNOW?

Both nomination and joint ownership can be legally disputable. Succession laws supersede these. Most family disputes have arisen due to different individuals being compared with legal heirs.

Disadvantages

- It involves varying stamp duty costs in case of transfer of immovable property depending on the state where the property is
- Its success depends upon the right selection of the trustee. Wrong selection can defeat the entire purpose of setting up the trust. A trust deed is more difficult to draft compared to a will. If not drafted clearly, a trust deed is tough to execute.

So, although creating a private trust may be the best way to

bequeath your assets to your beneficiaries, experts say it is ideal to have a combination of a will and a trust.

Factors to Consider While Hiring an Estate Planner

The role of an estate planner in estate planning is very vital. They form the important spoke in the wheel of estate/succession planning.

It is difficult to judge the qualities of an estate planner in a single meeting. You need to meet them a few times and deeply engage with them.

Here are a few things you need to know about an estate planner before recruiting them:

- Find out about the principal area of their practice
- Learn about their level of expertise in instituting a trust apart from will writing
- Inquire about the individual's total years of experience and how old their company is
- Check with them about the fee structure: fixed or time/effort-basis
- Research their services and if they have any separate fee chart
- Do background/reference checks and read customer testimonials/reviews online to know about their authenticity and efficiency

Qualities to Look Out for in a Reliable Estate Planner

Righteousness

An estate planner needs to have solid integrity and impeccable ethics. They should be morally upright and never compromise in safeguarding and serving your interest as a client.

Proficiency

As estate planning requires knowledge, skill, and experience, an estate planner needs to display an advanced degree of competence in estate planning-related laws and practices. They need to be very particular and cautious about all your activities and requirements because a small mistake or ambiguity during the documentation may cause big problems later.

Good Listening Skills

A good estate planner will always hear more and speak less. They will display sensitivity, comprehend your needs, and give proper advice.

KEY TAKEAWAYS

- Plan your estate when you have time
- Discuss and share your thoughts with your family members on the transfer of wealth. Do not assume they will not fight.
- Disclose your assets to a few selected near and dear ones. Make a will and revise it once in a few years.
- Follow the due process and seek legal help with a will. A trust can be a good alternative but know its pros and cons.
- Do not leave estate/succession planning for post-retirement days, as life is unpredictable

CHAPTER 8

How To Start Investing

Armed with the realisation that you need to save and invest, the first stumbling block for many people is 'how to invest'. They may know about mutual funds, shares, stocks, and bonds. However, one needs to understand the documents and processes to enable investing. In this chapter, we will tell you about the different ways you may follow to start your investment journey and how to go about it.

KYC – The First Concept to Help You Commence Your Mutual Fund Investment Journey

KYC is an acronym for Know Your Client. Irrespective of whether you wish to invest in mutual funds via the online or offline mode, you need to be KYC-compliant before venturing into this lucrative investment avenue.

KYC norms track the legality of money used by an investor in an investment. KYC is a one-time process. Every first-time mutual fund investor must follow KYC regulations to invest in a mutual fund.

You may visit any of these websites to check your KYC status online:

1. www.kra.ndml.in
2. www.karvykra.com
3. www.cvlkra.com
4. www.camskra.com

5. www.nsekra.com

You may also be required to submit cheques for investing in mutual funds. If you wish to invest in mutual funds via the Systematic Investment Plan (SIP) route, you will need to submit bank-mandate documents to ensure that the investment amount gets debited from your bank account on a particular date and credited into the mutual fund account.

What should you do if you do not have a PAN?

At times, novice investors do not have a PAN, which is essential for all organisations and individuals. It is a unique 10-digit alphanumeric identity allotted to each taxpayer by the Income Tax Department (ITD) under the supervision of the Central Board of Direct Taxes.

You need not fret if you do not have a PAN. You may easily get one as NSDL e-Gov has accepted PAN applications on behalf of the ITD since June 2004 through its chain of TIN-Facilitation Centres (TIN-FCs) and PAN centers set up across the country. Additionally, NSDL e-Gov provides a facility to apply for PAN online. The two types of PAN applications include:

Application for allotment of PAN

Applicants may use this application form when they have never applied for a PAN or a PAN has never been allotted to them. They may visit the ITD's website www.

incometaxindia.gov.in to find out whether a PAN has been allotted to them or not.

The ITD has notified these forms to submit applications for receiving a new PAN:

FORM 49A: - To be filled by Indian citizens, including those who relocated outside India.

FORM 49AA: - To be filled by foreign citizens.

Application for a new PAN card or/and changes or corrections in PAN data

If an applicant already has a PAN and wishes to obtain a new one or wants to get some modifications done to their PAN data, they need to submit their application in the form prescribed by the ITD.

How Can You Apply for a PAN?

- Apply online via www.egov-nsdl.co.in/pan_card_issues.html or submit a physical application to NSDL's any TIN-FC or PAN center
- Go through the instructions and guidelines provided in the application form before filling it. You may obtain the form from TIN-FCs, PAN centers, or any other vendors providing such forms or download it from www.egov-nsdl.co.in/pan_card_issues.html
- Submit the necessary supporting documents, as specified under Rule 114 of Income Tax Rules, 1962,

with the application. The application form contains the details of the required documents. Your name mentioned in the application form and your name in the identity proof and address proof documents need to match.

What Is an e-PAN Card?

The ITD introduced the e-PAN card, which is, an instant allotment of PAN to first-time taxpayers. Any individual who already holds a PAN is not eligible for an e-PAN card. As per provisions of Section 272B of the Income Tax Act, 1961, if anyone holds more than one PAN, they may face a penalty of Rs. 10,000.

Norms for Applying for an e-PAN card

- You are an Indian resident and an individual taxpayer
- You do not hold a PAN
- You have an Aadhaar card, which contains your updated and accurate information and is linked to your mobile number

To request an e-PAN, visit the Protean PAN online portal URL: https://www.onlineservices.nsdl.com/paam/endUserRegisterContact.html

It is a paid facility for downloading an e-PAN card. For the PAN applications submitted to NSDL e-Governance where the PAN is allotted or the ITD confirms the changes within the last 30 days, the applicant may download the e-PAN card for free at:

https://www.onlineservices.nsdl.com/paam/MPanLogin.html

Do note that this facility is available for PAN holders whose latest application was processed through NSDL e-Governance. PAN holders who had obtained PAN using the instant e-PAN facility on the e-filing portal of the ITD may also avail of this facility.

Starting Your Investment Journey in Shares/Stocks

Apart from indirect investments like mutual funds, investing in shares/stocks may prove worthwhile. A share market/stock exchange is where investors can buy and sell shares through a broker.

Most of the share trading in the Indian stock market happens on its two major stock exchanges: the BSE Limited (earlier known as Bombay Stock Exchange) and the National Stock Exchange of India Limited (NSE). Additionally, there is another stock exchange named the Metropolitan Stock Exchange of India Limited (MSE). It was notified as a 'Recognised Stock Exchange' under Section 2(39) of the Indian Companies Act, 1956 by the Ministry of Corporate Affairs, Government of India, on December 21, 2012.

Types of Accounts Required to Commence Investing in Stock Markets

1. Trading Account: You need this account to place buy/sell orders to buy or sell shares in the stock market.

2. Demat Account: You hold shares in this account in dematerialised form.

DID YOU KNOW?

Dematerialisation is the process of converting physical share certificates into electronic form so that they are easier to maintain and accessible from anywhere across the globe. An investor who wants to trade online needs to open a demat with a Depository Participant (DP).

3. Bank Account: You send money for fund transfers from this account and receive funds from completed trades in it.

As a bank account is self-explanatory, we will not explain its functionality and uses in detail. However, we have shared an in-depth explanation of trading and demat accounts to give you clarity about them.

Trading Account

You may open this account with a SEBI-registered stockbroker. Today, you have the comfort of having the documentation for opening a trading account completed at your home. In this case, your broker's representative will provide you with the account opening and KYC forms.

Apart from submitting the duly filled account opening form, you need to furnish your identity and address proof documents. Then, your verification gets done through a telephonic conversation, or a representative visits you in person after which the stockbroking company provides you with your trading account details, which you may use to participate in stock market trading. The stockbroking company also provides you with a unique trading ID and password to operate the trading account.

Demat Account

A demat account is different from a trading account. A demat account holds shares and other types of securities. Shares purchased through a trading account get deposited into the demat account. You may sell your existing shares by withdrawing them from your demat account and selling them through your trading account. First-time investors can think of a demat account as a garage or parking space for shares.

Typically, when you sign up with a stock broker, they will guide you on not only opening the trading account but

also explaining the nitty-gritty of a demat account and linking your bank account. Depositories provide the facility to open and maintain demat accounts. In India, the government has mandated two entities as depositories, which include:

- National Securities Depository - (NSDL), the first depository of India and one of the leading depositories in the world
- Central Depository Services of India Limited (CDSL)

Important Points to Know About a Demat Account

- You may open more than one demat account in the same name with a single Depository Participant (DP) or multiple DPs at your convenience. A DP acts as an agent of the depository and provides services to investors.
- You need not maintain any minimum balance in a demat account
- You may give a one-time standing instruction to your DP to receive all the credits coming to your demat account automatically
- You may choose your DP based on your evaluation of their reputation, service standards, charges, comfort level, and other offerings
- You may open a demat account with single or joint names. If the same set of joint holders holds securities in a different sequence of names, these joint holders need not open different demat accounts in the NSDL

depository system just for the dematerialisation of their existing shares in physical form.

What Is NSDL's 'Transposition-cum-Demat' Facility?

NSDL's 'Transposition-cum-Demat' facility helps joint holders to dematerialise securities in the same account even though share certificates are in a different sequence of names. For this purpose, you need to submit the 'Transposition-cum-Demat Form' to the DP.

For instance, if 100 securities of a company named SDE are registered in the name of Suresh as the first holder and Rajesh as the second holder and 200 securities of company named QAZ are registered in the name of Rajesh as the first holder and Suresh as the second holder, it is possible to hold both these securities in one single demat account in the name of Suresh as the first holder and Rajesh as the second holder or Rajesh as the first holder and Suresh as the second holder.

Is It Possible to Open a Demat Account in a Minor's Name?

Yes, you may open a demat account in a minor's name and mention the guardian's name. The guardian will sign as a signatory on behalf of the minor.

How Much Time Does It Take to Open a Demat Account?

The demat account opening procedure should typically less

than 2 days via the online mode and through the offline process.

Dos and Don'ts of Managing a Demat Account

Dos

- **Scrutinise:** Go through the transaction and holding statements you receive.
- **Handle:** Keep the Delivery Instruction Slip (DIS) book issued to you carefully. Insist that the DIS numbers are pre-printed. Do not pre-sign them.
- **Mention:** Always refer to details International Securities International Number (ISIN) and number of securities accurately. In case of doubt, contact your DP or broker.
- **Freeze:** If you are not transacting frequently, utilise the freesing facility provided for your demat account.
- **Strike Out:** If there is a space for multiple instructions, and it is not used fully, remember to strike out the blank space for furnishing security details.

Do Not

- Overwrite, misspell, and change the name and quantity of securities
- Issue demat DIS from any other demat accounts belonging to your family members or friends
- Sign blank DIS

KEY TAKEAWAYS

- Ensure to be KYC-compliant in for making financial investments
- Use NSDL's service to get a PAN card if you do not have one
- Choose the depository participant (DP) for your demat account very carefully
- Understand the account opening process and documents required.
- Do note that financial institutions have online and offline processes for customer convenience

CHAPTER 9

How to Build and Monitor a Portfolio

An investment portfolio is a set of financial assets. Smart investors use such a basket approach with investments to earn a profit. No matter how you build a portfolio, the investment journey is not like a straight line. It is full of ups and downs. However, when smartly curated and monitored, a well-planned investment portfolio can navigate difficult times and help you generate wealth over the long term. In this chapter, we will find out how to create an all-weather portfolio.

What Are Asset Classes in an Investment Portfolio?

The assets included in an investment portfolio are called asset classes. As an investor, you need to ensure your portfolio contains a good mix of assets. A well-balanced mix helps foster growth for the investment capital, with controlled risk.

An ideal investment portfolio should contain stocks. They refer to a portion or share of a company. Stocks can be a source of income when the company shares its profits with shareholders by way of dividends. However, the main purpose of buying stocks is capital appreciation. Shares sold at a higher price than their purchase price generate profit.

Bonds are an important part of any portfolio. A bond is a loan and comes with a maturity date when you receive the

principal you had invested to buy the bond along with the agreed interest. Compared to stocks, bonds do not pose much risk, but they offer potentially lower returns. Bonds are useful to provide stability in your investment basket.

Gold, cash, and real estate are other common asset classes in an investment portfolio. These assets may offer lower returns than stocks, but make your portfolio more diversified. Cash is a liquid asset, and you may adjust its proportion in your portfolio to increase or decrease the exposure of the other asset classes.

Types of Portfolios

Investment portfolios may be in various shapes and sizes, depending on your investment strategy.

Growth Portfolio

A growth portfolio aims to get higher returns by taking greater risks. This means the portfolio will have a higher weight of stocks/shares. Growth investing involves investments in new companies, such as small-caps and mid-caps.

Income Portfolio

An income portfolio offers you stability with some recurring inflow. It is more focused on securing regular income from

investments, such as bonds and real estate rental gains. As an income portfolio involves lower risk, it provides modest gains.

Value Portfolio

A value portfolio is all about making tactical investments by taking advantage of buying cheap assets. Valuation decides whether an asset should be a part of your investment portfolio and the reason behind that. By investing in under-rated companies, the portfolio's profit potential rises in the future.

DID YOU KNOW?

Small-cap and mid-cap funds have become investors' favorites over the past 3 years. According to AMFI, the number of investor accounts in mid-cap funds more than doubled to Rs. 1.4 crore, while small-cap funds' investors more than tripled to 1.9 crore in the past four years.

KEY TAKEAWAYS

- An investment portfolio is a set of financial assets across different classes
- A well-planned investment portfolio can navigate difficult times and help you generate wealth over the long term if it is smartly curated and monitored
- Investment portfolios may be in different shapes and sizes, depending on your investment strategy; these include growth, income, and value portfolios
- A growth portfolio aims to get higher returns by taking greater risks. Growth investing involves investments in new small-cap and mid-cap companies.
- An income portfolio offers stability with some recurring inflow of income. It involves lower risk and provides modest gains.
- A value portfolio is all about making tactical investments by taking advantage of buying cheap assets. It involves investing in under-rated companies with the belief that the portfolio's profit potential may rise in the future.

Discover the essential tools to take control of your financial future with the NSDL Primer on Personal Finance—an investor education book by National Securities Depository Limited (NSDL). This comprehensive guide offers you a step-by-step journey through the vital aspects of managing your money. From understanding the basics of personal finance and the importance of saving to the secrets of wealth creation and smart asset allocation, this book covers it all.

Learn how to protect your financial well-being with key insurance insights, plan for a comfortable retirement, and build a long-lasting legacy. Whether you are just starting your investment journey or looking to enhance your portfolio, you will find practical strategies to get started, monitor, and grow your wealth.

With actionable guidelines and expert advice, this book empowers you to make informed decisions that lead to financial freedom.

Start your journey to financial independence today!

Special thanks to Superscribe Content Solutions LLP for their valuable inputs in creating the second edition of this primer.

About National Securities Depository Limited (NSDL)

NSDL (www.nsdl.com) is India's first and one of the leading Securities Depositories in the world. It has played a key role in transforming the Indian securities market by facilitating holding and transfer of securities in dematerialised form. NSDL coined the word 'demat' and commenced the process of dematerialisation. The market share of NSDL in value of demat assets is more than 86%. NSDL demat accounts are located in more than 99.3% of pin codes in the country with 60,000+ Service centres - covering every state & union territory.