Contents

Created by – Vinaykumar Rai (source – FreeFincal, ValueResearchOnline & Morningstar India)

Vinaykumar Rai, a Mumbai resident, is a senior automation analyst @ CitiusTech catering to Healthcare clients. He is a financial freedom seeker and wants to spread financial literacy. Vinay loves to travel and read books on personal finance. You can read his reader's story '*My journey to better financial management*' published on FreeFincal. Connect with Vinay at *Vinaysprai24@gmail.com*.

Disclaimer: I am an absolute novice when it comes to investing in Mutual Funds of any kind. Book is compiled based on my understanding & contents from above sources, will recommend analysing and reviewing it yourself.

Investing: A Journey

1. Financial Fortitude

What is Financial Freedom?

Financial freedom is a state when passive income (interest from a large corpus, rent from real estate etc.) is more than or at least equal to meet all the expenses year after year for the rest of the life. Then active income is no longer needed, and one can simply hangs up his boots. Financial freedom is something that every investor should aspire for. We should be clear about how much we need for attaining freedom and when we can achieve it. Knowing when you will achieve financial freedom and doing everything you can towards this gives you an incredible sense of purpose and control of your financial life. However, one should not directly jump to investing. He/she should first have safeguard against contingencies that could arise in future.

Life insurance, health insurance, accident insurance, critical illness insurance & emergency fund are fortification products that help a family tackle unpleasant and unexpected development. Be it expenses due to hospitalization, or loss or decrease in income due to death, accident or a critical illness. I refer to them as fortification products because they protect the family's long-term goals like retirement, children's education, marriage etc. They protect by minimizing the chance of redeeming the corpus meant for these goals. They protect by minimizing the chances of interrupting the compounding of the corpus.

Re-assemble series, Mutual Fund FAQ & Personal finance checklist books of **FreeFincal** is ideal to learn and start the financial journey. Manish Chauhan's second book, "How to be your own financial planner in 10 steps" is a great 'action' book guiding people through the basic steps of financial planning. Link.

2. Life Insurance

Why people don't buy Term plan?

There are many investors who do not buy (or delay) term insurance plan, because they feel that nothing will happen to them (over-confidence).

- Some feel they can't die due to illness, because they take care of their health
- Some feel they will never die in an accident, because they drive their vehicles carefully
- Some feel they will never die, because they eat healthy
- Some feel they will not die because they keep an eye around them for all the risks

Things to do before buying term insurance:

1. Discuss with your partner about Term insurance necessity
2. Calculate **liabilities** if any like home loan, monthly **expenses**, amount needed for **short** and **long-term** goals like child schooling, child higher education etc. (in-short money needed for dependent to survive) this is excluding fun and un-necessary expenses
3. Calculate how much term insurance is required using FV formula in excel or Pattu sir's Comprehensive Insurance Calculator
4. Decide number of years Term is required not more than your actual retirement age
5. Write down on a paper all the past medical history and patterns
6. Do not opt for limited year payment. Go for yearly payment option

How to Buy a Term Plan – Calculate the Liabilities and amount required for dependents. Disclose all the past medical history and patterns. Buy Term insurance till your family is dependent on you, not for 70 or 80 years in hope to get the claim amount. Think about future value of money after 40-50 years. **How to Buy a Life Insurance** – By Pattu sir

Parameters to consider and how to compare Term insurance:

1. Open PolicyBazaar portal, enter fake Mobile Id and email and compare multiple policies
    a. Compare the claim settlement ratio trend for last 5 years
    b. Companies solvency ratio should be above 1.5 (reflects company's financial stability – data is available on IRDAI website in annual report)
2. Shortlist few policies based on the above study
3. Read the policy wording thoroughly and check out the exclusion lists
4. Select few policies among the shortlisted policies which has very few exclusion list
5. Compare the premiums of short-listed policies
6. **Select the one with affordable premium, good solvency ratio, Claim settlement ratio & very few exclusion list**
7. Select an insurer whose turnaround time (TAT) is fast during claims

If pocket permits, buy a standalone disability policy or add Disability rider to your term policy – it is very important to have a disability insurance.
Negotiate with insurer if your policy is rejected or premium is increased due to risk.

Things to do after buying a Term policy:

- Read the policy wording thoroughly after taking the term insurance and stop it if not happy with any policy wording or condition in the policy free lookup period i.e. within 15 days from the date policy is issue
- Maintain a health record!
- Stay healthy! Stay safe! Stay sharp!
- Increase your net worth!
- Recognize Risk
- Ensure you stay safe, stay healthy, invest right, and maintain records! Video

Permanent Exclusions:

- Suicide exclusion for first year however claims can be rejected due to below reasons as well so beware
    - Murder of the policyholder
        - If the nominee is a criminal
        - If death of policyholder was due to involvement in criminal activity
            - However, if policyholder has a criminal background i.e., he/she has a criminal record but dies due to any natural uncertainty, for instance, he/she dies because of some disease like swine flu, dengue, or lightning strike him/her, then in that case, the nominee will get the claim
    - Not disclosing the habit of smoking
    - Death by participating in hazardous activities
    - Death due to pre-existing health conditions
    - Death due to natural disaster like earthquake or hurricane

Never forget this: Term insurance is the cheapest of all insurance plans. At the same time, the sum insured in a term plan is the highest. Therefore, it is will be subject to scrutiny. Delays in claim settlement are quite common for a variety of reasons (how one dies, when one dies, nominee dead or injured etc. etc. etc.). So, when you take a term plan ensure that, over a period, you slowly build an emergency corpus that will cover at least 12-15 months of expenses in the event of your death. Hopefully this buffer will provide enough time for all parties (insurer, nominee and ombudsman, if needed) to get the claim settled successfully.

Procedure to claim life insurance if someone dies

3. Health Insurance

Why individuals don't get personal health Policy?

I have an employer provided Insurance cover. So why do I need to take separate personal Health Insurance?

- Employer-provided insurance benefits will end the moment you leave or lose your job
    - With drive to cut cost at every possible manner, employer can stop this benefit in future or expect a co-share from the employees
    - What if you jump to a smaller company with no insurance?
    - What if you plan to leave your corporate life and start up your own company?
- Coverage for family members: May cover only the employees or not all members in the family
- You cannot carry forward the benefits of employer health insurance
    - No claim bonuses
    - Renewal benefits like medical check up
- Employer-provided insurance clauses change with changes in the insurance company offering the coverage to your company.
- Employer-provided health coverage can exhaust in a single hospitalisation. You must have a backup policy.

Above all, by not having your own policy you run into the risk and challenge of an expensive health cover post-retirement (after age of 60), which is more restrictive. One may not even get an insurance cover.

- The coverage by employer is only till your retirement
- This is the time of a real requirement for a health insurance cover
- Assume that you retire at the age of 60 and was covered employee offered insurance till then
- On retirement, this cover ceases and you also had not taken any insurance cover in your individual capacity till then
- At the age of 60 is when, there are more probabilities of getting ailments and sickness
- You don't have a cover at this point of time
- If you go for a cover after retirement you need to go for Senior Citizen Insurance cover which is more stringent with waiting period for a few years and lot of exception clauses
- Also based on pre-existing conditions you may not get a Health Insurance cover

Things to do before buying the health insurance policy:

Step 1: *Analyse and Understand your Needs*

1. Individual Status – Single, Married & with kids
2. Whom to cover?
3. What is your life style?
4. Do you travel often
5. Do you eat too much outside food?
6. Do you drink/smoke?
7. Are you covering them through individual policies or family cover?
8. Extend of corporate insurance cover and its policy terms
9. Current health condition / pre-existing diseases
10. Room limits, sub limits:
    a. Do you go for a deluxe or private or semi-private rooms?
    b. High category has a higher room rent, which has a cascading effect on other charges
    c. These ensure that you opt for a policy which matches your requirements
11. Check for room categories and rent for the hospitals nearby your residence and office…as in the event of emergency, you are most likely to be here. This exercise will help to connect with reality.
12. How much insurance cover is needed?
13. Should You go for individual or family cover?
14. Write down on a paper all the <u>past medical history and patterns</u>

Step 2: *Initial screening of policies that meet your need*

Step 3: *Read policy wording document of screened policies and shortlist a few*

Step 4: *Compare premium of shortlisted policies/plans*

Step 5: *Discuss with agent from health insurance company*

Step 6: *Purchase policy*

Outlined below are a few steps, that one need to take before making a purchase decision on a Health Insurance product.

Please read the e-book on health insurance for detailed information on above STEPS

- ***Free e-Book on Health Insurance***

How to Buy a health plan – Health insurance is the most difficult part in financial planning. It's not like other investments or insurances, you cannot switch from one plan to other as you lose the benefits and existing illness waiting period. Yes, porting to another insurer is available not but not easy. Other insurer may reject your switch due to health condition at later age or increase the premium considering the risk.

Understand your health policy before buying one.

- **How to select a Health Insurance Webinar – Must Listen.**
- ***Free e-Book on Health Insurance*** – Must read

Factors to consider while buying Health Insurance:

1. Policy should not have too many Ifs and BUTs
2. Policy should not have any co-payment clause
3. No Sub-Limits
    a. Select a policy with No room rent Limit – all govt. insurers have limit of 1%
    b. No Disease Wise Capping
    c. No Capping on different Expense Components
    d. Buy a policy with least waiting period
4. Maximum number of cashless hospitals near your residence (not in city)
5. Maximum number of Day care treatments cover
6. No disease related loading in future
7. Domiciliary treatment should be up to sum-insured

8. Future premium increment with age should be at par with other policies
9. Life-long policy renewal
10. Insurer with around 50-60% of Incurred Claims Ratio (ICR) – shows health status of the company
11. Faster claim process - The actual benefit of the policy is realized during the claim phase.
    a. Three factors to consider in claim process:
        i. Simple claim process
        ii. Faster settlement of claims – Better for the insured
        iii. Good customer support – an additional advantage
12. Claim Settlement Ratio (CSR):
    a. A high claim settlement ratio is preferred
    b. The ratio should at least be 90 to 95%
    c. Anything less than 80% is not good for you as a policy holder and ignore such companies
13. Company should offer super top-up as well – Get the super top-up from the same insurer as it removes the hassle to inform multiple TPA during hospitalization and cashless can be availed smoothly
14. Should have reasonable Before and After hospitalization period

Few values add but do not buy policy solely on these factors:

1. No Claim Bonus – go for an insurer which does not reduce NCB with claims
2. Restore or Refill benefit – Good to have feature but many terms and condition. Read the policy document properly to understand the limitations. Do not rely on this as one need to completely exhaust the sum insured to claim this and not for same person same disease

Parameters to completely ignore:

1. Health Check-ups: Pay from your pocket and keep the health assessment safe and away from Insurer for future reference in case there is a rejection due to specific disease
2. Maternity – Pay from your pocket or use employer's insurance. You would not need it more than once or twice in lifetime
3. Eye & Dental Covers – Pay from Pocket
4. Alternate Medicine – People give so much of importance to this feature even though no one would go for AYUSH treatment. Pay from pocket, AYUSH treatments aren't that expensive
5. Ambulance Charges – Should be paid from pocket
6. Infertility Treatment – Chances are rare so pay from pocket
7. Doctor-on-Call Service – Call your family doctor when it's required
8. Wellness Factors – Yoga classes, massage centres or therapy sessions should be paid from pocket

Use health insurance for urgent hospitalization not for other needs. Do not pay additional premium for diseases/treatment you going to use for limited number of times like maternity.

Things to do after buying Health policy

- Read the policy wordings carefully to understand the exclusion lists. If not satisfied, close the policy within 15days called free look-up period
- Understand claim procedures
- Recognize that ‘cashless’ is not a right!
- Go for cashless in network Hospitals whenever and wherever possible
- Recognize the impact of non-medical expenses
- Increase cover or buy a super top-up policy
- Buy super top up on same day as base policy otherwise claims can get rejected
- Prepare for the next premium
- Consider periodic health check-ups but do not share it with health insurer
- Recognize that pre-existing clause applies all the time!
- Understand the implications of sub-limits
- Prepare for shocks!
- Do not assume portability is easy!
- How to reduce insurance cost in future as premiums would be high at later age
- How to add your new born baby to your health insurance policy?

Exclusions

- Non-Medical expenses like registration fees, syringes, blades, gloves and other are not covered. Read section ‘ANNEXURE II- LIST OF GENERALLY EXCLUDED ITEMS IN HOSPITALIZATION POLICY’ for full list
- 1 cannot use restoration benefit for same person same disease in a year
- 30 days initial waiting period. Accident is covered from day 1
- 24 months waiting period for specific diseases. Read policy wordings for full list
- Pre-existing diseases waiting period
- Permanent exclusions like HIV, Dental or cosmetic surgeries. Read policy document thoroughly for full list of permanent exclusion list

Moral of the story - Your health is the most imp investment. Ensure you are fit & hope for the best.

4. Property Insurance

Property insurance is a broad term for a series of policies that provide either property protection coverage or liability coverage. Property insurance provides financial reimbursement to the owner or renter of a structure and its contents in case there is damage or theft, and to a person other than the owner or renter if that person is injured on the property.

Your home is probably the most valuable physical asset you own. Yet, fewer than 1 in 1,000 homeowners typically insure it for damage. A standard home insurance pays for damage to your house due to many perils, including fire, flooding, earthquakes, riots, malicious damage and storms. The amount paid depends upon the type of home insurance you buy. If it is 'reinstatement insurance', you will be paid the full cost of repairing. However, if it is based on book value, the insurer will pay a depreciated value. Do also buy a 'contents insurance' cover along with the home insurance and make sure it covers theft.

While buying home insurance, opt for the reinstatement option and pick a sum assured that is approximately the cost of constructing your home today. Do not opt for a low sum assured (with an eye on lowering your premium) because any claim will be proportionately reduced by the extent of under-insurance.

Covers reconstruction cost

Home insurance policies cover damages to the building following perils, such as earthquake, fire, landslide, lightning and flood. It is not just in 'total loss' situations, but also in cases of partial damage that the policy comes as a lifeline.

In the recent floods in Chennai, the flooring in many households was damaged because of inundation. Expenses to replace the tiles, cost of plumbing work if any, and expenses to re-paint the house are also paid under the home insurance policy, says Pankaj Verma, Head - Claim Operations, SBI General Insurance, a company that insures one lakh homes in Tamil Nadu. Most home insurance policies in the market today offer these features.

But remember to take a 're-instatement' cover and not an 'indemnity' cover when you buy home insurance.

Only in the re-instatement policies will you be compensated for the cost of reconstructing the home at its current value; in the indemnity policy, the compensation is based on the re-construction cost less depreciation (which considers the age of the building).

What if you want to abandon your current home after a calamity and move to a new place? Most home insurance policies do not cover the cost of re-acquiring land. But Bajaj Allianz's 'agreed value' cover offers this benefit. In this policy, the sum insured will also consider the value of the land, as agreed between the buyer and the insurance company at the time of purchase of the policy.

But, do note that the cover is only for apartments and it works in cases of a 'total loss' situation where it is declared uninhabitable by the government, says Sasikumar Adidamu, Chief Technical Officer, Non-motor, Bajaj Allianz General Insurance.

You may also want to look for insurers to pay for alternative accommodation for one to three months after the house is damaged.

Bajaj Allianz, ICICI Lombard and Tata AIG offer this facility.

A home insurance policy covers not just the building but the contents of your home too — appliances, furniture, clothes, carpet, curtain and jewellery.

Home insurance policies that offer cover for contents, again allow you to choose between an 'indemnity cover' and a 're-instatement cover'.

But, here, you should look at products by home insurers, such as Royal Sundaram, which offer a blanket cover for the contents of your home. You choose a sum insured that will cover all contents and pay a premium accordingly.

Claims are settled on an indemnity basis. You need not list out the items or report their value at the time of purchase of the policy, but at the time of claim, you would need to submit supporting documents. This saves you the hassle of having to report to the insurer every time you replace an item in your house. To ensure a smooth claim settlement, Nikhil Apte, Chief Product Officer, Royal Sundaram, says one must report the damage to the insurance company as early as possible. "Do not clean up things, or start repair works before the surveyor comes, take photographs of the spot and save it, this can help quicken the claim settlement process."

A home insurance cover for contents also covers loss due to burglary. So, jewels and other valuables, whether they are at home or in a bank locker, can be covered. Note that banks are not liable to make good the loss of contents in their locker.

<u>It doesn't cost much</u>

Home insurance policies are not expensive. For a ₹25 lakh cover for the building on a re-instatement basis, one will have to pay an annual premium of about ₹1,500-2000. If you want to insure the contents worth, say, ₹5 lakh on an indemnity basis, you will have to pay about ₹2,000-3,000 a year.

If you are buying a long-term home insurance policy, say for 20/30 years, you do get 30-40 per cent discount in premium. Do remember to consider inflation too.

Though insurance policies cover re-construction cost, it is subject to a maximum of the sum insured.

FAQs of Home Insurance:

What are the requirements to purchase a property insurance policy?
The proposer of the policy should first and foremost have interest in the assets being proposed for insurance, that is, he/she should stand to lose financially in the event of loss or damage to such assets. Secondly, the proposer should submit a proposal form (which can be obtained at any insurer's website or office).

What are the different types of property insurance policies?
The most popular is the standard fire & allied perils policies, which covers most of the perils the property is exposed to like fire, riots, flood, and storm. Loss of current assets due to burglary and theft can be covered under burglary & house breaking insurance policy. Valuables can be covered under all risks policies and there are package policies for house owners and shopkeepers.

How does one fix the sum insured?
Generally, there are two methods. One is market value (MV) and the other is reinstatement value (RIV). In the case of the former, in the event of a loss, depreciation is levied on the asset, depending on its age. Under this method, the insured is not paid amount enough to buy the replacement. In the RIV method, the insurance company will pay the replacement cost, subject to SI ceiling. Under this method, no depreciation is levied. One condition is that the damaged asset should be repaired/replaced to get the claim. It may be noted that RIV method is allowed only for fixed assets and not for such assets as stocks and stocks in process.

What will be the cost of a fire insurance policy?
The cost of a fire insurance policy or the premium will depend on perils to be covered; the value of the items covered; the usage of the premises proposed for insurance; the location details of the premises proposed for insurance etc; the construction of building and occupancy.

Why should I insure my building?

Fire and other perils (normally covered under a fire insurance policy) can cause loss/damage to buildings. There have been fire accidents that have destroyed multi-storeyed buildings. Floods can also bring about devastating losses. Similarly, riots, acts of terrorism can also cause losses to human lives as well as property.

In case of loss, what are the obligations of the insured?

Every insured is expected to behave as though he is uninsured. He must take all precautions to prevent/aggravate the loss; inform the insurance company which must be given an opportunity to inspect the damages; inform fire brigade that will assist in putting out the fire. During firefighting, any damage to other insured property caused by water, will be paid by the insurance company. The insured must extend cooperation to the surveyor while inspecting and assessing the loss. If arrival of the surveyor is likely to be delayed, photos should be taken, and the unaffected assets shifted to a safe place. Completed claim form and documents as required by insurer must be given, in support of the claim. After repairs/replacement, all bills must be submitted to the insurer.

If I insure for a higher value, will I get a higher claim amount?

No. When you apply for a fire insurance policy, the current market value of the property or the reinstatement value of the property, depending upon the basis of the sum insured, should be accurately calculated for arriving at the correct amount to be insured. The compensation payable when a covered loss or damage occurs shall be based on whether the property has been insured adequately. If the amount insured is excessive, it will mean overpayment of unnecessary premium; if the amount insured is inadequate, the insured will receive amounts in proportion to the market value only.

Questions to ask before buying a Home Insurance:

1. Who is eligible to purchase a Home Insurance policy?
2. What are some factors affecting the premium on a home insurance policy?
3. What is the commencement date of an insurance policy?
4. What are the documents to be submitted in case a burglary takes place?
5. What if the insured house is sold, what happens to the home insurance policy?
6. What does it mean by cancelling and non-renewing a home insurance policy?
7. What is the claim process?
8. What happens after a home insurance claim is registered with a company?
9. What are the most common exclusions to any home insurance policy?
10. I have taken home insurance policies with two companies. What happens in case of claim settlement?
11. What are some of the cases when the insurance company can cancel the coverage during an on-going policy?

5. How to Withdraw EPF & PPF

EPF:

EPF withdrawal claim is made by an employee if he is unemployed or at the time of retirement. 75% of the EPF balance can be withdrawn after one month of unemployment and the balance 25% can be withdrawn after two months of unemployment. You can make a withdrawal claim by filling the EPF withdrawal form online. Note that you can use the online withdrawal claim facility only if your Aadhaar is linked with your UAN.

Withdrawal rules:

1. https://www.bankbazaar.com/saving-schemes/pf-withdrawal-rules.html#new-rules

How to withdraw EPF Links:

1. https://cleartax.in/s/epf-withdrawal-online
2. https://www.paisabazaar.com/saving-schemes/epf-withdrawal-claim-form/
3. https://www.bankbazaar.com/saving-schemes/pf-withdrawal-rules.html#new-rules
4. https://www.epfindia.gov.in/site_en/WhichClaimForm.php

How to transfer EPF after job change:

1. https://www.paisabazaar.com/saving-schemes/epf-transfer-process-when-you-switch-jobs/
2. https://cleartax.in/s/online-epf-transfer-procedure
3. https://economictimes.indiatimes.com/wealth/earn/heres-how-to-ensure-automatic-transfer-of-pf-on-changing-job/articleshow/60851919.cms

PPF

Public Provident Fund (PPF) scheme is a long-term investment option which offers an attractive rate of interest and returns on the amount invested. The interest earned and the returns are not taxable under income Tax. One must open an PPF account under this scheme and the amount deposited during a year will be claimed under section 80C deductions.

PPF Withdrawal Rules & Process:

1. https://www.bankbazaar.com/saving-schemes/public-provident-fund-withdrawal-rules-and-process.html
2. https://cleartax.in/s/ppf
3. https://economictimes.indiatimes.com/wealth/invest/how-to-partially-withdraw-from-your-ppf/articleshow/67205654.cms?from=mdr

6. Emergency fund

Why Emergency Fund is required?

An emergency fund is a crucial fortification step, but we do not have a tailor-made product for this and nor is it necessary. If we can find a way to replenish the emergency fund when it is used, where we put the fund is pretty much irrelevant.

Emergency fund is supposed to be used only during emergencies. Buying a car is not an emergency but job loss is. This fund should be liquid and easily available. Emergency fund is a protective layer, our investments and savings are not affected during emergencies and it helps maintaining discipline in investing.

How much to set aside?

- No general thumb rule like 6 months or 12 months. Save as much as you can
- Sum equal to 6 months EMIs: Leave it even after you are debt free!
- Sum equal to 12-15 months household expenses: Six months to start with and then built up slowly
- Sum equal to at least 50% of Mediclaim sum assured: Requires constant contribution!
- Any excess funds after accounting for investments and expenses (in that order!): Contributions lasting a lifetime!

Use simple products like a savings bank account, liquid fund and arbitrage (do not park immediate emergencies. Use it for less urgent emergencies like EMI payment after job loss) for meeting everyday emergencies. Remember returns are irrelevant so one should park an emergency fund in an easily accessible and safe asset class. Safety, liquidity and simple tax rules is what needed to park emergency fund.
Link. Video.

How long one should maintain emergency fund: Answer is lifetime. Start investing 5-10% of your income as Emergency fund. Link

Can you handle it when your entire wealth becomes an emergency fund?

7. Personal Financial Checklist

Act I: Preparation

1. **Is my life insured adequately? That is, will my family be able to handle their immediate, short-term and long-term goals in my absence**? Some people dismiss this as over analysis and take a 1 Crore term policy! Trust me this analysis will take only 15 minutes. The paralysis occurs while choosing an insurer not while deciding the amount!
2. **Have I discussed with my spouse or nominee how the term insurance amount should be utilised in my absence**? You can write a detailed note about this if your spouse finds it too morbid to discuss this. Just be sure to include the detailed note along with the policy papers. You can also include the contact details of a fee-only financial planner for guidance.
3. **Are me and my family members insured adequately wrt medical expenses independent of my employment**? This seems like a no brainer, but I am appalled to see that people consider Mediclaim expenses as a waste of money if they don't claim and take employee benefits and their own health for granted.
4. **How ready am I to handle emergency expenses**? You need more than 6 months or 12 months expenses. Remember that cashless hospitalisation does not mean cash-free hospitalisation. You still need to pay for 'non-medical expenses.
5. **How capable am I of replenishing my emergency fund if it gets depleted**?! Don't lock all your monthly inflows into EMIs and SIPs. You need a small buffer to replenish the emergency fund.
6. **Do I know what my net worth is**? The only reason you need to do this is because it forces you to list all your investments and update their values.
7. **Have I listed all my goals: recurring, short-term (less than 5 years away), intermediate term (5-10Y away) and long-term (10Y+ away)**?
8. **Do I know the approximate but realistic current cost associated with my goals**?
9. **Have I decided the asset allocation for my intermediate and long-term goals**? Short term is 100% debt! The asset allocation gives you a net portfolio return you are aiming for. For example, if you expect 12% from equity and 7% (post-tax) from debt and would like to have 60% equity exposure, the net portfolio return is (approximately): (12% x 60%) +(7%x40%)
10. **Do I know how much I need to save or invest for each of them**? You need to use a goal planner with the net portfolio return and a reasonable inflation estimate. For retirement, you need to assume an interest rate post-retirement. Use something like 7% or so, for now.
11. **Do I know how much I can invest per month**? Analyse your cash inflow and outflow. Construct a pie chart and stare at it.
12. **If there is a shortfall how am I going to manage it**? Some options: postpone goals, reduce targets, increase investments down the line. Don't make the mistake of increasing exposure to volatile instruments in the hope of compensating lower investments with higher returns. It could backfire terribly.

13. **Have I discussed all this with my spouse or partner**? Have I written down an investment plan? A written investment plan helps everybody, especially those who cannot discuss financial matters with their spouse.

Act II: Action

14. **Do I know what category of instruments (e.g. what kind of mutual fund) am I going to choose for my goals**?
15. **Is my proposed portfolio diversified within each asset class**?
16. **Have I begun investments as per the asset allocation decided**? Not all goals can be handled at the same time by everyone. Retirement is priority number one.
17. **Am I tracking my investments**? **Am I investing enough and as per the schedule assumed in the goal planners**?
18. **Have I written a will**?

Act III: Review

19. **Do I know the net return (XIRR) of my debt investments and equity investment? Do I know the net XIRR of the portfolio**? Is this above or below the expected portfolio return used in the goal planners?
20. **Do I know what is the current actual value of goal portfolios? Do I know how much are they worth**? If I don't invest anymore for these goals, how much would the current value grow to when I need the money?
21. **Do I know how many years I can survive on an inflation-indexed monthly income with my retirement corpus If I retire today**? Let us call this X years.
22. **Am I increasing this X years by at least one year for each year that I work**? This is the true measure of a retirement portfolio.

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End note: At the end of the day how successful we are with our finances is decided by how much money we have when the need arises – at which point XIRR or CAGR or IRR or whatever we wish to call it matters little. All we can do is make reasonable assumptions, invest in productive assets which is part of a diversified portfolio and hope for the best!
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8. Investments Basics

Financial Planning:

Financial planning examines your goals and helps you prioritize, save and invest for them. It is a lifelong dynamic process. We must keep reviewing our financial situation periodically, make necessary changes in our corpus requirement from time to time according to the change in our income and expenditure, family responsibilities, market returns etc and see how we can achieve all our dreams in our lifetime.

Word of Wisdom:

Do not wait for the perfect plan, no plan is fool-proof. We can never know if an investment decision is correct with 100% certainty (especially in equity!). The cost of postponement is deadlier than inflation. Every moment wasted, not being in control of your cash flow, not investing enough, not acting, is lost for ever (the cost of inaction outweighs the cost of accuracy). The magic of compounding diminishes slowly and relentlessly. Mistakes are inevitable – so the best we can do is to keep learning and keep improving.

Having insurances and an emergency fund is more important than investing IMO. Have a strategy and stick to it and hope for the best. Deciding asset class and category is more imp than the product. Do proper asset allocation and de-risk and exit plan before investing.

Managing risk is more important than chasing return. Do not focus on Returns and Products. Focus on the target amount and how much you can invest. Duration and quantum of investment (not returns) are responsible for wealth creation, returns are by products. Time in the market is more important than timing the market. One should always work towards keeping finances simple. People often over complicate things by choosing complex products.

Debt/Loans should not be more than 30% of your in-hand salary at any cost. Save minimum 40%. Home loan is the only justifiable loan as you are taking loan for an asset which appreciates with time and you save money on rent & taxes. Strictly stay away from other loans like Car, Vacation, Credit Card, Personal loan (unless for emergencies), Education, Marriages etc.

Good Money Habits:

1. <u>Create a budget and follow it strictly</u> – When you budget, you mentally map your finances, and this is a great way to engage with Money. You are essentially looking at expenses/savings and see you are not going overboard. This exercise is important as in the Quest to live in the present you are completely putting future at stake

2. Save first and Spend later – Saving your income and then investing it wisely ensures that you just don't live well in the now but also in the future. So, when you draw up your budget, jot down all the mandatory expenses like EMI/Rent, Food, Tuition fees that you need to pay and netted off against your salary. The balance is the surplus you should be invested for future. Take out some portion for leisure and entertainment
    - Investing is a process and patience is the mantra, you should not be in hurry to get rich. 'Do not save what is left after spending, spend what is left after saving'
        - ✓ **Salary = Investments – Expenses – leisure money**
        - ✓ **Real return = Return from Investment – Inflation**
3. *Savings is not enough, start investing*
4. Chalk out your Financial goal and invest accordingly: Randomly saving money does not often yield the desired results. Build a goal and start with goal-based investing. Build this discipline now and it will give you handle on how much you need to save and in what product should you invest money. Invest for all the goals first then spend.
5. Do not follow Herd mentally: You need to chart out your own money course
6. An investment should be evaluated on parameters like liquidity, volatility, safety, transparency, returns & suitability for different time frames

Investment basics:

- Start investment early. Right from your first pay check. Compounding works wonder when you start early, it works slowly & gradually. How to get started in money management?
- One cannot cover up the lost time by investing more at later stage of life
- Do not underestimate Inflation, it reduces the purchasing power
- Have a reasonable return expectation i.e. same or just above real inflation

Goal Duration	Equity		Debt	
	Allocation	**Return expectation**	**Allocation**	**Return expectation**
less than 3 years	0%	120%!!!	100%	6%
3-5 years	10%	7%	90%	7%
5-7 years	20%	8%	80%	7%
7-10 years	30%	9%	70%	7%
10-15 years	50%	10%	50%	8%
more than 15 years	60-70%	10%	40-30%	8%

- Keep lifestyle inflation in check. Do not increase your expenses with each increment
- Evaluate various investment choices and asset classes before starting the journey
- Choosing an appropriate Category or asset class is more important than product itself
- Select a product category based on target and number of years to achieve the goal
- Choose equity for long term goals to tackle inflation & debt for short term goals
- Asset allocation i.e. Equity: Debt ratio is the key to financial freedom
- Risk Analysis - one should know how much volatility he can handle?

- Understanding of different asset classes, their characteristics, their advantages & disadvantages, pros & cons of investing in them, compounding effect, benefits of investing long term in each of them, impact of market cycles, risk associated with each asset classes, risk & return and their correlation, behavioural impact of market fluctuations, the stomach to digest in volatile asset class till target is achieved
- Yearly Portfolio review & rebalancing portfolio according to required asset allocation
- Be open to course-correction along the way
- Can I get rich only if I spend less and deprive myself of Life's Pleasures?
- Advice on the internet is a big distraction. When you advise people (with your own half-baked knowledge), whatever you say, always refer the person to a fee-only advisor.

7. Delay any purchases which you can, sleeping over it gives you more clarity - Learn to be okay with delayed gratification

- Optimal solutions are rarely possible. All one can do is look at one's personal situation, consider the points to remember while choosing a product and just go for it. A reasonable choice is all that one can come up with most of the time. The crucial thing to remember is education doesn't stop with making the choice. You continue learning, make course corrections as and when necessary. This is how science progresses. This is how a retail investor can and should achieve financial goals

Investment process

- Emergency fund is the cornerstone for all equity investments. If you invest in equities, maintaining a sensible amount in an emergency fund is an extreme must
- Life & health insurance will safe guard you & your family in case of unexpected emergencies. These are 2 most important and must have insurances
- Finding suitable medical insurance is very hard
- If it's not having a goal- then it's not an investment. It's some sort of hobby you are playing with your money. A forgotten goal can derail your finances
- Prioritize goals
- Asset allocation, rebalancing & step wise equity reduction strategies are what differentiates going-to-be-crorepatis & others left on the way

Golden words by Warren Buffet:

1. When other are afraid buy more and when other are greedy sell
2. Never lose your principle
3. Do not forget rule no. 2
4. Never invest in a product or company you do not understand

Investing mistakes:

- Investment in assets like FDs, Gold & Real Estate by following the footsteps of our Grandparents/parents – Never invest real estate as an Investment as it's 'most illiquid asset
- Waiting too long to invest and missing the bus
- Buying gold every year on Diwali
- Using fixed deposit as main investment choice
- Mixing investment & insurance, believing ULIPs & Endowment policies will take care of insurance and investment needs
- Not buying life & health insurance and insufficient coverage
- Acquiring high debt to fund goals like Home loan
- Rushing to put money in PPF account in the last week of March
- Assuming EPF contribution will take care of Retirement needs
- Ignoring inflation: Thinking inflation is a fancy term that has nothing to do with you
- Not doing goal-based investing
- Buying product that we don't understand
- Wrongs ideas about averaging like Rolling returns average
- Waiting for a suitable time to dip Investing
- Expecting a return from market-linked investments!
- Overconfidence based on past data
- Feeling the need to know more about every new NFO
- Suffering from small exposure syndrome
- Not having yardsticks for judging big or small
- Assuming Information is power
- More risk = more returns
- Short term losses do not matter, long term will be 'okay'
- Locking up money is good else it will get spent
- Assuming investing in stocks is better than mutual funds
- Assuming we can understand fund manager decisions
- Market timing is not possible
- Market timing will lead to more return
- Assuming equities will perform and are less volatile in long run
- Assuming SIP will take care of market volatility in long term
- Exiting equities on panic
- Concentrating on Tax saving or investing by keeping tax saving in mind
- Retirement planning mistake – Fixed income will be enough to take care of expenses
- Never follow 'Invest & Forget' strategy – It is of utmost importance to re-evaluate and re-balance your portfolio periodically.

*Products to stay away from:

- Investment in **Physical Gold**
- **Real estate** other than self-occupied due to liquidity issue
- Any targeted product like retirement or child plan, annuities at young age, NPS.
- Schemes with unnecessary lock-ins like **ELSS** unless you have exhausted your 80C limit, **Endowment policies**, **ULIPs** (a must no)
- Any mutual funds that has word retirement or child in it
- Structured or Combination products
- Money back, Whole life, guaranteed or assured products/returns & LIC policies
- Any policies referred by Bank Relationship manager,
- Stocks (if you don't have time)
- Stay away from products you don't understand

90% of the time all an investor need:

- A self-occupied property – A fantastic post from Yamini Sood
- A big Fat Emergency fund
- Maximum Term Insurance
- Good & affordable Health Insurance
- Good Property Insurance
- FD, RD and Debt mutual funds for all short-term goals
- Hybrid/Equity Mutual Funds with proper asset allocation, diversification and re-balancing, De-risk & Exit strategies in place

Investment Kick-off

How to plan for your goals:

- Target Year
- Current value
- Inflation
- Portfolio returns expectation
- Goal based Risk profiling
- Constant or incremental option
- You can derive to any value using excel' s PV & FV formulae

Why Equity?

Investing in equity is unfortunately the only way to achieve inflation adjusted capital appreciation

Paisa Vaisa podcasts by Pattu sir on financial freedom:

1. Why everyone needs to think about financial freedom
2. How to create a financial freedom plan
3. How to execute the financial freedom plan

Before starting investment, one should learn the process?

1. Worried about Recession, market crash & job loss? Focus on this instead!
2. How lifestyle inflation can impact our financial stability
3. Inflation is enemy - Why Investing and Financial planning is required?
4. Investment Planning
5. Steps for successful investing
6. What kind of investor you are? – Understand your risk Appetite
7. Why goal-based planning is utmost important
8. Guide to long term goal-based investing
9. Clear financial goal with future value
10. Decide how, when and where to invest
11. Asset Allocation
    a. Deciding on asset allocation
    b. Asset allocation for long term
12. How to choose right financial product for a goal
13. Which category is suitable for goal & When to choose which category
14. How much inflation to consider – 10% for Education, 8% for normal inflation, 15% for healthcare
15. There is more to investing
16. Why one need to invest in equity & Why to invest in equity if there is no guarantee. Video
17. Do not invest in equity if you don't know when and how to get out
18. How to start investing in equity
19. How much Equity should one hold in his portfolio for long term goals
20. What returns can I expect from Equity Part1 & Part 2– Zero returns even though long term
21. What is short & long term in equity & Part 2
22. Understanding Mutual Fund Investment Risk vs Reward & Part 2
23. Sequence of risk is important
24. Simple De-Risk strategies
25. Understanding risk associated with equity
26. Key to successful Mutual Fund investing
27. Why we need to gradually pull out of equity investments well before we need the money!
28. Reduce risk in investment portfolio & Systematic reduce risk with associated SIP
29. Rebalancing strategy
    a. How to rebalance a portfolio
    b. Rebalance every year to minimize risk
    c. The What, How & When of rebalancing

30. Brace yourself for Volatility
31. How Imp is Mutual Fund Selection
32. what should be my first mutual fund?
33. Equity portfolio construction Part 1 & Part 2
34. Debt mutual fund understanding – Part 1, Part 2 & Part 3
35. Quantifying Portfolio Diversification
36. How many mutual funds should I hold?
37. Stock market investment risk will not reduce "over the long term"!
38. SIP Reduce risk – No, all SIP instalments will be affected when market falls
39. How to track financial goals?
40. De-Clutter your Mutual Fund Portfolio
41. Review Mutual Fund Portfolio
42. When to exit a Mutual Fund
43. Do not make these 15 investing mistakes
44. Worried your income is not enough? Here is how you can plan for financial goals
45. Expect less and be happy
46. Measure Your Success Using These Milestones in Personal Finance
47. Illustration: Financial Plan Creation

****Videos for all above articles are available here***

How to construct Portfolio for each goal:

- Set all your goals – Unless you define your goals, you do not know
    - What is your investment horizon?
    - How much money should you invest?
    - How much risk is required to achieve each goal, Goal based risk profiling?
    - What kind of investments should you make?
    - How to manage the risk
- Define Investment Philosophy – What are the asset classes you are going use. only FD, only Equity, or mixture or both, Gold etc. How you are going to invest the money.
- Understand Asset Allocation – How much should I invest in each asset classes. Asset allocation helps us recognize overall returns from the portfolio
- Undertaking portfolio Construction – Select a product category suitable for each goal in each asset class and then choose product

Review Portfolio:

- Review your portfolio periodically- You can choose not to do it for initial few years or annual review. For us we will do it yearly
- Rebalancing periodically – Reset portfolio according to initial asset allocation periodically to minimize risk

- Vary Asset Allocation – Asset allocation is not a constant entity. As you approach your goal you should gradually decrease your portfolio from equity heavy to Debt heavy. Practically zero equity. We have decided to lower the asset allocation from 60:40 equity: debt after every 5 years internal to 50:50 & 40:60 likewise strictly for long term goals
- Quit when ahead – Most imp point. If you have a clear goal and you know how much money you need for goal, you can quickly transfer the amount to debt. As goal approaches, if your equity has given you stellar gains, book the profits and push it to debt and be happy

Link & Videos for Portfolio Construction

De-risk strategies – De-risking refers to a process of containing losses:

- Start investing early
- Expect less – I assume only 8.4% return from overall portfolio for each long-term goal. 6% for fixed income like RD, FD & 7% from Govt saving schemes like PPF, EPF
- Asset Allocation – 60:40 Equity: Debt for really long term goals
- Select an asset class wisely
- Diversify with asset class
- Rebalance each year
- Strategic lowering % of volatile asset class as goal nears

Rebalancing methods:

- Every year rebalancing with periodic lowering of equity starting after 3 years for 15-20 years away goal
- Rebalancing when there is a gap of 5 or 10% deviation in decided asset allocation
- Based on index PE/PB ratios like Advantage funds. Videos.
- Rebalancing strategies
    - How to rebalance a portfolio
    - Rebalance every year to minimize risk
    - The What, How & When of rebalancing
    - I hold hybrid funds, should I rebalance my portfolio?
    - EPF/PPF, how can I rebalance my portfolio with them?
    - What are the options if I cannot use PPF, EPF or NPS?
    - Fixed Income Investment Options for Accumulating Retirement Corpus

Review Mutual Fund:

We review our holdings for many different reasons:

i. We may just realize that we are holding 20 funds instead of just 1/2 which would do
ii. Routine annual review
iii. Review to decide on how to reduce equity exposure as goal approaches
iv. Rebalancing, tactical moves etc.

- Review Mutual Funds in 3 simple steps
- How to review a mutual fund portfolio and trim your portfolio i.e. de-clutter
- Review Mutual Funds SIP
- Fund review archives

Exit Strategies

- De-Clutter your Mutual Fund Portfolio
- When to exit a Mutual Fund
- Fund is not performing well when compared to benchmark and as per our expectation
- When Goal nears
- When circumstances change and money required for long term is required immediately

Important links for Investors:

1. Worried About Losing Your Job? A Guide to Handle Potential Sudden Loss of Income
2. What if I cannot invest enough for my financial goals?
3. What percentage of my salary should I invest each month?
4. Are you a conservative investor? Here is how you can grow your money smartly
5. Want to save tax for the first time? Tips to avoid mistakes!
6. PMVVY for senior citizens
7. Index Investing: Advantages & Disadvantages
8. What is risk
9. 10 Steps for Successful investing
10. All How-to articles on FreeFincal
11. Investing Dos & Don'ts
12. Investment options for Senior Citizens
13. Pre-pay Home Loan or Invest
14. Should I Stop My Mutual Fund SIPs? Market is falling every day!
15. 10 things mutual fund investors should not be doing!
16. Should I book profit when the market is at an all-time high?
17. Senior Citizens Retirement plan
18. How mutual funds beat the index! – By managing risk i.e. downside protection
19. Why can't I invest in 60% equity all my life?!
20. Fund manager exit – What investor should do?
21. Sovereign Gold Bonds
22. Two Crores in hand or one lakh a month pension for life Which is better?
23. What is a living will, why it's important, how to make one & how it can help our loved ones?

Myths about Investing

- SIP Reduce risk – No, all SIP instalments will be affected when market falls
- Stock market risk will reduce over long term – No
- SIP is Systematic Investing – Sorry, it is not
- Do not expect returns from SIP – SIP does not guarantee returns or lower risks
- Mutual Fund has no compounded benefits – Yes it does not have compounding benefits
- Buying on market dips – No significance gains
- Index vs ETF – Index funds due to liquidity and SIP
- Higher risk generally means higher returns – No
- Diversification will lower returns – Yes
- Selecting the right equity mutual fund scheme is possible! – No, select an average fund and have a good and robust review process
- Lump Sum or SIP to lower risk – They both offer same risk, as whole amount is subject to full force of the market when market turns volatile
- Equity comes with No guarantee – Yes, then why 1 should invest: To beat the inflation, equity is an instrument which has a reasonable chance of beating inflation. Not meeting the desired goal is also a risk than taking volatile asset class. Not taking risk is also a risk
- Buying PPF before 5th of April – The difference in Maturity amount is way too less considering inflation after 15 years. Invest what you can, when you can
- The 4% retirement rule is wrong! Do not retire early in India (or US) based on that!
- Should you Ignore Mutual funds stars & rating? – Ans to this simple question is yes
    - Part 1
    - Part 2
  - Unified portfolio is better than individual – No, has it's own set of challenges i.e. Review, rebalancing & exit
  - Investing in Gold is safer than equities – No, gold has higher volatility than equities with returns like debt product

****Videos for all above articles are available here***

Qualities of Successful Investor

- As an Investor, arrogance & EGO can be biggest enemy
- One cannot be a successful Investor unless determined and focussed
- Over confidence is quite often biggest Roadblock
- Patience and Perseverance can overcome mountains
- Right strategy will triumph
- Course correction during investment journey

Lessons from Mutual fund investing

1. Past performance matters, but not as much
2. Selecting the right mutual fund is not possible
3. Reviewing is more important than selection
4. Returns are not important
5. SIP is not a strategy → Remember SIP <> Discipline!
6. Go beyond SIPs
7. Star ratings are useless
8. Peer comparison is useless
9. I have better things to do than to time the market
10. Do not hesitate in choosing new funds
11. Stay away from popular funds
12. Keep it simple and minimalist
13. Expenses are important, but so is alpha
14. There is no right or wrong. Only grey!
15. Patience is key
16. The past is prologue

Things to do after investing in mutual funds?

1. Facing risk and poor returns in the first few years of the investing journey are probably the best thing that can happen to an investor
2. Ask if you are investing for the right duration?
3. Are you investing only in equity funds?
4. Did you associate a goal with your investments?
5. Are you holding too much-fixed income?
6. Is my portfolio diversified or di-worsified?
7. Learn how to monitor your portfolio!
8. Are you investing more and more each year?
9. Re-evaluate your goals once a year

How to ride out an economic slowdown?

Learn to be prudent when times are good? – Try to save up more when you have larger increments and jobs are easy

1. Keep an emergency fund ready? – Biggest cushion during crisis. Keep it in an easy to access funds
2. Find money by cleaning out your Portfolios? – Exit funds which are not performing so well, exit life endowment policies either not giving great coverage or returns, revisit real estate investments. Collate multiple bank accounts.
3. Re-skill yourself to be relevant & employable

Questions to ask before buying a Home?

Buying a Home is probably the biggest financial decision in one's life and has huge financial commitment to it. One should think twice and factor in the impact of buying a home on financial life.

1. Do you move around too much?
2. Will you be able to move in right away? – Always buy ready to Move properties to avoid uncertainties
3. Do you have substantial money upfront for down-payment? – Always have 30-40% of money as download which in-turn lowers the burden of Home loan and EMI outgo
4. Can you service the loan? – Home loan have become increasingly easy to get but remember Home has long term commitment and EMI outgo can be substantial. Make sure your inflows are not likely to stop suddenly
5. Will you be able to sell it? – As one cannot sell property instantly when needed. Real Estate as investment is probably not a good idea due to illiquidity
6. Will your children even want it? – Do not buy property to pass it onto your children as Inheritance. Higher chances of relocation due to nature of Job these days
7. If you are buying a property as an Investment? – Check the rental yields in the Locality. Generally, in India rental yields are very low and returns from real estate are not more than 5% factoring in rental yield & property appreciation
8. When to buy a house: now vs later vs never?

5 Questions to ask before getting Married?

As far as big decisions go, getting married is one of the most significant one's you must make. Marriage mean sharing most important aspects of your life and your money life is one of them. Money is one of the most common reasons couples fight.

1. Should you splurge on the Wedding? – Have a budget to adhere to, do not go overboard on spending. Do not take loan to fund your wedding.
2. Are you and your partner on same page? – Each person has different approach to life and long-term goals. And it's important to know, you and your partner share the outlook. It's equally important to know if you and your spouse are financially compatible and are financial goals aligned. Make sure to discuss how much to save, where to invest & goals
3. Should you get Joint Bank Account? – Joint bank account makes things smoother services loan EMIs, Investment & expenses. Also have one independent account
4. How will you split the expenses? – Who is going to save and who will take care of expenses
5. Do you have full disclosure of finances? – Do not have financial secrecy and have full disclosure of expenses & investments

5 Questions to ask before having child?

1. Do you have enough stashed away? – Having an emergency fund is so crucial before having child
2. Are your other financial goals sorted? – Parents tend to put their children before everything else. They tend to funnel their savings and money from other goals to fund child's education and Marriage. Be little selfish and don't sacrifice your retirement corpus
3. Is your Job stable?
4. Do you have adequate Life & Health insurance?
5. Can you fund their education? – Factor in cost and start saving early for child graduation & higher education

Questions to ask before Retirement?

Retirement is the big milestone in one's career. If you are in 30's or 40's retirement seems far away but start planning early and invest for the same. Post retirement implement **bucket strategy** to save & grow your savings

1. When do you want to retire? – People retiring earlier
2. How big should my retirement corpus be? – To figure out how much you need to save for your retirement, calculate how much you will spend in each year after retirement. Start by calculating how much you spend in a year now eliminating expenses which will not exist in Retirement like Loan EMIs, Insurances premiums except Health, Child school fees and education cost. Now add the expenses that will be there in retirement due to age factor i.e. medical bills, cost to cover travel & leisure activities. Remember these expenses will balloon over time due to Inflation
3. Would you be able to pay your Medical bills? – Make sure you buy adequate Health insurance early on as it would be difficult and expensive at later stage to get an insurance. Start a medical fund specifically for retirement and keep investing. Healthcare costs are incremental and balloon with time due to inflation. It will be quite substantial during retirement
4. How should you invest in retirement? Keep major portion in FD, RD, Debt Mutual Funds. Have 30% portion in Balanced Advantage & Hybrid funds during retirement to avoid risk of outliving expenses
5. What if corpus falls short? – Start early and keep investing. Consider inflation while factoring in retirement corpus. Have contingency plan and be open to work for few more years if corpus looks like it will fall short
6. Fixed Income Investment Options for Accumulating Retirement Corpus
7. Can we avoid equity and use EPF plus PPF alone for retirement planning?
8. Retirement bucket strategy – Post retirement one should not put all his savings in a single asset class. What one need is to create a bucket strategy to save & grow his lifetime savings in order to reduce risk of outliving his savings. Managing Sequence of Return Risk : Retirement portfolio
9. Post Retirement Expenses planning

10. [10 years before Retirement]

Retirement Planning: Avoid these common mistakes!

1. Ignoring inflation after retirement!
2. Assuming expenses will go down post-retirement!
3. Taking comfort in an average inflation of 6%
4. Deciding equity exposure based on risk appetite
5. Ignoring tax on corpus and annuity/pension
6. Assuming retirement age is fixed in stone
7. Assuming inflation will decrease after your retirement
8. Overestimating returns, especially post-retirement
9. It is enough to save 15% of gross-pay each month
10. Overestimating your salary growth
11. Retiree Mistakes

Remember "If you want to make God laugh just tell him your plans"

Fund Manager Exit – What investor should do?

There are only two practical solutions:

1. Become a passive investor

2. If you prefer active funds, do not look at who is managing your active fund. Judge a fund only by performance. Buy, if the performance is consistent. Sell if it is no longer consistent.

10. Mutual fund selection process

I know selecting mutual fund looks interesting however, it is mandatory to have the below template in place before moving to mutual fund selection.

Investment Template:

- Define/Identify goals
- Identify the appropriate financial product category
- How much to Invest? – Amount required to be invested regularly
- Have reasonable return expectation from each asset classes
- Plan how to vary asset allocation with time
- Decide investment categories & Invest

Few Points before selecting mutual fund

- How investors are fooled into buying a wrong Mutual Fund
- Returns are not guaranteed
- Historical performance doesn't guarantee future returns
- When it comes to picking a fund- there are people who work full time in this industry and yet most of them are not able to beat the index. So mere mortals like me who have full-time jobs should focus on the index investing and building capital over the long term (This also comes with a lot of terms and conditions. Assumption- there is a long-term growth story for this economy. That's the hope! Cheers
- Do not invest in Small Cap investment as the volatility to return ratio is simply not worth it
- Even 1 fund provide good enough diversification. An investor should not have more than 3-4 funds for all the goal. Keep it simple and easy to review. De-clutter your portfolio
- Mutual fund rating does not matter, everyone has different parameters to rate a fund and they are looking at different time frame which might be different in your case
- Do not buy 2 mutual funds from same AMC as portfolio overlap (number of same stocks) will be high. Always select fund with low portfolio overlap probably below 30%. Use Pattu sir's Portfolio overlap tool to get common stocks and % overlap between funds
- Try to select funds of different style and different AMC e.g. Value & Growth style
- <u>Hybrid mutual funds provide better downside protection and should be first choice for retail investor compared to pure equity funds</u>
- Choose Debt fund with high quality bond papers as 1 invest in liquid fund for capital preservation not appreciation
- Try to us PPF as Debt component for 15+ goals as PPF matures after 15 years. It has no tax on maturity with EEE status
- Choose Arbitrage fund for rebalancing as it is tax efficient. Money kept for more than 1 year attracts long-term capital gains of only 10%. Better for folks who are in 20 or 30% tax bracket

Equity Mutual Fund

- How Imp is Mutual Fund Selection
- Build Equity portfolio construction Part 1 & Part 2
- List of Mutual fund categories that you can avoid! (Keep it simple!)
- Using Hybrid Mutual Funds as The Core Equity Portfolio Holding
- Hybrid Mutual fund are low-risk reasonable reward option
- Balanced Advantage vs Aggressive Hybrid MF
- Aggressive Hybrid vs Diversified MF
- Large caps vs Midcaps vs Small caps performance comparison. Video
- Index Investing: Advantages & Disadvantages
- Simplest is start pick a Category and respective fund from Pattu sir's Plumb line
- Simple ways to select a Mutual Fund: https://freefincal.com/mutual-fund-selection-ways/
- *select an equity mutual fund – Creating a shortlist
- Step-by-Step Guide to Selecting an equity Mutual Fund
- Ways to Screen for Low Risk High Return MF
- 8 ways to combine NN50 with Active Mutual Fund
- Combine Nifty & Nifty Next 50 funds to create large, mid cap index portfolios
- 9 simple equity Mutual Fund portfolio for everyone
- Fixed Income Investment Options for Accumulating Retirement Corpus

Debt Mutual Fund

- What is debt mutual fund?
- Debt mutual fund understanding – Part 1, Part 2 & Part 3
- Why do we need debt mutual funds?
- Are Debt Mutual Funds an Alternative to Fixed Deposits?
- Understanding Debt Mutual Fund Categories
- Advantages of debt funds over fixed deposits
- Understanding Interest Rate Risk in Debt Mutual Funds
- Understanding Credit Rating Risk in Debt Mutual Funds
- What is risk premium and why it is important
- Debt Mutual Funds: Risk vs. Reward
- Do's and Don'ts of Debt Mutual Fund Investing
- Poor Debt Fund Advice: Match Investment Horizon with Fund Maturity Profile
- How to Select Debt Mutual Funds Suitable for Your Financial Goals?
- How to choose debt mutual funds with low volatility?
- Choosing Debt Mutual Funds for the Long Term
- Simplest is start pick a Category and respective fund from Pattu sir's Plumb line
- How to Choose a Liquid Mutual Fund

- How to choose a liquid fund in 2019 by minimizing credit risk
- How to select Ultra Short Term debt fund & How and when to use them
- Gilt Mutual Fund – When and How to use them
- Debt Mutual funds alternatives?
- Banking & PSU Debt Funds will not help you avoid credit problems!
- Reducing Tax With Partial Mutual Fund Withdrawals: Examples

Things to do after investing in mutual funds?

1. Facing risk and poor returns in the first few years of the investing journey are probably the best thing that can happen to an investor
2. Ask if you are investing for the right duration?
3. Are you investing only in equity funds?
4. Did you associate a goal with your investments?
5. Are you holding too much-fixed income?
6. Is my portfolio diversified or di-worsified?
7. Learn how to monitor your portfolio!
8. Are you investing more and more each year?
9. Re-evaluate your goals once a year – Remember retirement planning should be your number 1 goal then child education, buying a house, car & vacation in that sequence

Give these nine steps a try and you will grow in confidence and not fear market crashes!

10. How to select an equity/debt mutual fund

1. Assuming you have identified a fund category suitable for your goal, Simplest way is to pick a fund from Pattu sir's Plumb line list
2. You can download Pattu sir's Mutual fund screener to quickly select a fund applying filters. Select 70% downside protection for 5 and 3 years and select 70% out-performance for 5 and 3 years. Invest in any fund which belongs to a good fund house after applying the filters. Video on how to select a mutual fund using screener.
3. Prefer to invest in different style of equity MFs for better diversification i.e. growth and value style. One should avoid using Small-Caps due to volatility and risk-adjusted returns are not compelling. Try to build core portfolio around hybrid funds like Aggressive Hybrids or Dynamic Asset Allocation fund as expense ratio is justified for guaranteed downside protection.

What to look for in a fund offer document/Scheme investment document?

The difference between a good investor and a bad one is quite often subject knowledge.
Here are some of the things that you need to keep an eye out for:

1. **Investment Objective**: This will explain the mandate and scope of the fund's investment. Whether the fund is equity- or debt-oriented, whether the fund will be multi-, large-, mid- or small-cap specific, the level of diversification, the option to the fund manager to invest overseas and other such information will be mentioned here.
2. **Type of fund**: Is the fund open- or close-ended? In case of a close-ended fund, look at the lock-in period, liquidity window and repurchase options.
3. **Costs**: Fees, expenses and loads will be listed. Compare these with those of other similar funds.
4. **Investment**: The minimum initial investment, methods of purchasing, redeeming and making additional investments, the amount of time required for redemption, and so on.
5. **Investment Team**: The fund manager, the number of fund managers managing the fund and information on each. This information is useful to those who would like to check the performance of funds previously managed by the same team members

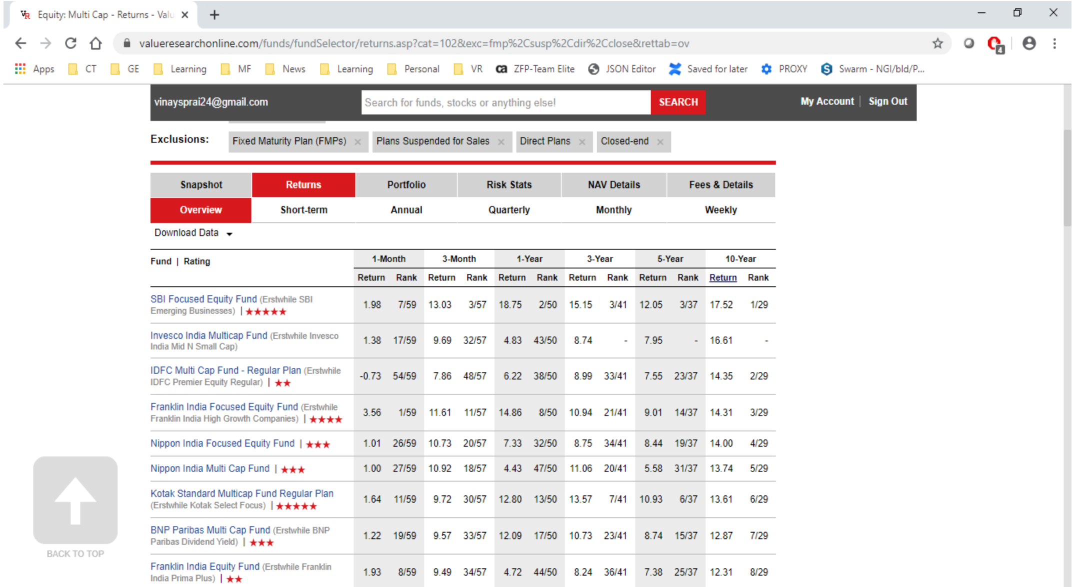
My Equity Hybrid Fund selection strategy using VR & Morningstar

1. Invest in a fund which is required for your portfolio not you
2. Select a mutual fund category suitable for your long-term goal
3. One should try to choose funds with low risk, average & consistent returns, minimum portfolio overlap, decent AUM & different investment styles i.e. Growth or Value

Shortlist funds using VRO & Morningstar

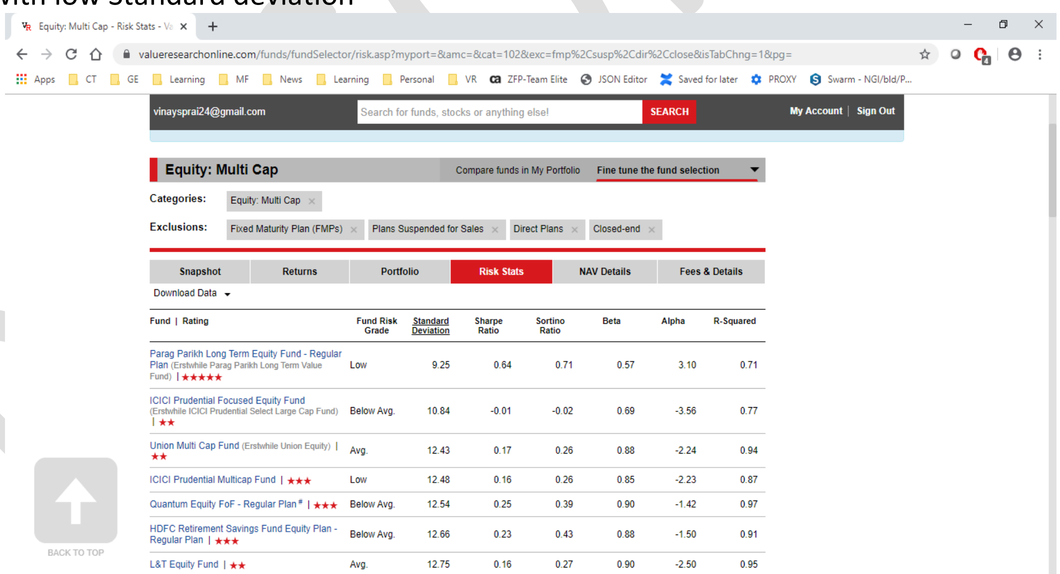
4. Presuming you have identified fund category

5. Go to ValueResearch fund category section
6. Go to the returns tab and shortlist few funds based on trailing returns **consistency** over 3, 5, 7 & 10 years. **Consistency** is subjective and can be measured by looking up fund's rank which should fall between 1-15 across all tenures. For you it could be 1-20 also.



Fund | Rating	1-Month Return	1-Month Rank	3-Month Return	3-Month Rank	1-Year Return	1-Year Rank	3-Year Return	3-Year Rank	5-Year Return	5-Year Rank	10-Year Return	10-Year Rank
SBI Focused Equity Fund (Erstwhile SBI Emerging Businesses) | ★★★★★	1.98	7/59	13.03	3/57	18.75	2/50	15.15	3/41	12.05	3/37	17.52	1/29
Invesco India Multicap Fund (Erstwhile Invesco India Mid N Small Cap)	1.38	17/59	9.69	32/57	4.83	43/50	8.74	-	7.95	-	16.61	-
IDFC Multi Cap Fund - Regular Plan (Erstwhile IDFC Premier Equity Regular) | ★★	-0.73	54/59	7.86	48/57	6.22	38/50	8.99	33/41	7.55	23/37	14.35	2/29
Franklin India Focused Equity Fund (Erstwhile Franklin India High Growth Companies) | ★★★★	3.56	1/59	11.61	11/57	14.86	8/50	10.94	21/41	9.01	14/37	14.31	3/29
Nippon India Focused Equity Fund | ★★★	1.01	26/59	10.73	20/57	7.33	32/50	8.75	34/41	8.44	19/37	14.00	4/29
Nippon India Multi Cap Fund | ★★★	1.00	27/59	10.92	18/57	4.43	47/50	11.06	20/41	5.58	31/37	13.74	5/29
Kotak Standard Multicap Fund Regular Plan (Erstwhile Kotak Select Focus) | ★★★★★	1.64	11/59	9.72	30/57	12.80	13/50	13.57	7/41	10.93	6/37	13.61	6/29
BNP Paribas Multi Cap Fund (Erstwhile BNP Paribas Dividend Yield) | ★★★	1.22	19/59	9.57	33/57	12.09	17/50	10.73	23/41	8.74	15/37	12.87	7/29
Franklin India Equity Fund (Erstwhile Franklin India Prima Plus) | ★★	1.93	8/59	9.49	34/57	4.72	44/50	8.24	36/41	7.38	25/37	12.31	8/29

7. Go to risk section & sort by std deviation. From the above list of consistent funds, select few funds with low Standard deviation



Fund | Rating	Fund Risk Grade	Standard Deviation	Sharpe Ratio	Sortino Ratio	Beta	Alpha	R-Squared
Parag Parikh Long Term Equity Fund - Regular Plan (Erstwhile Parag Parikh Long Term Value Fund) | ★★★★★	Low	9.25	0.64	0.71	0.57	3.10	0.71
ICICI Prudential Focused Equity Fund (Erstwhile ICICI Prudential Select Large Cap Fund) | ★★	Below Avg.	10.84	-0.01	-0.02	0.69	-3.56	0.77
Union Multi Cap Fund (Erstwhile Union Equity) | ★★	Avg.	12.43	0.17	0.26	0.88	-2.24	0.94
ICICI Prudential Multicap Fund | ★★★	Low	12.48	0.16	0.26	0.85	-2.23	0.87
Quantum Equity FoF - Regular Plan# | ★★★	Below Avg.	12.54	0.25	0.39	0.90	-1.42	0.97
HDFC Retirement Savings Fund Equity Plan - Regular Plan | ★★★	Below Avg.	12.66	0.23	0.43	0.88	-1.50	0.91
L&T Equity Fund | ★★	Avg.	12.75	0.16	0.27	0.90	-2.50	0.95

8. Shortlist consistent funds with better risk adjusted return i.e. low Std deviation

And

9. MorningStar Fund screener or MorningStar fund category compare tools to shortlist–
   a. Select a specific category in Morningstar Category
   b. Select Morningstar Risk as low
   c. Select 3-year Standard Deviation as low & below average
   d. Select 3 year & 5-year returns > Category Average
   e. Click search, it will return few low risk & possible average returns fund

10. One should tally funds from both Morningstar and ValueResearch and pick common funds from the list assuming search criteria is same

Selecting funds from the shortlist

11. Check the portfolio overlap between funds and select funds with minimal overlap. Use Pattu sir's Portfolio overlap tool to determine the common stocks & % overlap of stock and % weightage of common stocks in each fund. Overlap up to 30% is acceptable, 20% is good
12. Read the fund's scheme investment document (SID) and understand its investment mandates
13. Check fund's investment style history i.e. Value/Growth/Blend and select funds of different styles. Remove any fund that has recently changed its mandate e.g. Mirae Asset India Equity to Mirae Asset Large-cap fund (now this fund is rated 5 stars @ ValueResearch however this was a multi-cap fund turned into large-cap)
14. Go thru the fund factsheet check historical expense ratio and AUM history, check for any unexpected growth or regular change in fund TER which led to AUM ballooning. Check difference between direct vs regular expenses. Use fund fact sheet and AMFI data

Among these, remove all AMCs that you are not familiar with or hold an account with. Wager that the list down to 4-5 funds only.

Analysing selected funds history, performance & style using VRO

15. Check Asset allocation history of fund i.e. equity and debt ratio and verify if it's following the category mandate as described by SEBI, data is present under portfolio tab

Debt Component:

16. Check the maturity profile history whether fund holds long or short duration bonds by looking at Modified duration, Average maturity period & YTM
17. Average maturity of the fund should be low. Stay away from any debt fund with an average maturity profile greater than 1 year with exception of gilt funds. Verify the exact Average maturity of fund in its Scheme Investment document and pick a fund with the lowest tenure
18. Modified duration of the fund should be low as compared to peers– It shows how much the fund will fall W.R.T change in interest rate
19. Yield to Maturity is the measure of risk not returns. High the YTM higher the risk. Fund should have average YTM
20. Verify bond type history i.e. credit quality. Its average credit quality should be AAA
21. Fund should have high AUM as liquidity is important at the time of redemption and large number of securities reduces overall concentration risk to single security.
22. Verify each & every detail which is specified in VRO or MoneyControl for debt component with the Scheme Strategy, Scheme Investment document (SID) and Monthly Factsheet

Equity Component

23. Check Standard Deviation (measure of volatility, how much fund has deviated from average return), beta (how much fund will fall/gain against 1% loss/gain in benchmark) & mean (average of 3 years returns) of fund against benchmark– All data is available @ ValueResearch under Performance tab. A fund should have higher mean and low standard deviation and low beta as compared to benchmark & category
24. Check performance analysis of fund against benchmark & peers i.e. rolling-returns consistency of fund W.R.T benchmark. You can find this under 'performance tab' @ VRO
25. If rolling return is not available, check fund's annual/calendar returns and verify if fund has given consistent returns since inception and not just over a specific period

Additional analysis of fund history, performance & style using Morningstar

26. Check in which quartile fund falls each quarter since inception. Fund should be in top quartile for most of the quarters. This reflects consistency in returns
27. Fund should have better downside protection W.R.T benchmark - data for each fund is available @ Morningstar Risk & rating tab under Market Volatility Measures
28. Look in which quadrant fund falls @ Morningstar Risk & rating tab under Risk/Return Analysis. Check if fund is outperforming the benchmark by taking less risk
29. Prefer a fund with Low/below average risk and average/above average return @ Morningstar Risk & Return
30. Maximum drawdown represents how much fund has fallen in worst period, should be low when compared to benchmark and shortlisted funds – Data is available @ Morningstar Risk & rating tab under Market Volatility Measures
31. Moneycontrol.com has better portfolio disclosure of each fund

The END

1. Compare it with Pattu sir's mutual fund screener list
2. Perform above steps for all shortlisted funds and choose a fund which is consistent and provides better risk adjusted return in that category
3. Prefer Hybrid Aggressive funds over pure equity as they provide 100% better downside protection
4. Using Hybrid Mutual Funds as the Core Equity Portfolio Holding

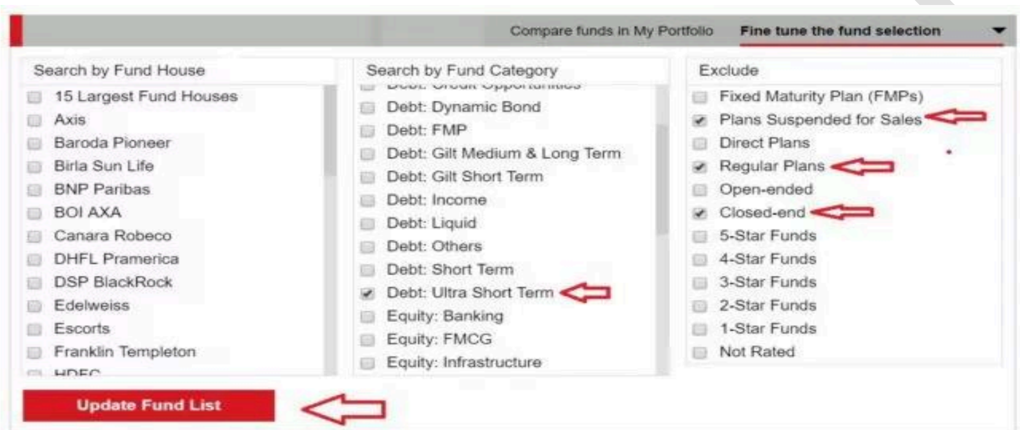
For selecting pure equity fund, skip debt component. Rest all is applicable for an equity fund

If you want to avoid all the above hassles and want peace of mind without much bothering about ALPHA, go for low cost **Index funds**

My Debt Fund selection strategy using VR & Fund SID

1. Selecting debt mutual fund is totally different from Equity
2. One should select a debt fund with Low Average Maturity, Low Modified Duration, Low Yield to Maturity (YTM), High AUM & fund with a greater number of securities than category average and benchmark
3. Select a category of debt mutual fund suitable for goal preferably liquid, ultra-short term & 10 years constant gilts (for long term goals)

<u>Shortlisting Funds using VRO</u>



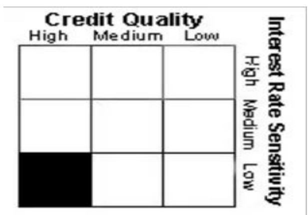
Then click on the portfolio tab:

Snapshot	Returns	Portfolio	Risk Stats	NAV Details	Fees & Details		
Download Data							
Fund | Rating	**Equity Fund Style**	**Market Cap (Cr)**	**Turnover (%)**	**Bond Fund Style**	**Average Credit Quality**	**Average Maturity (Yrs)**	**Net Assets (Cr)**
ICICI Prudential Ultra Short Term Plan - Direct Plan | ★	-	-	-		AAA	2.96	9,357
Kotak Banking and PSU Debt Fund - Direct Plan | ★★★	-	-	-		AAA	2.8	1,111
HDFC Cash Management Fund - Treasury Advantage Plan - Direct Plan | ★★	-	-	-		AA	1.68	13,073
Birla Sun Life Savings Fund - Direct Plan | ★★★★	-	-	-		AA	1.61	17,804
Axis Banking & PSU Debt Fund - Direct Plan | ★★★	-	-	-		AAA	1.6	599
Birla Sun Life Floating Rate Fund - Long Term Plan - Direct Plan | ★★	-	-	-		AAA	1.56	5,459
JM Money Manager Fund - Super Plus - Direct Plan | ★★★	-	-	-		AAA	1.547	682
HDFC Floating Rate Income Fund - Short Term Plan - Wholesale Plan - Direct Plan | ★★★★	-	-	-		AA	1.52	15,226
IDFC Money Manager Fund - Treasury Plan - Direct Plan | ★★★	-	-	-		AAA	1.493	1,721
ICICI Prudential Savings Fund - Direct Plan | ★★★	-	-	-		AA	1.416	7,627
ICICI Prudential Flexible Income Plan - Direct Plan | ★★★	-	-	-		AA	1.405	20,012
Sundaram Income Plus Direct | ★★	-	-	-		AA	1.39	389

4. Go to ValueResearch Fund Categories and select the appropriate category. Under portfolio tab, sort funds based on ascending Average Maturity profile
5. Shortlist few funds based on Average maturity profile suitable for your goals

Analysing funds history, performance & style using VRO

6. Check the maturity profile history whether funds hold long or short duration bonds by looking at Modified duration, Average maturity period & YTM
7. Average maturity of the fund should be low. Stay away from any debt fund with an average maturity profile greater than 1 year with exception of gilt funds. Verify the exact Average maturity of fund in its Scheme Investment document and pick a fund with the lowest tenure
8. Modified duration of the fund should be low as compared to peers– It shows how much the fund will fall W.R.T change in 1% of interest rate
9. Verify bond type history i.e. credit quality. Its average credit quality should be AAA
10. Interest rate sensitivity should be low. The investment style box should be this:



11. Yield to Maturity is the measure of risk not returns. High the YTM higher the risk. Fund should have average YTM
12. Fund should have high AUM as liquidity is important at the time of redemption and large number of securities lowers overall concentration risk to single security.

Among these, remove all AMCs that you are not familiar with or hold an account with. Wager the list down to 5-6.

The Analysis using SID & Fund monthly factsheet

13. Verify each & every detail which is specified in VRO or MoneyControl with the Scheme Strategy, Scheme Investment document (SID) and Monthly Factsheets
14. <u>Average maturity & Allocation & Risk profile = low</u> should be well defined in SID & Fact sheet
15. Select a fund to invest which has clearly defined SID. The goal is to choose a fund that (for most the time) sticks to category's mandate

The END

1. Perform above steps for all shortlisted funds and choose a fund which is consistent and provides better risk adjusted return in that category
2. Never get enticed by returns and star ratings. True for all funds, but especially for debt funds. A fund providing higher returns (and not holding gov bonds) is holding bonds of lower credit quality.
3. After selecting a debt fund, keep an eye on Portfolio unlike equity to avoid any credit risk problems in future
4. For most investors Overnight, Liquid, Money-market, Ultra-Short-Term funds or Gilt funds are good enough

11. Preferred Product Categories for specific time periods

1. For goals less than 5 years - No equity.

- *For goals less than 3 years & need money in one shot* – FD/RD
- *For goals up to 5 years & need money in one shot* – FD/RD
- *For goals up to 5 years and redeem in parts* - stick to Liquid, Money-market & Ultra Short-term debt funds

2. For Goals between 5 - 7 years – 20% equity MFs and 80% Debt. In Equity, please stick to low risk Dynamic asset allocation (DAA) funds with strategic equity reduction method. Treat DAA funds as pure equity only. Select the debt component based on your tax bracket i.e. 5%, 20% or 30%. Stick to FD/RD or Liquid funds

3. For Goals between 7 - 10 years – 30-40% Hybrid MFs and 60-70% Debt. In equity, please stick to low risk Dynamic asset allocation funds with strategic equity reduction method. Treat DAA funds as pure equity only. Select the debt component based on your tax bracket i.e. 5%, 20% or 30%. Stick to Ultra short-term funds or Arbitrage as debt component

4. For Goals between 10 - 15 years– 40-60% Equity and 60-40% Debt. PPF is an excellent option if goal is exact 15 or more years away and arbitrage funds for periodic rebalancing. Stick to Aggressive hybrids for equity with strategic equity reduction method. Treat hybrids as pure equity only

5. For goals more than 15 years - 60% Equity (multi-caps, hybrids or index funds) and 40% Debt. Use PPF, Arbitrage or Gilt Funds for rebalancing

#Use can go for Midcaps if you can handle the volatility. Strictly no to Small Caps

**Equity Categories to avoid:*

1. Large Cap funds (indexing is the way to go)
2. Small Caps
3. Value/Contra Funds – Do not invest if you do not understand how Value funds work
4. Focused Funds – More concentrated results in more volatility
5. Hybrid - Equity savings – Chinese Dosa
6. Hybrid - Balanced/Conservative Debt oriented fund (better to do with asset allocation)
7. Dividend Yield Fund
8. Sectoral/Thematic Funds
9. Stay away from NFOs – In Quest to find future stars we can come across fools as well. Stick to consistent fund with long history and better management

**Debt Categories to Avoid:*

Avoid these below categories as their credit rating profile is not fixed and can be anything (unless the scheme document says so clearly)

- Low Duration Funds (bonds maturing in about a year or so or less)
- Short Duration Funds (approx. 1-3-year maturity)
- Medium Duration Funds (~ 3-4-years maturity)
- Medium to long duration funds (~ 4-7Y)
- Long duration funds (> 7Y maturity)
- Dynamic bond funds. Read more: Do not invest in dynamic bond funds!

12. Some personal thoughts

- I know kids are precious gifts by GOD, and parents can go to any extent to make them happy and try hard to give them the best possible education but remember this is not the only goal of your life. **Retirement planning** should be one of the most important goals of everyone's life. But unfortunately, in India, we postpone provisioning for the same, for the sake of other goals. Still, Child education and their Marriage planning are on the top of the list of individual's goals. We side line retirement planning for many years. Always give priority for retirement over any other goal.
- Have a realistic cost of education. You will get the clarity about your kids' future education plan only when they are close to graduating from school. Hence, the corpus required will also change in future. Therefore, never assume the current cost as the permanent cost. As you know the cost of education is increasing day by day even if you try hard to accumulate loads of money for kids' education, you may find the shortfall in future. At that time, you can take help of education loan. Never hesitate to go for education loan and let your kids repay it when he/she starts earning. You should not allocate all your savings only for kids' education goal instead consider Education Loan as the cushion whenever required.
- You may dream so any things for your kids. You may want him/her to be Doctor/IIT Engineer or go to a foreign university to study and start accumulating corpus keeping these dreams in mind but always be ready to face reality. Kids may have different dreams and aspirations for their own lives. Kindly value those and accept them with those dreams full heartily. So always keep balance in accumulating the Education Corpus.
- As far as marriage is concerned, I am against big fat weddings. Never stretch your budget too much beyond your limit. Wedding is a celebration of two individuals and their close families. Only keeping society pressure in mind and spending a lot on a wedding is not worth it. Ask your kids to contribute to their marriage.
- Reviewing your portfolio is a must. Hence, I strongly suggest you a yearly review of the portfolio and set the asset allocation as recommended by the planner.
- Finally, TEACH your kids the VALUE of MONEY. This is the most crucial lesson in life. Make them Emotionally and Financially independent and Mentally healthy to face the harsh reality of this world. Money can be earned any time but developing kids' personality and inculcating core and true values in them is most important.