"How to Grow Your Money? & Manage your Wealth"

By

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Irrespective of the number of literature we have on Financial Planning and Wealth Management, growing wealth has always been a thing of personal interest. It is precisely the reason why while loads of books on money making are available in the market and there are very few people who have grown rich reading them. While these books offer what is called the "Advice", very few put them into practice.

Contents

1. KNOW YOUR MONEY

The aim of this book is to simplify your understanding of Money and its uses. Bombarding terminologies do create a scare in the minds of laymen that hinder their understanding of the some of the basic yet crucial aspects of "Money".

"Money" in its different forms is represented as "Income", "Expense", "Cash Flow", "Saving", "Investment", "Wealth", "Finance", "Status", and "Financial Position". Money is a powerful instrument that has a capacity to buy, earn, reap and grow.

The qualities of money are similar to that of "Fire". It can both purify and make things sacred and destroy everything that comes its way.

Why is it important to know about money?

Knowing about money is more like knowing a person. Unless you understand the nature of the person it becomes difficult to move with him/her. Very similar and highly essential it is to know the various attributes of money. Knowing these attributes assists you to take well informed financial decisions.

a. Attributes of Money

An attribute is an inherent part of someone or something, which decides the very nature of the person or thing. In short it is more about how a person or thing reacts or behaves given a particular circumstance.

The attributes of money can be defined as follows

a. **Motivation –** Money motivates, it has a great bearing on the emotional state of a person. Having sufficient money makes an individual self-sustained, thereby making him/her feel more secured and assured. This motivates a person to stay in the best of his temper
b. **Attention –** Having money being attention to the person having it. People notice those individuals who do well and seem more consistent

c. **Mobility –** Money is Mobile, the nature of money is to flow. Money keeps moving from an individual to a trader, from trader to another, from a trader to a bank, from a bank to an individual.

d. **Respect –** Money needs Respect. Where money is respected there it stays and yields more. It can well be seen, where in some households people leave money on tables and counters to be swindled away by workers, while other who take care to leave money in appropriate places.

e. **Reservation –** Money has no reservation. Money goes to everyone. All money needs is a reason to move, it has no reservation as to the cast, creed or status of a person. It keeps changing hands

f. **Time Value of Money -** A penny in hand today is worth more than a penny tomorrow. True to what is said, inflation plays a major role in depreciating the value of money in hand, hence holding back money in today's circumstance is only more detrimental to its value than investing it.

g. **Growth –** Money is one non-living thing that grows. Sounds weird! Take a bank deposit or just leave it in a savings bank account, you can see money growing in its value with the interest that is paid on the bank or deposit balance. This non-living thing makes living possible for human beings

h. **Risk –** No wonder there is a fear to lose that all powerful money. Everyone wants money, by fair or foul means, hence there is a risk of theft, you invest money for higher returns, there is a risk of losing money as they are in turn invested in highly risky ventures.

i. **Essential –** To live, to survive, to safeguard for all this and more you need money. Money defines the status of living. It is essential to eat, to have a roof and to keep up your modesty. It is our life blood for good reasons. Yet though money alone does not or cannot buy happiness.

Crazy Money

- You always need more money
- You take time to make money and spend it in no time
- Money comes with Risk
- Money goes to everyone
- Money can make you happy or sad
- Rich become richer and poor become poorer

Facts about Money

- **S**ave money gain more
- Never put a ceiling on your income
- Idle money is foolishness
- Money and Attention go together
- Money alone cannot give you happiness
- Good money is clean money
- Bad money is money earned from wrong means
- Man should control money otherwise it will control him
- Spending money is tricky
- Your money decides your mood
- Attention and Risk are siblings of Money

2. EARNING MONEY

All of us procure money from various sources. Employment, self-employment, entrepreneurship, business are some of the many forms of earning money. It is widely understood that in order to have money one has to procure it (earn it).
Unfortunately majority of the people believe that financial planning is all about earning money. In short what they look forward is to know ways of earning money. Undoubtedly earning money or procuring it is the first step in financial planning but it is not all. The planning begins only after procuring it.

When we talk about earning money we talk about three things

1. **Why** should we earn money?
2. **How** do we earn money?
3. **From where** do we earn money?

WHY?

- To eat
- To survive

- To satisfy our daily needs
- To safeguard ourselves
- To learn
- To live
- To earn

HOW?

- Take up a job earn Salary
  - Work in a company
  - Work in a private office
  - Work in an government organization
  - Work in a shop
  - Work in an agency
  - Work in a school
  - Work in hospitals
  - Work in factories
- Self Employed and earn Profit
  - Teach
  - Start a business
  - Set up a shop
  - Set up a consultancy

  - Private practice
  - Consider offering professional services
- Invest Money earn Returns
  - In Business Ventures
  - In Bank Deposits
  - In deposits with companies
  - In Securities
  - In Bonds
  - In Loans
  - In Government instruments
  - In Debentures
  - In Provident Fund
  - In Post Office

FROM WHERE?

You earn money by performing an activity, the activity can be one in which you are involved personally and one in which you are not involved personally

  - Personal Involvement /Participation
  - No Personal Involvement/Participation

a. **<u>Scenario 1 - Personal Involvement/Participation – Active Money Earning</u>**

In this scenario the money is earned by one's personal participation. Examples are

  - Employment
  - Proprietor Business
  - Professional Practice by a Proprietor
  - Vendor (Proprietor)

b. **<u>Scenario 2 - No Personal Involvement/Participation – Passive Money Earning</u>**

In this scenario the money is earned without one's personal participation. Examples are

  - Money invested in Business Ventures earning profit or interest

- Money with Banks earning interest
- Money in Shares earning dividend or increase in value of shares
- Money in Government securities earning fixed income
- Money in Post office making good returns
- Money in Partnerships making profits
- Money in Joint Ventures that requires only monetary participation
- Money in Private Equity
- Money from Property (Commercial/Residential) Rentals
- Money from Bonds earning interest
- Money from IPO issues with dividends

Such earning comes handy during rainy days when one’s personal participation becomes an issue due to any reason what so ever. This also helps an individual to maintain his/her standard of living irrespective of the income earned by way of personal participation. It is important for one and all to set up this sort of an arrangement over a period of time.

Yes! Money works for you. You invest money retained with you in business ventures or investment avenues where others work to earn money for you. Therefore whether or not you participate, the money you invest is put to work and in turn fetches an earning for you.

While in the first instance you work for money, in the second one, you make money work for you. In both instances, you earn additional money. Therefore procuring money as a process does not stop with just income from employment or business, it also emerges from sound investment decisions.

TIPS on Earning Money

1. ***Never put a ceiling on your income***
2. ***Always invest money for further earnings***
3. ***Always have an alternate source of income***
4. ***Earn money the right way, cause, money earned out of right means is rightly spent***
5. ***Tap the sources of earning money keeping your requirements in mind***

6. ***It is good to save and invest money as soon as you start earning, cause it is a time with less liabilities***
7. ***Self-employment and Entrepreneur options can be explore even if you are in a regular employment provided it does not affect your job or the terms of employment. Consider taking permissions if required***
8. ***It is good to form a Partnership, where each of the partners are good at one aspect or the other and thereby all reap the benefits of expertise from each one of them***

Caution

1. ***Never venture into a business or profession you have no idea about***
2. ***It is always good to gain experience under someone before venturing out on your own***
3. ***Always invest smaller amounts in business ventures before going big***
4. ***Never put all the money in one basket***

3. SAVING MONEY

What Matters?

> ***It is not how much money you make***
>
> ***It is how much money you keep***

A quick recap

Why do we earn?

We earn for our

- needs,
- necessities,

- comforts,
- luxuries

Is that all? Or is there something that is equally important

We also very importantly earn to SAVE

You should also earn for saving/retaining. Not all that you earn can be spent, which means you will be left with no money for emergencies.

Borrowing is not an option to get money, it is not procuring, it **is creating a liability to meet your need**. Such borrowed amounts are returned with interest and that is the cost you pay for borrowing money for your needs.

What do people do with the money they earn? They

- pay their bills,
- expend for their monthly needs,
- pay taxes,
- repay loans and it goes on.

How many people really set aside some amount for retaining? After all the expenses they are hardly left with anything that they retaining as their savings.

As normal human beings we earn mainly for our primary needs followed by other obligations like paying bills, taxes and the rest. Here our primary need includes the money we would want to retain with us, our savings. Therefore while allocating the money earned it would be wise to first allocated for our primary needs and then distribute the remaining towards our other obligations. This not only do you find money to save, it also keeps your expenses under check.

Well, what happens when the remaining money allocated are not sufficient to meet your obligations with the government (taxes), creditors (loan, bills)? You should pay the amounts otherwise you will be taken to task. It means you are under a pressure to find money to pay them in time. Well, this kind of a pressure works well to find ways and means of earning more money than what you actually get paid. In other words you explore options of making more money.

Any legal means of making money is welcome. Cause, good money and bad money have their respective characteristics. Therefore, what we find here is that shifting your focus to satisfy your needs first, is indirectly making you explore more options of making money or procuring money.

As discussed earlier procuring money can be active or passive. At this juncture we should appreciate the fact that how a shift in focus actually and automatically changes our approach towards money, its procurement, retaining and investment.

All of the above and more to come, takes us through the nature of money, nature of investors and all about being wise with money.

a. Classifying Savings

Savings can be classified as

- Saving to Retain
- Saving for Future Expenses

Saving to Retain

This constitutes actual saving. It is the amount that accumulates into a corpus for safe keeping and for further investment. Hence one should ensure sufficient amount of money is accumulated by carefully planning your expense.

Saving for Future Expenses

This amounts to saving for future expenses or in short earmarking money for a particular expense. This is saving for a short term. This amount is meant to be spent. Therefore in the long term such savings cannot be counted for savings or retained earnings

Examples of such expenses are as follows

- Saving for Marriage expenses

- Saving to buy Vehicles
- Saving for Medical Expenses
- Saving for decorating the house
- Saving for replacements
- Saving for vacations
- Saving for celebrations
- Saving for functions
- Saving for Gifting
- Saving for Household maintenance and repair
- Saving for Children's Educational expenses – yearly school fees, college fees, Coaching classes, exam fees
- Saving for Higher Education
- Saving for Household items (as their value depreciates over a period of use)

Classifying people into rich and poor only signifies their financial acumen towards being a good and a bad investor. Good investors not just work hard to earn money, but in turn also make money work for them. It helps them maintain not just their financial stability but also supports them during raining days. On the other hand bad investors stick to certain self-made and widely believed rules that only hard work can earn them good money and completely neglect the aspect of investing and the concept of passive money.

Now it is clear how the rich get richer and the poor get poorer. Being wise with money and financial decisions has nothing to do with greed. The only difference being, greed is about getting rich overnight and being financial wise is growing rich by the day.

TIPS on Saving Money

1. ***Squeeze expenses and Save, it pays, especially***
2. ***Cut wasteful expenditure from your Budget***
3. ***Cut down on Luxury***
4. ***Small is Beautiful, keep things small they help in keeping expenses under check***
5. ***Save in the name of Minor Children***

6. ***Differentiate between what you deserve and what you desire***
7. ***Save Surplus Fund whether out of monthly income or any windfall***
8. ***Aim at accumulating corpus out of money saved***
9. ***It is good to set aside your savings before you start spending for the month***
10. ***Aim at saving a certain amount every month and follow religiously***

Caution

1. ***Saving should be kept safe***
2. ***Do not invest all your savings, keep a safe amount in bank accounts or fixed deposits for emergencies***
3. ***Do not go by your friend's experience* in Investment, *always enquire and research from your side as well***

4. INVESTING MONEY – GROWING MONEY

Growing Money

Investing money, in short is in putting money to work. As said earlier, Money is the only non-living thing that grows when put to work. Again, it is important to note that long term investments actually pave way for the money to grow. Does it mean short term investments don't? The reason behind lauding long term investment is that, it takes into account the ups and downs and balances the peak and lean period, therefore the money actually tends to grow giving a compounding effect to money.

Money kept idle loses Value

It is also important to note that money that is kept idle loses its value. Thanks to inflation, the real value of money depreciates and hence putting them in savings accounts is the least you can do to save money from depreciating.

Retained Earnings

Good that you earn money and also decide to retain some of it and what do you do after it? You Invest. Basically you make the money work for you. Investments can be classified into safe and risky ones. While safe investments earn lesser return, risky ones get greater returns.

What do you want from Investing?

- Huge Returns
- Value appreciation
- More money than before

Seldom all are expectations come true.

What should you remember while investing?

- When you start investing, expect nothing for a year or so, especially in stocks
- In short, invest only what you can lose.
- Analyse the cause of your loss
- It is important to develop **knowledge** about investing and the sector in which intend to invest is essential. Knowledge matters.
- This gives you an edge over other and helps you succeed in an investment decision.
- Always keep tab on the financial news and information and if required even take a few courses on investments, it is likely to give you a good insight into investing

a. GOLDEN RULES ON INVESTING

- Start saving soon and investing early
- Invest at Regular Intervals
- Always aim at Long term investments
- It is always important to diversify investments.

Steps to consider before INVESTING your Savings

The after saving and pre investing phase should take care of the following

- **A liquid fund for contingencies** is set apart (this amount should not be considered for investment though this should be either kept as a bank balance or deposit)
- **A liquid fund for immediate requirements** is developed(this amount should not be considered for investment as they are meant for an expenditure quite immediate)
- **Basic Insurance,** is required, it is always suggested to have a **term plan** that comes with a lesser premium when compared with a life insurance with sum assured for the same amount.
- **Usage of Credit to be kept minimum,** as the credit not only eats up your savings, it also creates more liability (using credit card factually means expending money out of your future earnings, which is not worth practicing)
- **A fund for your Retirement** is absolutely essential, a fixed sum of money accumulated towards a retirement reserve is crucial to ensure peaceful retirement for you and your spouse (This is especially important when you have no retirement corpus accumulated by your employer)

Considerations for Planning Your Investment Strategy

Investing as a job requires certain considerations to be planning before venturing into one, the following considerations should be considered before formally beginning your investment

- Write down your Investment Goals
- Time that you can allocate to pursue your investment goals
- What is the level of your knowledge with regard to investments and investing?
- Funds available for investment purposes
- To what extent can you take losses without affects other considerations
- Your today’s financial position

- What is the level of your risk tolerance? (low, medium, high)

General Cautions while Investing

1. ***It is important to get details especially written documents explaining more about the investment you consider***
2. ***It is not only important to read such documents and understand them, it is equally important to verify their authenticity***
3. ***Before you decide to make an investment, know the cost associated with it and subsequent benefits you are about to receive.***
4. ***Any investment should be assessed for its liquidity aspect together with their safety***
5. ***The above aspects will enable you to analyse whether the investment under consideration is an appropriate for your investment goals***
6. ***Also check how this particular investment goes with the other investments you have already made or about to make***
7. ***If the investment requires you to deal through an intermediary, ensure you operate through an authorized intermediary***
8. ***Enquire and thoroughly research about the intermediary***
9. ***Know what to do if something goes wrong with your investment, know your options and avenues, proceed only if satisfied***
10. ***Never invest money you need in the Short Term***

b. **Investment Objective**

There are 3 basic investment objectives:

- Safety,
- Returns and
- Liquidity

It means that one would like the investment to be absolutely safe, while it generates handsome returns and also provides high liquidity. It is rather very difficult to maximize all three objectives at the same time. A trade-off is required. If one wants high returns, one may have to take some risks; or if one wants high liquidity, one may have to compromise on returns.

c. Asset Class

There are investment opportunities that are high on risk and there are investment opportunities that are low on risk. Each is called an asset class. An investor needs to allocate his savings to one or more asset classes depending upon his circumstances.

Investment Option	Returns	Liquidity	Safety	Active Involvement	Amount Required
Equity Shares	Low to High	Moderate to High	Low	Yes	Medium
Debentures	Moderate	Low	Moderate	No	Medium
PSU/FI Bonds	Moderate	Moderate	High	No	Low
RBI Tax Free Bonds	Moderate	Moderate	High	No	Low
Debt Mutual Funds	Moderate	High	Moderate	No	Low
Equity Mutual Funds	Low to High	High	Low	No	Low

d. Categorising Investments and Criteria for Selection of Investments

There are parameters one should look at based on their individual status. The following can be considered a thumb rule for investing

	Students	Salary Earners-Private	Salary Earners-Government	Professionals	Traders	House wives	Retired Persons
Returns	VI	VI	I	VI	VI	I	I
Liquidity	LI	I	I	LI	LI	I	I
Safety	I	I	VI	I	I	VI	VI
Tax Savings	LI	VI	I	VI	VI	LI	LI

VI: Very Important I:Important LI: Less Important

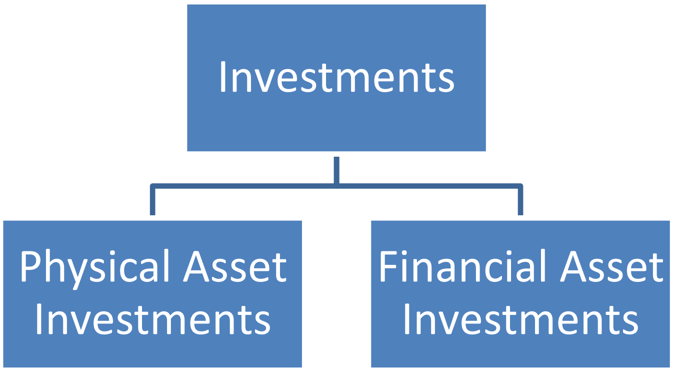
Age of the Investor and Asset Allocation (Mix)

Perfect asset allocation is the one that suits your profile. A key factor in determining your investing profile is your age. Well age is not the only factor to take into consideration; you can manage your asset allocation according to your age.

While younger investors are better off with a portfolio featuring more stocks with greater growth opportunities. Older investors nearing retirement should prefer portfolios with a greater percentage of fixed income and reliable revenue streams with a very less proportion of stocks with their associated risks.

An asset allocation involves several rules of thumb. A common suggestion is to invest your age in bonds. Say you are a 40 year old, you may use a 40/60 (bond/equity) allocation. Though it might seem a little conservative for young people, it is a slightly risky adventure for people above 40 years.

e. Classifying Investments



- **Physical Asset Investments**

Investments in the following are considered as Physical Asset Investments

  - Real Estate Investments
  - Commodities Investments
  - Investment in Gold
  - Investment in Jewellery
  - Investment in Precious Stones

- **Financial Asset Investments**

Investments in the following are considered as Financial Asset Investments

- Bank Deposits
- Fixed Deposits
- Post Office Investments
- Insurance Policies
- Public Provident Funds
- Pension Fund Schemes
- Mutual Funds
- Shares
- Bonds
- Debentures

f. Capital Market Investments

- **Equity Shares**

An appropriate investment avenue for an investor who is prepared to take risks for higher returns. Over the long term, returns from equity shares at aggregated levels are generally higher than most other avenues. (As on 31st March, 2011, the BSE Sensex had generated a compounded annualized return of 17.6 per cent over the last 10 years).

- **Debentures and Bonds**

There are three types of debentures**:**

- Non convertible debentures (NCD) – Total amount is redeemed by the issuer at a specified time
- Partially convertible debentures (PCD) – Part of the value is redeemed and the remaining is converted to equity shares at a specified price and time
- Fully convertible debentures (FCD) – Full value is converted into equity at a specified price and time

It is an ideal investment avenue for investors seeking assured and regular income. They typically offer interest rates higher than bank fixed deposits. Some bonds offer tax benefits to the investors

- **Primary Market - Purchase of Securities**

An issue is called an ***Initial Public Offering (IPO)*** when an unlisted company makes a fresh issue of shares or some of its existing shareholders make an offer to sell of part of their existing shareholding for the first time to the public. An IPO of fresh shares is made by a company when there is a need for money, for the purposes of growth-expansion or diversification or acquisitions or sometimes to meet its increasing working capital requirements.

What is Further Public Offering (FPO)?

When an already listed company makes a fresh issue of securities to the public or the existing promoters make an offer for sale to the public it is referred to as Further Public Offering (FPO).

When it is made?

Fresh securities are issued by a company when it needs money for

- growth-expansion or
- diversification or
- acquisitions or
- even to meet its increasing working capital requirements.

It is important to note that the FPO route is also being utilized extensively by the Government for the PSUs for the purpose of disinvestment of government's holdings.

Investing in IPOs/FPOs

DOs

- ✓ Read the Prospectus/Abridged Prospectus carefully, with special attention to:

  - -Risk factors
  - -Background of promoters
  - -Company history
  - -Outstanding litigations and defaults
  - -Financial statements
  - -Object of the issue
  - -Basis of Issue price
  - -Instructions for making an application
- ✓ Always use the ASBA process for applying - Wherein the investor authorizes his bank to block in his bank account an amount equivalent to the application money. While the money remains in the bank, on finalization of the basis of allotment, only the amount equivalent to the allotment amount is debited to the bank account, and the remaining amount is open for regular use.
- ✓ Where one hasnot received the credit to demat account/refund of application money, it is important to lodge a complaint with compliance officer of the issuer and with post-issue lead manager for further follow up and action.

DON'Ts

- ⊄ Never be influenced by any implicit/explicit promise made by the issuer or anybody else
- ⊄ Never invest based only on the prevailing bull run of the market index or of scrips of other companies in the same industry or scrips of the issuer company/group companies
- ⊄ Never expect the price of the shares of the issuer company to necessarily go up upon listing or forever

- **Secondary Market – Purchase of Securities**

It is a market where the issued shares and bonds/debentures are sold and bought among investors through a broker of a stock exchange.

Investing in the secondary market

DOs

- ✓ Check the credentials of the company, its management, fundamentals and recent announcements made by them and other disclosures made. A main source of information are the websites of the exchanges and companies, databases of data vendors, business newspapers and magazines
- ✓ Go for trading/investment strategies commensurate with your risk-bearing capacity as all investments carry some risk, the degree of which varies according to the investment strategy adopted
- ✓ It is important to transact only through SEBI-recognized stock exchanges and deal only through SEBI-registered brokers/sub-brokers
- ✓ Ensure you provide clear and unambiguous instructions to your broker/sub-broker/DP
- ✓ Make sure to insist on a contract note for each transaction and verify details in the contract note, immediately on receipt. Crosscheck details of your trade available with the details on the exchange's website
- ✓ Make sure that the broker's name, trade time and number, transaction price and brokerage are shown distinctly on the contract note given.
- ✓ Kindly issue cheques/ drafts only in the trade name of the broker
- ✓ Ensure delivery of shares/depository slip in case of sale and pay the money in case of purchase within the prescribed time
- ✓ Ensure receipt of payment/deliveries within 48 hours of payout
- ✓ Get periodical statement of accounts
- ✓ Take time to scrutinize both the transactions and the holding statements that you receive from your DP
- ✓ The Delivery Instruction Slips (DIS) Book issued by the DP should be carefully maintained. It is important to insist that the DIS numbers are pre-printed and your Client ID is pre-stamped
- ✓ One can use the freezing facility in the demat account where it is not being used.

DON'Ts

- ⊄ Never forget to take account of the potential risks that are involved in investment in shares
- ⊄ Never go for off-market transactions
- ⊄ Never deal with unregistered intermediaries

- ⊄ Never fall prey to promises of unrealistic returns or guaranteed returns
- ⊄ Never invest on the basis of hearsays, rumors and tips
- ⊄ Never be influenced into buying into fundamentally unsound companies
- ⊄ Never should you blindly follow investment advice given on TV channels/ websites/ SMS
- ⊄ Never invest under pressure or imitate investment decisions of others who may have profited from their investment decisions
- ⊄ Never get misled by companies showing approvals / registrations from Government agencies as the approvals could be for certain other purposes
- ⊄ Never should you get carried away with advertisements about the financial performance of companies

- **What is a Depository System?**

Physical share certificates are now converted to Electronic form. A depository holds securities (like shares, debentures, bonds, mutual fund units etc.) of investors in electronic form (demat form) through a registered Depository Participant (DP). It provides services related to transactions in securities.

A DP is an agent of the depository through which it interfaces with the investor and provides depository services. It is now compulsory for every investor to open a beneficial owner (BO) account to apply in IPOs/FPOs or to trade in the stock exchange.

The advantages of availing depository services include:

- A safe and convenient way to hold securities
- Immediate transfer of securities
- No stamp duty on transfer of securities
- Elimination of risks associated with physical certificates such as bad delivery, fake securities, delays, thefts etc.
- Reduction in paperwork involved in transfer of securities
- Reduction in transaction cost
- No odd lot problem, even one share can be traded
- Nomination facility

- Change in address recorded with DP gets registered with all companies in which investor holds securities electronically eliminating the need to correspond with each of them separately
- Transmission of securities is done by DP eliminating correspondence with companies Automatic credit into demat account of shares, arising out of bonus/split/merger etc.
- Holding investments in equity and debt instruments in a single account.

Rights as a Shareholder

Shareholders need protection from malpractices and frauds. SEBI regulates the capital market, its guidelines ensures rights of the shareholders are protected. For this purpose, it monitors all constituents of the capital market from issuers on one hand to stock exchanges on the other hand and all other intermediaries like stock brokers, merchant bankers and underwriters. More information on SEBI can be had from **www.sebi.gov.in.** The websites of the two national-level stock exchanges are as follows: BSE - **www.bseindia.com** and NSE - **www.nseindia.com**.

Rights as a shareholder

- To receive the shares on allotment or purchase within the stipulated time
- To receive copies of the Annual Report of the company
- To receive dividends, if declared, in due time
- To receive approved corporate benefits like rights, bonus, etc.
- To receive offer in case of takeover, delisting or buyback
- To participate/vote in general meetings
- To inspect the statutory registers at the registered office of the company
- To inspect the minute books of the general meetings and receive copies
- To complain and seek redressal against fraudulent and investor unfriendly companies
- To proceed against the company, if in default, by way of civil or criminal proceedings
- To receive the residual proceeds in case of winding up

Rights as a debenture holder

- To receive interest/redemption in the stipulated time

- To receive a copy of the trust deed on request
- To apply before the CLB in case of default in redemption of debentures on the date of maturity
- To apply for winding up of the company if the company fails to pay its debt
- To approach the Debenture Trustee for grievances

Portfolio

Portfolio is the name given to the stocks you own. Such portfolio should consist of a maximum of 10 stocks at any given time. It is important to sell loss making stocks when they are 10% down from the purchase price, this will indeed result in selling many number of stocks in ones portfolio, given that it is always advised to buy stocks for a longer period of time, still it is better to sell them to ensure losses do not eat into profit making stocks. It is also equally important to add stocks that have a potential to grow.

While diversification mantra is heard far aloud, especially while investing in stocks, it is important to hit a balanced approach, whether it is sensible to invest Rs. 100 crores in 10 stocks or 1 lakh in 20 stocks is a sensibility decision to be taken by the investor. It is obvious that a person having Rs 1 lakh and investing in 20 stocks just has too many of them, as the market rises or falls each of them exhibit a different behavior, hence it is always wise to stick to the 10 rule as far as stocks are concerned.

- **MUTUAL FUNDS**

There are two-steps to identify a suitable mutual fund:

- Selecting a fund with investment objectives and preferences, return objectives, time horizon and risk tolerances that meet the requirements of the investor.
- Selecting a fund that has a detailed asset allocation strategy by fund type category to reflect the investment objectives of the fund.

The Indian Equity Market has grown significantly in the recent years; Mutual Funds are not left far behind. Both the avenues have created wealth for the investors. But for the creation of wealth through this avenue a proper understanding of the Mutual Funds is must.

Regulatory structure of Mutual funds

 Operation of mutual funds is controlled by SEBI.
 The RBI controls money market mutual funds
 UTI has its own Guidelines.

Purchase of Mutual Fund Schemes

New Fund Offering (NFO) is a new scheme launched by a mutual fund to collect funds from the investors. Investors can also contact agents and distributors of mutual funds for necessary information and application forms. The units of existing schemes can be purchased directly from the fund itself or from distributors/brokers/sub-brokers/agents.

Investing in mutual fund schemes

DOs

- ✓ Read the offer document carefully before investing
- ✓ Investments in mutual funds may be risky, and do not necessarily result in gains
- ✓ Invest in a scheme depending upon your investment objective and risk appetite
- ✓ Note that past performance of a scheme or a fund is not indicative of the scheme's or the fund's future performance. Past performance may or may not be sustained in the future
- ✓ Keep regular track of the NAV of the schemes in which you have invested
- ✓ Ensure that you receive an account statement for your investments/ redemptions

DON'Ts

- ⊄ Never invest in a scheme just because somebody is offering you a commission or some other incentive, gift etc.
- ⊄ Never get carried away by the name of the scheme/ mutual fund
- ⊄ Never be guided solely by the past performance of a scheme/ fund
- ⊄ Never forget to take note of the risks involved in the investment

- ⊄ Never hesitate to approach the proper authorities for redressal of your doubts/grievances.
- ⊄ Never deal with any agent/broker dealer who is not registered with AMFI

- **COMPANY FIXED DEPOSITS**

Companies accept Fixed Deposits from investors for short durations of 6 months to 3 years. While they are similar to bank fixed deposits but they offer lesser liquidity and usually carry higher risk and return. This results in mobilization of household savings for utilization in productive purposes by the corporate sector.

Features of Company Fixed Deposits are:

- Fixed deposit scheme offered by a company. Similar to a bank deposit
- Used by companies to borrow from small investors
- The investment period must be selected carefully as most FDs are not encashable prior to their maturity
- Not as safe as a bank deposit. Company deposits are 'unsecured'
- Offer higher returns than bank FDs, since they entail higher risks
- Ratings can be a guide to their safety

Rights of deposit holders

- Right to receive periodic interest payments on time.
- Right to receive intimation regarding any amendment to the terms of repayment of deposits.
- Right to receive the amount of matured deposits on time.
- Right to intimation regarding unclaimed deposits before transfer to the IEPF.
- Right to file complaint in the prescribed format before Company Law Board (in the office where the registered office of the company is situated) in case of default in repayment of deposits.
- Right to alternatively file complaint in the Consumer Forum under the Consumer Protection Act, 1986.

Investing in company Fixed Deposits Schemes

DOs

- ✓ Do check the credit rating assigned by the Credit Rating Agencies to the Fixed Deposits being considered
- ✓ Do ignore the unrated Fixed Deposit schemes
- ✓ Do understand the background and credibility of the promoters
- ✓ Do choose a company with a better track record for similar rated companies
- ✓ Do avoid investing in Fixed Deposits of companies whose promoters have a dubious record
- ✓ Do realize while investing in Fixed Deposits that if the company is unable to repay your money, you may end up losing it, as Deposits are unsecured
- ✓ Do refer to the investor service standards of the company
- ✓ Do lodge a complaint with the concerned regulator in case the company defaults in repayment of deposits (For listed companies, file complaint with SEBI; for manufacturing companies, file complaint with MCA; for banks and NBFCs, file complaint with RBI)
- ✓ Do state the name of the guardian in the application, if the deposit is in the name of a minor
- ✓ Do always have a nominee for the deposits made by you

DON'Ts

- ⊄ Never invest all or substantial part of your savings in Fixed Deposits
- ⊄ Never get lured by high interest rates
- ⊄ Never forget to check on track record of the company
- ⊄ Never invest in companies that care little about investor services
- ⊄ Never hesitate to seek regulator's assistance for any grievance

- **PENSION PRODUCTS**

The New Pension System (NPS) has been conceived as a no-load product. It also has other investor-friendly features like full portability at no cost, which allows investors to switch fund managers.

With no inducement to push one fund over another, the point of sale will either allow the customer to make the product choice, or the customer will be put in a default option. (Default options are used to make the decision for the customer who would rather not choose. The NPS uses a well-regarded, lifecycle-based investing formula that reduces the equity allocation of a person as they age.) The NPS could have taken the route of higher sales commissions than insurance to get market share, but it has chosen an ethically mature path, risking a slow start to the product off take in the market.

A retirement corpus can be built during the working life of a person by regularly contributing (the minimum amount being Rs. 6,000 p.a.) to the NPS till the age of 60. Such contributions are invested by the Pension Fund Manager (PFM) the investor chooses, in the investment option of his choice namely active choice and auto choice.

Active Choice

- Asset Class E (Equity): Invests in index funds (the maximum allowed is 50%, the balance has to be in Asset Class G & C)
- Asset Class G (Government securities): Invests in central and state government bonds
- Asset Class C (non government debt): Invests in liquid funds of Asset Management Companies, bank fixed deposits, rated bonds issued by corporates, banks, financial institutions, PSUs, Municipality and Infrastructure entities.

Auto Choice (Life cycle fund)

The contributions are automatically allocated to the three asset classes in a predefined manner depending on the investor's age. Upon subscribing, the investor is allotted a Permanent Pension Account Number (PPAN). The PPAN will remain constant even if the investor changes the PFM, his location or employer. The returns earned on the contributions would depend on the investment option. Charges are applicable to the NPS account as prescribed by the regulator-Pension Fund Regulatory and Development Authority(PFRDA). For further details, visit **www.pfrda.org.in**

Annuity/Pension Policies/Funds are products of the insurance companies and offer guaranteed income either for life or for a certain period without any insurance cover.

- **INSURANCE POLICIES**

Insurance, as the name suggests is an insurance against future loss. Life insurance is the most common insurance cover for an individual. Life Insurance is a contract providing for payment of a sum of money to the person assured, or following him to the person entitled to receive the same, on the happening of a certain event. It is a good method to protect your family financially, in case of death, by providing funds for the loss of income.

Term Life Insurance

- Lump sum is paid to the designated beneficiary in case of the death of the insured
- Policies are usually for 5, 10, 15, 20 or 30 years
- Low premium compared to other policies
- Does not carry any cash value

Endowment Policies

- Provide for periodic payment of premiums and a lump sum amount either in the event of death of the insured or on the date of expiry of the policy, whichever occurs earlier

Annuity / Pension Policies / Funds

- No life insurance cover but a guaranteed income either for life or a certain period
- Taken so as to get income after the retirement

- Premium can be paid as a single lump sum or through installments paid over a certain number of years
- The insured receives back a specific sum periodically from a specified date onwards (can be monthly, half yearly or annual)
- In case of the death, it also offers residual benefit to the nominee.

Units Linked Insurance Policy (ULIP)

- ULIP is a life insurance policy, providing a combination of risk cover and investment.
- The dynamics of the capital market have a direct bearing on performance of ULIPs.
- Most insurers offer a wide range of funds to suit one's investment objectives, risk profile and time horizons. Different funds have different risk profiles. The potential for returns also varies from fund to fund
- ULIPs offered by different insurers have varying charge structures. Broadly the different fees and charges include- Premium allocation charges, Mortality charges, fund management fees, policy/administration charges and fund switching charges

Postal Life Insurance

PLI is the only insurer in the Indian Life Insurance market today, which gives the highest return (bonus) with the lowest premium charged for any product in the market.

A PLI/RPLI policy holder also gets following facilities :

- Change of nomination.
- The insurant can take loan by pledging his/her policy to Heads of the Circle/Region on behalf of President of India, provided the policy has completed 3 years in case of Endowment Assurance and 4 years in case of Whole Life Assurance. The facility of assignment is also available.
- Assignment of Policy to any Financial Institution for taking loan.

- Revival of his/her lapsed policy. Policy lapses after 6 unpaid premiums if it remained in force for less than 3 years and after 12 unpaid premiums if it remained in force for more than 3 years.
- Issue of Duplicate Policy Bond in case of the original Policy Bond is lost, burnt/torn/mutilation.
- Conversion from Whole Life Assurance to Endowment Assurance and from Endowment Assurance to other Endowment Assurance as per rules.

Rural Postal Life Insurance (RPIL)

RPLI offers following types of plans:

1. Whole Life Assurance (GRAMA SURAKSHA)
2. Convertible Whole Life Assurance (GRAMA SUVIDHA)
3. Endowment Assurance (GRAMA SANTOSH)
4. Anticipated Endowment Assurance (GRAMA SUMANGAL)
5. GRAM PRIYA
6. Scheme for Physically handicapped persons

The salient features of the Whole Life, Endowment, Convertible Whole Life and Anticipated Endowment Schemes of RPLI are same as the corresponding schemes of PLI except that the minimum Sum Assured is Rs.10,000 and the maximum Sum Assured is Rs.3 lac. The maximum age limit of entry is 55 years in case of Whole Life and Endowment Assurance but 45 years in case of other plans.

All the schemes have compulsory medical examination. For the non-medical policies, the maximum limit of Sum Assured is Rs.25,000/-, and maximum age is 35 years. In case of Non-standard age proof for Rural PLI policies, the maximum age limit is 45 years.

DOs

- ✓ Do review your insurance coverage
- ✓ Do consider how much life cover you need and your affordability to pay premium
- ✓ Do study details of various schemes

- ✓ Select a policy that suits you in terms of your requirement and premium outflows
- ✓ Do get an advice from an insurance professional who offers policies of different insurance companies
- ✓ Do go online to get the best quotes and verify the same before choosing one
- ✓ Do consider two single plans rather than joint cover
- ✓ Do disclose correct information in your application
- ✓ Do check and update your policy regularly

DON'Ts

- ⊄ Don't purchase a policy unless you understand the concept behind it
- ⊄ Don't buy life insurance unless you need it
- ⊄ Don't opt for the cheapest deal without understanding the risk
- ⊄ Don't forget to check for terminal illness benefits
- ⊄ Don't limit your choice to one insurer
- ⊄ Don't over-burden yourself with unaffordable premium outflows
- ⊄ Don't blindly trust the information that is available online
- ⊄ Don't lie in your medical exam
- ⊄ Don't cancel any current insurance policy until you receive a certificate
- ⊄ Don't do anything to hinder an investigation if you file a claim
- ⊄ Don't default on your payments which may lead to cancellation at the time of need
- ⊄ Don't forget to report accidents and mishaps to your insurance company, even if you don't plan on filing a claim

- **GOVERNMENT SCHEMES**

The Government offers a wide variety of savings/investment products:

i. **National Savings Certificates (NSC)**

  - Popular Income Tax Savings scheme, available throughout the year
  - Interest rate of 8.5% & 8.8% respectively for 5 year and 10 year NSCs
  - Minimum investment Rs. 100, no upper limit
  - Maturity period of 6 years

- Transferable and a provision of loan

ii. **Public Provident Fund (PPF)**

- Tax free interest rate of 8.7% p.a w.e.f 1st April 2014
- Minimum investment limit is Rs. 500 and maximum is Rs. 1,50,000/-
- Maturity period of 15 years
- The first loan can be taken in the third financial year from the date of opening of the account, or up to 25% of the amount at credit at the end of the first financial year. Loan amount can be returned in maximum of 36 installments
- A person can withdraw an amount (not more than 50% of the balance) every year from the 7th year onwards

iii. **Post Office Scheme (POS)**

- One of the best Tax Saving Schemes
- It is available throughout the year
- Post Office schemes depends upon the type of investment and maturity period, which can be divided into following categories: Monthly Deposit/Saving Deposit/Time Deposit/ Recurring Deposit

iv. **Infrastructure Bonds**

- Lock in period of three years
- Tax benefit U/S 80C on investments
- Any redemption prior to maturity nullifies the tax exemption

v. **Kisan Vikas Patra (KVP)**

- Money invested in this scheme doubles in 8 years and 7 months
- There is a minimum investment limitation of Rs. 100 with no upper limit
- This scheme is available throughout the year
- Currently, there is no tax benefit on investment under this scheme

<u>Table on Current Interest Rates on the following Investments</u>

Name of Scheme	**Rate of interest w.e.f. 1.4.2013**	**Rate of interest w.e.f. 1.4.2014**
Savings Deposit	4.00%	4.00%
1 Year Time Deposit	8.20%	8.40%
2 Year Time Deposit	8.20%	8.40%
3 Year Time Deposit	8.30%	8.40%
5 Year Time Deposit	8.40%	8.50%
5 Years Recurring Deposit	8.30%	8.40%
5 Year SCSS	9.20%	9.20%
5 Year MIS	8.40%	8.40%
5 year National Savings Certificate(VIII) Issue	8.50%	8.50%
10 Year National Savings Certificate (IX) Issue	8.80%	8.80%
PPF	8.70%	8.70%

- **Where NOT to invest?**
  - **Money Circulation Schemes (MCS) Multi-Level Marketing Schemes (MLM) Network Marketing (NWM) Self Employment Yojana (SEY)**

By enrollment into such scheme, one gets back some or full initial investment and then keeps gaining financially by enrolling new members. So also the second set of enrollers keeps multiplying and gain financially, luring every onlooker. Such a system of chain to work endlessly to provide profit to everyone concerned ultimately breaks down at some stage, resulting in big financial losses to many.

When a person fails to get his required clients or enrollers, the promoters of the scheme do not tell about the non-viability of the scheme but blame it as one’s personal failure. Many companies have now disguised into the activity of marketing goods, services, drugs and health care products.

- **Chit Funds**

Chit fund is a kind of savings scheme under which a person enters into an agreement with a specified number of persons that every one of them shall subscribe a certain sum of money by way of periodical installments over a definite period and that each such subscriber shall, in his turn, as determined by lot or by auction or by tender, be entitled to the prize amount. However, there are many such schemes which have been misused by their promoters and there are many instances of the founders running what is basically a Ponzi scheme and absconding with their money.

- **Deposits**

Finance Companies take deposits from the public, promising them unusually high returns.
Since high returns are unsustainable, ongoing repayments of interest and deposit amounts depend on continuous and uninterrupted flow of fresh deposits. At some stage, when the flow of deposits gets stifled, the payments to the investors stop, leaving them high-and-dry.

- **Private Placements**

Many companies offer equity shares/convertible debentures/preference shares etc to the public through the private placement route, often for a “a mega project’ and promise dream returns. By law, such securities cannot be sold to more tan 49 persons, beyond which the Company is equired to come out with a Public Issue under the guidelines of SEBI.

- **Plantation Companies**

Many companies offer schemes that multiply money by investment into plantations. Most of such companies are not registered with SEBI, and typically have fled with the investors' monies.

Caution – "suspect for safety"

There can be no free lunch and that there is some catch when someone offers to make money for you easily and quickly. Getting rich quick scheme or high returns schemes should be suspected. Such schemes are unsecured, are illegal and are not regulated by the Government. Therefore, if you lose money, you will not be able to seek any help from the Government.

Entities and Their Regulatory Bodies

Type of Entity/Activity	Regulatory body	Website
Auditors	ICAI/CAG	www.icai.org www.cag.gov.in
Banks	RBI	www.rbi.gov.in
Banks –Issue Collection	SEBI	www.sebi.gov.in
Chit Funds	REG. OF CHIT FUNDS	-
Collective Investment Schemes	SEBI	www.sebi.gov.in
Companies –All	MCA/ROC	www.mca.gov.in
Companies –Listed	MCA/ROC/SEBI/SE	www.mca.gov.in www.sebi.gov.in
Company Secretaries	ICSI	www.icsi.edu
Competition	CCI	www.cci.gov.in
Co-operative Banks	RBI	www.rbi.gov.in
Cost Accountants	ICWAI	www.icwai.org
Credit Rating Agencies	SEBI	www.sebi.gov.in
Custodial Services	SEBI	www.sebi.gov.in
Debenture Trustees	SEBI	www.sebi.gov.in
Depositories	SEBI	www.sebi.gov.in
Depository Participants	SEBI/NSDL/CDSL	www.sebi.gov.in www.nsdl.co.in www.cdslindia.com
Foreign Investment Institutions	SEBI	www.sebi.gov.in
Housing Finance Companies	NHB	www.nhb.org.in
Insurance Brokers/ Agents	IRDA	www.irdaindia.org
Insurance Companies	IRDA	www.irdaindia.org
Investment Bankers	SEBI	www.sebi.gov.in
Investor Associations	SEBI	www.sebi.gov.in
Media(Print/Electronic	MIB	www.mib.nic.in
Mutual Funds	SEBI	www.sebi.gov.in
Mutual Fund Brokers/ Agents	SEBI/AMFI	www.sebi.gov.in www.amfiindia.com
New Pension Scheme (NPS)	PFRDA	www.pfrda.org.in
Non-Banking Financial Companies	RBI	www.rbi.gov.in
Nidhi Companies	MCA	www.mca.gov.in
Plantation Companies	SEBI	www.sebi.gov.in
Portfolio Managers	SEBI	www.sebi.gov.in
Registrars/Share Transfer Agents	SEBI	www.sebi.gov.in
Serious Frauds	SFIO	www.sfio.nic.in
Stock Brokers	SEBI/SE	www.sebi.gov.in
Stock Exchanges	SEBI	www.sebi.gov.in
Sub-Brokers	SEBI	www.sebi.gov.in
Venture Capital Funds	SEBI	www.sebi.gov.in

- **Investor Education and Protection Fund**

This Investor Education and Protection Fund (IEPF) has been set-up under Section 205C of the Companies Act, 1956 by way of the Companies (Amendment) Act, 1999. As per the Act, the following amounts which have remained unclaimed and unpaid for a period of seven years from the date they became due for payment shall be credited to the IEPF:-

(a) Unpaid dividend accounts of the companies;

(b) The application moneys received and due for refund;

(c) Matured deposits;

(d) The interest accrued in the amounts referred to in clauses (a) to (d);

(e) matured debentures;

(f) Grants and donations by the Central Govt., State Govt., companies or any other institutions ;

(g) The interest or other income received out of the investments made from the Fund.

The Fund has been established with a view to support the activities relating to investor education, awareness and protection. Following are the objectives/ activities of the Fund:

- ✓ Educating investors about market operations
- ✓ Equipping investors to analyze information to take informed decisions
- ✓ Making investors aware about market volatilities
- ✓ Empowering the investors by making them aware of their rights and responsibilities under various laws
- ✓ Continuously disseminating information about unscrupulous elements and unfair practices in securities market and
- ✓ Broadening the investors' base by encouraging new investors to participate in securities market
- ✓ Promoting research and investor surveys to create a knowledge base that facilitate informed policy decisions.

The Act provides for setting up of a Committee for taking decisions regarding spending moneys out of the Fund for carrying out the objects as mentioned above. For the purpose of administration of IEPF, the Investor Education and Protection Fund (awareness and protection of investors) Rules 2001 were notified on 1st October 2001.

These Rules, inter alia, contain provisions relating to constitution and functions of the Committee, activities relating to investors' education, awareness and protection to be undertaken with the recommendation of the Committee, conditions for utilisation of Funds by the Committee, proforma for applications for registration of associations, institutions or organisations and also for seeking financial assistance under IEPF, etc.

Major initiatives under IEPF

Under IEPF, various programmes on investor education and awareness have been funded and organized through Voluntary Associations or organizations registered under IEPF. About 69 associations/ organizations have been registered under IEPF, till date.

The various initiatives for increasing the investors' awareness and education have been undertaken under the aegis of IEPF , few of them for investor's reference

- ✓ An "Investor Helpline" www.investorhelpline.in project which had been launched under IEPF through Midas Touch Investors Association to provide a mechanism for redressal of grievances and to create investor awareness has been rendering effective service to the investors. The redressal rate has been around 46 percent.
- ✓ Further, another website, namely www.watchoutinvestors.com which is a national registry of economic defaulters and covers information on convictions by various regulatory bodies has also been rendering effective service to not only investors and prospective investors but also to professionals such as advocates, chartered accountants and company secretaries. The registry contains information about 91,000 such entities/ individuals.
- ✓ Another website, namely, www.iepf.gov.in was launched to serve as a knowledge sharing platform in the area of financial literacy as a measure of investor awareness and education.

List Of Useful Websites Of Government, Regulatory & Other Bodies, Education/Academic Institutions, Depositories And Stock Exchanges

GOVERNMENT, REGULATORY & OTHER BODIES	WEBSITE
COMPANY LAW BOARD	www.clb.nic.in
CREDIT INFORMATION BUREAU (INDIA) LTD.	www.cibil.com
MINISTRY OF CORPORATE AFFAIRS	www.mca.gov.in
MINISTRY OF FINANCE	www.finmin.nic.in
RESERVE BANK OF INDIA	www.rbi.org.in
SECURITIES & EXCHANGE BOARD OF INDIA	www.sebi.gov.in

EDUCATION	WEBSITE
BSE TRAINING INSTITUTE	www.bseindia.com
FINANCIAL PLANNING STANDARDS BOARD,INDIA	www.fpsbindia.org
FT KNOWLEDGE MANAGEMENT CO.LTD.	www.ftkmc.com
ICSI-CENTRE FOR CORPORATE RESEARCH & TRAINING	www.icsi.edu
INDIAN INSTITUTE OF CAPITAL MARKETS	www.utiicm.com
INDIAN INSTITUTE OF CORPORATE AFFAIRS	www.iica.in
INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA,THE	www.icai.org
INSTITUTE OF COMPANY SECRETARIES OF INDIA,THE	www.icsi.edu
INSTITUTE OF COST ACCOUNTANTS OF INDIA	www.icwai.org
INVESTOR PROTECTION & EDUCATION FUND	www.iepf.gov.in
NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH	www.ncaer.org
NATIONAL INSTITUTE OF SECURITIES MARKETS	www.nism.ac.in

DEPOSITORIES	WEBSITE
CENTRAL DEPOSITORY SERVICES (INDIA) LTD.	www.cdslindia.com
NATIONAL SECURITIES DEPOSITORY LTD.	www.nsdl.co.in
STOCK EXCHANGES	**WEBSITE**
AHMEDABAD STOCK EXCHANGE LTD.	www.aselindia.org
BANGALORE STOCK EXCHANGE LTD.	www.bgse.co.in
BHUBANESWAR STOCK EXCHANGE LTD.	www.bhseindia.com
BOMBAY STOCK EXCHANGE LTD.	www.bseindia.com
CALCUTTA STOCK EXCHANGE LTD.	www.cse-india.com
COCHIN STOCK EXCHANGE LTD.	www.cochinstockexchange.com
DELHI STOCK EXCHANGE LTD.	www.dseindia.org.in
INTER-CONNECTED STOCK EXCHANGE OF INDIA LTD.	www.iseindia.com
JAIPUR STOCK EXCHANGE LTD.	www.jsel.in
LUDHIANA STOCK EXCHANGE LTD.	www.lse.co.in
MADHYA PRADESH STOCK EXCHANGE LTD.	www.mpseindia.com
MADRAS STOCK EXCHANGE LTD.	www.madrasstockexchange.in
MCX STOCK EXCHANGE LTD.	www.mcx-sx.com
NATIONAL STOCK EXCHANGE OF INDIA LTD.	www.nseindia.com
OTC EXCHANGE OF INDIA	www.otcei.net
PUNE STOCK EXCHANGE LTD.	www.punestockexchange.com
UNITED STOCK EXCHANGE OF INDIA LTD.	www.useindia.com
UTTAR PRADESH STOCK EXCHANGE LTD.	www.upse-india.com
VADODARA STOCK EXCHANGE LTD.	www.vselindia.com

5. SHAPING YOUR FUTURE WITH FINANCIAL PLANNING

What is Financial Planning?

It is a process that uses your financial resource to satisfy your financial goals. In short, it helps you plan the use of your money to meet your needs and retain something for rainy days.

Who need's financial planning?

There is no discretion as to who is classified to plan their finances. It applies to everyone who uses money to survive in this world, the difference lies only in their scale and level of income, investments and expenses.

Does every one plan their finances?

Not really, cause they hardly know what it means to plan their finance and hence always have reasons to postpone it. And people who have done have not just been fair with their money, but have also generated wealth for themselves and their generations.

a. Steps in Financial Planning

While Financial Planning is a process of planning your finances, there are certain things you need to know before you could proceed with the planning phase. The factors to consider before financial planning have been in 4 steps below. A fair understanding of these four steps are sure to make the financial planning process more meaningful

- **Knowing Your Financial Goals**

Financial goals of an individual define what he or she would like to achieve in terms of money over a period of time. Some examples of financial goals are

- Buying a residential property worth 3 crores in April 2013
- Saving Rs. 60 lakhs for daughter's marriage expenses in 2030
- Purchasing a resort worth Rs. 1 crore in Kerala
- Planning for a retirement income of Rs. 6.lakhs per month starting 2030
- Repaying Housing loan worth Rs. 35 lakhs in 5 years starting from 2014
- Purchasing Gold worth 5 lakhs in 3 years time
- Saving Rs. 10 lakhs for renovating the independent house in Delhi in 2 years time

These goals can be divided into Short Term, Medium Term and Long Term depending upon the means available to support them

- **Knowing Your Financial Position**

Cash Flow Statement

A statement that gives details about how much money you received, how much you spend and how much you save is called the Cash Flow Statement.

A cash flow statement consists of details pertaining to cash received and cash paid during the years irrespective of the year to which it belongs. All payments made by way of cash or through bank are considered and payments made from all bank accounts are considered. The payments could be for expenses, repayment, investment and loan everything is considered. The balancing figure is generally allocated among bank balances and cash in hand.

This statement is a basic document to be prepared in case of individuals who do not maintain proper books of accounts. From the details available in this account a Statement on Income and Expenditure and Balance Sheet can be prepared.

Statement on Networth

A Statement on Networth provides a quick looks at your financial situation at a certain point of time. It gives details about your assets, liabilities, and the difference between the two is your networth. In short it tells you how much money you will be left with had you paid of all your liabilities with the help of money from your assets (cash generated by way of interest or by sale of the asset).

Sample Networth Statement

	Mr. Vijay Kulkarni
Liquid Assets	Rs.
Savings Account	5,00,000
Fixed Deposit with Bank	3,00,000
Liquid Fund	-
Cash	50,000
Invested Assets	
Stocks	1,00,000

Mutual Funds	2,00,000
Bonds	1,00,000
PPF	5,00,000
Gold	3,00,000
Real Estate – Land	25,00,000
Other Assets	
House	50,00,000
Car	5,50,000
Total Assets (A)	**98,00,000**
Liabilities	
Home Loan	40,00,000
Car Loan	2,00,000
Total Liabilities (B)	42,00,000
Total Networth (A-B)	56,00,000

Investment Calculations

Investment calculations involve preparing a schedule for saving target one wishes to reach keeping their long term goals in mind. While preparing these figures one has have in mind the Time value of money concept, for we all know that a rupee earned today is far more valuable than a rupee earned tomorrow. Also it will be of interest to reader to know the magic Compounding Interest can create.

Compounding Effect

People with very limited income have been able to save around 3 to 4 crores by investing in equities over a period of two to three decades amounts in the range of 10, 50 and 500.

The idea behind preparing a Cash Flow Statement or a Networth Statement is for the investor or the individual to understand his position and what exactly he does with money he earns or receives. Where an individual has savings in lakhs of rupees earning an interest of about 6 % , it will be worthwhile to pay off his loans taken at the rate of 16% from the savings held, instead of retaining the savings and repaying the loan with interest.

- **Knowing Your Risk**

Every individual born in this world has some kind of risk to face. While some of them are not man made choices while the others are. On this basic we can divide the risk into General Risk and Risk of Choice

- **General Risk** – General risk includes loss of life, loss of property, disability, risk of health and few other uncalled for liabilities
- **Risk of Choice –** This risk is concerned with the choice we make as far as our investments are concerned, in other words we can also called a Financial Risk. There can be a loss or a gain. In case of business ventures, and professional practice, the environment can be favourable or adverse. It also includes the risk of investing in equities, gold and real estate

- **Know Your Investments**

Now, having had a fairly good idea about your goals, your financial position and the possible risks you are about face, its time to evaluate how to put the money you have saved into use and also to decide what percentage of money saved will be investment to meet your Short term, Medium term and Long term goals.

b. Investing your Savings

There are three things that you need to consider before investing your savings.

- Percentage of Savings retained for Contingencies and other Emergencies if any
- Investments having a Short Term Tenure
- Investment having a Long Term Tenure

The percentage of savings retained from being invested should be sufficiently large to ensure a strong base and big enough to absorb all contingencies of the immediate future. Investments having short term tenure include fixed deposits, Bonds, Debentures, Investments having a long term tenure include Gold, Real Estate, Equities, Debt and Alternative Investments like Private Equity.

Investor Classification

Investors can be classified as follows

- Salary Earners
- Self Employed/Entrepreneurs
- Professionals
- Others

They can further be categorized into

- Beginners
- Middle Level
- Final Level

Salary Earners:

- Every month Salary is wealth accumulation
- Rule of Thumb : Always hold 3 months' salary in savings (job change/delay in payout)
- Beginners: Be more aggressive (no or less liabilities, consistent income level)
- Mid-career people – Be Moderate (more liabilities, commitments)
- High Networth Individuals (HNIs) – A balance of Moderation and Aggressiveness (More Money)

Self Employed/Entreprenuers

- Investment – Own Funds/Borrowed Funds
- Average of Income Earned every month
- Insurance cover for business and personal needs
- Surplus funds on savings
- Funds for further investment in business
- Loan repayment

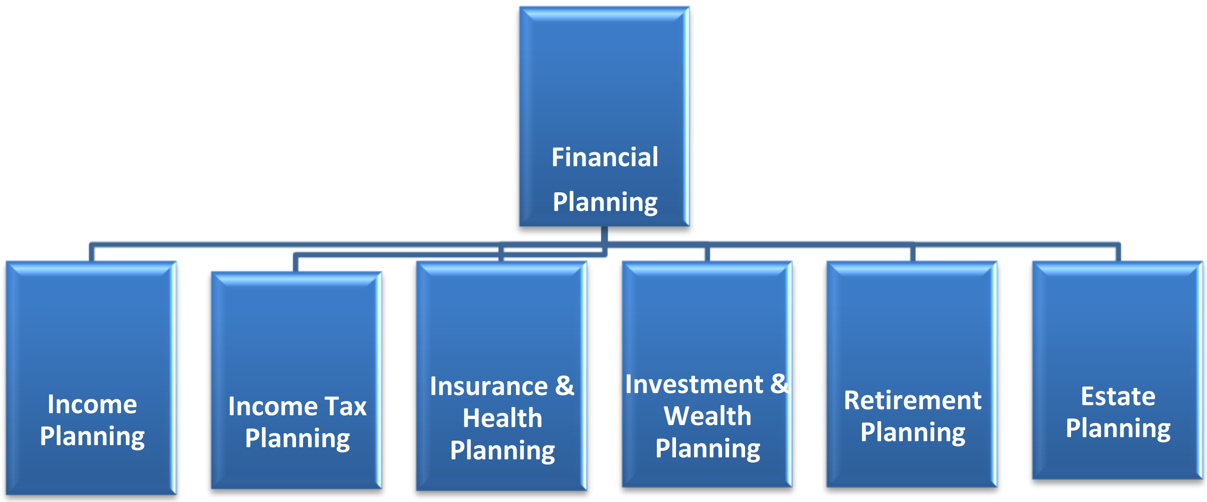
Professionals

- Average earnings every month
- Loans for setting up Professional Practice and its repayment
- Monthly commitments
- Surplus savings
- Fund for further investment
- Investment in Real Estate
- Sole proprietorship/ Firm/Company

Planning your Finances

- Financial Planning is a must
- Know where you stand - Net Worth (Assets – Liabilities), Personal Budget
- Make your financial goals clear - Goals and Objectives - Major Purchase, Children's Education, Retirement, Marriage, Vacation
- Know how to reach your targets and time lines
- Implement your financial plan
- Reap the benefits

Categorisation of Financial Planning



Income Planning

An individual's income planning strategy defines his sources of income and how he plans to meet his short and long term goals.

Sources of Income

- Salary
- Business Income
- Self-Employment
- Investment Income

While the first three sources of income invariably requires personal participation by the individual, investment income does not require his personal participation but still generates income. Therefore, while dealing with the sources of income it is important to have both active and passive income sources that help the individual on those rainy days when personal participation becomes difficult.

Income Tax Planning

People falling in the high income category, end up paying close to 30% of their earnings in the form of taxes. Hence investments offering tax benefits should be the preferred option. Knowledge on simple tax saving investments can help in planning for their taxes.

Chapter VIA Deductions under the Income Tax Act, 1961

Section	Details of deductions	Quantum
80C (Individual & HUF)	A. LIP of Spouse and Children and any member in case of HUF B. Deferred annuity, SPF, RPF, PPF, Superannuation Fund, NSC(8TH),5 years PO Time deposit, Senior citizen Saving Scheme, Term deposit of 5 years, Deposit for 10 or 15 years in Post office saving bank. C. Bonds of NABARD, Deposit scheme of NHB, Notified deposit scheme,. D. MF referred u/s 10(23D),	Maximum Rs 1,50,000 is allowed (For 80C). Investment need not be from taxable income.

	Pension fund of MF[10(23D)], Eligible issue of securities. E. Cost of purchase or construction of residential house including repayment of loan and expenses on transfer of property, tution fees to any educational institutions for full time eduction of 2 childrens.	
80CCC (Individual)	Deduction in case of contribution to pension fund. However, it should be noted that surrender value or employer contribution is considered income.	Maximum is Rs 1,00,000 The premium must be deposited to keep in force a contract for an annuity plan of the LIC or any other insurer for receiving pension from the fund. The Finance Act 2006 has enhanced the ceiling of deduction under Section 80CCC from Rs.10,000 to Rs. 1,00,000 with effect from 1.4.2007
80CCD (individual)	Deduction in respect to contribution to new pension scheme. Employees of central and others are eligible.	Maximum is sum of employer's and employee's contribution to the scheme limited upto 10 % of salary. Further, in any year where any amount is received from the pension account such amount shall be charged to tax as income of that previous year. The Finance Act, 2009 has extended benefit to any individual assesse, not being a

		Central Government employee.
80CCE	It should be noted that employer contribution is allowable as extra u/s 80CCD(2) of the Income Tax Act from Asst yr 2012-13 and only employee's contribution is within limit of Rs 1 Lakh as stated in 80CCE	It should be noted that as per section 80CCE , the maximum amount of deduction which can be claimed in aggregate of 80C ,80CCC 80CCD(1) is Rs 1,00,0000
80CCG	Individual having gross total income upto Rs 12 Lakh can claim this deduction for investing in IPOs of share or mutual fund units.	50 % 0f the invested amount. Limit is Rs 25,000 max.
80D (Individual &HUF)	Medical insurance on self, spouse, children or parents. The deduction is also allowable for CGHS contribution to Central and State scheme. It is also for conducting health check-up to Rs 6000.	Age Below 60 years: Rs 15,000 including Rs. 5000 on preventive checkup for self, spouse and children + Rs 15,000 for insurance on parents. Age above 60 years: Replace Rs 15,000 with 20,000.
80DD (Individual &HUF)	For maintenance including treatment or insuring the lives of physical disable dependent relatives	Rs 50,000. In case disability is severe, the amount is Rs 1,00,000.
80DDB (Individual &HUF)	For medical treatment of self or relatives suffering from specified	Actual amount paid to the extent of Rs 40,000. In case of patient

	disease	being Senior Citizen, amount is Rs 60,000.
80E (Individual)	For interest payment on loan taken for higher studies(after 12) for self or education of spouse or children	Actual amount paid as interest and start from the financial year in which he /she starts paying interest and up to a maximum of 8 years.
80EE	Interest on home loan sanctioned during FY 2013-14. However, value of the property should be below Rs 50 Lakh and max loan sanctioned should be Rs 25 lakh. Further the assessee should not have any other residential house.	Rs 1,00,000/-
80G (All Assessees)	Donations to charitable institution (Max. 10,000 if paid in cash from A/Y 13-14)	100% of amount of donation made to 19 entities (National defense fund, Prime minister relief fund etc.). 50% (Gandhi/Drouhgt/charitable purpose/infrastructural development fund). For Asst Yr 2014-15, National Children Fund will also get 100% deduction.
80GG	For rent paid	This is only for people not getting any House Rent Allowance.

		Maximum is Rs 2000 per month. Rule 11B is method of computation.
80GGA	For donation to entities in scientific research or rural development (Max. 10,000 if paid in cash from A/Y 13-14)	Only those tax payers who have no business income can claim this deduction .Maximum is equivalent to 100 % of donation.
80GGB **80GGC**	For contribution to political parties	100 % of donations
80QQB	Allowed only to resident authors for royalty income for books other than text book	Royalty income or Rs 3,00,000 whichever is less.
80RRB	For income receipt as royalty on patents of resident individuals	Actual royalty or Rs 3,00,000 whichever is less.
80U	Deduction in respect of permanent physical disability including blindness to taxpayer	Rs. 50,000 which goes to Rs 1,00,000 in case taxpayer is suffering from severe disability.
87A	Rebate to individual having low taxable income	Amount of tax or Rs 2,000 whichever is less

Insurance and Health Planning

- Our risks include

  - Our Lives
  - Medical Contingencies
  - Assets
- Insurance Planning is the first step to cover against risk.
- Opting for adequate life insurance cover is essential
- Insurance requirement to be reviewed once in every 2 years
- Insurance secures our
  - Future
  - Finances
  - Loved Ones

Types of Insurance Policies

- Term Insurance
- Whole Life Policy
- Endowment Policy
- Money Back Policies
- Annuities and Pension
- Unit Linked Insurance Plan
- Postal Life Insurance
- Riders: Comprehensive Coverage

Investment and Wealth Planning

It is all about weaving an investment net with

- Equity
- Fixed Income Deposits
- Post Office Schemes
- Gold

- Commodities
- Currency
- Derivatives
- Mutual Funds
- Exchange Traded Funds
- Real Estate
- Alternative Investment
- Investment Options for Non-Resident Indians

Aiming at the Right Asset Mix

- Asset mix is the balance between stocks, bonds and cash, returns and risk level monitor
- Stocks - greater growth & greater volatility
- Gold – the bumper crop
- Mutual Funds – the fund equalizer
- EFTs – the norm
- Real Estate – the cash cow

Asset Allocation

Equity

- Comprises of – Shares & Stocks
- Variety – Blue Chip, Growth Stocks, Income Stocks, Cyclical Stocks, Defensive Stocks, Speculative stocks
- Advantage – Greater returns, diversification, liquidity, information, tax benefits, appreciation, dividends, pledge, voting
- Regulator – BSE, NSE,
- Markets – Primary & Secondary, Online Trading

- Investors – Retail Institutional Investors, Non Institutional Investors, Qualified Institutional Buyers

Gold

- Why invest in Gold??
  - Diversification
  - Low Liquidity Risk
  - Hedge against Inflation
  - Good Returns
  - Low Credit Risk
  - Safe Haven Investment
  - Avenues of Investment
    - Jewellery
    - Gold Coins
    - Gold Bars
    - ETF
    - Global Mutual Fund
    - Gold Fund of Fund
    - Gold Derivatives (Futures) through MCX
    - E-Gold
    - Gold Accumulation Schemes/Savings for Gold Scheme
    - Gold Deposit Scheme

No Loan Against Gold

- RBI bars banks from lending against gold Exchange Traded Funds(ETFs) to further curb gold imports.
- NBFCs are not allowed to lend against gold in any form.

Fixed Income

- Types – Government Securities, Public Sector Bonds, Private Sector Bonds
- Varieties – Government Guaranteed Bonds, Zero Coupon Bonds, Treasury Bills, STRIPS, PSU Bonds, Commercial Paper, Debentures, Floating Rate Bonds, Inter Corporate Deposits, Certificate of Deposits
- Status of Holding – Investors are Creditors to the Issuer
- Market – Debt Market (WDM, RDM, G-secs)
- Types of Trade – Outright Sale or Purchase, Repo Trade
- Regulator - RBI

Money Market Instruments

- Certificate of Deposit (CD)
- Commercial Paper (C.P)
- Inter Bank Participation Certificates (IBPC)
- Inter Bank term Money
- Treasury Bills
- Bill Rediscounting
- Call/Notice/Term Money

Commercial Papers

- Are short term borrowings by Corporates, FIs, Primary Dealers (PDs) from Money Market
- CP when issued in physical form are negotiable by endorsement and delivery
- Issued subject to min 5 lacs and in multiples of 5 lacs thereafter
- Maturity 15 days to 1 year
- Unsecured and backed by the credit of the issuing company
- Any private or public sector companies willing to raise money through the CP market has to meet the following requirements

Private Banking

- Classification of bank deposits

    - Savings Bank Account
    - Current Deposit Account
    - Fixed Deposit Account
    - Recurring Deposit Account
  - Fixed Deposit interest rates in India vary anywhere between 7.00 % to 9.25%
  - Monitoring maturity dates
  - Policy Changes by RBI

Post Office Schemes

- Post Office Savings Account
- Post Office Recurring Deposit Account
- Post Office Monthly Income Accounts
- National Savings Certificate (VIII Issue)
- Kisan Vikas Patra
- Senior Citizen Saving Scheme (SCSS)
- Public Provident Fund Scheme
- Deposit Scheme for Retiring Government Employees
- Deposit Scheme for Retiring Employees of Public Sector Companies

Commodities

- Allow a portfolio to improve overall return at the same level of risk
- Who should invest? Any investor who wants to take advantage of price movements
- A kicker (side card) in the portfolio
- Commodity market in India clocks a daily average Turnover of Rs 120 – 150 billion (Rs 12,000 – 15,000 crores
- Forward Markets Commission Regulates commodity trading
- Demand and Supply factor and Inventory drive the commodity market
- Major Categories of Commodities Traded
  - Industrial Metals
  - Precious Metals: Bullion

  - Agricultural Commodities
  - Energy Commodities
- Commodity Spot Market
  - Offers effective method of spot price discovery
  - Processors, end users. exporters, corporate procure agri produce from here
  - Helps in Futures exchange
  - Promotes grading and standardization in agricultural produce
- Commodities are traded in
  - National Spot Exchange (NSEL)
  - NCDEX Spot Exchange (NSPOT)
- Commodities Derivative Market
  - A derivative instrument whose value is derived from the underlying commodity
  - Example: an investor can invest directly in a steel derivative rather than investing in the shares of Tata Steel
- Where do I need to go to trade in Commodity Futures?
  - National Commodity and Derivative Exchange (NCDEX)
  - Multi Commodity Exchange of India Ltd (MCX)
  - National Multi Commodity Exchange of India Ltd (NMCE)
  - ACE Derivatices and Commodity Exchange (ACE)
  - Indian Commodity Exchange Limited (ICEX)
- Major categories of commodities one can trade
  - Vegetable Oil Seeds, Oils and Meals
  - Pulses
  - Spices
  - Metals
  - Energy products
  - Vegetables
  - Fibres and Manufactures- Cotton
  - Other – Gaurseed, Guar, Gum and Sugar

Currency

- While trade is international, currencies are national
- Exchange rate is affected by the suppy and demand for the country's currency in the international forex market
- Trading in Currency Futures allowed on 3 exchanges
  - Multi Commodity Exchange – Stock Exchange (MCX-SX)
  - National Stock Exchange (NSE)
  - United Stock Exchange (USE)
- Currency Options are
  - during a specified period of time
  - contract
  - that grant the buyer
  - of the option the right and
  - not the obligation to,
  - to buy or sell underlying currency
  - at a specified exchange rate
- USD-INR Option
  - European Call & Put Options

Derivatives

- Financial contracts which derive their value from a spot price called the underlying
- Derivative Instruments traded are Futures and Options
- Derivative Exchange/Segment function as a Self Regulatory Organization and SEBI Acts as the oversight regulator
- Futures contracts, Index Options, Stock options, Stock Futures, Mini Derivative contract on Index, Long tenure Index Option contracts, Volatility Index, Bond Index and Exchange traded Currency Derivatives are permitted by SEBI

Mutual Funds

Types of Mutual Funds include the following

- Equity Linked Savings Scheme

- Arbitrage Funds
- Dynamic Funds
- Fixed Maturity Plans
- International Mutual Funds
- Monthly Income Plans
- Multi Cap Funds
- Quant Funds

Real Estate

- Guidance on Purchase of Property
  - Planning and Budgeting
  - Research
  - Home Loan
  - Safety points in the Home Agreement
  - Home Insurance
- Real Estate Investment Includes
  - Agricultural Land
  - Farm Houses
  - Urban Land
  - House Property
  - Commercial Property
- Real Estate Investment Options in India
  - Investment in Real Estate Stocks
  - Investment in Property

Unique Characteristics of Real Estate

- Durability
- Heterogeneous
- High transaction costs
- Long time delays

- Both an investment good and consumption good
- Immobility

Home Buying Tips from Start to Finish

- **Identifying Your Needs**
  - Independent House or Apartment
  - Budget
  - Number of rooms and bathrooms
  - Approximate Area
  - Proximity to work place, school etc
  - Parking availability
  - Water supply, power back up etc
  - Furnished/unfurnished
  - Connectivity
  - Vicinity to market
  - Special amenities such as club house, pools or spas.
  - Available utilities such as cable or DSL, satellite.
  - Sewer, cesspool or septic connections
- **Finance**
  - Own funds
  - Loan from Banks/HFCs
  - Funds from your employer
  - Loan against assets
  - Provident Fund Loan
- **Scouting for property**
  - Brokers
  - Newspapers
  - Websites
  - Word of mouth
- **Cost Estimate**
  - Purchase Price
  - Stamp duty

- Registration charges
- Khata transfer charges
- Utility Deposits like Water connection deposit, Electricity connection deposit, etc.
- Other incidental expenses

- **Talk to Banks/HFCs**
  - Loan Amount
  - Loan Eligibility
  - Terms and conditions of loan
  - Interest Rate
  - Borrowing costs like processing fee, commitment charges, prepayment penalty, etc.
  - Loan tenures and EMI
  - Time taken for sanctioning the loan
  - Time taken for disbursing the loan
  - Freebies and corporate offers
- **Short listing Properties**
  - Site or property visit
  - Speaking to the neighbors or occupants
  - Clear marketable titles
  - Credibility of the seller
  - Quality of the construction
  - Legal verification
  - Monthly payouts like maintenance charges, society charges, etc.
  - Municipal taxes or property taxes
- **Finalizing the Deal**
  - Negotiate on price and timing of payments (upfront / installments)
  - Press for price negotiation if there are any modifications /repairs /painting to be done

  - Do not forget to collect all original property documents from the seller
  - Before paying the seller, make sure he has fulfilled all his commitments and promises
  - If the transaction involves a broker, withhold some amount of money until he delivers as promised
- Documents required when the property is purchased from a builder
  - An allotment letter from the developer on paying the booking amount
  - Agreement for Sale
- Documents required to be checked if you are buying a resale flat
  - *For flats being purchased in a registered co-operative society*
  - *For flats being purchased in an unregistered society or flats originally allotted by a Development Authority*
- Check the credentials of your new property
  - Invitation of Claims
  - Search at the Sub-Registrar's Office
  - Enquiry at Municipal Corporation
  - Enquiry with the Ward office
  - If the owner of the property is deceased

• **Property Documents to be collected from the Seller**
  - ***In case of a direct purchase from a builder***
    1. Copy of Agreement for Sale.
    1. Copy of Registration Receipt.
    2. Copies of receipts of payment already made.
    3. NOC from builders.
  - *In case of direct allotment in a Co-operative Housing Society*
    1. Allotment letter.
    2. Share certificate.
    3. Society registration certificate.
    4. Copy of sale/lease deed in favour of the society.
    5. NOC from society
  - *In case of direct allotment in a Co-operative Housing Society by Public Agency*

1. Allotment letter, Share certificate, Society Registration certificate.
2. Lease Agreement.
3. Public agency's approved list of members.
4. NOC from Public Agency in favour of bank/HFC
5. NOC from society.

– *In case of Public Agency's allotment to individuals*
  1. Allotment letter from Public Agency.
  2. Tripartite Agreement between the borrower, Bank/HFC and the Public Agency in the prescribed format.
– *In case of resale*
  1. Copy of all previous vendors' registered documents along with copy of your purchase agreement duly stamped and registered and the registration receipt wherever applicable.

- **Purchase of rentable properties**
  – Location
  – Numbers
  – High home prices
  – Low maintenance buildings
  – Ask to see the rental history
  – Owner/Manager out of the country
- **A Buyers/Tenants Checklist**
  – *Check if Use of Property would amount to Change of Land Use*
  – *Check if Non Residential Activity in Residential Premises Is Permissible*
  – *Check if the Municipal Guidelines allow Mixed Use*
  – *Certain Professional Activity permissible in Residential Areas*
  – *Check if the Building adheres to the Sanctioned Plan*

Private Equity

– Venture Capital
– Replacement Capital
– Buyout

- Special Situation
- Risk of investment through PE
- Role of Stock Market
- Rare Coins and Paper Currency
- Stamp Collection
- Art
- Antiquities
- Wine

NRIs

- Deposit Schemes
- Investments in Securities and Debt
- Investment in Mutual Funds
- Investment in Immovable Assets
- Investment in Tax saving options

Retirement Planning

Retirement planning involves planning for the following

- Allocation of finances for Retirement
- No Government sponsored retirement plan
- Nuclear Families
- Unforeseen Medical expenses
- Estate Planning
- The Flexibility to Deal with Changes
- Systematic investment every month is a way to a tension free healthy retirement.

Steps to be followed in Retirement Planning

- Decide of age for retirement
- Annual income need for retirement years
- Current market value of all the savings and investments

- Determine a realistic annualized rate of return
- Consider company pension plan if any
- Now compute the value required on retirement

Retirement Investment Options

- Public Provident Fund (PPF)
- National Savings Certificate (NSC)
- Employees Provident Fund (EPF)
- Mutual Fund Products
- Insurance Products
- New Pension Schemes
- Reverse Mortgage

Estate Planning

The sum of all the assets of a person, less his liabilities becomes his ESTATE. For examples all properties, bank accounts investments, insurances and collectibles, less the liabilities of a person are collectively called a person's estate. Estate planning is about

- Accumulating and Disposing of an estate to maximize the goals of the estate owner.
- Distribute wealth to a certain beneficiary or beneficiaries to whomever the owner wishes.
- Important to take the help of an attorney experienced in estate law

Objectives of Estate Planning

- Asset transfer to beneficiaries
- Tax- effective transfer
- Planning in case of disabilities
- Time of distribution can be pre-decided

- Business succession
- Selection of Trustee or guardian or the executor

Terminologies in Estate Planning

- **Will -** A document that conveys your wishes about your estate and helps in following it after your death
- **Testator –** A person who makes his will
- **Executor –** A person who executes the will after the death of the testator
- **Legatee/Beneficiary –** A person who inherits the estate under a will.
- **Inestate –** A person who dies without making a valid last will is said to die inestate
- **Probate –** A legal process of settling the estate of a deceased person
- **Power of Attorney –** A authorization to act on someone else's behalf in a legal or business matter.
- **Trust –** It is a relationship in which a person called the trustor transfers something of value, movable or immovable to another person called a trustee. The Trustee then manages and controls these assets for the benefit of a third person called a beneficiary.

Steps and Tools in Estate Planning

- Steps
  - Listing of assets and liabilities
  - Open family discussion on selecting the guardian
  - Update the current beneficiaries like life insurance
  - Decide upon the distribution of the assets on death
  - Funeral arrangements with spouse and family
  - Assistance of an estate planning authority
- Tools
  - Life Insurance

- Will
- Trust

Tips in Estate Planning

1. ***While making a Will, it is important to state the nature of the asset as to whether it is inherited or not, as no ancestral property can be assigned to any person***
2. ***A will requires no stamp duty or registration, but yes two witnesses must attest the Will***
3. ***It is important to update the Will every few years***
4. ***It is important to endorse insurance policies under Married Women Property Act, 1874, which ensures that the policies cannot be attached by the Vendors and benefits of go to wife and children of the deceased***

6. PORTFOLIO MANAGERS/WEALTH MANAGERS/INVESTMENT ADVISORS (IA) REGULATION

Who can become Portfolio Managers?

- Chartered Accountants
- Certified Financial Planners
- Chartered Financial Analyst
- Management Graduates with specialization in Finance

Investment Advisors Regulation in India

- On January 21, 2013 SEBI issued The (Investment Advisors) Regulation 2013

- These regulations shall come into force on the 90th day from the date of notification i.e April 20, 2013.
- Regulating the activity of Investment Advice
- Investment Advice – Advice on Investment Products and Financial Planning
- Regulation exempts number of intermediaries and intermediation activities from Registration
- Consultation on hedging and cash management services likely to be covered

Investment Advisors Registration

- Registration with SEBI as Investment Advisor (IA)
- Subject to fulfillment of certain basic Criteria
  - Minimum educational qualification
  - Affiliation with National Institute of Securities Market

Regulation of Investment Advisors

- Regulation imposes responsibility on IAs
  - Fiduciary responsibility towards client
  - Record keeping
  - Suitability Appropriateness
  - Code of Conduct
  - Disclosures of conflict of interests
  - Segregation of Activities other than investment advisory
  - Payment of Commission
- Stock Brokers and Merchant bankers (exempted from IA registration)
  - Are required to comply with provisions relating to
    - Manner in which clients are to be boarded
    - Investment advice is to be rendered

Exemptions

- Any member of

  - ICAI, ICSI, ICWAI,
  - Actuarial Society of India or
  - any other professional body as may be specified by the Board, who provides investment advice to their clients, incidental to his professional service.
- Any stock broker or sub-broker registered under SEBI (Stock Broker and Sub-Broker) Regulations, 1992,
- Portfolio manager registered under SEBI (Portfolio Managers) Regulations, 1993 or
- Merchant banker registered under SEBI (Merchant Bankers) Regulations, 1992, who provides any investment advice to its clients incidental to their primary activity.
- Any fund manager, by whatever name called of a mutual fund, alternative investment fund or any other intermediary or entity registered with the Board;
- Any person who provides investment advice exclusively to clients based out of India. Any representative and partner of an investment adviser which is registered under these regulations
- Any other person as may be specified by the Board.

Registration Fees

- Every applicant shall pay non-refundable application fees of five thousand rupees (Rs. 5,000) along with the application for grant or renewal of certificate of registration.
- Applicants which are individuals and firms shall pay a sum of ten thousand rupees (Rs. 10,000) as registration/ renewal fee at the time of grant or renewal of certificate by the Board.
- A body corporate shall pay a sum of one lakh rupees (Rs. 1,00,000) as registration/ renewal fee at the time of grant or renewal of certificate by the Board.
- The above fees shall be paid by the applicant within fifteen days (15 days) from the date of receipt of intimation from the Board by a demand draft (DD) in favor of 'Securities and Exchange Board of India' payable at Mumbai or at respective regional or local office.

Registration Procedure

- The Applicant for grant of registration as an Investment Adviser under SEBI (Investment Advisers) Regulations, 2013 should make an application to SEBI in Form A
- The applicant will receive a reply from SEBI within one month.

Capital Requirement

- *Case of Body Corporates*: Net worth of not less than twenty five lakh rupees (Rs. 25, 00,000)
  - "Net Worth" means the aggregate value of paid up share capital plus free reserves (excluding reserves created out of revaluation) reduced by the aggregate value of accumulated losses, deferred expenditure not written off, including miscellaneous expenses not written off, and capital adequacy requirement for other services offered by the advisers in accordance with the applicable rules and regulations.
- *In Case of Individuals / Partnership firms:* Net tangible assets of value not less than one lakh rupees (Rs. 1, 00,000)

Status of Existing Investment Advisors

- Existing investment advisers shall comply with the capital adequacy requirement within one year from the date of commencement of these regulations.

Period of Validity

- *Period of Validity* of the Certificate is five years (5 years) from the date of issue.
- *Renewal of Certificate*: Three months before the expiry of the period of validity of the certificate, the Investment adviser may, if he so desires, make an application in FORM-A for grant of renewal of certificate of registration. The renewal application also dealt in the same manner as if investment advisor is applying for the first time.

7. ENSURE STEADY ENSURE PEACE OF MIND

Proper financial planning tends to make life more systematic and earning more consistent. By now you identify the sources of income, the quantum of income from each of the different sources, estimate the expenditure both short term and long term, plan for expenses, invest savings in different types of investments, above all you are rest assured that the path which you have chosen is wise.

This is indeed the ultimate benefit of planning your finances. You are assured peace of mind and financial soundness definitely increases the scope and growth of one's wealth. At the end of the day what do you live for, it is for a peaceful night's sleep preparing for an enthusiastic tomorrow.

8. HOW TO DOCUMENT YOUR INVESTMENTS

Financial Plan and its importance

A financial plan is a series of steps which are carried out, or goals that are accomplished, which relate to an individual's financial affairs. It is a series of steps or specific goals undertaken for spending and saving future income. This plan allocates future income to various types of expenses and also reserves some income for short-term and long-term savings.

The importance of financial planning especially in the present scenario cannot be overstated. Among others, two factors are responsible for the same i.e. inflation and changing lifestyles. Inflation is a situation where too much money chases a limited number of goods. This leads to a fall in the value of money. It is also expressed as a rise in the general price level. Financial planning can ensure that one is equipped to deal with the impact of inflation, especially in phases like retirement when expenses continue but income streams dry up. The second factor is changing lifestyles. With higher disposable incomes, it is common for individuals to upgrade their standard of living. Apart from these, there are contingencies like medical emergencies or unplanned expenditure that an individual might have to cope with. Sound financial planning can enable him to easily mitigate such situations, without straining his finances.

It is possible to manage income effectively through financial planning. It helps in segregating it into tax payments, other monthly expenditures and savings. Financial planning is also necessary from the point of family security. The various policies available in the market serve the purpose of financially securing the family. The savings created through appropriate planning come to the rescue in difficult times. Death of the bread winner in a family, affects the standard of living to a great extent. A proper financial plan such as a Will, Settlement Deed and various other investment instruments acts as a guard in such situations and enables the family to survive hard times.

How to document your investments?

Next comes the important part of documenting these investments. It is not just necessary to do appropriate financial planning but the investor should be wise enough to document all these investments. There may be several ways of investments but the investor should be able to remember and keep track of these investments. For this he needs to ensure that he documents all his investments and keep it in a place that is easily accessible.

Do's and Don'ts

- ✓ The investor should be always aware of his legal rights under each investment. For this, he should always read the investment documents and understand his legal rights.

- ✓ Copies of all investment documentation i.e. Xerox copies of application forms, acknowledgement slips, agreements, contract notes, insurance policies etc. should be kept safely in a place that is accessible to the investor.

- ✓ The dates of opening and closing of accounts, dates of maturity (for e.g. fixed deposits etc.), periods of interest, whether monthly or annual, pension due dates etc. may all be detailed in a sheet of paper. It can also be drafted in an excel sheet format and saved in the computer.

- ✓ Details of each instrument may be detailed in the excel sheet. History of the instrument and how it was acquired can also be mentioned.

- ✓ Face Value of each instrument and returns expected from that instrument may also be mentioned in the excel sheet.

- ✓ In case of Power of Attorney, the parties and the powers given may be mentioned.

- ✓ In case of Will, the details of properties bequeathed and the beneficiaries may be mentioned in the excel sheet.
- ✓ Where it is a Private Trust, the purpose of the trust, the parties etc. may be mentioned.
- ✓ In case of Partition, the details of immovable property partitioned, the parties involved may be noted in the sheet.
- ✓ Where it is a Settlement Deed, the parties and property involved can be given.
- ✓ All though the basic preparation of this document of investments may take some time and patience, this will surely go a long way in saving our time and energy in future. This will be a great reckoner not only for the investor but also for any other person handling on behalf of the investor in terms of distress.
- ✓ Apart from the above, the document will also be of great help in tax planning and submit the tax returns.

Format of documenting the investments

Sl. no.	**Type of instrument**	**Name of bank / company etc.**	**Date of opening / purchase**	**Date of maturity**	**Face value of the instrument (Rs.)**	**Expected return**	**Comments**
	Fixed deposit						
	Recurring deposit						
	Insurance policy						
	Shares						

Sl. no.	Type of instrument	Date of document	Parties to the document (deed)	Details of movable property	Details of immovable property	Comments
	Will					
	Settlement deed					
	Gift					

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Mr. Rajkumar Adukia is an eminent business consultant, academician, writer, and speaker. Mr. Adukia, senior partner of Adukia & Associates has authored more than 32 books on a wide range of subjects. His books on IFRS namely, "Encyclopedia on IFRS (3000 pages) and The Handbook on IFRS (1000 pages) has served number of professionals who are on the lookout for a practical guidance on IFRS. The book on "Professional Opportunities for Chartered Accountants" is a handy tool and ready referencer to all Chartered Accountants.

Mr. Adukia is a rank holder from Bombay University and did his graduation from Sydenham College of Commerce & Economics. He received a Gold Medal for highest marks in Accountancy & Auditing in the Examination. He passed the Chartered Accountancy with 1st Rank in Inter CA & 6th Rank in Final CA, and 3rd Rank in Final Cost Accountancy Course in 1983. He started his practice as a Chartered Accountant on 1st July 1983, in the three decades following which he left no stone unturned, be it academic expertise or professional expansion. His level of knowledge, source of information, professional expertise spread across a wide range of subjects' right from the simplest to the most complex, has made him a strong and sought after professional in every form of professional assignment.

In addition to being a Chartered Accountant, Company Secretary and a Cost Accountant, MBA, Dip IFR (UK), Mr. Adukia also holds a degree in law and Diploma in Labour Laws. He has been involved in the activities of the Institute since 1984 as a convenor of Kalbadevi CPE study circle. He was the Chairman of the Western Region of Institute of Chartered Accountants of India in 1997 and has been actively involved in various committees of ICAI. He became a member of the Central Council in 1998 and ever since he has worked tirelessly towards knowledge sharing, professional development and enhancing professional opportunities for members. He is currently the Chairman of Committee on Financial Markets and Investor Protection, Committee on Government Accounting and Ethical Standard Board.

He has been coordinating with various professional institutions, associations' universities, University Grants Commission and other educational institutions. Besides he has actively participated with accountability and standards-setting organizations in India and at the international level. He was a member of J.J. Irani committee which drafted Companies Bill 2008. He is also member of Secretarial Standards Board of ICSI. Currently he represents ASSOCHAM as member of Cost Accounting Standards Board of ICWAI. He is a member of working group of Competition Commission Of India, National Housing Bank, NABARD, RBI, CBI etc.

He has served on the Board of Directors in the capacity of independent director at BOI Asset management Co. Ltd, Bharat Sanchar Nigam Limited and SBI Mutual Funds Management Pvt Ltd. He is also a member of the London Fraud Investigation Team

Mr. Rajkumar Adukia specializes in Financial Planning and Wealth Management, SEZs, IFRS, Enterprise Risk Management, Internal Audit, Business Advisory and Planning, Commercial Law Compliance, Labour Laws, Project Work, Carbon Credit, Taxation, Trusts and Green Audit. His clientele include large corporations, owner-managed companies, small manufacturers, service businesses, property management and construction, exporters and importers, and professionals.

He has undertaken specific assignments on fraud investigation and reporting in the corporate sector and has developed background material on the same.

Based on his rich experience, he has written numerous articles on most aspects of finance-accounting, auditing, taxation, valuation, public finance. His authoritative articles appear regularly in financial papers like Business India, Financial Express, Economic Times and other professional / business magazines. He has authored several accounting and auditing manuals. He has authored books on vast range of topics including Internal Audit, Bank Audit, SEZ, CARO, PMLA, Anti-dumping, Green Audit, IFRS, Income Tax Search, Survey and Seizure, etc. His books are known for their practicality and for their proactive approaches to meeting practice needs.

Mr. Rajkumar is a frequent speaker on trade and finance at seminars and conferences organized by the Institute of Chartered Accountants of India, various Chambers of Commerce, Income Tax Offices and other Professional Associations. He has also lectured at the S.P. Jain Institute of Management, Intensive Coaching Classes for Inter & Final CA students and Direct Taxes Regional Training Institute of CBDT. He also develops and delivers short courses, seminars and workshops on changes and opportunities in trade and finance. He has extensive experience as a speaker, moderator and panelist at workshops and conferences held for both students and professionals across the country and abroad. Mr. Adukia has delivered lectures abroad at forums of International Federation of Accountants and travelled very extensively abroad for professional work.