Personal finance, Simplified

Sandeep Nangrani (BE, MBA)

Freelance Business Analyst / Personal finance Consultant

New Delhi, INDIA

Cell: 8860713333

Webpage: http://mutualfundprofessional.indirapuram.com/

Linkedin profile: https://www.linkedin.com/in/sandeepnangrani

Table of Contents

Personal finance is more about Person, and less about finance ☺

Whatever product or scheme is suitable to you may not befit your neighbour / colleague / cousin / friend etc.

You could have goals same as others' - like buying a house, saving for Retirement or Kids' Higher studies, BUT your timelines could be different, and your risk profiles could be altogether different.

It's the horses for courses approach that works in Personal finance.

Before you start working on your financial plan, it's advisable to take stock of all of your assets & liabilities so that you know your current financial condition and net-worth.

"Assets are whatever you OWN"

e.g. Bank A/Cs, FDs, Provident funds, Post office schemes, Shares, Mutual funds, Gold, Silver, debt-free property etc.

"Liabilities are whatever you OWE"

e.g. Loans, Credit card dues "

Their difference is your net-worth and that helps give direction to your financial planning.

Once you calculate your net-worth, you need to start tracking your monthly cash flow (inflow and outflow) that includes Income, Savings, Spending and Borrowings as that will assist in arriving at your monthly budget – the foundation stone of any financial plan.

This exercise on monthly budget helps you derive your ***Emergency corpus***. As a thumb rule, you need to build Contingency fund equivalent to around six months of your expenses.

Some part of this (may be 1 - 2 months) could be kept as Cash at home. Why? So as to avoid Chennai floods like situation where many people were left stranded due to ATMs and e-Wallets mal-functioning during heavy downpour few years back.

Remaining part of this corpus could be deployed across Savings Bank Accounts, Fixed deposits, Liquid funds, Ultra short term funds etc.

The next stage in financial planning is to buy ***adequate Health Insurance*** for the family.

Irrespective of age, employment or marital status, medical cover is required for everybody. Rather than buying a single policy you may divide this Insurance into –

- Base policy (of around 5 – 10 lacs) and
- Super top up policy (of around 1 crore).

This ensures that your financial plan doesn't get derailed in case of any medical emergency.

Note –

You don't need Life Insurance if you do not have financial dependents.

Once these basic steps are taken care of, you may move to Investment planning, but remember that ***there's no such thing as BEST Plan***.

At the risk of repeating myself - *it's the horses for courses approach that works in Personal finance*.

At this stage, set your financial goals and inflate those appropriately as per your timelines,

e.g. If your kid is in Class 5th and you wish to invest for her higher education that is around seven years away, you need to inflate current cost of the course that she intends to join & arrive at the future cost of the same. If this is not yet decided what course she could join, you may take ball park figure of the similar courses to calculate the inflated cost.

Whatever investments have been made till date (or the assets you possess) need to be linked to each of these financial goals so as to do backward calculation of how much extra you need to invest per goal, in which asset class to reach those goals in time.

For the shortfall between the net-worth and the future cost of these goals pertaining to your financial dependents, an appropriate sum of Term Life Insurance has to be bought covering the life of the earning members of the family.

Kindly do not rely on any thumb rules over here and calculate your actual financial needs vs net-worth accordingly.

- ✓ **Tenure of this cover should be as long as your family is dependent on you (generally 55-60 years of your age).**
- ✓ **Do not buy "Return of premium" plans.**
- ✓ **Keep Premium payment term equal to Policy's tenure.**
- ✓ **Choose premium payment frequency as "Annual" – to help save you costs.**
- ✓ **Keep your nominees informed, be honest & buy a plain vanilla Term plan from the company of your choice.**

Now is the time to take into account monthly investment amount as per your budget, and create goal-wise strategies and portfolios.

The focus here should be on appropriate Asset-allocation aligned to your goal's horizon.

Short term goals are to be funded by relatively safer debt instruments like FDs, Debt funds etc and long-term goals by equity oriented funds.

Few thumb rules based on risk Vs returns –

Investment Horizon	Equity portion		Returns expected %
Up to 5 years	*$0/3^{rd}$*	***Rest in Debt***	*7-8%*
7-8 years	*$1/3^{rd}$*		*8-9%*
10 years and more	*$2/3^{rd}$*		*9-10%*

These thumb rules are not sacrosanct, and you need to consider various parameters like safety, liquidity, returns & taxation aspects (in the same order) of each instrument while creating your goal-based portfolios.

Once you start investing, the portfolio has to be reviewed at least once annually to do away with consistent laggards and to ensure you are on track of reaching your goals.

Re-balance if need be - considering exit loads and capital gains on your sells and switches.

Last but not the least, it's advisable to keep selling your risky assets as you approach your goals and keep parking the proceeds in safer avenues as a risk mitigation approach.

Happy Investing!

2. Debunking Mutual fund Myths

Sr #	Myth ☒	Fact ✓
1.	*Mutual funds invest Only in Equity markets*	Mutual funds invest NOT ONLY in Equity shares, but also Government Treasury bills, Company deposits, Commercial papers, Gold, International markets etc depending on the underlying theme of the Mutual fund. Moreover, apart from plain vanilla diversified Equity funds, some companies offer exotic products too like World Gold funds (funds that invest in companies mining gold, precious stones etc), MNC funds, Sharia compliant funds, Sectoral funds etc.

Sr #	Myth ☒	Fact ✓
2.	*You can invest ONLY huge amount in Mutual funds*	You do not need huge amount to invest in Mutual funds, and can start with as LOW as Rs 100/- a month via SIP mode.
3.	*DEMAT Account is Mandatory to invest in Mutual funds*	DEMAT account is mandatory ONLY for Shares and it is NOT MANDATORY to invest in Mutual funds.
4.	*All Mutual funds have Lock-in period and one cannot easily redeem the investments*	Mutual funds (except Tax saving funds) have NO LOCK-IN PERIOD, and CAN BE SOLD ANYTIME.

Sr #	Myth ☒	Fact ✓
5.	*It is good to invest in a Mutual fund that gives Regular Dividends*	Stock dividends ≠ Mutual fund dividends Mutual fund dividend means NOTHING extra. It's like you withdraw money from your left pocket and put it in your right pocket. For example, • Scheme's NAV = Rs 40 • Dividend declared = 30% • Dividend amount = 30% of face value of Rs 10 i.e. Rs 3 **After the dividend, NAV of the scheme falls down to Rs 37 per unit.** So, what's the extra gain? Zero. Plus, receiving dividends from Mutual funds is Loss making too from tax perspective.

… Hope this clears few myths!

Personal Finance, Simplified
by SANDEEP NANGRANI
http://mutualfundprofessional.indirapuram.com/