EXPRESS Money
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EXPRESS CLINIC

NAME: **MANISH SHAH, 43**
RESIDES IN: VADODRA (GUJARAT)
PROFESSION: SENIOR VICE-PRESIDENT WITH A STOCK BROKING FIRM

NET ANNUAL INCOME
(₹ 9,34,000)

STATUS & GOALS

MANISH WANTS TO HAVE A CLEAR PICTURE OF HIS FINANCIAL LIFE AND HAVE HIS FINANCES CHECKED. HIS BASIC GOALS ARE COMFORTABLE RETIREMENT AND CHILDREN'S EDUCATION. BUT HE GIVES EQUAL WEIGHTAGE TO LIFESTYLE GOALS LIKE BUYING NEW CAR, FOREIGN VACATION AND BUYING A BIG HOUSE

NEEDED

A plan that channelises the investments in such a way that all goals can be met

MONTHLY INCOME (Post Tax) **₹ 77,830**

TOTAL ANNUAL EXPENSES **₹ 50,000**

NET MONTHLY SURPLUS **₹ 27,830**

GOALS

IN ORDER OF PRIORITY

RISHAB'S EDUCATION
(2013)(Inflation 10%)
CURRENT VALUE ₹ 10lakh | FUTURE VALUE ₹ 11 lakh

PARTH'S EDUCATION
(2017)(Inflation 10%)
CURRENT VALUE ₹ 10 lakh | FUTURE VALUE ₹ 16.10 lakh

FOREIGN TRIP
(2015 & 2021)(Inflation 7%)
CURRENT VALUE ₹ 4lakh | FUTURE VALUE ₹ 4.90 lakh

BUYING HOUSE
(2020)(Inflation 8%)
CURRENT VALUE ₹ 1crore | FUTURE VALUE ₹ 1.85 crore

RISHAB MARRIAGE
(2022)(Inflation 7%)
CURRENT VALUE ₹ 20lakh | FUTURE VALUE ₹ 39.34lakh

PARTH MARRIAGE
(2026)(Inflation 7%)
CURRENT VALUE ₹ 20 lakh | FUTURE VALUE ₹ 51.57 lakh

BUYING CAR (NEXT YEAR) ₹ 8lakh

RETIREMENT PLANNING (2028) *(Inflation considered -7%, Life expectancy -85 years)*
DESIRED MONTHLY INCOME ₹ 1lakh | CORPUS REQUIRED ₹ 6.27 crore

OBSERVATIONS

Manish is has a net worth of ₹ 2.3 crore, which is distributed among different asset classes but most of his debt investments are locked-in so there will be some difficulty to meet short term goals. He is having term plans of ₹ 41 lakh, but this amount is insufficient.

CURRENT INVESTMENTS
PPF ₹ 54 lakh; Fixed Deposits ₹ 8 lakh; Bonds ₹ 7 lakh; Post Office Schemes ₹ 36 lakh; Shares ₹ 40 lakh ;Savings Bank ₹ 2 lakh ;Property ₹ 75 lakh ;Insurance Plans₹15 lakh

FINDINGS

EMERGENCY FUND
Some emergency fund is available, which will be able to cover 3-4 months expenses.

HEALTH INSURANCE
Floater policy for entire family is taken but still there is scope to increase sum assured.

LIFE INSURANCE
Current cover looks insufficient.

INVESTMENTS
He is using asset allocation as a tool to reduce risk and enhance returns. He should seriously think about adding mutual funds to his portfolio.

RECOMMENDATIONS

EMERGENCY FUND Has ₹ 2 lakh in savings bank account which can be assigned for emergency fund and another ₹ 1 lakh can be invested in short term debt fund.

Express Tip: Emergency fund equal to 5-6 months of expense is a must for every person.

HEALTH INSURANCE
Manish should increase his and Falguni's health insurance to ₹ 5 lakh and ₹ 3 lakh for children / parents.

Express Tip: Sudden medical contingencies can be met by proper health insurance cover.

LIFE INSURANCE
He requires insurance of ₹ 97 lakh. There is a gap of ₹ 56 lakh, which can be filled by taking a term plan. He can also consider discontinuing few of the endowment plans.

Express Tip: One should not consider insurance for investment or tax planning tool, as this is for providing security to the family members.

CHILDREN'S EDUCATION
Rishabh will enter college in 2013, for this he requires ₹ 10 lakh in current value. He can allocate ₹ 7 lakh from bonds and another ₹ 3 lakh from Bank FD towards this goal. For Parth he can allocate ₹ 5 lakh from shares and the remaining amount can be taken from post office.

Express Tip: Debt instruments should be used for short term goals and equity instruments for long term goals.

CHILDREN'S MARRIAGE
He can allocate ₹ 10 lakh from shares and the remaining amount of ₹ 15 lakh can be withdrawn from Post Office schemes.

LIFESTYLE GOALS
Manish wants to purchase a bigger house worth ₹ 1 crore in present value; for this he can sell his existing house and can fill the remaining gap by withdrawing from post office schemes. Car can be bought by withdrawing from FDs and surrendering couple of insurance policies. Goal for foreign vacation can be filled by withdrawals from recurring deposits.

Express Tip: Lifestyle goals should not be achieved by compromising main goals but by improving cash flows.

RETIREMENT FUNDING
Manish desires ₹ 1 lakh per month after retirement, which looks on higher side compared to his present income and expenses. He will need ₹ 6.27 crore as his retirement corpus - he will get approximately ₹ 77 lakh from EPF. The balance corpus can be achieved by allocating ₹ 70 lakh towards retirement and by investing ₹ 16,500 per month in diversified equity mutual funds.

Express Tip: Retirement planning is one of the most important goals which needs patience and discipline to create retirement corpus in the long term.

CONCLUSION

The question is not what age you want to retire, it's at what income. Prepare a plan for your financial life. Mark Twain said, "Plan for the future, because that's where you are going to spend the rest of your life."

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EQUITY

No Santa on D-Street this December...will he return next?

After nine years, equity investors are likely to close the year on a negative note for the first time in December. However, next year could be much better, says **Ritu Kant Ojha**

DALAL Street has missed Santa this time. The Sensex has given a negative return of 2.44 per cent as on December 23 compared to the November 30 close. Looking at the recent trends, it's unlikely to be a happy ending for the current year for equity investors who have seen a 23 per cent erosion in their wealth in 2011. Since 2002, December has always been a month which has given positive return to the investors.

Equity investors are pinning their hopes for the last few trading sessions left before the year ends. The month of December used to be bullish for the Indian markets. Last December, the BSE Sensex gave a monthly return of 5 per cent as compared to November in the same year.

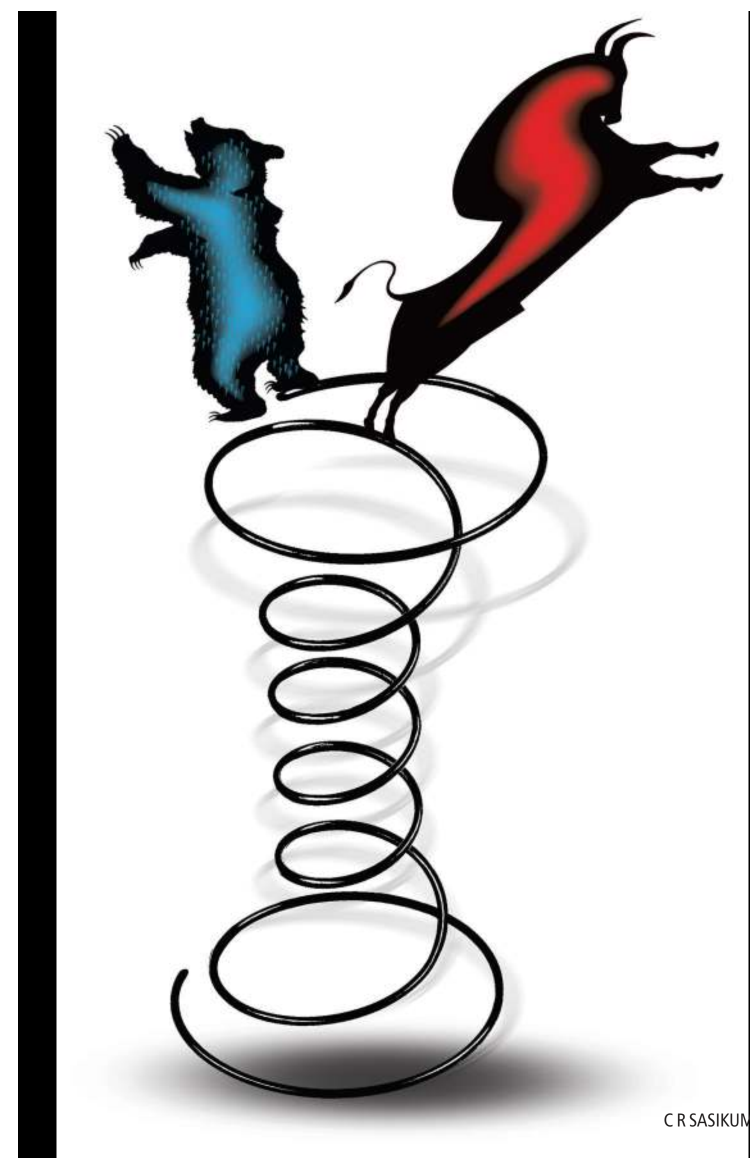
It is interesting to note that public opinion normally calls for a correction in December as a large number of foreign institutional investors sell off before the festive period to book profits and go on a holiday around Christmas and New Year time. However, it is quite opposite which ultimately happens, making it a profitable month most of the time.

After the lows of 2009, Indian equity markets scaled new heights in 2010, peaking at 21,000 Sensex level in November last year. Looking at the India growth story, no one in 2010 imagined it to become one of the worst performing emerging markets in 2011. Equity markets in India have lost more than 23 per cent in 2011. Post global financial crisis in 2008, it never saw stability in the trading volumes. Inflation, policy inaction, falling rupee and volatile equity markets have left experts wondering how to trade in this market. But there's a silver lining.

ONE OF THE WORST PERIODS

While Indian equity markets have seen several ups and downs in the past, this year is particularly tough, old timers say. The first time it experienced huge volatility was after Harshad Mehta scam was exposed in the early '90s. The Sensex zoomed past the level of 2000 to 4,000 from January to March 1992. However, after the scam hit the markets, there was a bout of heavy selling. It was only in the year 1999 that Sensex could cross the level of 5,000.

However, markets had a bad time again from the early 2000 to end of 2002 (nearly three years) after the dot-com bust in US in the year 2000 and terrorist attack on World Trade Centre in New York. US subprime crisis and the fall of Lehman Brothers was the start of rapid fall in the India equity markets spanning from the early 2008 to 2009 period which saw the Sensex crashing from the 21,000 levels in January, 2008 to 8,700 level in October, 2008. This was till then, one of the toughest periods most of the equity market analysts had seen in their lifetime.



C R SASIKUMAR

SENSEX RETURNS IN DECEMBER

Month	Closing as on Nov 30	Closing as on Dec 31	Return (%)
2002	3,228.82	3,377.28	4.60
2003	5,044.82	5,838.96	15.74
2004	6,234.29	6,602.69	5.91
2005	8,788.81	9,397.93	6.93
2006	13,696.31	13,786.91	0.66
2007	19,363.19	20,286.99	4.77
2008	90,92.72	9,647.31	6.10
2009	16,926.22	17,464.81	3.18
2010	19,521.25	20,509.09	5.06

SOURCE:BAJAJ CAPITAL

"We faced lot of problems in terms of volatility in 2008. But currency, inflation, high interest rates and policy inaction were not the major issues then. Today we have several domestic issues," says B Gopkumar, Head - Broking, Kotak Securities. This time around the pain is at a different level altogether which has domestic problems mixed with the grim international scenario. The fall is no more the moot point. Uncertainty is.

With the fear of some of the European countries defaulting on their debt obligations and downgrade of US sovereign debt, the chances of slowdown looms large on Indian economy. While last financial crisis was more US driven, this time around India has several of its own issues to deal with that are driving the markets to newer lows. "India growth story was taken too seriously this time. Those companies which have incurred costs banking on the growth story, are bound to suffer huge losses," says Jaganatthan Thunuguntla, Head Equity, SMC Capitals.

SILVER LINING

"Uncertainty is part of life when you are into the equity markets. The present European sovereign debt crisis is not an exception though the features, impact and quantum of the crisis might be different," says Alok Aggarwal of Bajaj Capital. The extreme volatility in the equity markets saw almost all the broad parameters of equity trading, which use several patterns and charts to predict the market, falling flat with analysts avoiding to take a firm call on what could be a "right trading strategy".

Economic uncertainty and rising fear of slowdown saw investment managers to invest in the defensive sectors such as FMCG and pharma to reduce the portfolio risk. "Except stocks in the defensive sectors, everything is cheap currently. It is a good time for selective buying," suggests S Naren, chief investment officer, ICICI Prudential AMC.

Most of the markets are of the view that positives, if any, would be visible only in the second half of next calendar year. They feel the assembly elections in Uttar Pradesh (UP) has played the spoilsport as government resorted to populism rather than focussing on the reform process and once it is over, the focus would shift back to growth. "Post UP elections the reform process should be back on track which can be a big positive for the market in the second half of the calendar year 2012," says Ramanathan K, chief investment officer, ING Investment Management.

While equity as an asset class is difficult to predict or time, most of the experts, though divided on exact numbers, agree that there is money to be made in the next 12 months. What could be the biggest positive for the corporate India, reeling under the high interest rate scenario, is expectation of interest rates falling from the current levels.

"Over the next one year, markets can give returns of about 20 per cent based on the assumption that interest rates peak out, reforms will be taken up and global economy will not see any defaults or bankruptcies," says Dipen Shah of Kotak Securities.

This means that if not this time, investors might be able to have Santa's blessings in the form of good returns next December. However, that would require choosing the right stocks now, based on their valuations and businesses and not on the hearsay or speculation. ◆

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LIFE INSURANCE

Rough patch for life insurance industry

G V NAGESWARA RAO

THE Indian life insurance industry has been on a roller-coaster ride in this past year and since financial services in general have been under tremendous pressure, the insurance industry has also witnessed its fair share of downfalls. Deterred due to the regulatory changes, low margins and lack of a policy road map, the life insurance industry today is reeling under the effect of negative growth.

The unabated inflation, recessionary trends and fall in industrial production have all had their impact on the economy which has led to the economy growth rate hovering at just about 7 per cent. Throughout the year, the stock markets witnessed violent swings, coupled with reduction in margins on account of new guidelines, which dented the performance of ULIPs. Policy sales registering a sharp 40 per cent dip in the first half of the financial year as private players had a total sale of 35,88,869 policies (Apr to Sep 2011) as against 55,88,804 policies the year ago.

The pension category didn't revive after the IRDA guidelines on pensions last year. Wealth building does not happen by chance. It requires careful planning of expenditure vis-à-vis savings or investment. Though we all dream of accumulating wealth, we need to do something concrete in the direction of savings as well. Carefully designed pension plans offer a good option to build for the future, particularly when traditional pension benefits like provident fund and gratuity are on the wane in the emerging employment-by-contract regime.

THINKSTOCK

Implementation of DTC in its current form, especially with the no-grandfathering provision, bodes ill for the industry's long-term growth outlook. That is another dark cloud.

The industry, therefore, began to look at a strategy shift and offer traditional products that imply long term need-based savings required at various junctures of life be it endowment plans, money back plans, guaranteed return plans and need-based plans like child plans.

Given the digital revolution in India, the industry was quite concerned with the growing trend of online comparison of insurance products. While it offered an additional service to the buyer who could get to see the various products available in a particular category, it left room for biased information which could at times mislead the consumer. IRDA has banned online comparison of insurance products to ensure a level playing field for all.

Another dark cloud looming on the industry would be of the Direct Tax Code (DTC). The latest draft threatens to remove tax incentives from the life insurance products. Implementation of DTC in its current form, especially with the no-grandfathering provision, bodes ill for the industry's long-term growth outlook.

With the business becoming increasingly competitive, private insurance companies will now be forced to look at newer marketing and distribution strategies. For instance, focus on banking sector as the power house of distribution could turn out to be beneficial especially after the regulatory changes on the bancassurance model. We believe that product innovation will drive better value for the customer and the stakeholders. New product structures could play a key role in reviving need-based products like pensions and ULIPs. ◆

—Author is MD & CEO, IDBI Federal Life Insurance