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ARK FINANCIAL PLANNERS—NEWSLETTER

Financial Life Planning

Discipline & Consistency helps in Achieving Goals

Slow and steady wins the race, they say. But the tortoise, which vanquished the hare in breasting the tape, in Aesop's fables, is not everybody's idea of a winner. Like the hare, many sleep through their working lives. They wake up one day and decide to do something about the lost moons. When they meet us (Financial Planners), they give the impression of a tornado and typhoon rolled into one – they want to make up for the lost time and want to start their investments, here and now.

These people get impatient and disappointed when the financial planner tells them that the plan is apt to take a month, before they can shovel their cash into appropriate instruments. But, are these people consistent? Not in our experience.
Hares abound. We get our share of hares, who come to us with empty coffers and sacksful of hope. To their credit, many of these hares have good surpluses and are willing to lay them thick, to achieve their future goals. These hares can get a bit pushy while doing the plan. They are in a hurry to see the last of it and start investing. Investments happen immediately after the plan is done. Now, comes the pain part. The hares want to follow-up on their

investments, like a bulldog. The financial planner can expect a call from the hares on the status of their investments on the third day after investments and another call four days later, asking for a performance report. A week later, they would want a review of their investments and would fret if they hear from the planner, that it is hardly a fortnight since they invested.

This pattern continues for a couple of months and the hares retreat. There may be no signs of them for months on end, after that. They may not even pick up the calls in this period. Suddenly after several months, you will recognize the same hare, who is again in a tizzy. He wants a review and wants to know what he should do with the investments. The hare will also probably tell you that he had invested in a plot; put some money in a super-duper scheme his friend had suggested and has also been buying some stocks.

The planner would probably be tearing his hair by now – for all these were never a part of the plan. The tortoise in contrast is not flashy, is consistent in approach and sticks to the plan. The sedate tortoise would be willing to be a part of boring SIPs for 10 years, be willing to invest in equity assets and wait,

Cont… Page 6

Inside this issue:

Financial Decision

Sometimes folly is rewarded and good sense & prudence are punished - at least in the short term. We should take investment decisions not by its outcome but by validity of the principal it is based on - decisions should not be based on our feelings about what's going to happen.

Hemant Beniwal, CFP^CM^

Simple Matters, Multiple Complications

Most of us are so busy with our daily schedules that we often forget to do some simple things – like informing banks, financial institutions and mutual fund houses that our address has changed, a particular bank account has been closed, or that our nominee needs to be changed. We act on these matters only when we are forced to act upon them. Then we run helter-skelter, use all possible sources to get the work done. Had we not overlooked these seemingly inconsequential but important issues, we would not find ourselves in a mess at the last minute.

In the last two months, I have come across quite a few such issues related to one's personal finances. Some of them are cleared and some are taking time to be solved, even two months later.

A number of times we miss out on our life and health insurance premium payments because we forget the due dates. This is dangerous as your policy could lapse.

I have listed out a few of them which I feel all of us must check and update, whenever required:

Change of address

When you move residence you need to inform a lot of people that your residence has changed. But I have seen that more often than not, people forget to change the addresses in their life insurance policies, mutual funds, National Saving Certificates (NSC), Bonds and bank accounts (especially those which have been around for a number of years and are not so frequently used). The result is that the investor is clueless about regular returns from money back policies, dividends from mutual funds or even getting the money back on maturity of various bonds and insurance policies. So all the hard-earned money that was diligently invested over the last so many years, would not come back to you and would go back to the company.

Update your bank details

There are times we rush to close our bank accounts without going into the linkages of the same to our investments. It is only when we redeem the investment or it matures, do we realise that it is linked to a bank account that we have since shut. Then the process of changing the bank account and getting a fresh cheque issued begins. The whole process could lead to a delay of even 2-3 months in getting your money.

Nomination

Make sure every investment has a nominee. One thing I have noticed is that most unmarried men nominate their mother (and not their father, strangely; i have not figured out the reason why). Post-marriage some do change their nominees to their spouses, but again this is quite often forgotten and the mother continues to be the nominee. You also need to change your nominee in the event of death or divorce. People often overlook these matters.

Shut unused bank accounts

I have come across people who hold multiple bank accounts. When I use the term multiple, I mean 8-10 accounts. Three-fourths of these have been lying dormant for quite a while and have probably even got 'frozen'. Money is lying idle. Ideally, 2-3 accounts are more than enough. More than this just complicates matters. So the idea is to not have too many bank accounts and to close any unused bank accounts.

Correct name on your PAN card and other investments

I have come across cases where the spelling on the PAN card is different from that in the bank account and in some cases there is a third spelling in the investment. All this looks fine till the time the investor decides to redeem the investment. Then begins the ordeal of sorting the mess out and arriving at a commonality. The whole affair can be quite painful and time-consuming. So do check this for all your investments and correct any errors when there is still time.

Setting up reminders

A number of times we miss out on our life and health insurance premium payments because we forget the due dates. This is dangerous as your policy could lapse. This means all the money you had invested previously would be jeopardised. . Mutual fund SIPs, loan EMIs are some of the dates which we need to remember. Apart from this, we also need to know when various investments like life insurance policies, NSCs, KisanVikas Patra, Public Provident Fund (PPF) accounts, fixed deposits, recurring deposits are maturing. Setting up reminders on your computer and syncing it with your mobile is the best way to remember these dates.

It is very important for every member of the immediate family to know what and where all the investments are parked. After all the investments are being made by you for the entire family – spouse and children.

List all your assets and liabilities

This is the most crucial of all. Make out a complete list of all your assets and liabilities and share it with your close family members – spouse and children (once they are of an age where they can understand financial matters). It is very important for every member of the immediate family to know what and where all the investments are parked. After all the investments are being made by you for the entire family – spouse and children.

Apart from the exercise of making out a financial plan, investing and tracking the investments, these seemingly inconsequential but crucial matters will only help improve you and your family's financial wellness.

Setting Goals—Differentiate Needs & Wants

Setting goals is the most important aspect in financial planning, as it sets our target for which we have to arrange our resources. But this is the most confusing and difficult task for many. When I ask people to write down their goals, many write as: big house, big car, super education for kids, exotic foreign vacation etc. It is only when I sit and explain them the difference between needs and wants or what compromise they will have to make with their current life style to achieve those, they realise the real picture and settle with realistic goals. You must have read many articles on setting SMART Goals…understanding the difference between needs and wants will help you do that. Apart from this, it will help you in managing your family expense budget too.

What are Needs?

Needs are those things that provide for our daily existence – food, water, shelter etc. In financial planning terms, needs are those things which cannot be ignored and are of utmost importance to your overall financial well-being for e.g. settling emergency fund, buying adequate insurance coverage, reducing debt etc. These come under absolute necessities or near necessities. Personal care expense, child care expenses, reliable transport etc. does not come under the absolute necessity but is nearly there; we cannot ignore these.

What are Wants?

Wants are those things which are not necessary but gives you happiness or fulfillment. These are those things which give justification to your attitude and social status. Like having a car may come in as your need but having an Audi will be your desire, having own house may be your need but having pent-house or seaside bungalow will be your desire and so on.

Balancing between needs and wants

In our financial life where we really mess up is when suddenly the things we desire, in our minds become things we need. Even though the meaning behind a need and a want is quite straightforward, **when it comes to differentiating and prioritizing one's needs and wants, many people still have difficulties.** I have seen many cases where people end up purchasing products because the advertisement of the same aroused a deep yearning for it and they were convinced that it is a need. It has been seen that when you yourself don't understand your needs, you may easily confuse wants for needs. For many, financial planning is not a need but investment is. So they always keep on looking for those products which will help them make more money in a shorter time frame. But in reality, following financial planning concepts can help them improve their financial life, for the better.

It is unrealistic to try to live without any desires. Desires fuel our creativity, energize us, give us fulfillment, and push us to reach our goals. But problem arises when the desires become your needs. Suddenly your desire puts you into a state of desperation and a desperate person is not a rational one. One should always concentrate on the needs first and then stretch himself to achieve the goals which he desires.

Some examples which I would like to share here:

1. Saving for retirement is a need and so does saving for children's education, but it's not wise to compromise on your retirement savings for your desire to educate your child from a foreign university.

2. Its fine to treat buying your first car as need but it's not fine to stretch your loan to such an extent that it will hamper your long term savings for your child's education or your retirement.

3. If you don't understand your insurance need and keep on purchasing policies with the view of generating returns, you may end up being underinsured and in case of a mishap, the family would find it difficult to meet their ongoing expenses and the future goals.

Your financial future is in your hands. Financial planning is the key. Use your finances wisely towards your needs and wants. You may achieve what you want in a longer time frame; the good thing is that you have taken care of what you need, first. If your needs are all well taken care of, you can work on anything you want with no worries.

Retirement planning at different stages of life

Retirement period is supposed to be the golden years of your life. No wish to work, leisure time with grand-children, comfortable social life is what each one of us aspire during this period. We work our lifetime to make sure these 20-25 years are memorable.

To achieve this objective, it's necessary that you plan well. With increase in risk of longevity and inflation playing a devil's role, procrastination can make the going really painful. Starting early helps not only in reducing the savings required but also increases the probability of surpassing the required wealth.

Planning for your retirement goes through various stages where you need to review your strategies. Sometimes an increase in your responsibilities and more liabilities forces you to increase your contribution to other goals. This may hit your retirement goal as it is the easiest to neglect considering it may be the last to achieve.

Here is how you should plan for your retirement years at various stages of your life

Young - When you are in 20s, time is on your side. You can be very aggressive as you do not have liabilities. You are also in the best age to benefit from power of compounding. Strategize your retirement contribution as you start earning. Explore the benefit's provided by your employer like Employee Provident Fund and Gratuity. If it's not part of your compensation, discuss with your employer and include them. Ensure at least 10% of your income is contributed to these long term assets. Start investing in assets where compounding benefits are more. SIP initiated at this age can do wonders when you retire. However, aspirations are also at peak during this phase. Resist any temptation to spend lavishly and avoid withdrawing your retirement contributions.

Keep enhancing your retirement contribution with increase in your savings

Middle Age - 30s and married. You have a family to take care. At this age you are loaded with liabilities and your expense starts increasing. This should not deter you from continuing your investments. To protect your family financially, buy adequate insurance and maintain an emergency fund. You might reach a stage where you fall short of funds for requirement like education for your children. Avoid dipping into your retirement corpus. Maintain an aggressive approach and keep contributing to retirement assets.

Nearing retirement - You have just celebrated 51st birthday. You would be finishing with your liabilities very soon and your income is at the peak of your career. Increase contribution to your retirement assets like EPF to at least 20%. Since your ability to save is high, you should increase your contribution to all investments. As you approach your retirement start switching your investments to low risk assets. This will preserve what you have been accumulating for so long. This is also a time when you plan your retirement years and sharing your plans with your spouse may be a good idea.

Finally retired - You have retired now. You might have known your requirement but now evaluate how much you require to withdraw every year. Most retirees take a conservative approach by redeeming all from equity and taking exposure to fixed income. Do not make this mistake. Remain invested in equities to some extent as your corpus will need growth to sustain for lifetime. Remember, you do not have loans at this juncture to meet your expenses. Maintain adequate corpus in liquid instruments in order to meet 2-3 year's expenses. Some of your expenses post retirement will get reduced while for some you will have to adjust your lifestyle. Estate planning will be your main objective as you will like to transfer your wealth to your children. Hire a financial planner to ensure smooth transition of your wealth.

Post retirement - invest partly in growth assets to negate inflation

Retirement planning is a very important element of your financial well- being. How your post retired life pans out depends heavily on when you start planning for it. At young age you have the time and risk taking ability to benefit from the power of compounding. The things get difficult as you grow older. If delayed, it becomes a one day match where the required run-rate balloons to such an alarming proportion that sometimes it's difficult to reach the target. Being in a hurry, you make mistakes jeopardizing your future.

Hence, start planning your retirement as you start enjoying life with your income and do remember these key points:

- Start early to reap the benefits in later years
- Contribute to the government schemes meant for retirement
- Keep enhancing your retirement contribution with increase in your savings
- When liabilities arise, do not withdraw from your retirement savings
- As you approach retirement switch from a risky asset class to preserve your accumulation
- Post retirement - invest partly in growth assets to negate inflation
- Maintain adequate insurance to meet emergencies
- Involve your spouse in your retirement plan

Is your family involved in financial matters?

A family that eats together prays together, always lives together! Let's add one more line 'A family that discuss money matters together, lives together'.

Since a lot of people still believe in the older version of the adage, families are hardly involved in the financial decision making.

Following could be the few reasons for non-involvement:

1. Safeguarding my family from money worries:

Karishma, 35 got a call from a bank's credit card division on her landline number. She was shocked to hear why her husband, Shekhar, was avoiding calls on his mobile. In fact, their impulsive purchases have landed them into a huge credit card debt, which has been rolling over from one card to another. Shekhar could not muster the courage to tell her about having insufficient funds to pay it off.

He was protecting her from money worries!

2. My spouse doesn't take interest:

Geeta concerned herself only to her work and her family. From paying a bill to operating a bank account, from taking a house loan to investments all were done by Gaurav and *'papaji'*, her father-in-law. While Gaurav was out of country for work and *papaji* went on a pilgrimage, Geeta did not know where to pay the bills and how to pay the EMI.

Gaurav was frustrated because Geeta thought it was a 'man's' domain!

3. Kids are too young:

When Shubham, 19 joined college and started living in the hostel, his new found freedom led him to reckless spending. He was enjoying his popularity as a friend who can always lend and was ever ready to pay the canteen bills. His parents got alarmed when he could not pay the college fees and demanded more money. As an apple of their eye he had never heard a NO for anything.
His parents considered him to be too young to have money lessons!

Talking about money matters at home will save a lot of "what if" situations. It will help you discover the spenders, savers, investors and financial disasters in the family.

4. I can handle it alone:

After their marriage Raj and Nikita share the same house, same surname and same set of relatives but refuse to share their salary details, spending habits and bank accounts. They feel that it may lead to an identity crisis!

Raj pays the bills (as the man of the house); he does not have money to invest after this, though he understands the need to do so. They compromised on a small house because Raj didn't want to borrow money from Nikita.

Nikita, with a poor understanding of personal finance, has bought several insurance policies to save tax. She never discussed it with Raj who knew about various other tax saving instruments available in the market!

Both of them wanted to handle it alone!

5. Lot of time left to share:

Sudhakar, 45 was hospitalized. His family was paying endless medical bills from their savings because Sudhakar never discussed the benefits he can get from his company and his medical insurance policy. Though he had taken some sound financial decisions but he never communicated them to his family.

He was either too busy or thought that a lot of time was left to share!

Above situations and many more can be seen and heard in daily life.

They may not be acute at the moment but what if Shekhar loses his job or Gaurav goes out for a long term assignment and *papaji* falls critically ill?

What if Shubham starts ignoring his studies as he doesn't fear about making a living in future? What if Nikita and Raj develop a communication gap between them and their married life suffers?

What if Sudhakar passes away suddenly and his family is unable to handle the loss both mentally and financially?

Talking about money matters at home will save a lot of "what if" situations. It will help you discover the spenders, savers, investors and financial disasters in the family. Talking about money matters to your family can be your best investment! After all it's joint happiness that matters, so it is a joint responsibility as well!

Discipline & Consistency helps in Achieving Goals

be consistent in keeping their commitments on making investments from time to time… in short, they would pretty much follow the plan to the T.

Like Aesop's fables, the tortoises seldom lose. The hares lower their chances of winning by running without an aim, in all directions.

Nothing happens in a jiffy. It takes nine months for a child to fully develop and present itself with a squeal. Even fast growing rice needs three months to grow to maturity. There is no sense in hurrying them up – firstly, it can't be. But, even if it were possible, it would not give the best results. A good biryani is cooked over coal fire, for hours on end. The one that is churned out in half an hour, seldom tastes as good.

When goals are long-term and one has time on one's side, why fret and worry? Isn't it a good idea to just commit the investments in appropriate instruments and relax? It actually is. But this eludes lots of people. All investments have to be reviewed, periodically. However, frequent changes to the portfolio is undesirable and ends up disrupting the potential for performance, in times to come. Financial planners suggest changes only when it is absolutely called for.

Asset allocation suggested is to be honored. To take advantage of short-term movements, some tactical allocation can be done. But this allocation should not end up majorly disrupting the overall asset allocation. There is not much sense in chasing fads. This is where the hares differ. They specialize in it. They keep looking for the next rainbow in the horizon and zoom towards it. Chasing these rainbows ensures that their portfolio looks like a patchwork quilt. The portfolio would not meet the goal criteria, liquidity requirements, time frames, risk profile etc. They end up blaming everyone for it, but themselves.

Meeting life goals requires consistent, committed, disciplined approach towards one's finances. Contrary to popular wisdom, modest savings build a huge cash-pile and helps meet goals, which seems impossible, at first glance. The plodding of the tortoise is least exciting. The hares seem to have the decisive edge. Yet the hares win much less than tortoises.

If you are looking for excitement, you should go to horse races. For achieving goals however, old fashioned consistent investments with a long-term orientation, helps you romp home.

Ark Financial Planners
understanding people before numbers

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Why Ark ?

Comprehensive: **We work on one principal "people have one thing in common that they all are different".** We look at every aspect of our client's financial situations. That's the only way to give truly customized, comprehensive planning advice.

Independent: **Your Best Interest is Our *Only Interest.*** We work for you – not a bank, brokerage firm, mutual fund house or insurance company.

Competent: With 10 year of experience in personal finance & investments, and being **CFP^CM professional** we are committed to the highest professional practice standards**.** CFP^CM Certification is a mark of excellence granted to individuals who meet the stringent standards of education, examination, experience and ethics.

Financial Planning takes into account the inter-related nature of the goals that one has & helps in deploying the finances so that the high priority goals are given precedence & are met. It takes away the uncertainty out of life and brings in peace of mind.