INPact Wealth Advisors

PLAN YOUR INVESTMENTS

KEY TOPICS OF DISCUSSION

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01 Why do you need to plan your investment ?

02 Key risk and their mitigation plan

03 Where and how to begin financial planning

04 Measure your (Investor) risk

05 Building Investment Portfolio (Strategic Asset Allocation)

06 Few golden rules to observe while building investment portfolio

07 Reviewing and Rebalancing your Investment Plan & Portfolio.

08 My Key Learnings from Investment Journey

WHY DO YOU NEED TO PLAN YOUR INVESTMENT

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Level 1

- To fulfill your short term life goals

  - Children education, Marriage , Purchase of House etc

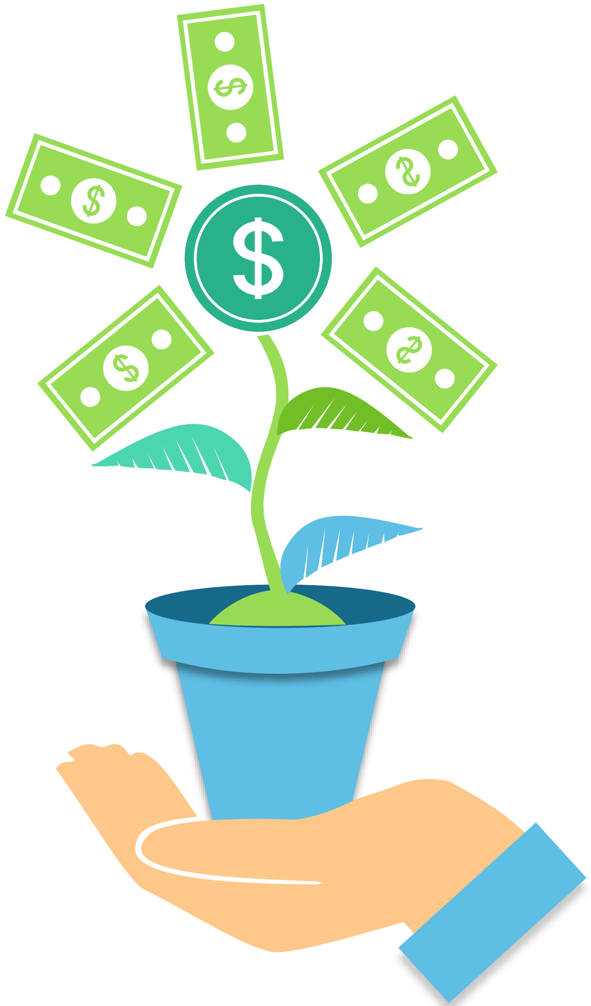
Level 2

- To fulfill your long term life goals

  - Create large pool of family wealth for current and next generation

  - Achieve F.I.R.E PLAN (Financial Independence and Retire Early)

Both goals need different approach and strategy but are Intermingled.



KEY RISKs AND THEIR MITIGATION PLAN

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1

Key Earning Member Risk

- Life insurance & Variants
- Term Plan

2

Unexpected Large Health Expenditure

- Health insurance and its Variants

3

Current Income Risk

- Investment in AAA bearing Assets

4

Liquidity and Solvency Risk

- Asset diversification and holding some non correlated or Low correlated assets.

5

Inflation & \ or Deflation Risk

- Protect Real Wealth through Growth Assets
- Deflation protection by buying Long dated Coupon Bearing AAA Bonds

6

Market Risk

- Diversification & Non correlated Asset Investment

7

- **Concentration Risk**
- **Country Risk**
- **Credit Risk**

- Sound Research & planning

8

- **Wealth Transfer Risk**
- **Estate Tax Risk**

- Nomination and Will

WHERE & HOW TO BEGIN THE FINANCIAL PLANNING

- Take stock of your assets & liabilities

- Estimate your next five years income, expenditure & surplus

- List out all major likely expenditures and estimated timeline & value – child education, marriage, house purchase, etc.

- Estimate your household expenditure at the time of proposed retirement

- Estimate your **F.I.R.E** plan value

- Eg. Estimated household expenditure at proposed retirement age of 50 is Rs20lacs – minimum F.I.R.E plan value (25 – 50) x retirement age expenditure = 20lacs x 50 = 10crs.

- Create separate buffer for any pending large expenditure like child marriage, education, etc. plus decent health insurance cover.

MEASURE YOUR (INVESTOR) RISK

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SAMPLE ASSET ALLOCATION

AGGRESSIVE				CONSERVATIVE			
ASSET CLASS	**% OF ALLOCATION**	**EXPECTED RETURN IN %**	**INVESTMENT AMOUNT**	**ASSET CLASS**	**% OF ALLOCATION**	**EXPECTED RETURN in %**	**INVESTMENT AMOUNT**
EQUITY	70%	15%	7.0	EQUITY	30%	15%	3.0
DEBT	25%	7%	2.5	DEBT	65%	7%	6.5
CASH	5%	4%	0.5	CASH	5%	4%	0.5
TOTAL RETURN	**100%**	12.45%	10 CR	TOTAL RETURN	**100%**	9.25%	10CR

- Imagine your (investor) emotional & psychological state if you are facing below situation
- Equity down 70%, debt down 10% due to adverse credit or interest rate movement – aggressive portfolio value 4.85cr, conservative value – 7.25cr
- This is no fictional story it was real situation in March 2009 & to lesser extent in March 2020.
- Would you (investor) exit in midst of 2009 crisis or jump the ship once market recovered ?

This defines investors' risk stomaching (bearing) capacity

BUILDING AN INVESTMENT PORTFOLIO - STRATEGIC ASSET ALLOCATION

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Create family portfolio with two subset portfolios (asset allocation)

One to meet your short term goals (education, marriage, etc)

Second to meet your **F.I.R.E** plan (retirement nest)

Eg. Financial Goal of House Purchase of Rs1crs in 5 years. Invest surplus in mix of debt, equity and alternates in such a manner that at the end of 5 years, you meet your goal. If the same is achieved earlier, book the profits and park it in debt to reduce any volatility.

Both these plans will overlap and Interact with each other.

FEW GOLDEN RULES TO OBSERVE WHILE BUILDING INVESTMENT PORTFOLIO

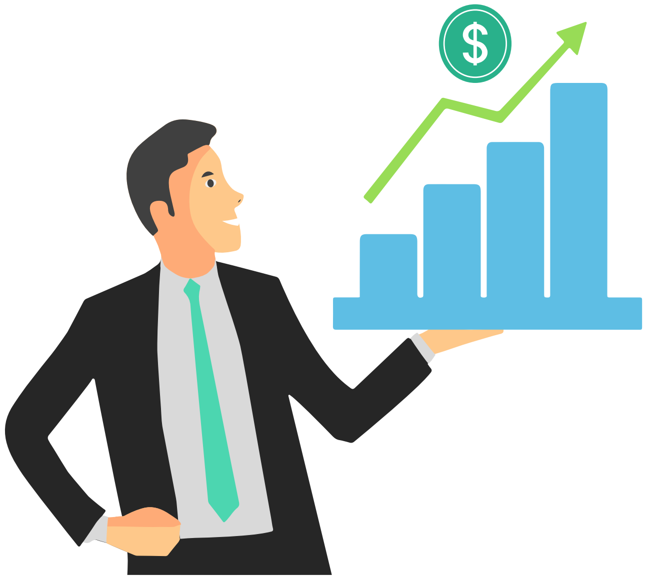
- Selection of Right Investments - Detailed research of various risks and expected return critical before any investment decision.

- Cost of investment – eg. Hdfc Life sanchay plan on 1cr cover difference between broker and direct plan is 20lacs. **<u>1% lower cost annually; saves 50lacs on 1cr portfolio in 15 years @ cagr of 10%.</u>**

- Adequate liquidity – have a balance between long dated – locked in assets & short dated or liquid assets– eg. you can buy a 15 year tax free bond but also have some money in 3 year bond or Debt MF.

- Tax efficiency – Penny Saved is Penny Earned. Where ever possible legitimately reduce tax outgo. eg. invest in debt mf for 3 years rather than buying a 3 year bond, as post tax former may generate better return; or a ladder investment plan or SWP from debt fund may reduce tax outgo while meeting short term liquidity needs

- Diversification of investments to reduce huge loss due to any single investment failure



REVIEWING AND REBALANCING YOUR INVESTMENT PLAN & PORTFOLIO

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- Review is either based on a major event

  - like increase or decrease in ones' annual surplus generated
  - Emergence of new investment opportunity or change in risk of an existing investment
  - an unplanned expenditure
  - or major event in economy like Covid 19, or 2008 Global Financial Crisis or 2013 Indian Crisis

- Or long term changes like

  - Achievement of Financial Goal or
  - Reaching closer to set Goal Timelines like age of Retirement or Children Marriage, etc.

- On Top of it there should be at least a semi-annual or annual Review to ensure the Investment Plan is on Track and does it need any rebalancing due to substantial movement in any single investment instrument or Asset Class.

MY KEY LEARNINGS FROM INVESTMENT JOURNEY

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- START EARLY –: The sooner you start; the early you will gain investment wisdom & confidence
- STICK TO YOUR ASSET ALLOCATION - :Time spent in market more important then timing the market
- SELF DISCIPLINE –: Investment is a personal & solo journey and cannot be replicated by trying to copy others. Everyone has to find his or her own style and comfort zone.
- TAX EFFICIENCY – : Prevent as many as possible tax leakages – it all adds up big in 20 – 25 years time.
- HABIT OF SAVING – Save & invest larger amount at early part of life to benefit from compounding .This may require sacrifice.
- SAVING COST ON INVESTMENT – 1% extra annual cost in 15 years can take away 50% of the initial invested amount @ 10% cagr.
- Find your own risk taking capacity and stick to it. This will allow you to stay on track and achieve your financial goals

Wish you a successful investing Future ……