EXPRESS CLINIC

NAME: **MUKESH & RASHI GUPTA**

RESIDE IN: HYDERABAD

PROFESSION: MUKESH WORKS IN A PHARMA CO & RASHI IS A FACULTY AT A BUSINESS SCHOOL

NET ANNUAL INCOME

(₹11.85 LAKH)

STATUS & GOALS

MUKESH, 30 AND RASHI, 29 HAVE RECENTLY GOT MARRIED. THEY WANT TO PROACTIVELY MANAGE THEIR FINANCES TO MAKE THEIR FUTURE MORE COMFORTABLE, FOR WHICH THEY ARE ALSO READY TO COMPROMISE THEIR CURRENT LIFESTYLE. THEY DON'T WANT TO TAKE ANY IMPULSIVE DECISIONS AND ARE LOOKING FOR A STRUCTURED ROUTE FOR ACHIEVING THEIR GOALS. THEY DON'T HAVE KIDS BUT WANT TO IMMEDIATELY START PROVIDING FOR THEIR FUTURE TO REDUCE THE BURDEN GOING FORWARD. BUYING A CAR, A HOUSE AND A COMFORTABLE RETIRED LIFE ARE SOME OF THEIR GOALS.

NEEDED

A structured route for achieving their goals. They need to build a corpus to buy a car, house and have a comfortable retired life

MONTHLY INCOME (Post Tax) **₹ 98,750**

TOTAL EXPENSES (PM) **₹ 37,000**

NET MONTHLY SURPLUS ₹ 61,750

GOALS

IN ORDER OF PRIORITY

CAR
(2016) (inflation considered-6%)

CURRENT VALUE	FUTURE VALUE
₹ 4 lakh	₹ 5.05 lakh

CHILD EDUCATION
(2013) (inflation considered-10%)

CURRENT VALUE	FUTURE VALUE
₹ 10 lakh	₹ 61.15 lakh

DOWN PAYMENT FOR HOUSE
(2020) (inflation considered-10%)

CURRENT VALUE	FUTURE VALUE (20%)	FUTURE VALUE OF DOWN PAYMENT
₹ 50 lakh	₹ 10 lakh	₹ 21.40 lakh

RETIREMENT PLANNING
(2031) (Pre-Retirement Inflation at 7%, Life expectancy 85 years)

PRESENT RETIREMENT MONTHLY EXPENSES	FUTURE VALUE	CORPUS REQUIRED
₹ 4.4 lakh	₹ 25.50 lakh	₹ 80 crore

CURRENT INVESTMENTS

EPF	:	₹2 LAKH
PPF	:	₹4 LAKH
BANK FD	:	₹2.50 LAKH
MUTUAL FUNDS	:	₹1 LAKH

FINDINGS

EMERGENCY FUND: The liquidity is intact but no funds allocated expressly.
LIFE INSURANCE: Neither of them have any insurance cover
HEALTH INSURANCE: Both are dependent on employer-provided insurance
INVESTMENTS: They are more concerned about the safety of capital, so having minimal equity exposure
LIABILITIES: The couple is debt free

RECOMMENDATIONS

EMERGENCY FUND:
They need to break fixed deposit, put ₹1.11 lakh in savings account.
Express Tip: One should always maintain 3-6 months of monthly expenses in liquid form to manage health/ job loss related emergencies.

LIFE INSURANCE:
It is advisable for both Mukesh and Rashi to buy separate life insurance covers. They should buy ₹1.5 crore sum assured separately. The premium outgo for online term plans would be ₹17,865 and ₹16,517 respectively.
Express Tip: Buying online term plans proves to be quite cost efficient.

HEALTH INSURANCE:
Mukesh should buy a floater health insurance policy of at least ₹ 5 lakh sum assured, which should cover both of them.This coverage should be over and above the employer provided health insurance. The total premium outgo will be ₹13,000.
Express Tip: To provide oneself with comprehensive and complete coverage go for separate health policy.

ACCIDENT INSURANCE:
Both Mukesh and Rashi should buy a comprehensive accidental insurance policy of at least ₹1 crore sum assured. The premium for this would be around ₹12,000 each.
Express Tip: Personal accident policy covers uncertainty related to disability.

CAR:
They should start investing ₹ 8,600 per month in balanced mutual funds for this goal. They should stick to this time frame and don't get allured to a car loan. Rate of return assumed @10 per cent.
Express Tip: Avoid taking debt just to purchase a depreciating asset.

HOME LOAN DOWN PAYMENT:
Allocate current mutual fund investments and balance left in fixed deposit to this goal, also start investing ₹ 9,500 per month in multi cap equity oriented mutual funds for this goal. Rate of return @13p er cent.
Express Tip: Taking a personal loan for down payment proves to be bad for finances in the long run. Better to plan and save.

RETIREMENT PLANNING:
They should allocate provident fund savings towards retirement goal, and should not withdraw in between. Also start investing ₹12,200 per month with the asset allocation of 80:20 in favour of equity and debt. Use mid cap equity funds, PPF and EPF as investment tools for achieving this target. Rate of return assumed@ 14 per cent in equity funds, 8.5 per cent in PPF.
Express Tip: EPF is a great accumulation tool with compulsory savings and also gives tax free returns.

CHILD EDUCATION:
Start saving ₹6,400 in the ratio of 80:20 in equity and debt to achieve this goal preferably in mutual funds and PPF. Rate of return assumed@14 per cent in equity funds and 8.5 per cent in PPF.
Express Tip: Early planning always pays in terms of less investment required for allocation towards long term goals.

CONCLUSION

Both partners are equally responsible to ensure a better financial future. When goals are clear and finances are well directed towards them and that too in the early stage of life, goal achievement becomes more certain.

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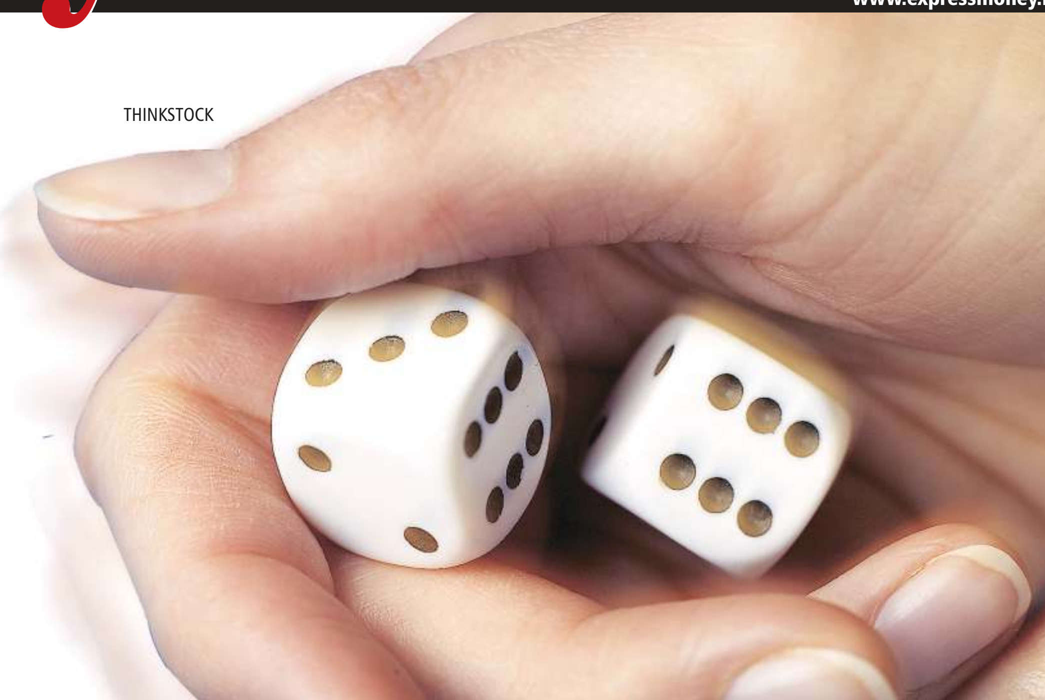
EQUITY INVESTMENT

If you have a high risk appetite, look at mid-cap stocks that go up much faster than large-caps during a bull run. But be careful as the fall can be equally faster, says **Ritu Kant Ojha**



THINKSTOCK

Catch them young, but watch your back

MARKET heavyweight Infosys last week gave a disappointing guidance with the management forecasting a lower growth (financial year 2012-13) of 8 to 10 per cent as compared to the NASSCOM projection of 11 to 14 per cent for the IT sector. The under-performance of Sensex heavyweights like Infosys raises a big question: Should investors continue looking at large caps or increase allocation to good quality mid-cap companies?

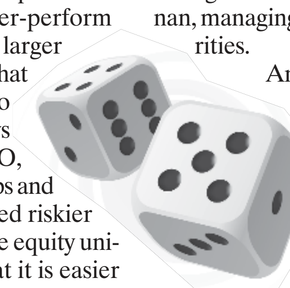
For someone who understands the mid-cap segment (or medium-sized capitalisation stocks) and is ready to do enough research, mid-caps can be highly rewarding. However, investing in mid-cap is fraught with risk. The penalty one has to pay for a wrong mid-cap choice is much higher as compared to a wrong large-cap choice. However, in the past, mid-caps have on several occasions beaten the Sensex and make a strong case for inclusion in the portfolio.

Equity is a game of risk-reward trade-off. One has to be absolutely careful while picking up the mid-cap stocks as one wrong choice may wipe out the gains made over the years.

THE MID-CAP ENIGMA

SINCE the last two years, Indian equity markets have witnessed huge volatility making it difficult for the best of fund managers to take a correct call on stocks. "Directionally, markets are expected to remain volatile and thereby provide investment opportunity. We believe that money can be made due to volatility and there is long-term value in the market as there are many stocks with attractive valuations at this point of time," says Nimesh Shah, managing director and CEO of ICICI Prudential Mutual Fund.

Mid-caps fell by 34 per cent last year as compared to a 25 per cent fall in the Sensex. Rising interest rates hit the balance sheets of many mid-cap companies leading to their underperformance. Mid-caps have in the past outperformed large-caps during the start of a bull run as happened in 2007 and 2009. However, when there is a sharp correction, mid-caps fall at a much faster pace as compared to large-cap stocks. "Mid-caps are different. They tend to over-perform and under-perform by a larger margin. Mid-cap stocks that under-perform tend to do so by huge margins," says Dhirendra Kumar, CEO, Value Research. Mid-caps and small-caps are considered riskier than the large-caps in the equity universe. One reason is that it is easier for the mid-cap companies to hide information as the public gaze is mostly on big companies and most mid-caps are not researched in great detail, experts say.



Most mid-cap stocks tend to remain under the margin pressures especially during the high interest rate and higher borrowing cost scenarios. Also, mid-caps have a tendency to become illiquid (difficult to find a buyer) in a short span on a negative news flow.

SHOULD YOU INVEST?

"One should create a mixed portfolio within the mid-cap space. Companies in infrastructure, banking, pharma and commercial vehicles segment must be part of the portfolio," says equity market veteran Gul Teckchandani. Experts believe that the markets will remain range-bound in the short-to-medium term and that a bottoms-up approach would work well for the investors. "One could use dips to accumulate stocks of companies having good managements and strong balance sheets," says D Kannan, managing director, Kotak Securities.

Angel Broking says in a note, "we believe in a stock-specific approach in the mid-cap space. Mid-caps which are leading brands within their respective sectors or which are trading at deep discount valuations or which belong to high-growth sectors benefitting from rural, export or consumption themes can offer handsome returns."

Equity as an asset class is known to give highest returns on investment over a longer period. Experts say the right stock picks can create lot of wealth for investors. However, "right" stock pick is the most tedious job in equity investing. With regular news of rigging in the prices of mid- and small-cap stocks, utmost caution must be exercised while stock picking. A thumb rule which old timers suggest is to choose the leader (best stock) in every segment and avoid speculative stocks. Retail investors tend to enter in the last leg of a rally of any bull market and that is the riskiest time as in the eventuality of a correction, mid-caps tend to fall at a much faster pace.

Experts suggest that investing in mid and small-cap stocks is meant for those who can digest and sustain huge losses. Another smart way of investing in the mid-caps is through a diversified equity mid-cap mutual fund route. A qualified and experienced fund manager would be in a better position to take the right stock calls based on the market intelligence.

After the disappointing IIP data and poor Infosys result last week, there are two significant events lined up this week. One is the headline inflation numbers and second is RBI monetary policy review. While the market seems to have already discounted a 25 basis points rate cut, it is expected that if the RBI does cut the rate, it would definitely bring cheers to the market.

A correction in the crude oil prices and some key policy initiatives from the government can take the equity markets back to the previous highs. Investors who have been waiting for a long time for the equity markets to perform and have a higher risk profile can consider picking up some good quality mid-cap stocks to diversify their portfolio. The idea is to catch them young as many of these mid-cap stocks would become large-cap in times to come. ◆

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BSE MIDCAP INDEX VS BSE SENSEX

PERIOD	BSE MID CAP INDEX (%)	BSE SENSEX (%)
3 MONTHS	13.5	5.8
6 MONTHS	3	1.2
1 YEAR	-12.3	-13.2
2 YEAR	-10.2	-4
3 YEAR	82.9	55.9

SOME STOCKS THAT OUTPERFORMED INDICES

PERIOD	3 MONTHS (%)	1 YEAR (%)	2 YEAR (%)
MADRAS CEM	44.3	39.6	24.5
APOLLO HOSP	-3.7	21.3	66.4
EICHER MOT	41.6	71	225.8
HAVELLS	30.8	43.4	70.9
HATHWAY CAB	39.7	53.8	-19.2
RAJESH EXP	-0.4	36.1	11.4

SMART TIP

Do not exit Fidelity mutual fund in a panic

SANDEEP SINGH

JHARNA Bhiwandiwala stopped her monthly investments in Fidelity schemes through systematic investment plans after L&T Mutual Fund announced acquiring the assets under management of Fidelity MF in India. "I stopped my SIPs in Fidelity's equity funds since its managemnt team was not part of the acquisition and the performance of equity schemes of L&T Mutual Fund did not provide me the desired comfort on its fund managers," she said.

There are many others who are thinking on similar lines but going by the facts, taking such a decision in haste may not be a good idea. Express Money provides you five reasons why you should not exit from your Fidelity investment.

THE DEAL IS YET TO GET SEBI APPROVAL

Before you decide to exit, keep in mind that the regulator (Securities and Exchange Board of India) has yet to approve this acquisition which involves the sale of assets under managemnt by a foreign fund house to a domestic firm without its equity management team. So, while you have your concerns, the regulator may also have some queries and hence you should wait till the approval comes.

FUND MANAGERS MAY BE THERE FOR SOME TIME

While the equity fund managers are not part of the deal, they will actively be around for almost two years. The approval will come in three to six months and then the transition period may take another six to eight months.

"L&T MF has demanded that equity fund managers of Fidelity should stay for around one year after the transition is complete or till their own fund managers are comfortable with it. Taking everything in consideration, equity fund managers of Fidelity will manage the affairs for atleast two years from now," said a source close to the development.

THINKSTOCK

EXISTING PROCESSES MAY CONTINUE

Experts say that Fidelity will share its standard fund management processes with L&T in the transition phase and there is likelihood of continuity in the equity schemes for now and hence investors should not take a decision in haste. "There is nothing that should trigger redemption," said Dhirendra Kumar, MD, Value Research. "Investors should wait how things evolve at L&T and past in not necessarily a reflection of the future. There is also a possibility that some equity fund managers of Fidelity join L&T MF." Experts feel that L&T has got the money to hire good fund managers.

BE CAREFUL WHEN YOUR DISTRIBUTOR ASKS YOU TO SWITCH

While investors are apprehensive, distributors may ask you to switch over to other fund house as it tends to benefit them.

A switch-over allows them to make some extra money on your investments and thus do not go by your distributor's advice in this case. Market experts say that competitors would try to take advantage of the situation and try to lure Fidelity's investors to them.

WAIT FOR FIDELITY TO COME OUT WITH EXIT OPTION

Experts say that if you redeem your investments with Fidelity now, you may have to pay an exit load of 1 per cent and also capital gains tax (short term tax) in case the investment is not more than one year old. However, once the deal gets Sebi nod, then as per the regulations Fidelity will have to come out with one month exit option from their schemes without charging any exit load and that will be a good time to exit if one has decided to exit in any case. ◆

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