EXPRESS Money

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EXPRESS CLINIC

NAME: **VIKRAM & SHIPRA SHARMA**
RESIDE IN PUNE
PROFESSION: SALES MANAGER IN FMCG COMPANY

ANNUAL INCOME
(₹13.2 lakh)

STATUS & GOALS

Vikram and Shipra reside in their own house with their son Siddhant (6) and daughter Stuti (3). Vikram has been working in the same company for the six years. He is from Punjab but works and stays in Pune. Shipra works part-time and delivers guest lectures at a management college. Shipra's income is used for everyday needs of the family. Vikram provides for long-term goals such as education for his children and retirement. Vikram does not want to spend too much on his children's marriage as he feels his children can arrange additional cost themselves.

NEEDED

A comprehensive financial plan securing couple's retirement and a goal to purchase a dream home

MONTHLY INCOME **₹1,10,000**

MONTHLY EXPENSES **₹55,000**

NET MONTHLY SURPLUS **₹55,000**

GOALS

IN ORDER OF PRIORITY

SIDDHANT'S EDUCATION
(2024) (inflation 10%)
CURRENT VALUE **₹15 lakh** | FUTURE VALUE **₹42.8 lakh**

SIDDHANT'S MARRIAGE
(2032) (inflation 7%)
CURRENT VALUE **₹5 lakh** | FUTURE VALUE **₹18 lakh**

RETIREMENT
(2041) (inflation 7%)
(life expectancy – 80 yrs)
CURRENT EXPENSES (PA) **₹4.8 lakh**
FUTURE VALUE (PA) **₹31.91 lakh**
CORPUS REQUIRED **₹5.27 crore**

STUTI'S EDUCATION
(2027) (inflation 10%)
CURRENT VALUE **₹15 lakh** | FUTURE VALUE **₹57 lakh**

STUTI'S MARRIAGE
(2035) (inflation 7%)
CURRENT VALUE **₹5 lakh** | FUTURE VALUE **₹22 lakh**

CURRENT INVESTMENTS

Savings Account – Rs 1 lakh
Bank Fixed deposits – Rs 2 lakh
PPF – Rs 2 lakh
ULIPs – Rs 1 lakh

FINDINGS

EMERGENCY FUND: Vikram's savings and fixed account balance are good enough for emergency requirements.

LIFE INSURANCE: Whatever life cover he has is through ULIPs which is not adequate.

HEALTH INSURANCE: He has health insurance coverage of Rs 3 lakh through employer and Rs 3 lakh through private insurer.

INVESTMENTS: He doesn't have much of investments, whatever he has is in PPF or bank deposits.

PROVIDENT FUND: Employer is deducting a minimum amount of Rs 780 from his salary towards PF and same is his contribution.

RECOMMENDATIONS

EMERGENCY FUND: He needs to break his big FD and park Rs 65,000 in saving bank account. He needs to maintain Rs 1.65 lakh as emergency fund.

Express TIP Building and maintaining emergency fund should always be the first step in any financial plan. It's an important risk management technique along with buying insurances.

LIFE INSURANCE: Vikram does not have adequate life insurance coverage. Looking at his dependents and after doing needs based analysis it is advisable for him to buy Life Insurance coverage of at least Rs 2.70 crore. It is advisable to buy this through online term plans which would cost around Rs 37,000 p.a

Express TIP Not having adequate insurance coverage may cost huge to the dependents in case of any mis-happening. Adequate life insurance is a must have in one's personal finance profile.

HEALTH INSURANCE: It is very important to have a separate health insurance cover even if your employer has covered you under group insurance. As Vikram has already done that so right now his total medical coverage looks adequate. Going forward he should increase his coverage and better to have a separate cover for every family member. He may increase the sum assured by 20 per cent every five years.

Express TIP In current uncertain job scenario it is always wise to have a personal family health insurance cover over and above what your employer provides.

ACCIDENT INSURANCE Vikram should buy accidental insurance coverage of at least Rs 1 crore with a maximum temporary total disablement benefit available, so that the basic family expenses should not get hampered due to unforeseen accident. The premium for this would be around Rs 13,000 p.a

Express TIP Disability coverage is very much important in today's kind of fast lifestyle.

CHILDREN'S EDUCATION (2024 & 2027)

He should be saving Rs 28,000 p.m in the equity debt ratio of 70:30. Use Equity diversified mutual funds for equity allocation and dynamic bond funds and PPF for debt allocation.

Rate of return assumed 14% post tax in equity and 8% post tax in debt.

Express TIP Right product gets selected only when the goals and time horizon is clear. PPF is a very good long term savings tool and so are equity mutual funds.

CHILDREN'S MARRIAGE (2032 & 2035)

Start saving Rs 5,000 p.m in equity- gold ratio of 70:30 for this goal. Use Gold ETF for gold allocation. *Rate of return assumed is 14% post tax in equity and 8% post tax in gold.*

Express TIP In the Indian context you can't imagine marriage without gold. So better plan and start investing in the same right away.

RETIREMENT PLANNING (2041)

Vikram's EPF contribution will help him accumulate around Rs 29.69 lakh of retirement savings. He should allocate the balance of bank fixed deposit after allocating emergency fund and also the balance in PPF and ULIP can be used for this goal. For the balance corpus he needs to invest Rs 15,000 p.m. in equity- debt allocation of 70:30. Consider EPF/PPF for debt allocation.

Rate of return assumed is 14% post tax in equity and 8% post tax in debt.

Express TIP EPF is very good and compulsory savings instrument which supplements retirement savings with a decent sum. That's why while you switch your job; transfer the balance of EPF in new account.

PLAN BY MANIKARAN SINGAL,
CERTIFIED FINANCIAL PLANNER,
Member of the Financial Planners' Guild, India (www.fpgindia.org)

For expert guidance on your financial planning email us your details at *expressmoney@expressindia.com*

CONCLUSION

Comprehensive financial planning provides you with focussed approach directing towards all of your important goals. Following a structured process will eliminate the chance of emotional decisions in your personal financial life.

MIDAS TOUCH

What should you do when gold turns to dust?

The yellow metal has lost much shine but stick around for the long-term

SANDEEP SINGH
MUMBAI, APRIL 14

THINKSTOCK

IN an unprecedented development, the price of gold crashed by Rs 1,250 per 10 grams on Saturday in the futures trade. This bought down gold prices below Rs 28,000 and dented investor sentiment deeply and showing the rough time that the yellow metal may have going forward. In the spot market, the fall on Saturday was Rs 795 or 2.8 per cent which takes the total fall in gold over the last five months to 13.4 per cent now.

Gold has ruled the markets in terms of generating returns over the last ten years but the financial year 2012-13 proved be a dull one for gold investors. Last fiscal, gold rose by only 5.6 per cent thereby losing its charm among investors to a certain extent. This is the lowest return generated by gold in eight years.

On Saturday, gold prices in Delhi closed at Rs 28,150 per 10 grams following the fall in the global markets where it fell below the psychological mark of $1,500 per oz to close at 1,477 per oz on Friday, thereby raising concern among investors, especially those who invested at above Rs 30,000 levels. At a time when there are hints of improvement in the US economy, the fall in prices is inevitable and so the question that comes up is whether gold had rallied too far, too fast and what should one do now?

FALLING DEMAND

According to the data released by the World Gold Council, the global demand for gold went down by 4 per cent in the year 2012 from 4,582 tonnes in 2011 to 4,405 tonnes in 2012. While the investment demand went down by 10 per cent from 1,700 tonnes in 2011 to 1,534 tonnes in 2012, the technology sector and jewellery demand too fell by 5 per cent and 3 per cent respectively.

Interestingly, only the demand from the central banks went up in 2012 as it rose by 17 per cent. It, however, accounts for only 12 per cent of the total global gold demand.

Even India, which never seems to be losing love for gold, witnessed an overall decline in gold demand of 12 per cent from 986 tonnes in 2011 to 864 tonnes. While the demand in tonnes for jewellery fell by 11 per cent, investment demand fell by 15 per cent during the year.

WHAT'S MAKING GOLD DULL

The fall in gold prices over a sustained period of 5-6 months has been a rare phenomenon in the last 8-10 years. However, over the last five months, the fall in price of gold has been around 11 per cent. Market experts are pointing towards various reason for the same. If high gold prices were the reason for the weak jewellery demand, there is a weakness in the overall demand even though liquidity in the market remains high.

"It is uncommon to see gold not reacting to positive news of debasement of currency. While major economies have maintained easy monetary policy, it is no longer providing the fuel to support the prices," said Rajini Panicker, head of commodities research at Phillip Capital. "Gold is losing its safe haven status and the confidence has been eroded."

There are others who say that the uptick in US economy is the major reason for the fall in the prices of gold.

"When the US economy is on recovery path and a lot of money is moving out from gold into US equities," said a senior fund manager with a leading fund house who did not wish to be named.

Apparently, in the same period that gold has fallen by 11 per cent, Dow Jones Industrial Average — the premier index in US has risen by 14 per cent from 13,025 to 14,855.

GOLD RETURNS OVER THE LAST 10 YEARS

Financial year	Gold price (₹/10gm)*	Gain in the year(%)
March 2013	29,610	5.6
March 2012	28,040	35
March 2011	20,775	27.3
March 2010	16,320	8
March 2009	15,105	24.6
March 2008	12,125	29
March 2007	9,400	10.7
March 2006	8,490	37.4
March 2005	6,180	1.9
March 2004	6,065	14.2

*PRICE AS ON MARCH 31 OF EACH YEAR

PRICE OUTLOOK

Gold price rise has been a phenomenon that has continued for a really long time but experts are now echoing the possibility of a weakness to continue for some time. The fact that the inverse relationship with dollar is not holding (generally when dollar falls then gold rises, but in recent past this gold prices fell even as dollar fell) and prices are falling even when US, Japan and Europe have been maintaining easy monetary policy. This is posing a bearing outlook in for the future.

However, a recent report by the global research firm Thomson Reuters GFMS has forecasted gold to hit 1,800 per oz (around Rs 31,500 per 10 grams) by the end of the calendar. Gold was trading at 1,532 per oz on Friday.

Neal Meader, head of precious metals research and forecasts at Thomson Reuters GFMS while releasing the report said that developments in US developments will be the key factor and the negatives for gold prices are already priced into the prices.

There are others who think so.

"I think that the easy monetary policy by developed economies is only deferring the problems and it will lead to inflation going forward. While it continues to remain under pressure, it is bound to bounce back," said the fund manager with a mutual fund.

Rajini, however, feels that gold had run a little too far and the bullish phase may be over for now.

WHAT SHOULD YOU DO?

An investor of gold in Mumbai who runs a logistics business and did not wish to be identified said that he had pulled out his investments from mutual funds in mid-2012 and invested all of them in gold when the price was around Rs 30,000 per ten grams in anticipation of a rally.

Having seen his call falling flat, he recently exited from his investments booking the losses as he did not want to see his losses grow with further fall in gold prices.

While many investors may be thinking of toeing this line and to restrict their losses, one must not forget that gold has for decades generated above inflation returns and preserves its value and may prove to be a good investment in the long term.

While putting all your investment for betting on gold is a wrong call, it should be seen as an asset class where only a limited portion of your investments should be parked.

"Gold should be held by investors as in the long run it generates above inflation return. But investors should not get carried away by the returns in the recent past and stick to around 5 per cent of their networth into gold," said Veer Sardesai, a Pune based financial planner.

Investment in gold should be for stability, security and diversity of the portfolio and not for supernormal gains in the short term. If you wish to invest do it for the long term through a systematic investment plans in exchange traded funds.

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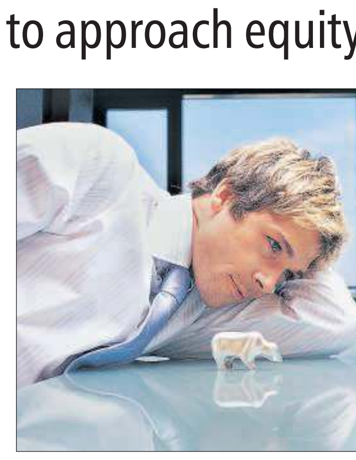
FISCAL RELATION

Stop timing the market, think long-term

The best way to approach equity is to follow credible research advice

AMAR AMBANI



SINCE the beginning of 2013, equity market has been extremely volatile, displaying vulnerability to various events and data points. While the broader market has corrected slightly, the erosion in value of some mid-caps has been unsettling.

This is exactly what individual investors are typically wary of. In our view, the market is in the process of adjusting to macro realities of steep deceleration in GDP growth, structurally high current account deficit, diminishing visibility of capex revival, slowing consumption patterns and stubborn interest rates. Cumulatively, this implies a further downward adjustment to corporate earnings (thereby market's base) which had halted in the past six months. However, global sentiment has been positive with the US and European markets making new highs and portfolio flows continuing to pour in India.

The sharper-than-expected slowdown in economic growth (4.5 per cent in Q3 FY13) and a sustained moderation in core inflation are likely to prompt RBI to cut repo rate more strongly than earlier expected in H1 FY13. We believe there is credible possibility of the central bank cutting the policy rate by 25-50 bps over the two upcoming monetary meetings on March 19 and May 3.

The transmission of these cuts by the banks should provide some relief to the corporate sector. Albeit, this by itself will not be enough to entice the private sector to start considering new projects which requires a constructive policy intervention by the government in some key sectors.

With the country being warned of a sovereign rating downgrade by global rating agencies, the government is giving higher priority to containing fiscal deficit, reducing external trade gap and attracting portfolio inflows. This would likely mean that economic growth would remain sluggish in the near term and so would corporate earnings growth.

In such a scenario, equity market could exhibit weakness and remain volatile. However, benign liquidity conditions and stable environment globally and monetary easing domestically should prevent markets from correcting materially from current levels. In the medium term, equity market could start trending upwards leading the recovery in macro economic indicators. Over the next 2-3 years perspective, equity could be one of the best performing asset classes beating gold and debt.

Though currently may appear as an inappropriate time to invest, history is replete with instances of multi-fold returns being made by investing when economic cycles are at their bottom. Also, it is nearly impossible to time the market perfectly; rather patience and longer investment horizon has paid off most of the times.

A key reason why most retail investors don't make handsome money in equity markets is that they respond to trailing returns, ie they join the party late. Another problem is their urge to make quick money (speculate) than invest in fundamentally strong companies. We believe that the best way for retail investors to approach equity investment is to follow credible research advice and systematic investment through mutual funds.

Our research advices investment in sectors that would be long-term beneficiaries of economic recovery, lower rates, resilient rural consumption and weak rupee. Such sectors are private banks, FMCG, IT firms and pharma sector. We also like unique themes having strong earnings growth visibility.

The author is head of research, India Infoline Ltd. (IIFL)