Introduction to Financial Planning
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Who should go through this module?

• Hi friends!! I am Mohan Krishnan from Madurai.
• I am 32 years old. Me and my wife work for a public sector company.
• Me and my wife have surplus fund in savings account, but we have not invested anything.
• I am new to investing. Want to know about capital markets.
• Target: Deploy money decisively and get good returns.
Agenda

- What is more important? (Savings or Investment)
- Steps in Financial Planning
- Investment sutras
- What is Capital Market?
- Mutual Funds
- ETFs and SGB
Money

• “Money doesn’t buy happiness; money buy choices. It is what you do with those choices that makes you happy”

• “If you buy things that you do not need, soon you will have to sell things that you need”

• Hence, it is important to manage money.
What is more important? (Savings or Investment)

By investing a portion of your income, you allow money to grow and work for you.

Various avenues where money can be invested, are broadly classified into some groups, known as ‘Asset Class’. Stocks or Equity shares, Mutual Funds, ETF’s are most popular class of assets.
“Planning is bringing the future into the present so that you can do something about it now.”
Steps in Financial Planning
Let’s learn to manage money

Video of Mohan and his family.

What do you do with your money?
Meet Mohan & his family
Investment Sutras
Sutras

Plan for Emergencies

Plan for Family Goals

Plan for Retirement
Impact of inflation (6% inflation assumed)

- **7 years**: College Fees
- **10 years**: Cost of House
- **25 years**: Family Expenses

**Graph 1:**
- Value of Rs 10 Lakhs in 7 Years with 6% inflation: 15.04 Lakhs
- Value of Rs 1 Crore in 10 Years with 6% inflation: 1.79 Crores
- Value of Rs 1 Lakh in 25 Years with 6% inflation: 4.29 Lakh

**Graph 1 Details:**
- X-axis: Years
- Y-axis: Rs in Lakhs
- Scale: 0 to 5

**Graph 2:**
- X-axis: Years
- Y-axis: Rs in Lakhs
- Scale: 1 to 4.29 Lakh
Power of Compounding

Lump Sum Saving (Rs. 1L once) Vs Monthly Investment (Rs. 10,000 PM)

- **Lump Sum Savings**
  - 5%: 3.4 Lacs
  - 7%: 5.4 Lacs
  - 9%: 8.6 Lacs
  - 11%: 13.6 Lacs

- **Monthly Investment**
  - 5%: 59.6 Lacs
  - 7%: 81.1 Lacs
  - 9%: 112.0 Lacs
  - 11%: 158.0 Lacs

No. of Years vs Rs in Lakhs (x 100000)
Risk and Reward Matrix

- **High Reward**
  - Schemes promising unrealistic returns where risk is low
  - Beware!!!!!!!
  - Derivatives & Futures equity and equity oriented products

- **Low Risk**
  - Bank deposits
  - Post office savings
  - Public provident fund
  - Debt oriented mutual funds

- **Low Reward**
  - Why take more risk for lower returns?

- **High Risk**
  - Why take more risk for lower returns?
Financial Products as per your Goals

- The time to start planning is now. Get started.
- Invest in less risky products for short term goals and for long term goals one may invest in risker products.
- For retirement, invest in the stock market with a long-term view. Monitor and be patient.
Investment Evaluation Factors

- Safety
- Liquidity
- Returns
- Convenience
- Ticket size
- Taxability of Earnings
- Tax Deduction
Path to financial Planning

- The time to start planning is now. Get started.
- Invest in less risky products for short term goals and for long term goals one may invest in risker products
- For retirement, invest in the stock market with a long-term view. Monitor and be patient.

Mohan feels angry with himself that he has not realised this 5 years ago and lost valuable time
Returns from different Classes in last 30 years

<table>
<thead>
<tr>
<th>Class</th>
<th>30-Year Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation CPI</td>
<td>6.7</td>
</tr>
<tr>
<td>Silver</td>
<td>8.51</td>
</tr>
<tr>
<td>Fixed Deposit</td>
<td>8.78</td>
</tr>
<tr>
<td>Gold</td>
<td>8.83</td>
</tr>
<tr>
<td>PPF</td>
<td>9.64</td>
</tr>
<tr>
<td>Equity</td>
<td>15.4</td>
</tr>
</tbody>
</table>

Past Performance may or may not sustain in the future.
Source: ICRA MFIE, MCX, Bloomberg, MOSPI.
Please note that investment in equities carries high risk.
Remember

• Investment is not gambling

• You need to put your effort for your money to work for you

• You should know
  o where you’re going with your investments
  o what you’re investing in
  o who you’re dealing with
  o where to go for help
What is meant by Capital Market?

Capital market is a place where buyers and sellers indulge in trade (buying/selling) of financial securities like bonds, stocks, etc. The trading is undertaken by participants such as individuals and institutions. In India the capital markets is governed by Securities and Exchange Board of India - SEBI
What is a Mutual Fund?
Why Mutual Funds?

- Professional management
- Transparency
- Liquidity
- Convenience
- Small ticket size
- Diversification
- Well-regulated
- low costs
Risk Classification of Mutual Funds

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Investor Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Risk</td>
<td>Conservative Investors</td>
</tr>
<tr>
<td>Low to Moderate Risk</td>
<td>Moderately Conservative Investors</td>
</tr>
<tr>
<td>Moderate Risk</td>
<td>Moderate Investors</td>
</tr>
<tr>
<td>Moderately High Risk</td>
<td>Moderately Aggressive Investors</td>
</tr>
<tr>
<td>High Risk</td>
<td>Aggressive Investors</td>
</tr>
<tr>
<td>Very High Risk</td>
<td>Very Aggressive Investors</td>
</tr>
</tbody>
</table>
Due Diligence while investing in Mutual Fund

Parameters to analyze a right Mutual Fund

- Fund v/s Benchmark performance
- Expense Ratio of the Mutual Fund
- Risk Level: checked through Risk-o-Meter
- Fund’s History: Performance of the fund in past 3 to 5 years.
- Portfolio Turnover Ratio: How frequently fund manager buy/sells securities from the fund.
- Background and history of the fund Manager.
Exchange Traded Funds (ETFs)

- ETFs are popular investment choice for investors seeking diversification, low costs, transparency, flexibility and tax efficiency.
- ETFs can be bought and sold throughout the trading day.
Sovereign Gold Bond Scheme

SGBs are government securities denominated in grams of gold.

- Investors pay the issue price in cash
- Bonds will be redeemed in cash on maturity.
- The bond bears an interest at the rate of 2.50% (fixed rate) per annum on the nominal value credited semi-annually
- Investors will earn returns linked to gold prices
- Available in DEMAT and paper form

**Sovereign guarantee** - The Bond is issued by Reserve Bank on behalf of Government of India.

**Minimum investment** - 1 gram. Maximum investment: 4 Kgs for individual, 4 Kgs for HUF and 20 Kgs for trust and similar entities per fiscal (April-March)

**Secondary Market** - tradable on NSE
To know more about securities market........

investor.sebi.gov.in/index.html

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