

CONSERVATIVE INVESTOR

# Never too late to start

- No exposure to equities apart from employee stock option scheme
- 67% of financial assets are either in gold or bank fixed deposits
- Inadequate and expensive life insurance cover

## Can Chaitanya J catch up after losing some of the most important years of investing?

SHOBHANA CHADHA

I have not invested in mutual funds as I know little about them. I don't know which funds to invest in or how much," says 30-year-old Chaitanya J. It is not that the Hyderabad-based program manager is unaware of his financial goals. His to-do list reads like this: Buying a car and a house, saving for his child's education and building a retirement corpus. Given this ambitious list, his investment approach is ultra-conservative. The good news is that Chaitanya's cautiousness is not due to risk aversion but ignorance. He is ready to invest in equities provided he gets the right guidance. But he will have to up the ante, having lost around seven to eight of his golden years of investing.

Chaitanya, who works for an e-commerce company, and his wife Sudha live in his parents' house. He earns ₹32,500 a month. After deducting household expenses and premiums for his life insurance policy and pension plan, he is left with an investible surplus of about ₹14,000. As there is no rental expense, he saves more than half his monthly take-home, leaving sufficient funds for investments. Had he started investing in equities early, he would have accumulated a sizeable wealth by now.

It is not the case with just equities. Chaitanya's investments in debt instruments are also quite low, which indicates that he has not been investing diligently. Well, he does own jewellery worth about ₹4 lakh and a plot in Damaiguda (Hyderabad) valued at ₹12 lakh. "The jewellery is for personal use. It is not an investment and the plot of land that we own was a gift from Sudha's parents for their daughter," says Chaitanya. If we keep these two possessions aside, apart from ₹1 lakh in fixed deposit and shares worth ₹1.76 lakh as part of employee stock options (Esops), he does not have a major investment.

financial plan. However, it is never too late to start investing. Chaitanya can still achieve his goals if he is disciplined.

Of his four major goals, his investible surplus is sufficient for funding his child's education and retirement. The short-term goals of buying a car and a house will have to be postponed by a couple of years.

Chaitanya wants to buy a car worth ₹4 lakh in a year from now. However, he does not have enough money to service a car loan. Allocating money from his current surplus at the cost of the long-term goals is not prudent. We suggest that he scale down his aspirations and buy a cheaper or a second-hand car.

Else, he should postpone the goal for three years. By then, his income should grow sufficiently to support the equated monthly installment (EMI) for a car loan. In this period, his investment in the fixed deposit will grow to ₹1.16 lakh, which can be used as down payment for the loan. The balance ₹2.84 lakh can be serviced with a five-year loan for which the EMI works out to ₹6,317 at the rate of 12% a year.

In two years, Chaitanya and Sudha want to buy a two-bedroom apartment in Hyderabad worth ₹25 lakh. At the current income level, it is not possible to accommodate a hefty home loan EMI. A house is usually "a once-in-a-lifetime investment".

Therefore, we don't think that they should scale down the goal and compromise on a dream home.

Instead, the couple can delay the purchase of a house by another four years. The apartment's price could rise to ₹35 lakh in six years. By then, his Esops should be worth at least ₹4 lakh (assuming 12% annual returns) and the value of the plot will grow to nearly ₹16.8 lakh. Together, the two investments can be used for the down payment of ₹20.8 lakh for the home loan.

Chaitanya is comfortable with the idea of selling the plot. "It is located in a far-off place. I don't expect to live there. So, I think I will sell that property," he explains.



### CHAITANYA'S BEST MOVES...

- Saving about 56% of monthly income
- Opting for employee stock option scheme
- Opening a provident fund account last year



### ...AND THE WORST

- Not having a systematic plan for investing monthly surplus
- Not having a well-diversified portfolio
- Buying traditional and expensive life cover
- Investing in tax-inefficient bank fixed deposits

The balance ₹14.2 lakh can be paid by a 20-year loan. Its EMI will be ₹12,776 at the rate of 9% per annum.

Chaitanya also wants to buy gold jewellery worth ₹2 lakh. We suggest that he defer the goal for sometime as his present cash flow does not permit him to do so. Also, gold prices are at an all-time high. So we suggest he waits for prices to fall.

Although the couple have not planned a baby yet, they want to start saving for the education of their child early. Chaitanya is not worried about his child's primary education as it can be easily funded from the household savings. He will need a corpus of about ₹36 lakh for his child's higher education.

To build this amount, he must invest ₹7,195 a month in equity mutual funds through systematic investment plans. This can be divided into two equal amounts and invested in HDFC Top 200 and ICICI Dynamic, suggests Wealthcare Securities.

Both these are diversified equity funds with a proven track record and need not be monitored too regularly.

The other long-term financial goal for Chaitanya is to build a nest egg for his old age. He wants to work for another 35 years and retire at 65. Given their current standard of living and expenses, the couple will need ₹3.73 crore to live comfortably after retirement.

Six months ago, Chaitanya started saving money for retirement through a pension policy. It is a Ulip with an annual premium of ₹50,000 and a minimum investment period of five years. Wealthcare Securities recommends that he continue with this policy. However, he should opt for a life cycle based portfolio strategy. This will ensure that as his risk appetite decreases with age the equity allocation of the premium also wanes.

Alongside, we suggest that Chaitanya invest ₹5,000 through an SIP in Birla Sun Life Equity fund. It is a diversified equity fund in the market for about 10 years. A steady performer, the fund is well suited for a long term goal like retirement. Together with the pension policy and employee provident fund, regular investments in this fund should take Chaitanya comfortably past his retirement corpus.

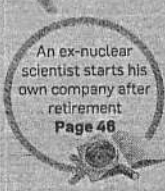
No financial plan is complete without a comprehensive life and health insurance cover. Chaitanya and his wife are covered by his employer-sponsored health insurance policy. However, Wealthcare Securities suggests that he should also buy a token health insurance policy of ₹1 lakh. This will act as a top-up to his present cover and will also ensure that his health remains insured at times, even when he is not employed. The annual premium for such a policy should be around ₹1,500.

Also, Chaitanya's father will retire in a year and a half from now and we suggest that he buy a health cover for his father as well. This can also be a part of his tax-savings strategy as the premium of up to ₹15,000 tax-deductible under Section 80 C of the Income Tax Act.

For life insurance, Chaitanya has bought an endowment policy that covers him for ₹1 lakh. The annual premium is ₹15,980. This is a very expensive policy and the cover is inadequate for the sole breadwinner of the family. The returns from the policy are also very low—about 5% a year.

Therefore, we suggest that he surrender this policy once it acquires a paid-up value after five years. The premium should be redirected to a 30-year term plan which covers him for ₹25 lakh. The premium for such a policy will be around ₹4,150. The surrender value of the endowment policy can be used to fulfil his ambition of buying gold jewellery. He can also invest in gold exchange-traded funds which do away with the hassle of storing gold safely.

Chaitanya must resist the temptation to withdraw money from long-term products such as PF and the pension plan. For emergencies, it is best to stash away three months' expenses in a sweep-in account (one that combines savings-current and fixed deposit features) and let other investments grow.



Financial plan by Mukesh Gupta, Director, Wealthcare Securities. Need help with your family finances? Write to us at [erwealth@indianexpress.com](mailto:erwealth@indianexpress.com)