Ultimate Financial Planning Guide

Personal Finance Demystified

Nikhil Kale

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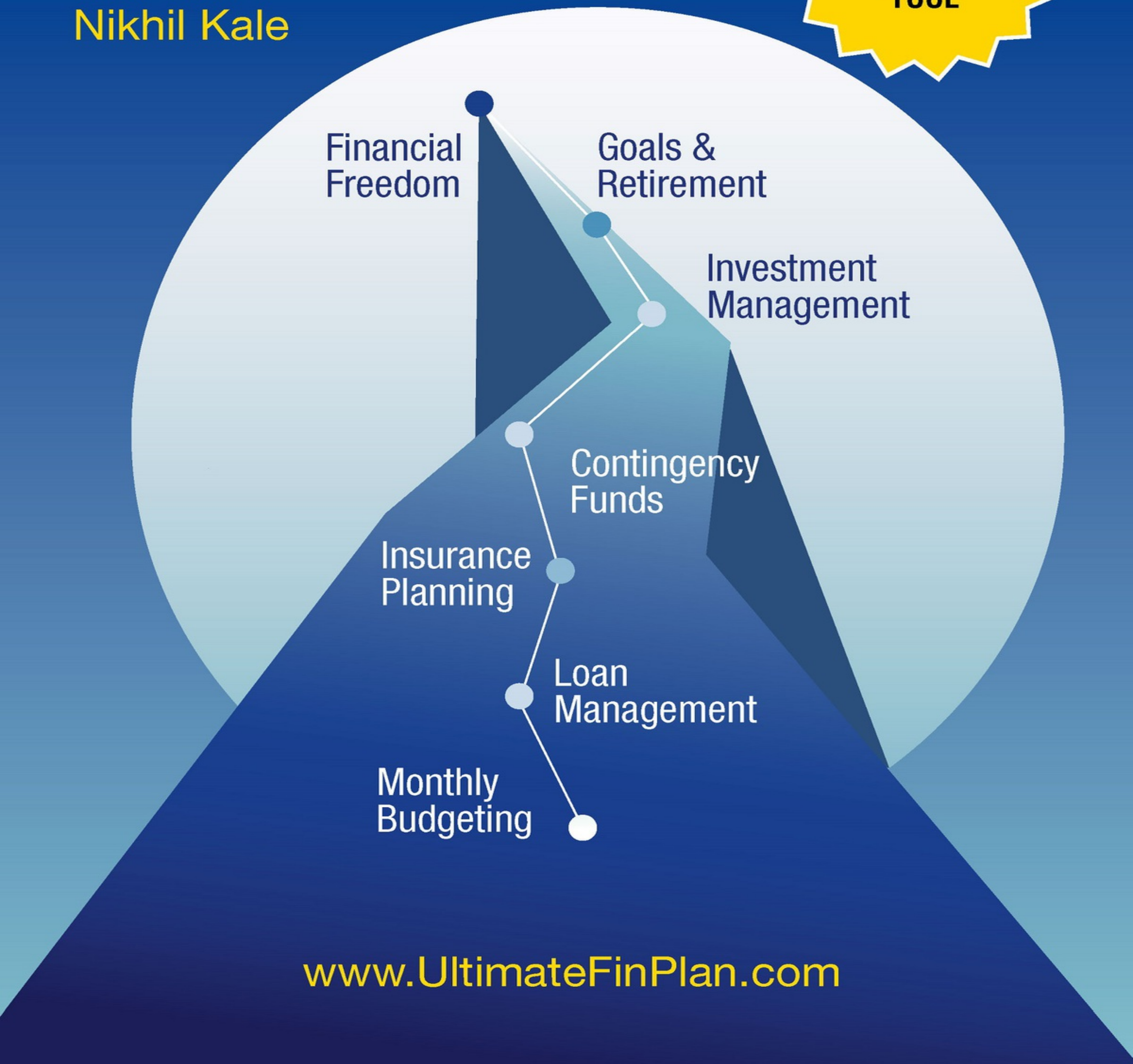
RISK PROFILER TOOL



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Preface

“An investment in knowledge pays the best interest.”

- Benjamin Franklin

Ultimate Financial Planning Guide is a simple, easy to understand and crisp guide to personal finance. This book is suitable for novice readers as well as for those who possess basic to intermediate knowledge related to personal finance. This book clarifies the myth that financial planning is just about investments. It is important to take control of household budget, manage your loans efficiently, protect yourself with adequate insurance cover, have a contingency reserve and assess your financial risk profile prior to planning for your important financial goals and investments. The book explains these key financial concepts and also details the process of comprehensive financial planning in a structured and simplified manner.

During my graduation, I came across many people who struggled with managing their finances and also were not in a position to afford paid financial services for this purpose. This was also one of the reasons I undertook further studies in finance and subsequently became a qualified financial planner. After being in the financial service industry for over a decade and having formulated over 1,200 comprehensive financial plans, I believe I have reached a level where I can pen down my thoughts to enlighten the people around me. My ultimate aim is to make everyone self-equipped to manage their own finances and achieve a secured financial life by providing end to end financial solutions.

For everyone who would be interested in taking this further, I have also designed **Ultimate Financial Planner** which is excel based comprehensive financial planning application. This application will enable you to easily formulate a personalized and comprehensive financial plan for yourself (sample report available at the end of this book). The application will help you keep a track of your Monthly Budget, manage your Loans, assess your Financial Risk Profile, assess your Insurance Cover requirement and most importantly plan for your key Financial Goals & Retirement. You may please visit the following link for more details about this application **https://ultimatefinplan.com/ufp-application** **.**

Risk Profiler is one of the key tools available in the above said **Ultimate Financial Planner** application. This particular Risk Profiler tool is provided as a complimentary offering to you along with this book . The link to download this Risk Profiler tool is available on the last page of this book. You may evaluate your Risk Profile with the help of the complimentary Risk Profiler tool which essentially assesses your capacity and tolerance of taking financial risk with the help of a psychometric questionnaire.

The contents of this book and **Ultimate Financial Planner** application are **relevant globally** . I am confident that with the help of this book and **Ultimate Financial Planner** application, you will easily understand the fundamentals of personal finance and also formulate your own detailed Financial Plan. Your time is the most important investment that you need to make, for securing your financial life. My best wishes for your Healthy and Secured Financial Life!

Warm Regards,

Nikhil Kale

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Sample Financial Plan - Formulated by Ultimate Financial Planner application

I - Introduction to Financial Planning

“Everything must be made as simple as possible but not one bit simpler.”

- Albert Einstein

Most of us have a perception that the concept of financial planning is too technical and complex to understand. This wrong perception keeps us away from understand the important concept of financial planning and taking control of our finances. Trust me, the concept of Financial Planning is simple to understand, provided it is presented in a structured way and that is what this book essentially does. I have written this book with the sole purpose of making the concept of financial planning simple and easy to comprehend such that even if the reader is a novice, he / she will easily understand the fundamentals of personal finance and would also be able to further formulate a detailed Financial Plan. Let us start the process of understanding Financial Planning concept with its definition.

Definition : Financial Planning can be defined as the process of assessing & managing your financial resources, to help you plan for achieving your financial goals and secure your financial life.

This simple definition would help you easily comprehend the concept of Financial Planning. For better understanding, the definition could be broken down into two parts viz. Part A) assessing & managing your financial resources and Part B) plan for achieving your financial goals.

Part A : **Assessing** your financial resources includes evaluating your income from various sources like salary, professional fees, business income, pension (for retirees), rental income, interest & dividend income, etc. Whereas, **Managing** your financial resources includes tracking your EXPENSES and SURPLUS. A part of the money that you earn, is spent on your day-to-day EXPENSES like food, clothing, rent, utility bills, loan instalments, travel, entertainment, hobbies, dining out, etc. and remaining part, is your

SURPLUS that you may save & invest for future financial needs. The expenses need to be planned so as to meet your lifestyle needs and the surplus need to be planned so as to meet your financial goals. We would discuss the expenses and surplus management topic in greater detail in the 'Monthly Financial Budgeting' chapter, ahead in this book.

Part B : Second part of the definition focuses on formulating a plan for **achieving your financial goals** . You may have financial goals like purchasing a new house, buying a new car, planning for a vacation, saving for children higher education fees, retirement planning, etc. Financial goals need to be well defined to include parameters like cost required and the time available to achieve the goals. The goals may be funded from your own savings and / or by availing loans. An investment plan needs to be formulated basis your financial risk profile and the time available to accumulate the corpus of funds required to achieve the financial goals. Financial risk profile is nothing but your capacity & tolerance to take investment risk. This concept of Financial Risk Profile is explained in detail, ahead in the book. Subsequently, the available SURPLUS needs to be invested according to the investment plan to accumulate the funds required to fulfill your financial goals. We would also discuss this in greater detail in the 'Financial Goal Planning' chapter, ahead in this book.

Inference: From the definition, we would be able to infer that, striking a correct balance between expenses and surplus is the key to achieve your financial goals and thus secure your financial life!

A financial plan can be formulated based on two approaches viz. Goal Based Financial Planning and Comprehensive Financial Planning. These two approaches of financial planning are explained as follows.

Goal based financial planning, as the name suggests, only focuses on planning and achieving your financial goals. It helps you ascertain the amount that you require to fulfill each of your financial goals and evaluates the monthly or annual investment commitment required to accomplish the same. E.g. you may be able to evaluate the investments required to be done annually to achieve the required corpus of funds for fulfilling your goals like upgrading your car, purchase of a new house, etc.

Comprehensive financial planning , along with your financial goals also focuses on multiple aspects of your personal finance like your income & expenditure, assets & liabilities, budgeting, insurance planning, risk profiling, loan management, retirement planning, etc. thus giving you a holistic view of your financial health and planning for more stable and longer term financial security. The multiple financial aspects stated above are interdependent on each other and addressing concerns of each of these aspects is required to ensure fulfillment of your financial goals. Hence, it is wise to follow the comprehensive financial planning approach to plan for your secured financial life.

Following are the key steps (listed chronologically) which are involved in the comprehensive financial planning process:

1. Organizing Financial Data
2. Monthly Financial Budgeting
3. Assessing your Financial Risk Profile
4. Assessing your Income and Expenses
5. Assessing your Assets and Liabilities
6. Managing your Loans
7. Assessing your Insurance Needs
8. Financial Goal Planning
9. Retirement Planning
10. Asset Allocation
11. Periodic review of Financial Plan

As said earlier, this book aims to clarify the myth that financial planning is just about investments. It is important to take control of household budget, manage your loans efficiently, protect yourself with adequate insurance cover, have a contingency reserve and assess your financial risk profile prior to planning for your important financial goals and investments. This book details out all the above mentioned steps involved in the process of comprehensive financial planning in a structured and simplified manner. As you understand each of these steps, you will be able to easily prepare a detailed financial plan for yourself with the help of **Ultimate Financial Planner** application. However, it is also important to note that simply preparing a financial plan is not enough; you need to further execute the financial plan. Execution of financial plan involves following key steps:

Insurance: Financial Plan would let you know the amount of insurance cover you need to avail. However, you need to consult your insurance advisor / broker to avail a suitable life & general (non – life) insurance plans to help protect you against untoward incidents. Getting adequate insurance cover with the help of appropriate insurance plans will help reduce your financial strain in case of an unpleasant event and would avoid erosion of your savings earmarked for important financial goals.

Investments: Financial Plan would let you know the amount you need to invest monthly or annually to achieve your financial goals. However, you need to consult your investment advisor / broker and invest your savings in suitable investment avenues to achieve your financial goals. By following your monthly budget, you would be able to keep control on your expenses and would be able generate savings. It is important to invest these savings into investment avenues like Shares / Stocks, Mutual Funds, Bonds, Fixed Deposits, etc. as per your Financial Risk Profile and advice of your investment advisor / broker. Money kept idle in cash or in bank account will not be able to fetch much returns but once invested in suitable investment avenues will earn compounded returns and will help you fund your financial goals.

 **Track Performance:** You need to track the performance of your investments with the help of your investment advisor / broker to check your progress towards achieving your financial goals. If certain sectors of economy or certain asset classes that you have invested in are not performing well, then investment allocation would require changes. Similarly if certain Stocks or Mutual Funds are not performing well, then your advisor / broker may suggest switching to different Stocks or Mutual Funds that are fetching better returns. Tracking the performance of your investment is necessary to ensure that your hard earned money also works hard to generate good returns on your investments.

Your Financial Plan is like a nautical chart which will help you to navigate properly through the sea of financial markets and help avoid drifting away.

Ultimate Financial Planner application has the capabilities of facilitating all the above mentioned steps of comprehensive financial planning process.

II - Data Gathering

It is a very common experience of us that we need some financial information urgently but are not able to access it easily. This is because many of us do not maintain a proper record of our financial data. To assess your individual position on the financial data gathering and organizing, it may be useful to answer the following questions:

- Which insurance policies have I availed?
- When are my insurance premium payments due?
- What is the total value of all the loans that I have availed?
- What is the total value of my financial savings and investments?
- What are the maturity dates of my investments?
- What is the rate of interest charged on my loans?
- What are my life goals and are my savings & investments enough to achieve all these goals?

Most of us may find it difficult to answer the above questions but such questions have got a lot of financial implications. One might not renew his deposits / investments on time if he does not know the maturity dates. A health or vehicle insurance policy might lapse if the premium is not paid before the due date. The financial impact will be more adverse if one had to file an insurance claim but cannot do so since the policy is lapsed. Keeping a close track of loan installments and credit card payment due dates is also important to avoid penalty charges. To avoid such financial mistakes, it is very important to maintain a systematic record of your financial data.

Data collection for financial planning involves gathering quantitative (financial) information and qualitative (non-financial) information. Quantitative information includes details of your assets, liabilities, income, expenditure, insurance, investments, financial goals, etc. whereas qualitative information include details of your financial risk preference, standard of living, family health condition and history, work environment, etc. We would understand the importance of these data points in detail as we progress ahead in this book.

Data gathering is the basis of financial planning. A famous quote by Aristotle, the ancient Greek Philosopher states that **"Well begun is half done"** . The financial planning activity begins with collecting and systematically organizing your financial data. This data is further analyzed, computed and presented systematically to formulate your financial plan. It is very important to note that the accuracy of your financial plan would depend upon the accuracy of your financial data. Hence, it is essential to gather and input the required financial data properly in the data collection form when you carry out the financial planning activity using the **Ultimate Financial Planner** application. Let us begin with gathering the basic quantitative data, required for formulating your financial plan.

Asset List: Prepare a list of all the assets that you own and also mention their current valuations. E.g. of assets: House, Car, Ornaments, Shares, Bonds, Mutual Funds, Bank Deposits, Insurance, etc. You may be able to identify the current valuation of your investments like Share, Bonds, Mutual Funds, etc. with relative ease and with fair degree of accuracy by referring Statement of your Investments or by consulting your Investment advisor / broker. However, you need to make your best estimates and judge the current valuation of your house, car, ornaments and other personal assets. The data related to Assets would help in assessing your net worth and would also enable you to plan for your investments and financial goals.

Liability List: Prepare a list of all the loans & liabilities that you owe and also mention the interest rate charged & current amount of money (principal amount) yet to be repaid. This could be easily done by referring to your Loan Account Statement. E.g. of loans: Housing loan, Car loan, Education loan, Business loan, Personal loan, Credit Card dues, borrowings from your family & friends, etc. The data related to liabilities would help in assessing and managing your loans.

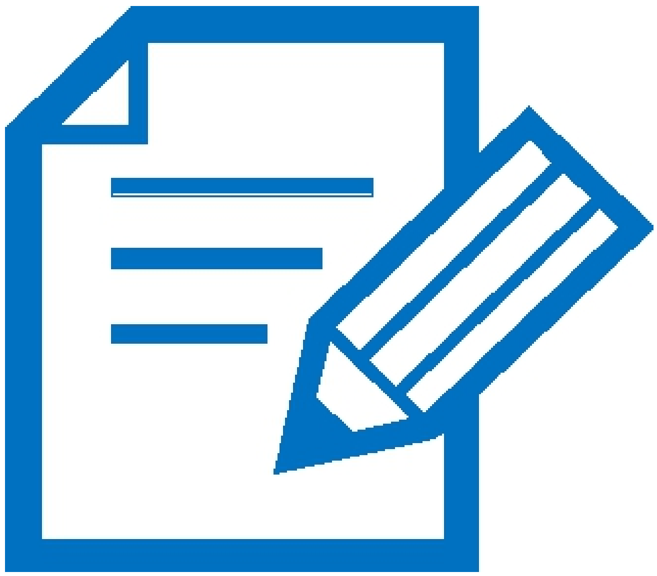
Income List: Identify the various sources of income of all earning members of your family. The major source of income would be income from Salary or Profession. Additionally, you may consider interest & dividend income received from your investments. If you have a property that has been leased out then you may include the rental income as well. If you undertake any part-time activity like consulting, home based business, seasonal business activity, etc. then do consider income from these sources as well. Once you have listed down all the sources of income, it is important to estimate the amount of monthly income received from these sources so that it will help in formulating your Monthly Budget. In case of income form salary, it would be easy for you to estimate the monthly income amount however in case of a business or profession and any other sources of income, you need to make your best estimate basis your past experience, the average monthly income expected from these sources.

Expenditure List: Estimate the amount of your monthly expenses incurred under various heads. Typically, household expenses would include groceries, rent, repairs & maintenance charges, electricity, phone & internet charges, etc. Personal expenses would include expenses on Health & Medicine, commutation, entertainment, dining, etc. It is important to consider your loan instalments payable for active loans like Vehicle Loan, Home Loan, Credit Card, etc. and also the Insurance Premium payments for life, medical, vehicle and any other insurance plans that you have availed. These estimates would also help in formulating your Monthly Budget.

Insurance Plans: Identify the amount of cover i.e. sum assured provided by various Life Insurance policies and Health/Medical Insurance policies that you have availed. Do consider any insurance benefits provided by your employer. The sum total of your Life Insurance cover would help us evaluate if you are adequately insured or are under-insured.

The above mentioned quantitative data, could be used to fill-up the data collection form in **Ultimate Financial Planner** ***application so as to further enable processing the data systematically and prepare your detailed financial plan.***

III - Monthly Financial Budgeting



"The number one problem in today's generation and economy is the lack of financial literacy."

- Alan Greenspan

As defined earlier, financial planning involves managing your expenses and surplus. In this chapter, let us see how you can plan and manage your **EXPENSES** in a systematic manner. To manage your expenses, you need to have a spending plan in place, which can be achieved by formulating a monthly budget.

For most, a budget might sound boring but sticking to it pays rich dividends in the long run. Formulating and adhering to monthly budget will help you to keep control on your expenses and generate the surplus required to achieve your financial goals. Once you start maintain the budget regularly, it would **not be** a cumbersome task but rather would become an enjoyable activity, which you would look forward to perform on a monthly basis. You will have a sense of accomplishment once you realize that you are able to stick to your budget and are in control of your expenses!

Formulation of a budget involves the following key steps:

1. Note down your monthly income from various sources like salary, profession, business, investments, etc.
2. Note down your monthly expenses under various heads like Household, Food, Personal, Rent, Taxes, Loan Instalments, Entertainment, etc.
3. Estimate the expenses that you may incur under each expense head based on your past experience
4. Track the actual expenses incurred under each head
5. Analyze the deviation between estimated and actual expenses and take corrective actions

While preparing your monthly budget, you need to note down, the estimates of monthly income from various sources and monthly expenses under various heads of self and family. If your family has other earning member(s) (E.g. spouse) include income of these earning members as well while preparing your monthly budget. Since income and expenses are not constant but dynamic in nature, basis your past experience, you may estimate the amount of monthly income and expenses for the purpose of preparing the budget. Some professionals may have variable income levels; in this case, you need to consider your best estimates of average monthly income based on your past experience for the purpose of preparing your monthly budget.

Monthly Budget will help you estimate your monthly income and expenses and also track the deviation between the estimated and actual expenses. With this, you may be able to track excess amount spent and would be able to take measures to control expenses in future. You would also be able to review the surplus available (Surplus = Your Income minus Your Expenses) to invest for achieving your financial goals.

The truth of life is that we have limited financial resources i.e. income level but virtually unlimited aspirations. You need to classify your aspirations into **Needs** and **Wants** . <u>Needs</u> signify something which you and your family cannot do without; these include non-discretionary expenses like food, clothing, rent, utility bills, etc. <u>Wants</u> consist of discretionary expenses like entertainment, dining out, etc. which usually are not very pressing.

As you plan for your various financial goals, you may be able to assess the amount of surplus you may require to save and invest for achieving your financial goals. If the required surplus is more than the available surplus, then you may plan to temporarily reduce / sacrifice some of your discretionary and non-pressing expenses to elevate the level of surplus which will help you achieve your important financial goals. In this process, you may have to let go on some of the short term gratifications to achieve your long term & important financial goals. Upon achieve your financial goals, you would realize the importance of budget and would be glad that you maintained one!

Do’s and Don’ts

- Do set realistic estimates of your expenses. It is important to keep some extra cushioning for unforeseen expenses and to stay motivated to track your monthly budget.

- Keep daily record of cash expenses else you would find it difficult to track the same. You may refer to your Card and Bank Statements for non-cash expenses.

- Do pay your utility bills, loan instalments, credit card dues and taxes on time so that you avoid paying penalties.

- Do subscribe to mobile, internet and television plans that match your needs and avoid paying for any extra and value added services that you may not require.

- Do consider downloading EBooks if you like reading as they may cost lesser than the paperback versions. If you are an avid reader, you may join a library which will give you access to thousands of interesting books at a very economical cost.

- Do invest in your health and stay fit by following a good diet and exercise routine. Not only would you save a lot on medical costs but also be able to enjoy a longer and healthier life!

- Do evaluate periodically if your job is paying you as per the industry standards. If not, you may negotiate with your employer for a pay hike or search for a better paying job.

- Do keep your knowledge and work skills updated. If required take refresher courses. This will help you to not only secure but also progress in your job / profession.

- Do try to make extra money leveraging your knowledge and expertise. You may start a part time consultancy services or even write a book if you have the expertise in your work domain.

- Do start investing the surplus regularly. Keeping the surplus into your bank account will not yield much returns and you might tend to spend the same on not so important things.

- Do not over-use your credit card and do pay the dues on time. Avoid having multiple and higher limit credit cards. Instead, you may switch to using Debit Card which will restrict your spending up to the availability of balance in your account and thus avoid over spending and additional loan instalments.

- Do not get carried away by latest electronic gadgets like mobile, laptop, home appliances, etc. Evaluate if you really need to get the latest upgrade available. Your existing product might be enough to satisfy your needs.

- Do not buy stuff impulsively just because there is a discount offer available. Buy things only if you require those.

- Do things which you can easily do it yourself (DIY) instead of engaging someone else. Like maintain your garden, fixing-up a leaking tap or a broken chair, painting a wall, etc. This will help you save some money in order to generate additional surplus.

- Do keep a check on your discretionary expenses like entertainment, dining out, etc. However, do not completely eliminate discretionary expenses as these are required to rejuvenate and stay focused on work. You may reduce the frequency of such discretionary expenses if required. E.g. reduce the frequency of attending concerts, events or fine dining; take more economic mode of transport like bus or train to travel instead of using your own vehicle; use a car that is more economical and low on maintenance.

Key Money Drainers

Given below are two key money drainers. These money drainers, significantly reduce your potential to save money and thus impact your capacity to invest and achieve important financial goals.

I - Loans

Considerable amount of the income is usually spent in paying the monthly loan instalments. It is prudent to avail loans which help you build and own assets like that of a housing loan but avoid availing loans for meeting your expenses like that of credit cards and personal loans. Typically, credit cards are used for shopping and subsequently the amount due is converted into loan installments which attract higher interest rate. The interest charged on loan is your expense. Our aim is to reduce this expense so as to generate more surplus for the purpose of investment. Consistent efforts are required to pay off the loans with higher interest rate like that of Credit Card and Personal Loans with the help of debt consolidation & balance transfer processes explained ahead in 'Managing your Loans' chapter of this book. These loan management processes shall help you avail loans at lower interest rates and also reduce the monthly instalment payment by adjusting your tenure so that you have more surplus for the purpose of investment!

II - Discretionary Spending

As explained earlier in this chapter, discretionary expenses are non-pressing expenses like entertainment, dining out, gifting, shopping for lifestyle goods like watches, jewelry, perfumes, electronics, etc. It is important to evaluate the percentage of your total income being allocated to discretionary expenses. If you have high expenses then the high percentage of discretionary spending may be one of the root causes for this. We certainly cannot avoid discretionary expenses however we can allocate a budget for controlling such type of expenses so that it does not impact the required savings and surplus for investing.

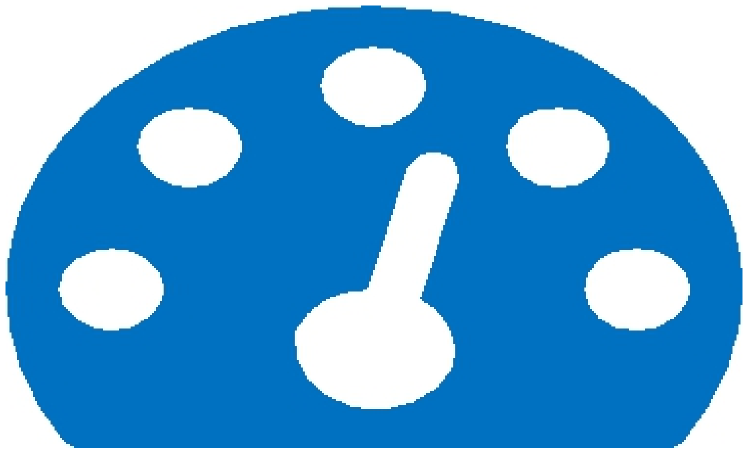
Budgeting is the basis of generating the surplus required to fund your financial goals. Think carefully about what you spend your money on – do you really need it? You may be surprised to know that even if you try out a few Do's and Don'ts listed above and especially focus of the key money drainers, you could easily save and fund for a few of your important financial goals!

"In this world it is not what we take up, but what we give up, that makes us rich."

– Henry Ward Beecher

A detailed Monthly Budgeting tool is available in **Ultimate Financial Planner** ***application to help you plan, track and analyze your monthly income and expenses.***

IV - Assessing your Financial Risk Profile



“Risk comes from not knowing what you're doing.”

– Warren Buffett

Risk in financial context refers to the uncertainty of returns your investments would fetch. Risk and return are directly proportional to each other i.e. the risk associated increases with increase in returns and vice versa. The risk associated varies from product to product. Low risk indicates lower but stable returns (E.g. Bank Deposits, Bonds, Debt Mutual Funds, etc.) whereas high risk indicates higher but unstable / volatile returns (E.g. Equity shares, Equity Mutual Funds, etc.).

You may be familiar with people making following statements:

“Stock Market is down and the valuation of my stocks has come down significantly, I need to switch my investments to Bonds!”

“Investment in Bonds give me very low returns, I need to switch my investments to Stocks!”

The sole purpose of financial risk profile assessment is to determine your risk profile category so that you may choose the investments that are best suitable to you and that are aligned with your financial risk profile.

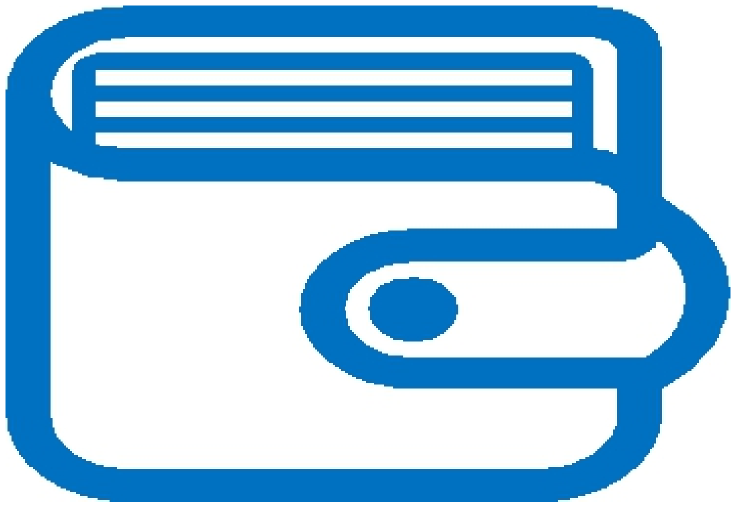
If you are risk averse investor, you may feel uncomfortable if the stock market goes downward and you are holding a significant portion of your investment portfolio in equity investments. Conversely, if you can withstand short term volatility in Stock Markets, you may earn higher returns in the long term by investing in equity investments. Hence it is very essential to understand your financial risk profile before making any investment decisions.

Financial risk profile assessment is done with the help of a psychometric questionnaire which determines your Risk Capacity and Risk Tolerance. Some of the questions help determine your risk taking capacity which is your ability to take risk while other questions help determine your risk tolerance which is your aptitude to take risk. The overall financial risk profile is the outcome of your risk capacity and risk tolerance scores.

Risk profiles in simple terms may be classified as Conservative, Moderate and Aggressive. Depending upon the risk profile, suitable Asset Allocation needs to be formulated. Asset allocation simply means how much you need to invest into **Equity investment products** (Stocks/Shares, Equity Funds, etc.) and how much you need to invest in **Debt investment products** (Bonds, Bank Deposits, Debt Mutual Funds, etc.). For conservative risk profile, higher allocation to Debt investment products and lower allocation to Equity products may be suitable and conversely for aggressive risk profile, lower allocation to Debt products and higher allocation to Equity products may be suitable.

A state-of-the-art risk profiling module is available in the Ultimate Financial Planner application. Asset allocation for short term, medium term and long term financial goals basis the risk profile determined is also provided for your reference.

V - Assessing your Income and Expenses



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

- Warren Buffett

The activity of assessing income and expenses is similar to the monthly budgeting activity discussed earlier in this book. Assessing Income and Expenditure involves, understanding from where the money flows in and how the money flows out .

Typically, the sources of income are salary, professional fees, return on investments in the form of interest & dividend, pension, rental income, etc. The level of income from job mostly depends upon your educational qualification and the profession you are into. You may not have much control on this source of income, unless you enhance your skills or find better paying jobs, which often takes time.

However, you do have control on how you spend the money that is earned. Recording and analyzing your expenses with the help of monthly financial budgeting is a key step to take control of your finances. Expenses influence your investible surplus or deficit which ultimately leads to an increase or decrease in your Net Worth.

Explanation of key Concepts:

Net Worth = Your Assets Minus Your Liabilities

Surplus = Your Income Minus Your Expenses

Note: *If income is more than the expenses, you have a Surplus and if the income is less than the expenses then you have a Deficit.*

Ideally, your expenses should be less than your income. The easy availability of loans through Credit Cards, Personal Loans, etc. often leads to a situation wherein you spend all the income and additionally avail loans to meet your expenses. This situation leads to deficit which results in decrease in net worth. Remember our aim is to increase the net worth so as to achieve our important financial goals!

It is prudent to avail loans not for meeting your expenses (call it bad loan) but to buy assets (call it good loan). An example of bad loan can be excessive use of credit cards for shopping and converting the amount due into loan installments by paying higher interest rate. On the other hand, an example of good loan can be availing a Housing loan which would be one of your biggest assets.

Below are a few quotes from the legendary investor Warren Buffett:

- Stay away from credit cards and invest in yourself
- Live your life as simply as you can
- Don't buy brand names; instead just wear those things that make you feel comfortable
- Don't waste your money on unnecessary things; rather spend it on those who are really in need

One of the key activities involved in assessing income and expenditure is to check your financial health by calculating ratios like Debt Service Ratio, Savings Ratio, etc. Debt Service ratio represents your percentage of monthly income being allocated to debt (loan) repayment while savings ratio indicates the percentage of monthly income you save. If the ratios are not favorable i.e. if you have higher debt (i.e. loan) or lower savings, corrective actions may be required to reduce debt and increase surplus respectively.

Illustrations	
Debt Service Ratio	**Savings Ratio**
Monthly Loan Installment: 3,000	Monthly Savings: 2,000
Monthly Income: 10,000	Monthly Income: 10,000

Debt Service Ratio: 3,000 ÷ 10,000 = 30%	**Savings Ratio: 2,000 ÷ 10,000 = 20%**

For reducing your debt (i.e. loan) you may need to check the types of loans you have in your liabilities section. Credit card loan may be one of the worst types of loans that you can avail. Typically, unsecured loans like Credit Card Loan, Personal Loan, etc. have high interest rates and erode your savings. Loans like home loan and vehicle loan actually help you purchase and own the assets. You need to make efforts to pay off loans like credit card and personal loan as quickly as possible. For detailed understanding, please refer the Debt Consolidation concept explained in 'Managing Your Loans' chapter ahead in this book.

If your savings ratio is low, you need to reduce some of your discretionary expenses as explained earlier in the 'Monthly Financial Budgeting' chapter in order to increase your surplus. This surplus could be utilized to achieve your important financial goals.

Systematic assessment of your Income and Expenses along with the key ratios is available in* Ultimate Financial Planner *application.

VI - Assessing your Assets and Liabilities

"It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for."

- Robert Kiyosaki

This activity involves listing down all the assets you own and all the liabilities you owe. The assets are broadly classified into Personal Assets and Investment Assets. Personal assets like Home and Home Contents (Goods, Furniture, Home Appliances, etc.), your business property, Vehicles, Ornaments, etc. are assets which you may not sell / liquidate to raise funds to fulfill your financial goals. The valuation of some of these personal assets may appreciate (E.g. House) or even depreciate (E.g. Vehicles) with passage of time.

Investment assets like Stocks/Shares, Bonds, Funds, Bank Deposits, Real Estate/Properties, etc. are assets which you may sell / liquidate if required to raise funds to fulfill your financial goals. Investment assets are bought with the motive to benefit from their appreciation in value so that they can be sold / liquidated at a profit as and when required. Further, investment assets are sub-classified into Debt, Equity, Gold, Real Estate and Alternative (Art, Antiques, Collectables, etc.) for better understanding of the type & nature of the investment assets.

The purpose of this activity is also to check your financial health by calculating ratios like Liquidity Ratio, Asset to Debt Ratio, etc. The Liquidity ratio compares the value of your liquid assets with your monthly expenses. It represents your ability to meet your monthly expenses in case of a financial emergency (E.g. loss of job, disability, etc.). Liquid assets are assets which can be easily sold to raise money. For E.g. You may not be able to easily sell real estate assets that you own but you could easily raise money from your bank account or redeem money from shares and mutual funds. Hence your investments in bank account, shares, mutual funds, etc. can be considered as liquid assets.

Asset to Debt ratio compares the total assets you own against the total outstanding liabilities. Ideally, the valuation of your assets should be more than that of your outstanding loans; then only will you have a positive Net Worth!

If the ratios are not favorable i.e. if you have less liquid assets (cash and cash equivalent investments) or higher liabilities than the assets you own, then corrective actions may be required to increase liquidity to avoid being cash strapped and also for reducing debt & increasing assets.

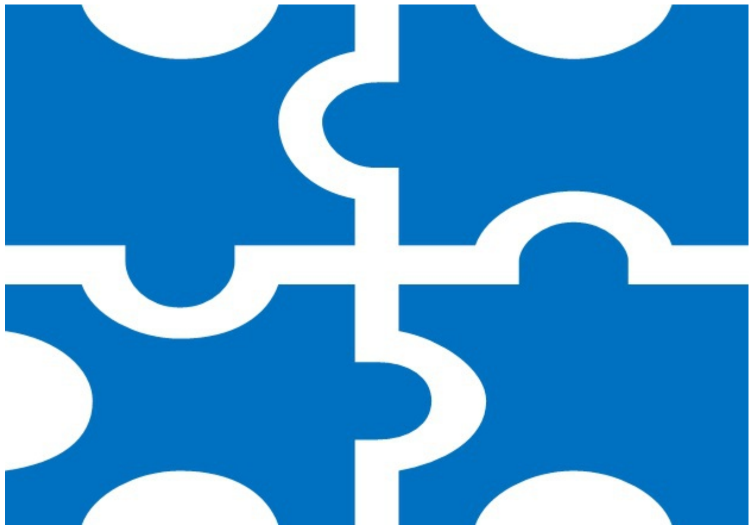
Illustrations	
Liquidity Ratio	**Asset to Debt Ratio**
Liquid Assets: 30,000	Total Assets: 500,000
Monthly Expenses: 10,000	Total Liabilities: 250,000
Liquidity Ratio: 30,000 ÷ 10,000 = 3	**Asset to Debt Ratio: 500,000 ÷ 250,000 = 2**

If you are salaried individual, it may be wise to maintain reserve funds equivalent to at least 3 months of your expenses. This reserve is known as **Contingency Fund** . These reserve funds can be parked in a bank account or liquid / money market mutual funds so that they may be accessed immediately whenever required. The contingency fund is maintained to support the living expenses of a family in case of an emergency situation like job loss, disability, etc. when the active source of income may be temporarily disrupted. It is important to refer to your monthly budget to assess your non-discretionary expenses like Food & Grocery, Bills & Taxes, Education Fees, Health Care, Loan Instalments, etc. to calculate the amount of contingency reserves required. For self-employed individuals, contingency fund required would be at least 6 months considering non availability of sick leave and other health benefits from the employer. In fact, for self-employed individuals, it is important to have a business contingency fund as well, to make payments towards rent of your office space, staff salary, utility bills and other fixed office expenditure.

If you have higher liabilities than the assets, then as discussed in the 'Assessing your Income and Expenses' chapter, you need to assess your loans and make consistent efforts to reduce your loans and invest your surplus in productive assets. Please refer the next chapter 'Managing Your Loans' for greater details on this topic.

Systematic assessment of your Net-Worth Statement along with the key ratios is available in Ultimate Financial Planner application.

VII - Managing your Loans



"If you're smart, you're going to make a lot of money without borrowing."

- Warren Buffett

There are different types of loans offered by financial institutions and it is important for us to understand these types for effective loan management. Broadly, loans can be classified as Secured Loans and Unsecured Loans. Secured loans are loans which are availed by providing your assets as collateral. E.g. Home Loan, Loan Against Property, Loan Against Stocks/Securities, Loan Against Bank Deposits, Loans Against Gold, etc. Unlike the Secured Loans, Unsecured loans are availed without providing any assets as collateral. E.g. Credit Card Loan, Personal Loan, Business Loan, etc.

Secured loans could be availed at a lower rate of interest as compared to the unsecured loans; reason being in case of default by the borrower, the financial institutions can recover the loan amount by selling off the security/collateral assets provided, whereas in case of unsecured loans, the risk for the financial institutions is high since the loan is not backed by any security/collateral assets.

Loan Pay-off priority

If you have high amount of loan i.e. your Debt to Asset ratio is high and/or if you have surplus funds then you need to consider paying off some of your loans. The interest charged on loan is your expense. Our aim is to reduce this expense hence the loan with higher interest rate needs to be paid off prior to that having lower interest rate. This implies that priority needs to be given to pay off unsecured loans wherein the rate of interest charged is high as compared to the secured loans.

Credit Card loans would tend to have highest rate of interest amongst any other loans you owe. The rate of interest charged on credit card loan would typically be 3 to 4 times higher than that charged on a secured loan. Repayment of credit Card loans needs to be given priority over any other type of loans. Subsequently, you may consider paying off other unsecured loans by doing prioritization basis highest rate of interest charged.

While paying off your secured loans, you need to consider the rate of interest charged on loans and compare this with the rate of returns your savings could earn if invested in suitable investment avenue. Also you need to check if there is any tax benefit available on your secured loan. Typically, home loans may tend to have tax benefits on the interest and principal component of loan repayment. Let us consider a couple of examples to understand this.

E.g. 1 If loan amount is 100,000, rate of interest is 9% and there is a tax benefit / rebate available on the interest amount paid on the loan of say 30% then the effective interest on loan would be only 6.3% (Calculations: 9% - 9% X 30%). If the expected rate of return on investment is 11% and the tax rate applicable for return on investment is say 20%, then the effective rate of return on investment is 8.8% (Calculations: 11% - 11% X 20%). Hence it would be beneficial to invest than to prepay loan.

E.g. 2 If loan amount is 100,000, rate of interest is 9% and there is a tax benefit / rebate available on the interest amount paid on the loan of say 30% then the effective interest on loan would be only 6.3%. If the expected rate of return on investment is 8% and the tax rate applicable for return on investment is also 30%, then the effective rate of return on investment is 5.6%. Hence it would be beneficial to prepay loan than to invest.

You may consider making use of following sources to pay off your loans

1. Monthly savings/surplus to periodically repay the outstanding principal amount (part prepayment of loan)
2. Annual Bonus and performance incentive
3. Investments that earn lower return than rate of interest charged on loan

4. Selling off an asset like second car, weekend house, etc. if not used frequently
5. If you have accumulated too much debt, you may consider borrowing from family and friends. Your friends may charge you some interest however if this interest rate is lower than the rate of interest charged on your existing loans then you would be certainly saving on interest cost.

Debt Consolidation for reducing interest rate and monthly instalments!

Debt consolidation is a financial strategy of merging multiple loans into a single loan that is paid off at lower interest rate and affordable monthly instalments. Debt consolidation is effective when you have multiple loans to repay and/or have loans with high interest rates. Debt consolidation will help reduce your hassles in tracking and managing multiple loans. Explained below are a few methods of debt consolidation that you may evaluate.

A) Credit Card to Personal Loan

If you have multiple credit card loans then certainly you are paying high interest rate on these loans. Additionally, keeping a track of multiple payment dates for different credit cards is also a challenge and there are chances of missing out on a payment. It would be beneficial for you to avail a Personal Loan to pay-off all outstanding credit card loans. The Personal Loan will have lower interest rate as compared to that charged on credit card. This shall help you in reducing your monthly cash outflow for paying loan instalments. If you are cash-strapped, then you may also negotiate a longer loan repayment tenure for the Personal Loan than your credit card loan so as to further reduce your monthly cash outflow for paying loan instalments.

Below illustration highlights the benefits of debt consolidation. Assuming credit card loan of 100,000 with annual interest rate of

24% and loan tenure of 24 months, the monthly instalment is 5,287. Availing a Personal Loan for repayment of Credit Card loan at annual interest rate of 16% and loan tenure of 36 months, the monthly instalment reduced significantly to just 3,516.

Loan Details	Values
Outstanding Balance on All Credit Cards	100,000
Credit Card Average Rate of Interest	24%
Credit Card Repayment Tenure (Months)	24
Monthly Instalment on All Credit Cards	**5,287**
Personal Loan Rate of Interest	16%
Personal Loan Repayment Tenure (Months)	36
Monthly Instalment on Personal Loan	**3,516**

B) Unsecured to Secured Loan

Secured loans like a loan against property can be availed at a much lower rate of interest as compared to the credit card and personal loans. If you have a property which is free from any mortgage or have investments in stocks/securities or gold, you can consider availing loan against these assets to pay-off your unsecured loans like credit card or personal loans. You would be able to save significantly on the interest cost by availing a secured loan for paying off unsecured loans. Besides, secured loans can be availed for a longer repayment tenure hence you would be able to repay loans at a much lower and affordable monthly instalments.

C) Loan Balance Transfer

If you are currently servicing a secured loan for e.g. say a Housing Loan then you may check for transferring this loan to a different lender. While transferring the loan, you need to negotiate for a lower rate of interest as compared to the existing rate of interest charged to you. This shall reduce your interest cost. Further, you can ask for a Top-up Loan as well if required. Based on the valuation of your property and outstanding balance of your loan amount, you would be eligible for additional loan. This additional / top-up loan being a secured loan can be availed at lower interest rate and can be utilized to pay-off your unsecured loans like credit card and personal loans.

Below is an example which highlights the benefits of doing a loan balance transfer and availing a Top-up loan to repay the existing Home Loan and Credit Card Loan. In this example, the monthly instalment of existing secured and unsecured loans reduces from total 19,622 to just 12,815!

Loan Details		Values
Loan 1	Outstanding Balance on All Credit Cards	100,000
	Credit Card Average Rate of Interest	24%
	Credit Card Repayment Tenure (Months)	24
	Monthly Instalment on All Credit Cards	**5,287**
Loan 2	Home Loan Amount	1,500,000
	Home Loan Interest Rate	8%
	Home Loan Tenure (Months)	180
	Monthly Instalment on Home Loan	**14,335**
	Home Loan Outstanding Balance	967,801
	Home Loan Outstanding Tenure (Months)	90
Debt Consolidation	Home Loan Balance Transfer	967,801
	Home Loan Top Up	100,000
	New Rate of Interest (Assuming same rate for Balance Transfer & Top-up)	7.75%
	New Loan Repayment Tenure (Months)	120

	Monthly Instalment on New Loan	**12,815**

Steps for Debt Consolidation

1. Evaluate the outstanding principal amount on your unsecured loans (credit card / personal loans)
2. Calculate the average rate of interest charged for all unsecured loans
3. Approach a financial institute for new unsecured / secured or loan Balance Transfer as the case may be
4. Negotiate for a lower rate of interest than your current average rate of interest to save upon your interest cost
5. Negotiate for a Top-up loan amount and its rate of interest in case of a Loan Balance Transfer
6. Negotiate for a longer loan repayment tenure to reduce your cash outflow on monthly instalments
7. Check for the fees charged for debt consolidation by new lender and also for any loan fore-closure charges by the existing lender if any

Tips for maintain good Credit Score to avail loans at lower rate of interest

- Do pay your loan instalments on time
- Do not default on your loans. If need be, you may renegotiate with your lender for a lower loan instalment amount by increase in repayment tenure.
- Do not over borrow. Maintain a lower Debt to Asset ratio.

- Do not enquire for loans with financial institutions unless you really need to avail one.
- Have a mix of secured and unsecured loans. Do not just avail unsecured loans.

Things to watch out for while taking a loan

- **Interest rate:** Enquire with a few banks / financial institutions and check for the rate of interest charged for your requirements. Negotiate with them and ensure that you are getting lowest interest rate available in the market.

- **Repayment flexibility:** In addition to the regular loan installments, check if your lender allows additional lump-sum repayments without any prepayment penalties. This flexibility would help you in repaying the loan ahead of time and thus help you save on the interest cost. You may use your performance bonus / incentives to repay the loan quickly.

- **Loan processing fees:** Check for the loan processing fees charged by the lender. The processing fee may be **a)** Fixed fee amount or **b)** Percentage of approved loan amount or **c)** No processing fee. Ensure that you do not end up paying higher loan processing fees.

- **Customer support:** Check if your lender provides you with an online access to your loan details. This will help you to easily keep a track of your loan account. Also check for dedicated service team to support you on phone and email should you have any queries of service requests related to your loan.

- **Know your budget:** Once you take a loan, you need to pay the monthly loan repayment instalments. Hence it is important to formulate a monthly budget so as to have a clear understanding of your monthly cash flows (cash inflow and outflow) and understand if you could comfortably repay the loan installments.

- **Ascertain your need for loan:** As discussed earlier, you need to take a loan which will help you build assets like a house loan rather than taking a personal loan to fund your expenses.

- **Debt-Income Ratio:** The standard rule of thumb states that your Debt to Income ratio should be less than 36 percent i.e. your monthly loan repayment amount needs to be less than 36 percent of your monthly income.

- **Pay off the debt with the high interest rate first:** You need to make efforts to pay off the loans like Credit Card on priority since these charge a high interest rate. This will help you save significant amount on interest repayment.

- **Answer the "What if" question:** Loan insurance plan is the best way to secure your family from any kind of loan liabilities in case of an unfortunate event. It is important to get a loan insurance plan while opting for a loan amount of higher value as in case of a house loan.

Robust Loan Consolidation Benefits module is available in Ultimate Financial Planner application.

VIII - Assessing your Insurance Needs

A – Life Insurance

Life insurance is essentially required to provide financial support to your dependents in case of an unforeseen eventuality. The purpose of a life insurance is to help a family to maintain its standard of living and also to provide financial stability in the event of untimely death of its earning member. Insurance is critical to make up for the income gap created due to death of the earning member of the family. However, it is very important to note that, just being insured is not enough; one also needs to be adequately insured. There is rule of thumb which states that, you need to have life insurance cover equal to 7 to 10 times your annual salary. However, each individual depending upon his financial commitments would have different life insurance requirements. Hence it is important to assess the life insurance requirements in a more structured manner rather than depending upon the rule of thumb.

Life Insurance cover requirement is assessed by estimating your family's future financial needs and subtracting the available funds from these needs. However, in this process of calculating and estimating the correct values of future financial needs, it is very important to consider the impact of inflation. So also one needs to consider the expected rate of return on investment and project the value of funds required for fulfilling future financial need. Thus assessing life insurance requirement is a multifaceted process involving various calculations. However, the activity of assessing life insurance requirement is very critical and needs to be completed before availing the life insurance plan.

The gap between required life insurance cover and existing life insurance cover available (if any) needs to be bridged by availing additional cover. Life insurance cover may be broadly classified into two categories; **a)** Pure Insurance and **b)** Investment cum Insurance. Pure Insurance cover (i.e. Term Insurance plan) provides sum assured to the policy holder’s family in the event of death of the policy holder during the policy term whereas investment cum insurance cover (e.g. Endowment plan) provides the sum assured in the event of death of the policy holder during the policy term **OR** provides insurance maturity benefit upon survival of the policy holder until the maturity of the insurance policy.

You may avail Term Insurance cover of a higher death benefit / sum assured at a very economical premium as compared with that of the insurance premium charged for investment cum insurance covers. The reason being, for an investment cum insurance cover, part of the premium is charged to provide life insurance cover and remaining portion of the premium is invested to provide insurance policy maturity benefit to the policy holder.

Key Concepts

Death Benefit: Death Benefit also known as Sum Assured is the amount of money that the insurance company guarantees to pay the nominees / beneficiaries in the Life Insurance policy upon the death of the insured person. The insured person needs to choose a required death benefit amount based on the estimated future needs of his dependents. The insurance company would assess the insurance proposal and further determine if there is an insurable interest and if the insured person qualifies for the coverage amount required based on the company's underwriting requirements.

Insurance Premium: Life insurance premium is the amount the insured person needs to pay to the insurance company either monthly or annually so as to ensure continuation of death benefit coverage. The insurance company will remain obligated to pay the death benefit only if the required amount of insurance premium is paid on time. Factors that typically influence the life insurance premium are insured person’s Age, Occupation, Medical History, Lifestyle, Habits, etc. Insurance Premium are determined basis the actuarially based statistics. The insurance company will determine the cost of insurance i.e. the amount required to cover mortality costs, administrative fees and other policy operational and maintenance fees.

Life Insurance Riders:

Most of the insurance companies provide option to policyholders for customize their policies by including additionally benefits with the help of Riders. Below are a few common Riders available along with a life insurance policy.

Accidental Death Benefit : The accidental death benefit rider provides additional life insurance coverage in the event the insured person's death is caused due to an accident.

Waiver of Premium : The waiver of premium rider ensures the waiving of future premiums payable to the insurance company if the policyholder becomes disabled and is unable to work.

Disability Income : The disability income rider pays monthly income to the insured person in the event the person becomes disabled. This rider may provide relief to the insured person when he / she is unable to work and active source of income ceases.

Accelerated Death Benefit : Upon diagnosis of a terminal illness, the accelerated death benefit rider allows the insured person to receive a predefined portion or death benefit prior to his / her death. This helps the insured person to support the cost of treatment required for critical illness.

B - General (Non-Life) Insurance

Apart from the life insurance cover, you need to also check if you have availed appropriate General (Non-Life) insurance cover to protect yourself from major financial losses. Individuals typically require following types of General Insurance plans.

Health Insurance Policy:

In case of any health issues requiring hospitalization & medical expenditure, the Health Insurance Policy provides you and your family, coverage against such costs. Health insurance can either reimburse the medical costs incurred by insured person for treatment of illness/injury or provide cashless hospitalization facility i.e. pay directly to the hospital.

It is critical to have a health insurance policy in place. Medical treatment is costly and can cause a lot of financial strain in case if you are uninsured or underinsured. You need to consider your family's medical history and get a suitable health insurance cover of adequate value after due consultation with your insurance advisor / broker. Having health insurance policy in place could help you get the required medical facilities without much worry of the costly medical procedures.

Health insurance policy are primarily of two types; one which provide protection to an individual and other which provides protection to the family. The individual health insurance policy provides benefits to only a single insured person however in a health insurance policy which provides benefit to family, all the registered family members shall be insured collectively by the single policy up to the total insurance sum assured amount.

Health insurance companies typically have a network of designated hospitals. The treatment costs and other hospitalization costs are pre-negotiated by the health insurance companies with these network hospitals. Some of the health insurance policies may require the insured person to avail medical facilities at the network hospitals for cashless and full settlement of claim amounts.

At the time of hospitalization, the insured person needs to inform the insurance company for authorization of claim. The medical reports, invoices and other relevant documents may also be required to be submitted to the insurance company for getting the claim approved.

Key Concepts

Deductible: This is a fixed amount which the insured person must pay from his own pocket before the health insurance benefits begin to cover the medical costs. For e.g. if there is a deductible of say 500 then the claim amount up to 500 needs to be paid by the insured person and amount above 500 shall be paid by the insurance company.

Copayment: A copayment or copay is a fixed amount that the insured person needs to pay on his own from the total claim amount.

This may be denoted as percentage. For e.g. 10% copayment refers to out of total claim amount, 10% amount shall be paid by the insured person and balance 90% shall be paid by the insurance company.

Expense Capping: Health insurance policy may have capping of certain expenses like the charges of Ambulance, Room charges, etc. For such expenses having expense capping, the charges over and above the capping limit need to be paid by the insured person.

Top-up: Insurance top-up policy provides additional health insurance cover to the insured person. Once the existing i.e. the base health insurance sum assured is exhausted, the Top-up policy cover is utilized. Top-up policy could be purchased at a much lower premium as compared to the base health insurance policy.

It is important to carefully check the following factors while availing Health Insurance policy:

- Check if the policy provides Cashless Hospitalization or Reimbursement of expenses
- Check if the network hospital list is exhaustive and has reputed hospitals included
- Check if the plan is guaranteed renewable
- Check if the policy requires compulsory hospitalization or even Day Care procedures are covered
- Check what expenses are covered by the policy and what expenses are not
- Check if the policy covers existing diseases & aliments and if not covered immediately, then after how many months shall these be eligible to be covered under the policy benefits
- Check if lifestyle / age-linked ailments related to eye, dental, etc. are covered
- Check what are the deductibles and co-payments applicable
- Check if there is any capping on expenses like Room Charges, Ambulance Charges, etc.

Motor Insurance Policy:

Motor insurance provides financial coverage against physical damages to the vehicle resulting from traffic collision and against liabilities that could arise there from. Motor insurance may additionally offer financial protection against theft of the vehicle and possibly damage to the vehicle due to riot, strike, earthquake, flood, storm, etc. The motor insurance premium amount vary depending upon model and price of vehicle, vehicle owner's age, gender, years of driving experience, accident history, traffic rules violation history, etc. Similar to that of a health insurance, there may be Deductible applicable in motor insurance policy wherein the insured person would require to pay a small fixed amount from his own pocket before the insurance benefits begin.

Over the years, the value of vehicle depreciates. Some motor insurance policies may have Zero Depreciation feature. In a policy without Zero Depreciation feature, the insurance company shall assess the damage to vehicle assuming the depreciated value of vehicle thus resulting into lower claim amount approval. However with the Zero Depreciation feature included, the claim would be assessed considering no depreciation thus resulting into higher claim amount approval.

Apart from the financial cost of such damage to the vehicle, one of the most significant features of the motor insurance policy is the Third Party Insurance coverage. It covers the vehicle owner / driver against claims for liability in respect of the death or injury to other people caused by the fault of the owner / driver. It covers the cost of all reasonable medical treatment for injuries received in the accident, loss of wages and also in some cases compensation for pain and suffering. In many countries motor insurance is mandatory by law. Hence you need to avail and also periodically renew the motor insurance policy so as to avoid policy getting lapsed.

Home Insurance Policy:

Home insurance typically covers the risk of your home and its contents being damaged due to fire, earthquake, theft, flood, etc. Home would certainly be one of your biggest assets and in case of any incident, home insurance policy would provide significant relief to make up for the financial loss. If your home is not insured, it would be prudent to get the appropriate insurance cover since the financial losses in case of an incident could be significant and could erode lot of your hard earned money.

Following home contents can be typically protected with the help of home content insurance:

Household Content: Furniture, Kitchen & Bathroom Fixtures, Kitchen appliances like Oven, Toaster, Induction Cook Top, etc. and Home appliances like Television Set, Refrigerator, Air Conditioner, Washing machine, etc.

Electronic Equipment: Mobile Phones, Laptop, Tablet, Digital Camera, etc.

Jewelry and Valuables: Gemstones, Silver, Gold, Platinum

Travel Insurance:

Travel insurance provides protection to the insured person against losses associated with traveling for self, family or for business trip. Travel insurance could be availed by those traveling domestically or abroad.

Travel insurance typically provides following protection:

- Delay or Loss of baggage
- Loss of personal property
- Trip delay and cancellation

- Medical expense coverage
- Accidental death coverage
- Flight accident coverage

Many times travel insurance could be availed while booking the travel; if not, it could be availed separately from insurance companies as required.

Professional Indemnity Insurance:

Professional Indemnity Insurance also popularly known as Professional Liability Insurance is a type of business insurance. It provides protection to professionals like doctors, accountants, lawyers and any other professional consultants against claims initiated by their clients.

Typically, professional indemnity insurance policy would indemnify the insured person against loss arising from claims made due to error, omission or negligent act committed in the conduct of the insured person's professional business.

Thus, it may be wise for professionals, providing consultation and advisory services to their clients, to avail protection with the help of a Professional Indemnity Insurance cover.

Other Insurance Policies:

There are other insurance policies available like **Disability Insurance** and **Accident Insurance** . A Disability Insurance policy helps you in replacing your income in case of any incident or health related issue occurs causing disability. As a rule of thumb, you need to have a cover which replaces at least 60% of your income. An Accident Insurance policy provides the policy holder sum assured in case of an accident or permanent disability. Depending upon your medical condition and profession, you may choose to avail of these policies as required upon consultation of your insurance advisor / broker.

Things to look out while availing insurance

- Check if your employer provides Life & Medical Insurance and if yes, do check the Sum Assured of these insurance policies. Consider this while availing additional insurance cover.

- Do not go for insurance company only basis lower premium charged for providing insurance cover. Select reputed insurance company by evaluating the Claim Settlement Ratio; higher the Claim Settlement Ratio more likely that your claim would be honored by the Insurance Company. Do check for customer reviews if available on any consumer forums.

- Do not hide any facts while availing any insurance cover. For e.g. Habit of consumption of Tobacco & Alcohol, any pre-existing disease, any surgery or any other medical history, etc. Your claims are likely to be rejected in case if the insurance company identifies that you have concealed any facts.

Note: Key concepts related to Life and General Insurance are explained in this book. You may consult your insurance advisor / broker for availing appropriate type of life, health, motor and other insurance cover as required.

A complete module for calculation of life insurance needs is available in Ultimate Financial Planner application. This module would help you

determine your life insurance needs keeping into consideration financial needs of your dependents, other financial commitments, existing financial resources and available life insurance cover.

IX - Financial Goal Planning

“Plan for the future because that is where you are going to spend the rest of your life.”

– Mark Twain

A - Introduction to Financial Goals

Goals are by definition long-term descriptions of a future condition. Goal is like a ‘dream with a deadline’. Whether big or small dream, each goal needs to be planned for and achieved. Financial goal planning is one of the most critical steps and must be done thoughtfully and carefully. It is important to understand that the entire activity of financial planning is carried out solely for fulfillment of your financial goals and objectives.

It is recommended that the process of goal setting should be carried out along with all family members to ensure you have listed down a complete list of desires, aspirations, needs and wants of all family members.

With reference to the involvement of family members in goal planning, I would like to emphasis importance of sharing financial details with your family members. Many times it is observed that the individuals do not share financial details with their family members. As an example, a working couple would have their individual investments, insurance and loans which they could have missed to inform each other. A homemaker might not have any knowledge about the financials of her working spouse. Imagine a scenario wherein a person meets with an accident and his partner is not aware about the insurance policy details OR If there is any financial emergency and family members are not aware how they could access the emergency fund. Hence, it is important to keep all the financial documents & details properly organized in a folder or a file.

Furthermore, the family members need to be informed about the features and benefits of various investments, insurance and loans that you have availed along with their maturity / renewal dates. They also need to have access to these financial documents & details just in case if it is required in your absence.

Moving back to the financial goals, each goal should have following key specifics: Present value of goal, Time period to achieve the goal, Inflation Rate and Rate of Return on Investment. These key specifications are explained below:

- **Present Value of the goal** – The amount required to fulfill a goal in today's cost i.e. the amount required if you were to fulfill the goal today

- **Time period to achieve the goal** – Number of years after which you plan to achieve the goal

- **Inflation Rate (Assumption)** – Inflation is the rate at which the price of goods and services increases. E.g. If the cost of a product is 100 and it increases to 105 in a year, then the inflation is 5%.

Different goals may require different rate of inflation to be assumed. E.g. Rate of inflation to be assumed for purchasing a car would be different from the rate of inflation to be assumed for purchasing a house or for children education, etc. You may choose to assume inflation rate based on your own past experience. Alternatively, a standard inflation level is calculated for each country, considering the average price increase in various goods and services. It is best to assume this inflation level while planning for your goal if you are unsure about the specific level of inflation to be assumed for your financial goals.

For your convenience, the current inflation rate specific to each country is provided in the Ultimate Financial Planner application!

- **Rate of Return on Investment (Assumption)** – A probable rate of return needs to be estimated, basis the asset allocation planned to be done, for achieving the corpus required to fulfill the financial goal. You may choose the asset allocation considering the following parameters.

  1. Your financial risk profile
  2. Time period to achieve the goal
  3. Rate of return required to achieve the goal

  The asset allocation strategies are explained in detail further in the 'Asset Allocation' chapter of this book. However, it is important to note that each asset class and investment products tend to provide different rate of returns in various countries. Hence, it is highly recommended that you consult with your Investment Advisor / Broker for finalizing the asset allocation and identifying the suitable investment products.

To estimate the rate of return easily, a return estimator tool in provided in Ultimate Financial Planner application. Assuming the rate of returns on investment and basis the percentage of equity and debt asset classes chosen in your asset allocation, you may estimate the probable rate of returns your investments could earn!

B - Creating Time Buckets

After you have completed listing your goals, this list needs to be divided into three different time buckets viz. Short Term Goals, Medium Term Goals and Long Term Goals. As an example, Short Term Goals could be for a period of up to 5 years, Medium Term Goals could be for period between 5 to 15 years and Long Term Goals could be for a period above 15 years. A few examples of financial goals in each of the time buckets are given below:

Short Term Goals (within the next 5 years)

1. A family vacation
2. Purchase or upgrade of a car
3. Purchase of a new devices like television set, mobile, laptop, etc.

Medium Term Goals (within the next 5-15 years)

1. Buying of a new residential property as the family size grows
2. Higher education fees of your children
3. Marriage expenses of your children

Long Term Goals

1. Buying a vacation/retirement home
2. Planning your own retirement

Classifying your financial goals into different time buckets will help you formulate different asset allocation basis the duration of goals if need be. For e.g., in order to achieve short term goals, you may choose to invest into conservative investment avenues like bonds, debt mutual funds, etc. while for long term goals, you may choose to make investments into aggressive investment avenues like stocks/shares, equity mutual funds, etc. The reason for such an approach towards asset allocation is that equity investments tend to be volatile during the short period but are capable of delivering higher returns as compared to the conservative investments in the long run. However, for ease of calculation and convenience of manage your investments, you may also choose to maintain a common asset allocation (Debt & Equity Investments ratio) for all your financial goals irrespective of their time bucket. We shall discuss the asset allocation strategies and rationale in the 'Asset Allocation' chapter ahead in the book.

C - Goal Financing

A financial goal can either be financed by drawing from your savings and investments or by taking a loan. Smaller financial goals like vacation planning, purchase of ornaments, kids school education, etc. can be financed with the help of your own savings and investments whereas a few of your bigger financial goals like purchase of a car or house may require your own funds as well as financing from loan. Hence as per your requirement, you may opt for a loan to finance for the shortage of funds required to achieve your bigger goals. However, it needs to be noted that availing loan will add cost of loan repayment and will reduce your monthly surplus to the extent of your monthly loan installment, until the loan tenure of the said loan is over.

D - Goal Feasibility and Prioritization

Goal Feasibility

Post listing of all goals and placing them in each of the time buckets, we need to evaluate if it is feasible to achieve all the stated financial goals. Feasibility check could be done as follows:

- Calculate the future value of each of your goals (actual amount required to achieve your goal) basis the rate of inflation assumed
- Calculate monthly/yearly amount required to be invested for achieving your goal basis the rate of return on investments assumed
- If the amount required to be invested to achieve all your financial goals is more than your surplus, then this indicates that a few of your goals may not feasible as of

now. Hence you need to prioritize your goals. The concept of goal prioritization is explained ahead in this chapter.

- Post goal prioritization, you need to start saving and investing systematically to accumulate the required corpus to achieve your goal

Illustration of a financial goal:

If you have a goal to purchase an asset which costs (Present Value) 100,000 now and the expected annual increase in its cost (Inflation) is 5%. The expected rate of return on the investment you may do to accumulate the required corpus to achieve this goal is 7% and the goal is scheduled to be achieved after 5 years from now. In this case, the cost of asset (Future Value) after 5 years from now will increase to 127,628 and you will need to do an annual investment of 22,193 or a monthly investment of 1,783 to accumulate the corpus of 127,628 in 5 years.

The amount required to be saved annually for achieving your financial goals will be given in the detailed financial planning report as you plan for your financial goals with the help of Ultimate Financial Planner application.

If the sum total required to be saved each year to achieve all your financial goals is more than your annual surplus, then you need to relook at your monthly financial budget. Check if it is possible to reduce some of your discretionary expenses to elevate your surplus. Try out a few **Do's and Don'ts** listed in the 'Monthly Financial Budgeting' chapter. Even after performing these activities, you may find a shortfall in the required surplus. In this case you need to prioritize your goals which can be explained as follows.

Goal Prioritization

As you plan for your financial goals, you may realize that your surplus may not be sufficient to achieve some of your financial goals. In this case you need to priorities them. Goal prioritization involves ranking the goals as per their importance and giving priority to the important goals. The lesser important goals could be postponed or modified or even cancelled. E.g. Funding for children education is an important goal but purchasing a vehicle or vacation planning is relatively a lesser important goal. Hence you may need to postpone or modify or even cancel some of the lesser important goals.

Examples:

1) You may consider purchasing vehicle of different make / brand which may cost you lesser and the money that is saved may be utilized for important goals.
2) You may consider going on vacations alternate year instead of every year to save funds for important goals. You may consider booking your travel & accommodation a few months in advance, use an economical mode of travel and stay is budget hotels to save upon the vacation cost.
3) You may consider postponing lesser important goals like buying ornaments / vehicle, etc. and allocate funds for more important goals like children education, retirement planning, etc.
4) If a choice needs to be made between two critical goals like children's higher education and buying a house then probably you may opt for availing education loan for children in future as per the requirement and give more priority at present for saving for your house. As your children complete their studies and have stable employment, repaying the education loan may not be much of a challenge for them.
5) Buying your own house would be one of your most important financial goals. This is a long term goal and requires significant financial commitment. In case if you find that, along with your other financial goals, you do not have sufficient funds to save for down payment and/or pay for monthly instalments of your house then you may consider following alternatives:

    a. Rent a house instead of a buying one, until you have more financial resources available
    b. You may choose to buy house in suburbs wherein the property rates are lower as compared to the prime location

c. Buy a smaller house which fits your budget instead of a big house

You may find it difficult to make alterations and prioritize your financial goals, but this is the reality of life. You have a finite amount of financial resources and with those resources, you have to plan to achieve the maximum amount of goals. You and your family need to together understand this critical aspect of financial goal planning. To make goal prioritization simpler, you may classify your goals into needs and wants. As stated in the ‘Monthly Financial Budgeting’ chapter, needs signify something which you and your family cannot do without. Hence you may choose to give priority to your goals classified under needs and keep your goals classified under wants on hold until you have more financial resources available to achieve these goals. As your progress in your professional life, you will definitely have more financial resources to fulfill such goals.

After completing the entire financial goal planning process, you would have a relatively clearer picture of what you want to achieve as a family and how is it realistically possible to achieve most of your goals. Some goals may get scaled down or postponed in the process however; there is no reason to be disheartened. You need to make consistent efforts to manage your expenses so that you are able to generate good amount of surplus for saving and investing for your financial goals. The key is to start saving for your goals early. More the time available to accumulate the funds for achieving your goals, less the monthly/annual investment amount required. Also as you progress in your professional life and get higher increments and incentives, you would be in a position to achieve some of the goals that were not feasible earlier.

This entire process is a journey of a lifetime and while you may have some punctures along the way, you and your family will be prepared for them well in advance and have a thoroughly wonderful and enjoyable trip.

A comprehensive financial goal planning module is available in the [Ultimate Financial Planner] application to plan for your goals. Asset allocation specific to your financial goals is also provided for your reference. You may performing multiple iterations before you finalize your goal planning activity.

X - Retirement Planning

Retirement planning is one of the most critical goals that you would have and you certainly could not afford to miss out on achieving this goal. Retirement planning involves ensuring a regular flow of income from your investments during your golden years of retirement when the income from active sources like your job / profession ceases.

To enjoy these golden years, you need to systematically plan and save funds to achieve your retirement corpus, which will be the source of your regular income during the retirement. Below are the key steps involved in the process of retirement planning:

1. Estimate the amount of regular flow of income required during retirement. In order to estimate this, you may consider your current expenses as a starting point. Reduce some of the expenses like office commutation / business travelling and other discretionary expenses if you feel that these expenses would be lesser post retirement. You may want to add additional medical / health care expenses, any expenses related to hobbies you would like to pursue, etc.

2. Estimate rate of inflation and expected rate of return on your investments.

3. Calculate the future value of regular flow of income required during retirement, considering the impact of inflation.

4. Calculate the corpus required to be accumulated at the time of your retirement to fund the regular income needs.

5. Calculate or assume the amount of pension / social security benefits (if applicable) that you are likely to receive at the time of retirement.

6. Calculate the monthly / annual savings required to achieve the shortfall in retirement corpus. Here shortfall in retirement corpus is calculated by reducing the amount of

pension (step 5 above) from the total Retirement Corpus required (step 4 above).

The earlier you start your retirement planning process, the better are your chances of enjoying a comfortable retirement and perhaps even enjoy an early retirement! Given below are illustrations which demonstrate how starting the retirement planning process earlier, could help you comfortably achieve your goal of retirement planning.

Case 1 - Consider your current age as 40 years, you plan to retire at the age of 60 years and you assume your life expectancy to be 85 years. You estimate that your annual income requirement post retirement in today's cost i.e. without considering the impact of inflation is 100,000. You estimate inflation to be 5% and rate of return on investment to be 6%. The value of annual income requirement of 100,000 at the time of retirement will increase to 265,330 due to the impact of inflation and to fulfill this, you will need to accumulate a retirement corpus of 5,933,914 at the time of your retirement. For achieving this retirement corpus, you need to invest **161,311** annually or **12,843** monthly from now on.

Case 2 - Consider your current age as 50 years, you plan to retire at the age of 60 years and you assume your life expectancy to be 85 years. You estimate that your annual income requirement post retirement in today's cost i.e. without considering the impact of inflation is 100,000. You estimate inflation to be 5% and rate of return on investment to be 6%. The value of annual income requirement of 100,000 at the time of retirement will increase to 162,889 due to the impact of inflation and to fulfill this, you will need to accumulate a retirement corpus of 3,642,908 at the time of your retirement. For achieving this retirement corpus, you need to invest **276,380** annually or **22,229** monthly from now on.

Thus it can be seen that starting retirement planning at the age of 50 instead of 40 could increase the savings required to accumulate the retirement corpus significantly, making it difficult to achieve your retirement planning goal.

Financial pointers:

- Start saving and investing regularly for your retirement on high priority if you have not yet started this activity.
- If you still have long time for retirement (more than 15 years), you may consider allocating higher proportion of investments in equity asset class to boost your long term rate of return if your risk profile permits.
- As you near your retirement, you may gradually shift your investments from riskier investment assets like stocks or equity mutual funds to safer and less volatile investments like bonds or debt mutual funds to avoid any capital erosion.

Worst Case Scenario:

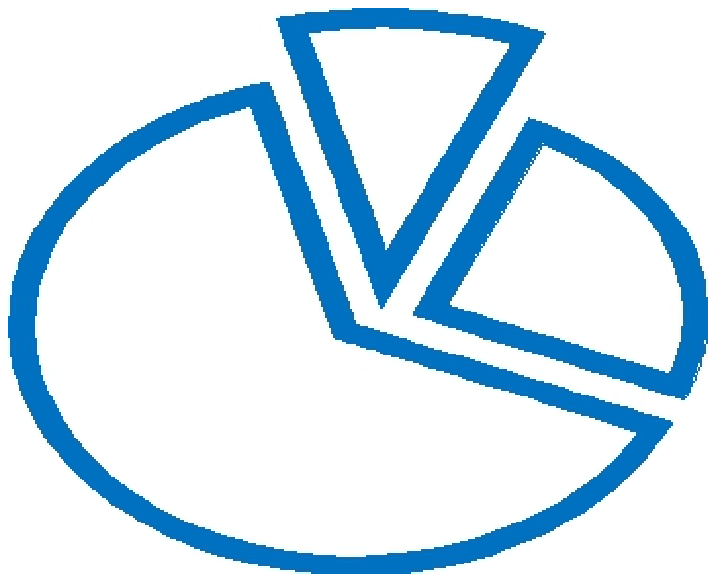
- In a situation wherein you fall short of retirement corpus and in case if you have a big house, you may consider renting out some space from your house to generate additional cash inflow.
- You may also consider selling the big house and moving into a smaller house. Small house could also be easy to manage and would also incur lower maintenance costs. You may use the additional funds gained from shifting the house to fund your retirement.
- If you live in a big city, post your retirement, you might consider shifting to a smaller town wherein the housing and cost of living could be more affordable. E.g. In my case, I

would love to move to my native town post my retirement to avoid big city rush and enjoy calm & peaceful retirement!

- If you are not able to accumulate the required retirement corpus, then as a last option, you may consider reverse mortgaging your house to a bank / financial institution and earn a fixed amount of periodic income on this deal.

A detailed retirement planning module is available in the Ultimate Financial Planner application to help you plan systematically for a comfortable retirement.

XI - Asset allocation



“Do not put all your eggs in one basket.”

– Warren Buffett

People don't plan to fail; they just fail to plan. It is commonly observed that most of us invest our savings without having any specific financial goal in mind other than the primary objective of getting higher returns. The process of investments gets more focused if it is driven by an objective that needs to be achieved within a stipulated period of time. Also, as we define a time period for the goal and make the financial investments accordingly, it is easier to decide the investment avenues and handle the volatility of the investment portfolio in the interim period.

Let us take a simple example to explain this. Your trip to the office every day is usually short and the entire morning is well planned around it. A puncture of tyre on the way is extremely frustrating as it throws out of gear your daily set routine. Now, if you plan to travel to another city and the trip is of a few hours, a puncture of tyre on the way is lot less frustrating and you usually take it in your stride. In a completely different scenario, if you were embarking on a family vacation that involves a road journey of many days, you will actually prepare yourself in advance for a few punctures and make sure that you have the necessary equipment to fix it yourself in the event you find yourself stranded with a puncture in the middle of your journey.

We can also plan for our financial goals in a similar manner. The shorter term goals would require more stable investment products like bonds, bank deposits, etc. which have a much higher degree of certainty of achieving them (avoid puncture as explained in above example) and the longer term goals can have an investment strategy of slightly higher risk investment products like stocks / shares, equity mutual funds, etc. as longer the period of investment, the greater the probability of the interim volatility getting evened out (prepare yourself for a few punctures as explained in above example).

Asset allocation is an important part of managing your surplus (savings & investments). Asset allocation essentially means allocation of money across various asset categories like debt, equity, gold, real estate, etc. in order to achieve future financial goals. Further, in order to make the investment, it is important to identify investment instruments (products) available for investment under these asset categories. Following are few of the investment instruments typically available for investments:

Asset Category	Investment Instruments	Features
Debt	Bonds, Bank Deposits, Debt Mutual Funds	Lower but steady returns as compared to Equity investments
Equity	Stocks & Shares, Equity Mutual Funds	Higher but volatile returns as compared to Debt investments
Gold	Direct purchase of gold, Gold Mutual Funds, Gold Bonds	Provides hedge to your portfolio when economic situation is uncertain
Real Estate	Direct purchase of real estate, Real Estate Mutual Funds	Suitable if you have goals like purchase of real estate property like house, land, etc.
Alternative	Art, Antiques, Collectables, etc.	Investments may not be liquidated easily and returns are unpredictable. Suitable only for seasoned investors in this category.

The investments that you choose need to be aligned with your financial risk profile and also with your financial goals. If you are a risk-averse investor, you should avoid having higher exposure to equity investments as equity investments tend to be volatile in the short-term but have potential to deliver high returns in the long term and rather invest more in Debt asset class which generates lower but steady returns. Asset allocation also depends upon your financial goals. Each goal may require different asset allocation depending upon the type of goal and the duration of goal. Below is an example of asset allocation wherein long term goals has higher equity allocation as compared to short term goals.

Financial Goal	Time Horizon	Asset Allocation	
		Debt	Equity
Retirement Planning	20 Years	30%	70%
Children Higher Education	10 Years	40%	60%
Vacation Planning	5 Years	70%	30%

Below are a few tips for formulating asset allocation based on your financial goals:

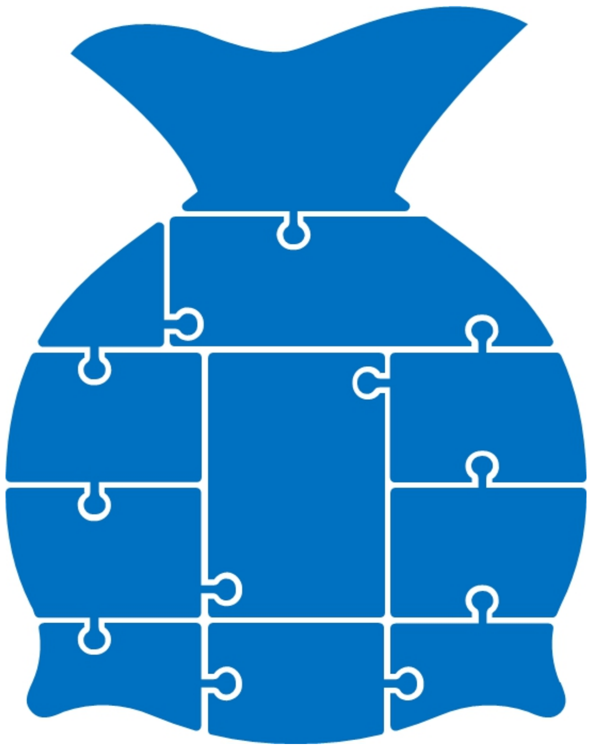
- If you have a short-term goal (to be achieved within 5 years), it is wise to allocate only small portion of your investments in equity and majorly invest in debt asset class, since equity markets tend to be volatile in the short term.
- If you have a medium-term goal (to be achieved within 5 – 15 years), you may allocate your investments to have a balanced portfolio of equity & debt investments to match your risk profile & return estimates.
- If you have a long-term goal (to be achieved after 15 years), you may allocate a higher percentage of your investments into equity and small percentage in debt investments for this goal, since considering historical performance, in the long-term, equity investments may provide better returns as compared to debt investments.
- As you approach closer towards achieving your goals, in order to reduce the portfolio volatility, it may be good to taper your equity allocation by periodically shifting your equity investments to debt investment for this goal. E.g. if

you hold 30% in equity and 70% in debt investments, as you approach nearer to achieving your goal, you may shift your equity allocation of 30% in 3 steps (10% in each step) periodically into debt investments.

Note: The above tips are only for your reference and should not be construed as investment advice. Each investment needs to be thoroughly assessed based on global as well as on the domestic economic conditions before making any investment decisions. Also, different investment products may have different rules of taxation applicable. Hence it is highly recommended that you take advice from your investment advisor/broker before making any investments.

The Ultimate Financial Planner application provides sample asset allocation in debt and equity asset classes, based on your financial risk profile for short, medium and long term financial goals. It also provides, Portfolio Return Estimator tool to formulate your own asset allocation and simulate the rate of return the portfolio could earn.

XII - Mutual Fund Basics



Mutual funds is one of the best investment avenues available for individual investors to create a diversified portfolio across Debt and Equity asset classes. Hence including basics of mutual funds for your easy reference. Mutual fund is a type of investment vehicle which consists of a pool of money contributed by many investors collectively. Mutual Funds are managed by professional fund managers who invest the pool of investor money into various stocks, bonds, money market instruments and other such investment avenues with the core objective of generating profit from the investment. Each Mutual Fund scheme has a defined investment objective as stated in the prospectus, basis which fund manager structures the investment portfolio. The fund manager with the help of a team of investment analysts, does thorough research of various investment avenues and carefully structures the investment portfolio to mitigate investment risk and generate optimum returns. Thus, with the help of mutual funds, individual investors gain access to well researched and professionally managed portfolios of equities, bonds and other investment avenues.

Mutual fund investors are typically referred to as Unit Holders OR Share Holders and the Units / Shares are allocated to the investors as per the amount invested by the investors in mutual fund scheme. The price of Units / Shares of mutual fund is called Net Asset Value i.e. NAV. The NAV is calculated by dividing the total Value of Investment Portfolio by Number of Outstanding Units. Outstanding Units means the total count of units held by various investors in the mutual fund scheme. The mutual fund NAV is typically calculated at the end of the business day and it does not change at every tick like the price of a stock. Hence the investors can make new investments or redeem existing investments in the mutual fund at the current NAV applicable.

Even with a small investment amount, the mutual fund investor can get benefits of investing into a diversified investment portfolio which would not be possible if invested individually. For e.g. Assume an investor has investible surplus of 1000. He purchases stock worth 1000 of a particular company and after a few days the stock price falls due to the company results show a decline in its profits. The fall in stock price would adversely impact the investor however the impact would not be that severe if he would have invested 1000 in a Mutual Fund; reason being typically a mutual fund invests in a hundred different stocks and hence the impact of underperformance of one stock is compensated by good performance of another stock in the mutual fund portfolio.

Thus, with the help of mutual funds, investors can invest their savings and get benefit of professionally managed investment portfolio so as to generate risk adjusted & optimum returns on their investment.

Mutual Fund Performance

Typically, mutual fund returns are derived due to following three attributes:

1) Sector Allocation: Mutual Fund managers take a detailed view of Macro Economic Outlook and thus they are able to evaluate the growth prospects of a various sectors in the economy. Allocation of funds to such sectors which demonstrate future growth prospects help in contributing to the returns of mutual fund schemes.

2) Stock Selection: Once the sector for investment is identified by the mutual fund manager, it is important to select good stocks in that particular sector for investing the pool of money. Investing is good quality stocks i.e. which demonstrate strong fundamentals and growth prospect help in contributing to mutual fund performance.

3) Portfolio Churning: This is the skill of mutual fund manager to buy the stocks at lower price and sell the stocks at higher price. Buying stocks at lower price and selling at higher price generates profit for the mutual fund scheme. Thus, portfolio churning also contributes to the returns generated by mutual funds.

The mutual fund investors generate returns on their investments via following methods:

1) Increase in NAV: As the value of underlying assets i.e. investment securities increase, the NAV of mutual fund units / shares also increases. The increase in value of NAV of mutual funds results in increase in valuation of mutual fund portfolio of investors.

2) Dividend Pay-out: Mutual Funds periodically declare dividends so as to enable investors, encash from the profits from the mutual fund investment portfolio. The dividend pay-out could be in form of cheque or reinvest the dividend amount and get more units / shares allotted. However, it needs to be noted that the NAV of mutual fund unit decreases proportionately to the dividend pay-out done by mutual fund. For e.g. If Face value of mutual fund Unit / Share is 10. Current NAV of this mutual Fund is 14 and dividend of 40 percent is declared on the face value of 10. Then dividend of 4 would be paid to the investor and NAV shall proportionately reduce from 14 to 10.

3) Bonus: When the NAV of mutual fund increases, mutual funds may declare bonus so that the number of units held by the investor increase. For e.g. If NAV of a mutual fund is 20 and a bonus of 1:1 is declared, then for each mutual fund unit / share held the investor will earn one additional unit however in such a scenario the NAV shall reduce proportionately i.e. from 20 to 10 in this case.

Types of Mutual Funds

There are various types of mutual fund categories available to suit investment objectives of different types of investors. Basis the kind of investment securities held in the mutual fund portfolio, we could broadly classify the mutual funds into two major categories viz. Equity Mutual Funds and Fixed Income Mutual Funds. As the name of these category suggests, Equity Mutual Funds are type of Mutual Funds which invest predominantly into the Equity Shares i.e. Stocks of various Government and Private Corporations whereas Fixed Income Mutual Funds (also known as Debt Funds) invest into Bonds, Money Market and other debt investment securities issued by Government, Banks and Private Corporations. These two broad categories of mutual funds could be further classified in various sub-categories, some of which are explained below.

I - Equity Mutual Fund

This is the most popular type of mutual fund wherein retail investors typically invest into. Equity mutual funds invest the money pooled by the investors into well researched shares / stocks of government and private companies. The core intent of fund manager is to select stocks of such companies which display good profits and have reasonably lower price. Investing in stocks of fundamentally strong company results in gradual rise in its price and thus increases the NAV of mutual fund over a period of time.

Equity Mutual Funds could also be further classified depending upon the market capitalisation of the shares it invests into. Market capitalisation is the total value of all outstanding shares of the company. Market Cap can be calculated by multiplying Total Number of shares outstanding by Current Value of each share. For e.g. If price of share is 10 and total outstanding shares of the particular company in market are 10,000 then the Market Cap is 100,000 (10,000 X 10).

Basis the market cap of company, it can be classified as Large Cap, Mid Cap or Small Cap. The amount of market capitalisation required to qualify for Large Cap, Mid Cap or Small Cap varies from country to country however, sharing below the global definitions:

- Large Cap - $10 billion or more
- Mid Cap - $2 billion to $10 billion
- Small Cap - $300 million to $2 billion

Large Cap Funds: These funds typically invest in shares of large and well-established companies. The financial risk involved in investing in such funds is lower as cash flow and profits of large companies are stable. Investors can expect stable but somewhat lower returns as compared to Mid or Small Cap funds in the long term.

Mid Cap Funds: As the name suggests, these types of funds invest in shares of mid-sized companies. These companies are also established but do not operate on the scale as that of large companies. The scope to enhance its geographical presence and potential to increase revenues is high for mid-sized companies and thus investors could expect higher return as compared to the large cap funds in the long term.

Small Cap Fund: These funds invest in such companies which are relatively newer and have smaller scale of operation. Small companies with limited resources are more vulnerable during economic slowdown however have very high potential to expand and flourish its operations quickly. These funds thus tend to have potential, to generate higher returns in even short to medium term unlike that of Large Cap funds.

Diversified Equity Funds: These funds invest in a mix of Large, Mid and Small cap funds. They invest across various sectors and geographies. The objective of mutual fund manager is to have a diverse portfolio of stocks so as to generate higher returns while mitigating any sectoral risk.

Sectoral Funds: As the name suggests, these types of funds invest in stocks specific to a particular sector. For e.g. there are sectoral funds which focus on investing in stocks of IT, Banking, Natural Resources, Infrastructure, etc. If investors have a view of any particular sector having potential to perform well and deliver superior returns, they could choose to invest in such funds. However, it is important to note that if there is any fundamental concern associated with a particular sector then investors could be impacted more severely as majority of the stocks held in sectoral mutual fund portfolio would be adversely impacted.

Index Funds: An index is computed from the weighted average prices of selected stocks. Index funds try and replicate the investment portfolio composition similar to that of the benchmark index and thus also match their returns. These type of funds do not require in-depth research and analysis of stocks as they only replicate the benchmark index.

II - Fixed Income Mutual Fund

A fixed income mutual fund primarily invests in securities that pay a fixed rate of returns such as bonds issued by government, banks and corporates, or other debt instruments. The objective of mutual fund portfolio is to generate interest income, which is then passes on to the unit / shareholders. Thus, the investors of fixed income mutual funds may be able to estimate probable returns on their investments with reasonable accuracy (basis past performance of fund and portfolio yield to maturity) unlike that of equity mutual funds. The returns of fixed income funds are lower but stable and are suitable for investors with less time horizon of investment or having lower financial risk tolerance.

Money Market Funds: Money market fund is a kind of mutual fund that invests only in highly liquid instruments such as cash, cash equivalent securities and high credit rating debt securities with a short-term maturity of less than 13 months. These consists of mostly government Treasury Bills and short-term debt instruments. This is a safe place to park money for investors. These types of funds deliver lower returns however there would not be erosion of the principal amount invested. Investors may estimate return slightly above that of a savings account from such funds.

Income Funds: Income funds as the name suggest, provide current income on a steady basis. These types of funds invest primarily in government and high-quality corporate debt. The bonds are held in mutual fund portfolio until maturity so as to provide steady interest streams. Depending upon the investment objective, there are Short Term and Long Term Income Funds which invest in debt instruments having maturity period of short and long term respectively. Income funds are more suitable for conservative investors and retirees as they provide lower but relatively stable returns as compared to equity mutual funds.

III - Balanced Funds

Balanced funds invest in both stocks as well as bonds to reduce the risk of exposure to one asset class. This investment objective is asset appreciation with lower risk. In times of a downturn in stock markets the debt investments in the mutual fund portfolio act like hedge by provide capital protection and lower but steady returns. The fund manager may change the debt and equity holding ratio basis the impact of macroeconomic parameters on financial markets.

Advantages and Dis-advantages of Mutual Fund

Below are the advantages of investing in mutual funds:

Professional Management: Mutual Funds are managed by professional fund managers who have a team of investment analysts performing thorough analysis of investment securities so as to carefully select securities and structure mutual fund portfolio. It may not be feasible for individual investors to perform such detailed analysis themselves and/or hire team of experts to manage their investment portfolio.

Diversification: Mutual funds invest in number of different securities so that there is diversification of financial risk. Thus, underperformance of a few securities is compensated by good performance of other securities which provides optimum risk adjusted returns to the investors.

Minimum investment: Investors can start investing in mutual funds even by committing very less amount of upfront funds. As investors accumulate surplus money, they could keep invest those in mutual funds.

High Liquidity: Investors can easily invest as well as redeem their investments as per their financial needs. The required quantity of mutual fund shares / units could be sold on stock exchange and the investment proceeds could be realised basis the applicable NAV.

Variety of funds: Mutual funds have a large variety of schemes in Equity and Fixed Income funds to suit investment objectives of different investors.

Below are disadvantages of investing in mutual funds:

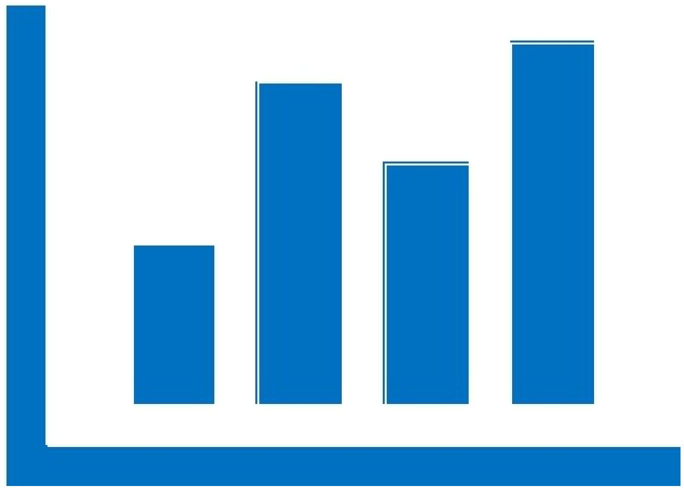
Monthly Portfolio holdings disclosure: Mutual funds typically disclose the portfolio holdings only once a month. During the month, the mutual fund portfolio would undergo portfolio churning i.e. buying and selling of various securities. Such transactional level data is not disclosed by mutual funds and thus investors may not be able to evaluate the reasons for good or bad performance of the mutual funds that they have invested their money into.

Fund Performance: Although mutual funds publish past returns delivered by their schemes, there is no guaranteed returns on mutual fund investments. Depending upon the change in value of stocks / securities that the mutual funds have invested, the valuations of mutual funds change. Investments in equity mutual funds may be prone to loss of principal amount as well in short term depending upon the market conditions; however, the equity mutual funds typically tend to out-perform other investment avenues in the long term.

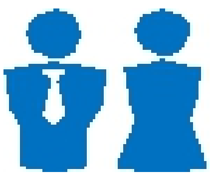
Cash presence in portfolios: Mutual funds keep a small amount of funds aside as cash reserves to meet redemption requirements. Keeping such cash reserves mean keeping the funds idle and thus losing out on investment opportunity. However these cash reserves are nominal and do not have any major impact on returns of the mutual fund.

Difficulty in comparing funds: There are various mutual fund houses offering variety of schemes to the investors. Hence it may be difficult for the investors to evaluate the scheme performance in terms of risk, returns, investment portfolio, etc. and shortlist the schemes for investment without assistance of investment advisor.

XIII - Periodic Review of Financial Plan



Our personal life as well as financial life is not constant but dynamic in nature. It is a good practice to keep your financial plan updated to include the important changes in your life. E.g. Marriage, Birth of a child, Job Change, Changes in financial goals, etc. Events like birth of a child or beginning of school / college education of your child will require lot of financial commitment. You will need to revisit your budget to include these additional costs. If you take up a new job, your salary would be revised and same needs to be updated in your budget. It is a good practice to periodically review your financial plan to include the impact of such changes. Even if there is no major change, it may be good to review your financial plan annually to track its progress. Below is a list of pointers that you could consider at key life events:



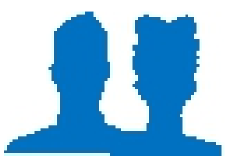
At the time of getting marriage:

- Understand the outlook towards money of your partner
- Discuss what you owe (liabilities) with your partner
- Discuss what you own (assets) with your partner
- Discuss your Financial Goals
- Discuss how do you plan to share the expenses
- Discuss how do you plan to invest to achieve your financial goals

At the time of Separation:

Parting ways is never easy. It leads to stress and takes a toll on personal as well as professional life. An amicable divorce is a prudent decision both emotionally as well as financially. Do seek professional help to navigate through the complicated legal procedures.

- Agree the terms of distribution of assets including the maintenance
- Make a list of your savings and transfer money from joint accounts to your individual bank account
- Assess the family debt and yours as an individual
- Determine the location where you would be living after the separation
- Calculate the cost of running the house alone
- Avoid any major purchases till you settle down
- Reevaluate your financial goals and restructure your Financial Plan



Live-in relationship:

- Don’t hold money in joint accounts
- Don’t make joint investments
- Don’t assign your life insurance policy to your partner since it will be difficult to reassign the same in case you move out of the relationship
- Buy separate health insurance plans
- Share the expenses on rational basis proportionate to the earnings of your partner
- Make a proper Will with the help of a legal professional

Economic Conditions:

Asset allocations may require modifications from time to time basis the changes in economic conditions, tax changes and trends in financial markets. Hence, it is also important to review your investment portfolio with the help of your investment advisor / broker. It is recommended that you set a frequency (half yearly / annually) for review of your investment portfolio upon discussion with your investment advisor / broker.

The details you enter in [Ultimate Financial Planner] application may be altered / edited as you progress in your personal and professional life and you may easily review and update your financial plan.

XIV - Financial Planning for Kids

"We were not taught financial literacy in school. It takes a lot of work and time to change your thinking and to become financially literate."

- Robert Kiyosaki

As you know, judicious money management is important for achieving financially secured life. However, one does not master the money management skills overnight but it is developed over years with practice. The earlier you start, the better money manager you become.

As quoted by Warren Buffet - "Someone's sitting in the shade today because someone planted a tree a long time ago." It is important that you start inculcating the money management skills in your kids, right from a tender age and help them grow up as financially wise individuals. As a parent, if you are mystified as to how you should begin introducing the monetary concepts to your kids, below are a few points which explain how you can make your kids financially smart.

- If you have small kids, start introducing them to the concept of money and as they grow up, help them make distinction between needs and wants. For example, make them understand that they can do without expensive toys or gadgets but cannot do without food, clothing and shelter. This is a great way to make your kids prioritize their needs and wants and thus instill good spending habits in them.

- List various goals that your kids want to achieve. These goals may be buying new video game or some sports equipment, etc. Motivate your kids to earn the money required to achieve their goals by performing small household work like cleaning up their own room, preparing own breakfast, scoring good grades at school, etc. In this way, your kids will understand the importance of money.

- Instill a habit of saving a part of the money, your kids earn, performing various chores. You may motivate the savings habit by paying them some additional amount as interest on the amount of money saved. Make them understand how they can save money and grow money.

- If your kids are old enough, you may ask them to pay utility bills or ask them to accompany you to the bank or at the cash dispenser machine (ATM - Automated Teller Machine **or** ABM - Automated Banking Machine) to collect cash or drop a bank cheque. Explain them the process of using credit cards when you are out shopping or at a restaurant.

- Help the kids make their spending decisions judging the pros and cons when you are out shopping by giving them a spending limit to buy their choice of items.

- Help your kids to keep a track of the money that they earn and spend. This habit will help them in systematically recording their financial transactions and learn to maintain budget right from the young age.

- For elder kids, you may open a bank account for them and instill a habit of saving from their pocket money. Preferably open a joint account so that you can keep a track on their activities. They will be amazed to know how their money increases when they get interest on their savings. With this, they will gain familiarity with banking and investments. You may also explain your kids the concept of loan and interest rate charged on loan with the help of simple examples. It is good to alert the kids about the dangers of over borrowing and avoid entering the debt trap.

- After your kids accrue good amount of savings, help them learn about various investment avenues like bonds, equity shares, mutual funds, etc. and guide them in investing their savings. You may also include them in your investment planning and financial goal planning. Wise investment is one of the pillars of money management so enlighten your kids about the importance of investment once they start saving.

XV - Financial Planning for Young Professionals (Age 20 – 35)

Young adulthood is one of the most exciting times of life. After completing your education and taking up employment you start experiencing independent lifestyle. Small pocket money now gets transformed into fat pay cheques. This period of life is full of change, opportunity and challenges.

Many may have to leave the comfort of their house and move to other locations in search of better career opportunities. All these years, you may not have paid much attention to your family's finances but now it is necessary to take control, organize and plan for your own finances. If you want to take control of your financial future and unlock the doors to financial success, you must have a plan that will allow you to properly manage your money, make investments in good avenues available, reduce taxes, beat inflation and ultimately achieve your financial goals.

You may think that you do not have any specific goals currently and hence would not require to take up the financial planning activity immediately. However, it is important to understand that all of us would have at least some of the long term critical goals like owning a house, funding children's higher education, funding for own business, retirement planning, etc. All these goals require a systematic long term savings and investment commitment to accumulate the corpus of funds to achieve these goals.

Suppose you want to achieve a long term goal which requires say 1,000,000 after 20 years from now. Below table shows the amount of money you need to invest annually to achieve the required corpus of 1,000,000 in 20 years at different rate of returns. It could be seen that the amount of investment required increases manifold if you start late and have only 10 years for achieving the required investment corpus. Hence the earlier you start, the easier it would be to achieve your financial goals.

Rate of Return	Annual Investment Required to achieve a corpus of 10,00,000	
	Time 10 Years	Time 20 Years
4%	83,291	33,582

6%	75,868	27,185
8%	69,029	21,852
10%	62,745	17,460
12%	56,984	13,879
14%	51,714	10,986
16%	46,901	8,667

We live in a fast-paced world with strong consumerism trends that can ruin young people unaccustomed to managing their finances. Below are a few pointers for the benefit of young professionals.

Financial Pointers:

- **Using Credit Cards:** Use your credit cards prudently and make timely repayment of dues to avoid getting caught in a debt trap. Do not own multiple and high credit limit cards since owning these will tempt you to spend more than you could actually afford.

- **Loan:** Do not over borrow. Always aim to keep your monthly loan installments below 36 percent of your income.

- **Retirement Plan:** Start saving at least small amounts regularly in your retirement plan/fund/account.

- **Understand investments:** Do not invest without gaining proper knowledge of the investment products you are committing your money.

- **Invest regularly:** Inculcating a habit of saving regularly right form young age will prove to be very beneficial. You need to regularly save and invest even if you are able to save only small amounts or even if you are unsure about your financial goals at this point of time. You will be surprised to discover at a later point in time that the small amounts you saved and invested regularly would help you to fund the down payment of your house or your first car!

- **Insure yourself:** It is critical to have a health and personal accident insurance cover in place to protect your savings from getting eroded towards high medical costs in case of any emergency. If you have dependents, you need to protect yourself with a life insurance of appropriate death benefit / sum assured.

- **Monthly Budget:** Formulate a budget and take control of your expenses by monitoring the deviation between your planned and actual expenses.

- **Impulsive Shopping:** Do not shop impulsively just because there are some discount offers available. Evaluate if you really require a particular thing or is it just good to have stuff. If you avoid impulsive shopping, you may be able to save for an important financial goal.

- **Contingency Fund:** Save some money for emergency situations like job loss, medical treatments, etc.

XVI - Financial Planning for Middle Aged Professionals (Age 35 – 50)

As you are aware, financial planning is a dynamic process. Your financial priorities and goals change with age. The goals may change over the years due to changes in lifestyle or circumstances such as marriage, child birth, house purchase or change in job status, etc. Your risk profile also changes with the events listed earlier like marriage, child birth, house purchase, etc.

As a young professional, you may not have any major responsibility on you and hence may tend to have higher tolerance to risk. However, with the increase in responsibility in the middle age, your tolerance to risk decreases and you try and balance the risk and return ratio by reassessing your risk profile and making more conservative investments than you may have done earlier.

As a young professional, you may not have been much serious about your finances. You may not have had any predefined goals or if you would have had a few goals, those would be mostly shorter term goals like vacation planning or purchasing of lifestyle products and consumer durables. However, in your middle age, you start getting serious about your finances and would start planning for your important and longer term goals. As compared with young professionals, middle aged professionals have higher income level and more stable employment. With higher income, the disposable income also increases, however it is most likely that you may be spending this to maintain and also upgrade your standard of living rather than saving and investing for achieving your financial goals. This period of your life is critical from the financial perspective as the financial decisions you make now, have a substantial impact in shaping your future and achieving your critical, medium term goals like house purchase, children education, etc. and longer term goals like children marriage, retirement, etc.

As a middle aged professional, you may be married and would have kids or would be planning to have kids soon. If you are newly married, you now have an added responsibility of your spouse on you. As a young couple, you become interdependent on each other and share responsibility including day-to-day expenses as well as planning and fulfilling of your financial goals. After you have kids, the monthly expenses increase and also high priority needs to be given for funds required to be saved for children's schooling and education expenses. Managing your expenses and having an adequate investible surplus to fund your goals is the key to achieve a good financial health.

Financial Pointers:

- **Insurance Cover:** Have an adequate life insurance cover for yourself and your spouse and health insurance cover for entire family. Life insurance cover helps reduce the financial loss caused due to death of the earning member of the family and health insurance reduces the financial strain due to high medical costs.

- **Expense Management:** Prepare a monthly budget and monitor it regularly. The surplus generate during this phase of life is crucial to fund your major financial goals like house purchase, retirement savings, children education, etc.

- **Goal Prioritization:** Distinguish your goals between wants and needs. If it is just a want and not a need, try to postpone it and give priority to more important goal.

- **Key Goals:** Owning your House and Retirement Planning would be most important long term goals that you may be having. In case if you have not planned for these yet, it would be prudent to start planning and saving for these important goals on priority.

- **Take loan judiciously:** Avoid taking loans for meeting expenses. Personal loans or credit card loans need to be your last source of loans to consider. It would be good to have house loan at this stage of life as not only would owning a house be a necessity for your growing family but also it will help you own one of your biggest asset.

- **Make your kids financially smart:** Educate your kids on personal finance and inculcate good money management habits in them.

XVII - Financial Planning for Senior Professionals (Age above 50)

As said earlier, financial planning is a dynamic process and your financial goals and objectives tend to change over a period of time. As a young professional you would have planned for shorter term goals like purchase of car, vacation planning etc. and as a middle aged professional you may have planned for more important and longer term goals like purchase of house, children education, etc.

However, now as an elder professional, your priorities in life and financial goals may be different from those mentioned above. You may consider planning for goals like children marriage expenses, purchasing of second house or a vacation house, retirement planning, etc. which require larger and serious investment commitments to achieve the goals.

As said in the previous chapter, the financial decisions you make in your younger age have a substantial impact on shaping your financial future. Accomplishing your financial goals in elder age becomes much easier if you have laid a strong foundation by being disciplined in your finances since your younger age. Hence it is important for all to be disciplined in your financial life as this helps you gain proper control on your expenditure, savings and investments. However, if you still do not have proper plan for your financial goals, it is critical to gain control of your finances now, so that you do not miss out on your important financial goals or end up being in financial crises during your retirement.

Financial Pointers:

- **Gain control of your finances:** The earlier you start managing and controlling your finances, easier would it be to achieve your critical financial goals like retirement planning, etc.

- **Invest strictly based on your risk profile:** Do not invest in riskier assets in fancy to earn higher returns. You have limited time to recover from financial losses if your investment decisions go wrong at this stage of life. Consult your investment advisor / broker before making investments.

- **Retirement Planning:** If you have not yet started planning for your retirement, it is very important to take this activity seriously and start planning and saving for it as early as you can. This goal needs to be given highest priority as you simply cannot afford to miss achieving this goal.

- **Invest in your health:** As the popular phrase says, “Health is Wealth”; it is important to focus on your health to enjoy a good quality of life. During this phase of your life, do invest time for your health and keep a check on following points:
    - Following a good diet and exercise routine
    - Periodically undertake preventive health checkup
    - Take regular vacations to rejuvenate yourself
    - Start planning as to what activities you would be doing during your retirement

“Expect the best. Prepare for the worst.
Capitalize on what comes.”

- Zig Ziglar

Glossary of Financial Terms

Alternative Assets

An alternative asset is a newer type of asset that has not been traditionally considered part of an investment portfolio. E.g. Art, Antiques, Collectables, etc.

Annuity

Annual payment made by a fund or insurance company to an investor for a specified number of years. E.g. Pension amount or a retirement plan paying out a specific sum of money each year.

Asset Class

A broad group of securities or investments that share similar characteristics (like risk and return) and tend to react similarly in different market conditions. E.g. Equity Asset Class consists of securities/investments like Stocks/Share, Equity Mutual Funds, etc. Debt Asset Class (also known as Fixed Income Asset Class) consists of securities/investments like Bonds, Bank Deposits, Debt Mutual Funds, etc.

Asset to Debt ratio

Asset to Debt ratio indicates the total assets you own against total liabilities you owe.

Cash in Hand

Money that you hold in cash for making day-to-day payments and also as reserves. This money is not kept in Bank Account but is maintained as cash in your home.

Compounded Annual Growth Rate (CAGR)

The year-over-year growth rate of an investment over a specified period of time. E.g. If you invest 10,000 and after 3 years you get 12,000 then CAGR is 6.3%.

Debt (Loan)

It is a sum of money borrowed and repayable with interest. E.g. Home Loan, Vehicle Loan, etc.

Debt Service Ratio

Debt Service ratio represents the percentage of monthly income being allocated to debt (loan) repayment installments.

Equity

A stock or any other security representing an ownership interest in a company. E.g. Equity Shares of a company.

Existing Savings for the goal

The savings/investments already done and earmarked for a particular goal. E.g. For a goal requiring 50,000 you may have already saved 10,000 for this particular goal.

Financial Goals

Aim or an objective planned to be achieved in future and requiring financial resources for its achievement. E.g. Purchase of house, purchase of car, children’s education, etc.

Financial Planning

Financial Planning may be defined as the process of assessing and managing your financial resources, to help you plan and achieve your financial goals and ultimately secure your financial life.

Financial Risk

Risk in financial context refers to the uncertainty of returns your investments would fetch due to market volatility. E.g. Financial Risk in Stock markets is high as it is very volatile (high price fluctuation) whereas Financial Risk in Bond markets is less as it is less volatile (less price fluctuation).

Debt Investments OR Debt Asset Class

Also known as **Fixed Income** asset class is an investment that provides a return in the form of mostly fixed periodic payments and the eventual return of principal at maturity. E.g. A 6% fixed-rate government bond, where an investment of 1,000 would result in an annual payment of 60 until maturity and the investor would receive the 1,000 back on maturity.

Future Value

With respect to Inflation: Future value is the increase in value of a financial goal due to the impact of inflation. E.g. If a financial goal requires 10,000 today, then with an inflation of 5%, the future value after one year would be 10,500.

With respect to investment: Future value is the increase in value of an investment due to the returns earned on this investment. E.g. If value of investment is 10,000 today and interest rate on this investment is 6%, then the future value of this investment after one year would be 10,600.

Goal Corpus

The amount of funds you need to accumulate for achieving a particular financial goal.

Hedge

Making an investment to reduce the risk of adverse price movements in an asset. Investors use hedge to reduce the risk of their investment portfolio during uncertain market conditions. E.g. Gold is used to hedge investment portfolio during uncertain market conditions since gold price and stock markets tend to show inverse correlation i.e. when the stock markets show a downtrend, gold tends to show an uptrend and vice versa during uncertain market conditions.

Inflation

The rate at which the general level of prices for goods and services rises. E.g. If the cost of a product increases from 100 to 105 in a year, then the inflation is 5%.

Liquid Assets

Assets which can be easily and quickly sold and converted into cash. E.g. Bank Deposits, Liquid/Cash Funds, etc.

Liquidity Ratio

Liquidity ratio compares your liquid assets with your monthly expenses. Liquidity ratio represents your ability to meet your monthly expenses in case of a financial emergency.

Loan Refinance

Paying off the existing loan with the help of a new loan. The new loan generally has a lower interest rate so that you are benefitted from lower monthly loan repayment installments.

Net Worth

Your total assets minus your total liabilities is you Net Worth.

Outstanding Loan Amount

The principal amount of a loan remaining to be repaid. E.g. you take a loan of 10,000 and repay 1,000 then the balance 9,000 is the Outstanding Loan Amount.

Present Value

With respect to Ultimate Financial Planner application: Present Value (also known as Today's Cost) of a Goal is the amount of money required to achieve your goal today. E.g. you plan to buy an asset after few years from now. This asset costs 10,000 today. Hence in this case present value of goal is 10,000. The price increase in future due to the impact of inflation will give you future value of your goal.

Principal Amount

With respect to investment: Principal amount is the amount of money invested. E.g. If you invest 10,000 to purchase an equity share then 10,000 is the Principal Amount invested.

With respect to loan: The amount of loan availed is the Principal Amount. E.g. If you avail a loan of 10,000 from a bank, then 10,000 is the Principal Amount.

Rate of Return

Rate of Return simply means percentage of interest/return earned from an investment. E.g. If you invest 10,000 and you get 10,600 after one year, then the rate of return is 6%.

Risk Capacity

Risk capacity is the ability to take financial risk. E.g. Young people have higher ability to take financial risk as compared to old people since young people have time on their side to recoup if they suffer some short term financial loss on investments.

Risk Tolerance

Risk Tolerance is aptitude to take financial risk. E.g. People, who may invest in stock market and would be comfortable with short term loss on their investments to earn higher returns in the long term, are said to have higher risk tolerance. People who would not be comfortable with fluctuations in their investments and prefer lesser but stable returns on their portfolio are said to have lower risk tolerance.

Savings Ratio

Savings ratio indicates the percentage of monthly income you save.

Surplus

Your income minus expenses is your surplus. This surplus may be invested to achieve your financial goals.

Today's Cost

With respect to Ultimate Financial Planner application: Today's Cost (also known as Present Value) of a goal is the amount of money required to achieve your goal today. E.g. you plan to buy an asset a few years from now. This asset costs 10,000 today. Hence in this case today's cost of goal is 10,000. The price increase in future due to the impact of inflation will give you future value of your goal.

Sample Monthly Financial Budget - Formulated by Ultimate Financial Planner application

Income

Source	Estimated	Actual	Deviation
Salary	9,500	9,500	-
Profession			-
Business			-
Investments	900	800	(100)
Others			-
Total	**10,400**	**10,300**	**(100)**

Monthly Budget Analysis

Total Estimated Expenses	8,320
Total Actual Expenses	8,445
Total Deviation	**(125)**
Estimated Surplus (Estimated Income minus Estimated Expens	2,080
Actual Surplus (Actual Income minus Actual Expenses)	1,855
Actual Deviation (Income Deviation plus Expense Deviation)	**(225)**

Expenses

Household	Estimated	Actual	Deviation
House Rent			-
Maintenance or repairs	50	60	(10)
Phone & Mobile	60	50	10
Electricity	100	110	(10)
Gas	40	50	(10)
Water and sewer			-
Cable TV	75	75	-
Other			-
Total	**325**	**345**	**(20)**

Entertainment	Estimated	Actual	Deviation
CD/DVD			-
Movies & Theatre	80	100	(20)
Concerts			-
Sport events			-
Other			-
Total	**80**	**100**	**(20)**

Loan Payments (EMI)	Estimated	Actual	Deviation
Home	1,900	1,900	-
Vehicle	1,600	1,600	-
Personal	500	500	-
Credit Card	200	250	(50)
Education			-
Other			-
Total	**4,200**	**4,250**	**(50)**

Food	Estimated	Actual	Deviation
Groceries	600	700	(100)
Dining out	200	250	(50)
Other			-
Total	**800**	**950**	**(150)**

Personal Expenses	Estimated	Actual	Deviation
Personal Care			-
Health and Fitness	100	90	10
Medical Expenses	100	120	(20)
Other			-
Total	**200**	**210**	**(10)**

Insurance	Estimated	Actual	Deviation
Life	70	70	-
Health	600	600	-
Motor	120	120	-
Other			-
Total	**790**	**790**	-

Transportation	Estimated	Actual	Deviation
Bus/Taxi/Train fare			-
Fuel Expenses	300	200	100
Vehicle Maintenance	125	100	25
Other			-
Total	**425**	**300**	**125**

Taxes	Estimated	Actual	Deviation
National	1,500	1,500	-
State			-
Local			-
Other			-
Total	**1,500**	**1,500**	-

Sample Loan Consolidation Benefit - Formulated by Ultimate Financial Planner application

Loan Consolidation Benefit

Loan consolidation is a financial strategy of merging multiple loans into a single loan that is paid-off at lower interest rate and affordable monthly instalments. Debt consolidation is effective **only when** you have multiple loans to repay and/or have loans with high interest rate. Debt consolidation will help reduce your hassles in tracking and managing multiple loans and shall also help you generate more surplus for investing and achieving your financial goals.

Loan consolidation benefits could be assessed as follows with the help of this tool:
Step I: Select, the type of loans that you have availed so as to display suitable loan consolidation approach
Step II: Check for new loan transfer offer provided by other banks and financial institutions
Step III: Enter the details of your existing loans as well as the new loan transfer offer so as to evaluate the benefits of loan consolidation

Step I: Identify Loan Consolidation Approach

Do you have Credit Card Loan?	**Yes**
Do you have Personal Loan (or have any other unsecured loan)?	**Yes**
Do you have Mortgage Loan?	**Yes**

Loan Consolidation Approach:

Since you have a Mortgage loan, you may check for a loan Balance Transfer offer to reduce the interest rate. Additionally, along with loan Balance Transfer you may check for a Top-Up loan to pay-off your Credit Card and Personal loans as the Top-Up loan can be availed at lower interest rate than the interest charged on Credit Card and Personal loans. If you do not want to opt for a Top-Up loan then you may also explore option of Loan Against Securities (i.e. shares / mutual funds / bonds / bank deposits, etc.) if you have these assets since these type of secured loans can be availed at a lower interest rate than that of Credit Card and Personal loans.

Step II: Please check the relevant loan offers from banks and financial institutions as per the above Loan Consolidation Approach displayed.

Step III: Loan Consolidation Benefit Calculators

Below are the two calculators for assessing your loan consolidation benefits:

Calculator I - Loan Transfer Analysis helps in assessing the benefits if you were to simply transfer a loan from existing lender to a new lender who is willing to offer lower interest rate and/or increase in loan tenure so that you have a lower monthly instalment; thus helping you in generating more surplus for investing and achieving key financial goals.

Calculator II - Loan Transfer + Top-up Analysis helps in assessing the benefits if you were to consolidate your secured and unsecured loans. This would require transfer of your secured loan (e.g. home/mortgage loan) from existing lender to a new lender and also additionally avail a Top-up loan from the new lender so as to help in repaying existing unsecured loans (e.g. credit card / personal loans). This shall help in saving the interest cost since Top-up loan can be availed at a much lower interest rate as compared to that of the unsecured loans. Additionally, with the longer loan tenure offered on new loan, you would be able to have a significantly lower monthly instalment thus helping you in generating more surplus for investing and achieving key financial goals.

Calculator I - Loan Transfer Analysis

		* Indicates Mandatory Field
Existing Loan - Total Sanction Amount	*	2,00,000
Existing Loan - Principal Amount Outstanding	*	1,00,000
Existing Loan - Interest Rate (%)	*	2.50%
Existing Loan - Total Tenure in Months	*	120
New Loan - Interest Rate (%)	*	2.25%
New Loan - Tenure in Months (A)	*	90
Existing Loan - Monthly Instalment (B)		1,885
New Loan - Monthly Instalment (C)		1,209
Decrease in Monthly Instalment Amount (B - C)		677
Existing Loan - Remaining Tenure in Months (D)		56
Increase in Number of Instalment (A - D)		34

Great! You save a monthly amount of 677 on your loan instalment.

Calculator II - Loan Transfer + Top-up Analysis

		* Indicates Mandatory Field
Home Loan - Total Sanction Amount	*	2,00,000
Home Loan - Principal Amount Outstanding (A)	*	1,00,000
Home Loan - Interest Rate (%)	*	2.50%
Home Loan - Total Tenure in Months	*	120
Details of Unsecured Loan (I)		
Credit Card / Personal Loan - Total Sanction Amount	*	50,000
Credit Card / Personal Loan - Principal Amount Outstanding (B)	*	20,000
Credit Card / Personal Loan - Interest Rate (%)	*	5.00%
Credit Card / Personal Loan - Total Tenure in Months	*	36
Details of Unsecured Loan (II)		
Credit Card Loan / Personal Loan - Total Sanction Amount		15,000
Credit Card Loan / Personal Loan - Principal Amount Outstanding (C)		6,000
Credit Card Loan / Personal Loan - Interest Rate (%)		4.50%
Credit Card Loan / Personal Loan - Total Tenure in Months		24
Balance Transfer Amount - Interest Rate (%)	*	2.25%
Top Up Amount - Interest Rate (%)	*	5.50%
New Loan - Tenure in Months	*	90
Home Loan - Monthly Instalment (D)		1,885
Unsecured Loan I - Monthly Instalment (E)		1,499
Unsecured Loan II - Monthly Instalment (F)		655
Active Loans - Total Monthly Instalment (G=D+E+F)		4,039
Loan Balance Transfer Amount (A)		1,00,000
Top Up Loan Amount (B+C)		26,000
Loan Balance Transfer - Monthly Instalment (H)		1,209
Top Up Loan - Monthly Instalment (I)		353
New Loan - Total Monthly Instalment (J=H+I)		1,562
Decrease in Monthly Instalment (G-J)		2,477

Great! You save a monthly amount of 2,477 on your loan instalment.

Sample Financial Plan - Formulated by Ultimate Financial Planner application

Comprehensive Financial Plan

John

Welcome Note

Dear John,

Congratulations for successfully completing your detailed financial planning process and formulating this comprehensive & personalised financial plan.

This report would help you in knowing the status of your financial health by assessing key ratios of your income & expenses and your assets & liabilities. You would also be able to assess your life insurance cover requirements, which has been systematically calculated based on the financial requirements of your dependents and your other key commitments.

The report would provide you a detailed assessment of your financial risk profile. The personality traits of investors having similar risk profile as yours, have also been highlighted. Further, the percentage of asset allocation in Debt and Equity asset classes is given for your Short, Medium and Long Term Goals along with assumed rate of return on the portfolio.

This report would provide you with a detailed plan for your retirement and various financial goals. The plan includes calculating future financial requirements considering the impact of inflation and the amount of investments required to achieve these critical goals. The consolidated view of annual investments in debt and equity asset classes for achieving all the financial goals is also provided in the report.

I am sure, the usage of 'Monthly Financial Budget' tool shall help you in taking control of your expenses. Also, the 'Loan Consolidation Benefit' calculators shall help you in saving upon your interest cost and/or reduce your monthly loan instalments. These two tools, shall help generate additional surplus required for investing and achieving your financial goals.

I would like to sincerely thank you for giving this opportunity to contribute to your financial plan. I am confident that you would commit yourself towards disciplined financial life by executing the financial plan as explained in the report. It may be wise to review your financial plan periodically to include any changes required and also to track its overall progress. Wish you a healthy and secured financial future!

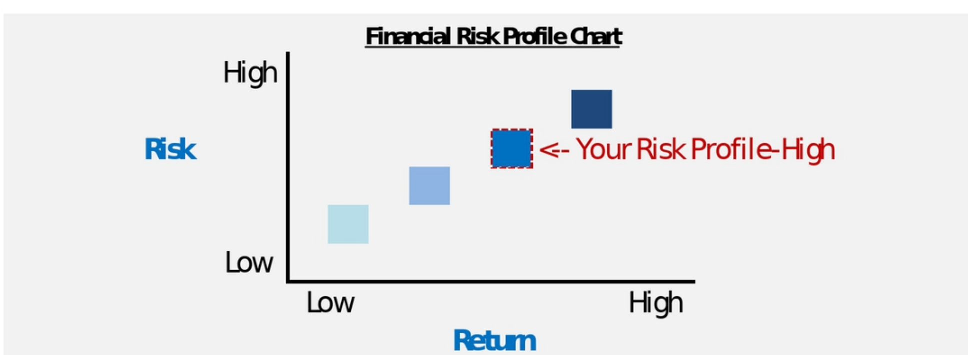
Best Regards,
Nikhil Kale

Financial Risk Profile of John

Risk in financial context means the uncertainty of returns. Some investors may be willing to withstand higher risk to earn higher returns while others may prefer lower risk and be content with lower returns. Your risk profile is assessed solely on the responses provided by you in the risk profile assessment questionnaire. The risk profile is determined on the basis of two parameters viz. your Risk Capacity and Risk Tolerance. Your answers to the first five questions indicate your risk taking capacity which is your ability to take risk while the next five questions indicate your tolerance to risk which is your aptitude to take risk. The degree of risk to your answers in the questionnaire is highlighted below. A Low Risk grade answer gets 1 point, a Moderate Risk grade answer gets 2 points, a High Risk grade answer gets 3 points and a Very High Risk grade answer gets full 4 points.

Question No.	Degree of Risk				Score
	Low	Moderate	High	Very High	
1					3
2					3
3					3
4					1
5					2
6					4
7					4
8					2
9					3
10					3

Financial Risk Profile Score Card of John		
	Score	Degree of Risk
Risk Capacity	60%	Moderate
Risk Tolerance	80%	High
Financial Risk Profile	**High**	



Personality Traits

As highlighted above, your Financial Risk Profile is 'High' which is slightly more aggressive than the 'Moderate' risk profile. As per your financial risk profile, your personality traits as an investor can be highlighted as follows:

• Your primary aim is to generate growth in the capital invested
• You are comfortable to some extent with short term fluctuations in the value of your investments so as to generate better returns in the long run
• You understand that taking moderate but calculated risks helps in earning good returns over a period of time
• You may prefer investing in 'Equity' related investment avenues for achieving long term growth and would also maintain some investments in 'Fixed Income' to generate regular income

Asset Allocation

As per your risk profile, the percentage of Asset Allocation in Debt and Equity asset classes is given for Short Term Goals (i.e. goals to be achieved within next 5 years), Medium Term Goals (i.e. goals to be achieved between next 5 to 15 Years) and Long Term Goals (i.e. goals to be achieved after 15 years from now) along with the assumed portfolio returns.

	Short Term Goals		Medium Term Goals		Long Term Goals	
	Debt	Equity	Debt	Equity	Debt	Equity
Asset Allocation	75%	25%	55%	45%	35%	65%
Assumed Returns	0.71%	5.91%	0.71%	5.91%	0.71%	5.91%
Assumed Portfolio Returns	**2.01%**		**3.05%**		**4.09%**	

The above asset allocation only displays the proportion of Debt and Equity investments that you may hold in the portfolio as per the risk profile assessment. There are various investment avenues like Equity Mutual Funds, Debt Mutual Funds, Equity Shares, Bonds, Debentures, Bank Deposits, etc. which can be classified under the Debt and Equity asset classes. You may choose to invest in appropriate investment avenues based on your financial risk profile and with consultation of your investment advisor.

However, as selected by you in Asset Allocator section of the Financial Data form, you have chosen to invest as per your own simulation. Hence for your financial goals and retirement planning simulation, it is assumed that your investments would earn annual rate of return of 3.50% for Short Term Goals, 5.00% for Medium Term Goals and 6.50% for Long Term Goals.

Income and Expenses based on Budget Estimates of John

Income	Amount	%
Salary	9,500	91%
Profession	-	0%
Business	-	0%
Investments	900	9%
Others	-	0%
Total	**10,400**	**100%**

Summary	Amount
Total Income	10,400
Total Expenses	8,320
Monthly Surplus	2,080
Projected Annual Surplus	24,960

Expenses	Amount	%
Household		
House Rent	-	0%
Maintenance	50	1%
Phone & Mobile	60	1%
Electricity	100	1%
Gas	40	0%
Water and sewer	-	0%
Cable TV	75	1%
Other	-	0%
Total	**325**	**4%**

Food		
Groceries	600	7%
Dining out	200	2%
Other	-	0%
Total	**800**	**10%**

Personal Expenses		
Personal Care	-	0%
Health and Fitness	100	1%
Medical Expenses	100	1%
Other	-	0%
Total	**200**	**2%**

Transportation		
Bus/Taxi/Train fare	-	0%
Fuel Expenses	300	4%
Vehicle Maintenance	125	2%
Other	-	0%
Total	**425**	**5%**

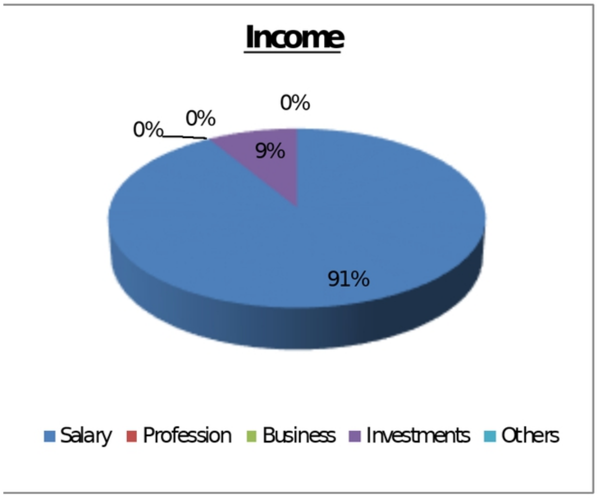
Expenses	Amount	%
Entertainment		
CD/DVD	-	0%
Movies & Theatre	80	1%
Concerts	-	0%
Sport events	-	0%
Other	-	0%
Total	**80**	**1%**

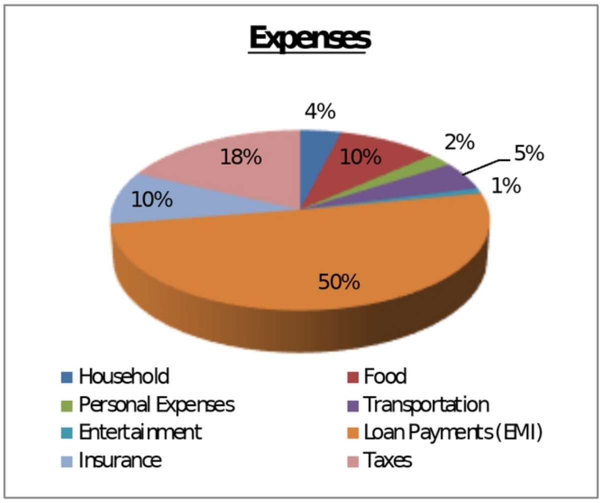
Loan Payments (EMI)		
Home	1,900	23%
Vehicle	1,600	19%
Personal	500	6%
Credit Card	200	2%
Education	-	0%
Other	-	0%
Total	**4,200**	**50%**

Insurance		
Life	70	1%
Health	600	7%
Motor	120	1%
Other	-	0%
Total	**790**	**9%**

Taxes		
National	1,500	18%
State	-	0%
Local	-	0%
Other	-	0%
Total	**1,500**	**18%**

Graphical view of your income and expenses





Based on Budget Estimates, your total monthly income from various sources is 10,400 and total monthly expenses are 8,320. Hence your monthly surplus is 2,080 which could be utilised to invest and fund for your financial goals. However, as you plan for your financial goals, if the surplus is not sufficient to fulfill your financial goal, you may need to reduce some of the discreationary expenses like entertainment, dining out, etc. to save more and increase the surplus. If required you could also strive to increase your level of income by enhancing your skills and/or taking up additional projects in your free time. Please make use of Monthly Budget tool that is available in the Ultimate Financial Planner application to plan and track your monthly income and expenses.

Key Financial Ratios of John

Debt-Income Ratio:	0.40

Debt-Income ratio represents your percentage of monthly income being allocated to debt (loan) repayment. Your total monthly loan repayment installment is 4,200 and the total monthly income is 10,400. Hence then Debt-Income ratio is 0.40. Lower the ratio, more are the funds available to fulfill other household needs, enhance savings and achieve financial goals. It may be wise to keep this ratio below 0.36 to reduce financial strain.

Savings Ratio:	0.20

Savings ratio indicates the percentage of monthly income you save. Your total monthly income is 10,400 and monthly saving is 2,080. Hence your savings ratio is 0.20. Higher the ratio, better is your position to achieve your financial goals.

Assets and Liabilities of John

Assets	Amount	%
Personal Assets		
Residential House	3,00,000	59%
Home Contents	50,000	10%
Jewellery	20,000	4%
Vehicles	50,000	10%
Other Personal Assets	-	0%
Total Personal Assets	**4,20,000**	82%

Liabilities	Amount	%
Home Loans	1,00,000	78%
Vehicle Loans	6,000	5%
Personal Loans	20,000	16%
Credit Card Loans	1,500	1%
Education Loans	-	0%
Other Loans	-	0%
Total Liabilities	**1,27,500**	**100%**

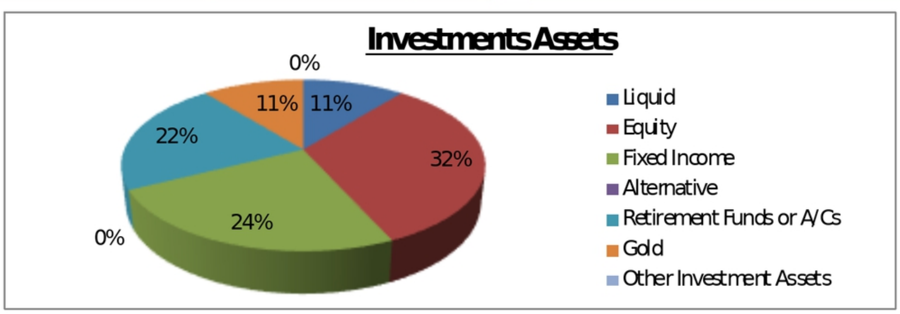
Investment Assets		
Liquid		
Cash in Hand	4,000	1%
Balance in Bank A/Cs	6,000	1%
Balance in Business A/Cs	-	0%
Equity		
Stocks & Shares	10,000	2%
Equity Mutual Funds	20,000	4%
Other Equity Investments	-	0%
Fixed Income		
Fixed Income MF	7,500	1%
Other Fixed Income Investment	-	0%
Bank Fixed Deposits	15,000	3%
Bonds	-	0%
Alternative		
Real Estate Investment	-	0%
Art Investments	-	0%
Retirement Funds or A/Cs	20,000	4%
Gold	10,000	2%
Other Investment Assets	-	0%
Total Investment Assets	**92,500**	**18%**
Total Assets	**5,12,500**	**100%**

Net Worth	3,85,000
(Total assets minus Total Liabilities)	

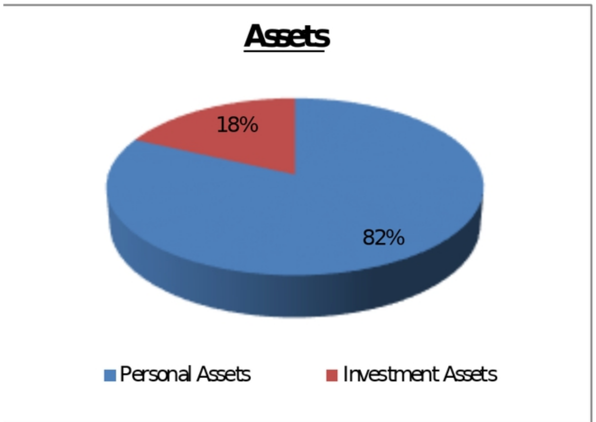
Guide

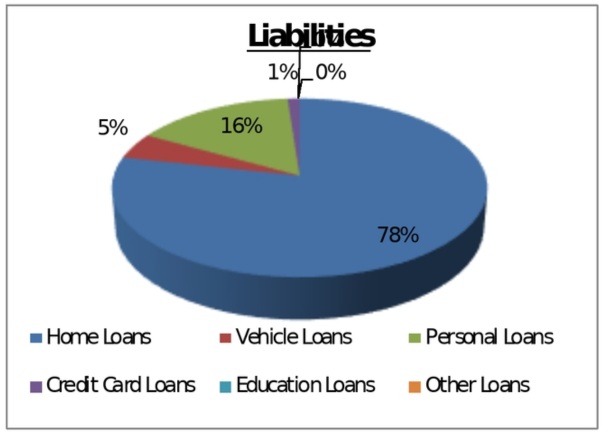
Given alongside is the classification of various assets you own. The assets are broadly classified into Personal Assets and Investment Assets. Personal assets like Home and Home Contents, Vehicles, Jewellery, etc. are assets which you may not sell/liquidate to raise funds to fulfil your financial needs and goals. Investment assets like Stocks/Shares, Bonds, Funds, Bank Deposits, Real Estate/Properties, etc. are assets which you may sell/liquidate to raise funds to fulfil your financial needs and goals. Investment assets are bought with the motive to benefit from their appreciation so that they can be liquidated at a later point in time if required.

Further, investment assets are sub-classified into Liquid, Equity, Fixed Income, Alternative, Retirement and Gold assets for better understanding of the type/nature of the investment assets.



Graphical view of your assets and liabilities





Valuation of your personal assets is 4,20,000 and valuation of your investment assets is 92,500. Hence value of your perosnal assets is greater than your investment assets. You need to allocate your savings and surplus to investment assets so as to increase the share of your investment assets and create wealth over a period of time.

The valuation of your equity assets is 30,000 and the valuation of your fixed income assets is 22,500. Hence your ratio of equity investment to debt investment is 1.3.

You have maximum loan amount of 1,00,000 for Home Loans. This constitutes 78.4%, of your total loans.

Key Financial Ratios of John

Liquidity Ratio:	1.20

Liquidity ratio represents your ability to meet your monthly expenses in case of a financial emergency. The sum of your liquid assets which inculdes cash in hand, balance in bank and business A/Cs is 10,000 and monthly expenses as per the expenses data provided are 8,320. Hence your Liquidity Ratio is 1.20 which indicates that you may be able to sustain for 1.20 months in case of an emergency. Higher the ratio better is the financial situation. It may be wise to have amount equivalent to 3 - 6 months of expenses as emergency fund.

Asset to Debt ratio:	4.02

Asset to Debt ratio indicates the total assets you own against the total outstanding liabilities. Your total assets including investment assets and personal assets are 5,12,500 and total outstanding liabilities are 1,27,500. Hence your Asset to Debt ratio is 4.02. One definitely needs to keep the ratio above 1 which indicates that he/she owns more assets than the liabilities. Younger individuals are likely to have lower ratio on account of higher housing/vehical loans whereas elder individuals are likely to have higher ratio as the outstanding loan amount reduce with time and higher income levels (as compared to younger individuals) boost savings and elevate financial assets.

Life Insurance Cover Assessment of John

Loan Repayment Amount	1,27,500
Annual Income Needed in today's cost (Present Value)	1,00,000
Number of years the annual income is needed	40
Additional funds required if any in today's cost (Present Value)	1,00,000
These additional funds required after how many years from now?	5
Assumed Inflation Rate	3.00%
Assumed Rate of Return on Investments (Long Term Returns Assumed)	6.50%
Total Value (Discounted) of all Financial Needs	24,55,530
Existing Life Insurance Cover Amount (If available)	5,00,000
Additional Life Insurance Cover Required	19,55,530

Based on your financial details, you need additional life insurance cover of 19,55,530. In case of an eventuality, if your insurance proceeds are invested at a rate of return of 6.50%, then these funds could be sufficient to fulfill your above stated financial needs as per the mathematical simulations performed.

Please ensure that you avail a life insurance cover of required amount with consultation of your insurance advisor so as to safeguard the future of your dependents. Along with the life insurance cover, it is also important to have appropriate health insurance cover as rising cost of medical procedures may cause lot of financial strain in absence of a health insurance.

It is important to have Life, Health, Motor and Home insurance cover in place so as to avoid financial losses in case of any eventuality.

Financial Goal Planning of John

	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5
Goal Name	Vacation Home	New Car	Vacation		
Net Goal Amount (excluding loan amount)	**35,000**	**22,500**	**15,000**		
Goal to be achieved after years	15	6	4		
Existing investment allocated (If any)	10,000	5,000	2,500		
Assumed rate of return on existing investments	3.00%	5.00%	3.50%		
Assumed rate of return on new investments	6.50%	5.00%	3.50%		
Assumed Inflation Rate	3.00%	3.00%	3.00%		
Rate of increase in annual investment	5.00%	5.00%	5.00%		
Future Net Goal Amount (Considering Inflation)	54,529	26,866	16,883		
Future Value of Existing Investments (if any)	15,580	6,700	2,869		
Amount to be invested annually increasing at 5.00% annually for achieving goals	1,185	2,633	3,092		

As per mathematical simulation, you need to invest annually 6,911 increasing the amount by 5.00% each year so as to achieve all your financial goals (i.e. 7,256 in 2nd year, 7,619 in 3rd year and so on..)

Retirement Planning of John

Expected monthly expenses during retirement in Today's Cost	4,000
You would retire after years	25
Number of years life expectancy post retirement	20
Amount available in your Retirement Funds or A/Cs	20,000
Amount of existing investment assets allocated for retirement (If any)	-
Assumed annual rate of return on existing investments	6.50%
Assumed Inflation Rate	3.00%
Assumed Rate of Return on New Investments	6.50%
Rate of increase in annual investment commitment	5.00%

Expected monthly expenses at the time of retirement considering inflation at 3.00%	8,375
Amount of Retirement corpus required at the time of retirement	14,90,619
Projected value (at the time of your retirement) of your existing retirement funds & investments allocated for retirement, assuming a rate of return of 6.50%	96,554
Amount to be invested annually increasing at 5.00% annually for achieving your retirement corpus	14,508

As per mathematical simulation, you need to invest annually 14,508 increasing the amount annually by 5.00% in order to achieve your retirement goal (i.e. invest 15,233 in 2nd year, invest 15,995 in 3rd year and so on..)

Asset Allocation

Given below is the consolidated Asset Allocation for your Financial Goals and Retirement.

	Goal Name	Debt %	Equity %	Debt Amount	Equity Amount
Goal 1	Vacation Home	25%	75%	296	889
Goal 2	New Car	50%	50%	1,317	1,317
Goal 3	Vacation	75%	25%	2,319	773
Goal 4					
Goal 5					
Retirement	Retirement Planning	25%	75%	3,627	10,881

Total Annual Investment	**7,559**	**13,860**

As per the above Asset Allocation, you need to invest 7,559 in Debt Asset Class and 13,860 in Equity Asset Class. This investment needs to be increasing by 5.00% each year until the goal achievement year. The amount of investments required to be done each year is displayed on the next page for your easy reference.

You may please consult your investment advisor for identifying appropriate investment products and further invest accordingly to achieve your financial goals.

Ready Reckoner: Consolidated annual investment in Debt and Equity asset classes

Below table displays, the total amount of investments required to be done each year for all your Financial Goals including Retirement as per the mathematical simulated done for your Asset Allocation in Debt and Equity asset classes.

Year	Debt	Equity	Total
1	7,559	13,860	21,419
2	7,937	14,553	22,490
3	8,334	15,280	23,614
4	8,751	16,044	24,795
5	6,369	15,907	22,276
6	6,688	16,702	23,390
7	5,258	15,773	21,030
8	5,520	16,561	22,082
9	5,797	17,390	23,186
10	6,086	18,259	24,345
11	6,391	19,172	25,563
12	6,710	20,131	26,841
13	7,046	21,137	28,183
14	7,398	22,194	29,592
15	7,768	23,304	31,072
16	7,540	22,621	30,161
17	7,917	23,752	31,669
18	8,313	24,939	33,253
19	8,729	26,186	34,915
20	9,165	27,496	36,661
21	9,623	28,870	38,494
22	10,105	30,314	40,419
23	10,610	31,830	42,440
24	11,140	33,421	44,562
25	11,697	35,092	46,790
26	-	-	-
27	-	-	-
28	-	-	-
29	-	-	-
30	-	-	-

Year	Debt	Equity	Total
31	-	-	-
32	-	-	-
33	-	-	-
34	-	-	-
35	-	-	-
36	-	-	-
37	-	-	-
38	-	-	-
39	-	-	-
40	-	-	-
41	-	-	-
42	-	-	-
43	-	-	-
44	-	-	-
45	-	-	-
46	-	-	-
47	-	-	-
48	-	-	-
49	-	-	-
50	-	-	-
51	-	-	-
52	-	-	-
53	-	-	-
54	-	-	-
55	-	-	-
56	-	-	-
57	-	-	-
58	-	-	-
59	-	-	-
60	-	-	-

Please ensure that you invest the amount of required funds in Debt and Equity asset classes as per the above given ready reckoner with consultation of your Investment Advisor.

Financial Plan Execution Pointers

Income & Expenses

Review your income & expenses in detail. Check the given comments and level of the key ratios in this report. If these ratios are unfavourable, then please take corrective actions to steadily get the ratios to the desired level. Make use of the 'Monthly Budget' tool provided in this application to plan and track your income & expenses. Do make use of 'Loan Consolidation' tool as well to reduce your monthly outflow and generate more surplus.
Note: Gaining proper control of your income and expenses is very critical. Once this is achieved, you could be able to generate the required surplus and channelize this surplus to make investments for achieving your financial goals.

Assets & Liabilities

Your assets minus liabilities is your net worth. You need to allocate your savings to build investment assets and increase your net worth so that you could strengthen your financial health and achieve your financial goals.

Insurance Plan

If you are underinsured, then it is highly recommended to get adequate life insurance cover as highlighted in this report. This would provide financial security to your dependents in case any unfortunate eventuality happens to you. Do consider availing adequate amount of health insurance as well considering health history of your family to avoid financial strain and erosion of your savings on costly medical procedures.

Financial Goals

Financial Goal Planning including Retirement planning is extremely critical activity and you need to commit yourself to make the annual investment (as given in your plan) so that you may be able to accumulate the required corpus of funds and achieve your important financial goals. If you find the required annual savings on the higher side and feel that it may be difficult for you to save the required amount, then you may need to:
1) Relook at your monthly budget and reduce some of your discretionary expenses to elevate surplus
2) If you have multiple loans, then do consider option of loan consolidation to reduce monthly outflow
3) Prioritize your goals by ranking the goals as per their importance and giving priority to the important goals currently
4) As your progress in your professional life, you will definitely have more financial resources to fulfil your goals which are not currently feasible
5) Further, over the years as you pay-off your high value loans like those of home/mortgage loans, you shall have more financial recourses available for investing and achieving your financial goals

Professional Consultation

It is recommended that you consult you Investment, Insurance, Loan and Tax Advisor for transacting into suitable financial products.

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About the Author

Nikhil Kale holds a Master of Business Administration degree with specialization in Finance. He is also a qualified Financial Planner and holds various certifications related to financial markets.

Been interested in the field of Finance and Economics, post completing his formal education, Nikhil has been working fulltime in Banking, Financial services and Insurance (BFSI) Industry. He has rich experience in designing Financial Products & Processes related to Investments, Loans, Insurance and Cards. He has worked extensively in the field of Wealth Management and has expertise in Research & Investment Advisory, Design & Distribution of Financial Products and formulating Business Strategy.

Nikhil has designed detailed and customized financial plans for over 1,200 clients. Each plan designed needed meticulous planning of financial budgets, financial goals, retirement planning, insurance requirements & investment portfolio. Nikhil aims at sharing his knowledge on personal finance by making simple, easy to use and affordable financial products to help people take control of their finances and achieve a secured financial life.

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