Financial Education for College going Students

An initiative of SEBI & NISM

Agenda

- Introduction
- Financial Planning
- SMART Goals
- Risk vs Returns
- Power of Compounding
- Inflation
- Investment Vehicles
- Investment Strategies

Importance of learning about money

- Enables us to take informed decisions about money

Introduction

- Planning of finances is essential for everyone
- One must restrain from overspending
- Planning helps us to plan, save and achieve our financial goals
- If people start planning from student days, they have longer time to plan
- Power of compounding helps the most over longer periods of time

WHAT IS FINANCIAL PLANNING?

Exercise

YOUR MONTHLY BUDGET	
A: Income	
• Pocket money • Part-time assignment • Prize • Stipend • Cash gifts, if any	
B: Expenses	
• College fees • Party • Gift • EMI, if any • Lunch • Travelling Expenses • Others	
C: Balance (A-B)	

Ideal savings should be 20% of total income

The financial planning process

Gather financial data

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Identify goals and risk appetite

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Identify gaps

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Prepare a plan to bridge the gaps

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Implement the plan

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Review periodically

Gathering financial data

What is the source of income and what is its nature

- Monthly Salary
- Business Income

How much are your monthly expenses

Knowing salary & expenses act as first step for planning

Even basic needs cannot be met, even if there is a handsome salary but lack of planning

Identify Goals

- Define investment objective or financial goals
- Goals can be short term (upto 3 years), medium term (3 to 5 years) or long term (upwards of 5 years)
- Each goal must have a target amount and a target date
- Goals without amounts and dates are likely to be missed!

Identify gaps or issues

Are there any expenses which have to be met on a priority, due to which plan may have to be changed

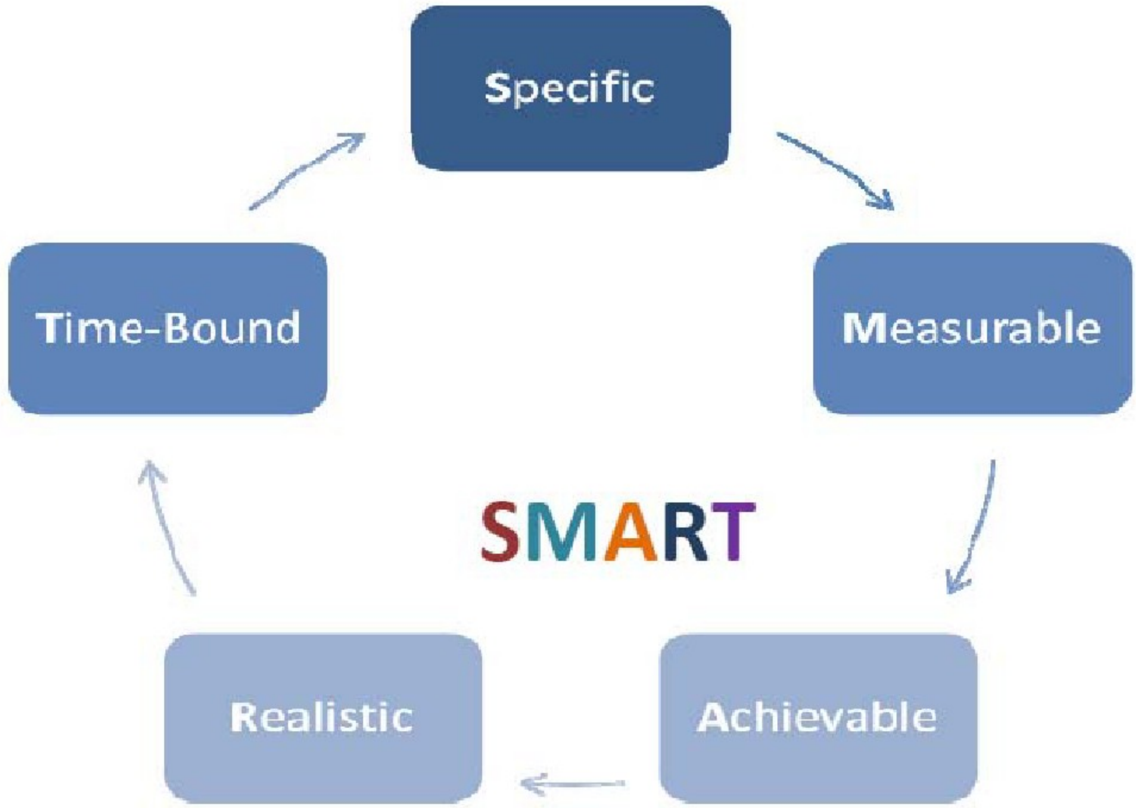
Are there any liabilities which are already existing or worse still, may crop up suddenly?

Prepare the plan

- Understand the risk taking ability
- Income & Expenditure and Assets & Liabilities play a very important role in an individual's risk taking ability
- High income does not necessarily mean high risk appetite if the person also has large amount of liabilities
- Low income used judiciously to build assets, can increase risk appetite

Implement the plan

- Preparing plan is relatively simple, implementing it regularly is the real challenge
- Where is the money invested – in which asset class – determines the potential returns the investor can expect
- Avoiding risky investments may lead to compromising of goals


Specific
Measurable
Achievable
Realistic
Time-Bound
SMART

How to achieve goals

- Arrange goals in order of their time to reach (short term, followed by medium term and lastly long term)
- Plan investments for each goal.
- Short term goals cannot be achieved by investing in risky avenues which by definition are long term in nature
- Long term goals cannot be funded by investing in short term avenues as they may not generate enough returns

Risk V/S Returns

Low risk investments include cash, bank FDs, gold etc. These will generate returns in the range of 3.5% to ~8%

Medium risk investments can be bonds of government, corporates, either directly or through MFs. Returns can be ~ 8 to 10%

Aggessive investment avenues involve direct equities or equity MFs. Returns can be ~ 12%

The eighth wonder - compounding

What happens to Rs.100 invested @ 10% for 5 years in bank FD?

Year	Amount (at 10% fixed rate of interest)	Floating rate	Amount (terms of floating rate)
1	110	10%	110
2	121	9%	119.9
3	133.1	12%	133.50
4	146.41	10%	146.8508
5	161.05	9%	160.06

Inflation – The silent killer

Inflation erodes purchasing power of money

What Re. 1 can buy today is more than what the same Re. 1 can buy after 1 year.

This means purchasing power of rupee has gone down.

Conversely it means you need more rupees tomorrow to buy the same thing which you can buy today for Re. 1

Diversification

Asset Allocation	
Funds	Rs 10, 000
Investments -	
Stocks	Rs 3,500
Bonds	Rs 3,500
Bullion	Rs 3,000

Asset Allocation

Investors need to have varying percentages of low, medium and high risk investments in their portfolio

Available resources must be deployed in various asset classes like equity, debt, real estate, gold, etc. depending upon risk appetite, understanding of the asset and its associated risks, time horizon, etc.

Savings V/S Investments

- Saving means to keep money aside
- Investment means to make efforts to make the money kept aside to grow
- Savings is relatively simple and hassle free
- Investment requires time and effort to increase probabilities of returns and reduction of risk
- Investors want high returns and low risk

Loans or Investments

Depends upon financial strength

Depends upon cost of loans. Personal Loans and credit cards have very high cost of loans

Is there a tax benefit by letting loan remain?

Credit Cards

- At times misused by spending even when person don't have money
- Non payment of money used by way of credit card within 45 days attracts huge interest, even to the tune of 3% per month
- If used properly, credit cards can allow people extra float on their money
- This time can be used to generate additional interest income.

Investment vehicles – Equities

- Represent ownership in company
- Returns dependent upon profits made by the company
- Returns may thus fluctuate with the company's fortunes
- Strictly an investment avenue for investors with a very long term horizon

Investment vehicles – Mutual Funds

- Professionally managed pool of funds
- Investors can choose a low, medium or high risk category mutual fund scheme
- Good for beginners who lack time, expertise and huge chunks of money to invest directly in equities
- Diversification and low costs are advantages of mutual funds

Investment vehicles – Insurance

Strictly speaking, is not an investment vehicle.

Majorly used in India for tax saving and also investment

New products like ULIPs are fast gaining popularity, but carry market risks

Investment vehicles – Insurance

- Cover or Sum Assured in case of life insurance policies should depend upon person's current as well as projected income
- Insurance also available for house for protection against theft, fire, etc.
- Cover can be taken for unforseen circumstances like accidents, hospitalisation, etc.

Investment Strategies – SIP

- SIP stands for Systematic Investment Plan
- Similar to Recurring Deposit in execution. Different is that here money is invested in equities/ debt papers, indirectly through mutual funds
- Biggest benefit is that of rupee cost averaging
- Cost of buying gets averaged out due to price fluctuations

Protecting Money

- Rebalance portfolio periodically, if required. Do not forget Taxes
- Weed out bad investments, even at a loss.
- Avoid direct equities if you do not understand ratio analysis, etc.
- Even in case of mutual funds, have good funds with established track record in your portfolio

Tax Planning

- Section 80C gives rebate upto Rs. 1,00,000 for select investments like life insurance premiums, housing loan principal, PPF, etc.
- Long Term Capital Gains are not taxable for equities
- ELSS schemes in mutual funds also allowed under section 80C

How to begin?

- PAN Card, passport, driving license is a must as personal identification proof
- Telephone, electricity, utility bills are required for address proof
- Know Your Client (KYC) form needs to be filled
- Demat accounts & trading accounts required for equity invsting. MF investing does not require demat

Regulators

Various regulators in Indian financal markets are:

- Securities & Exchange Board of India (SEBI)
- Reserve Bank of India (RBI)
- Forward Markets Commission (FMC)
- Insurance Regulatory & Development Authority (IRDA)
- Ministry of Corporate Affairs (MCA)
- Ministry of Finance (MoF)