Securities and Exchange Board of India

Financial Education

MIDDLE INCOME GROUP

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Do you think you need to have more money (what you have, never seems enough)? Wouldn't it be nice to not worry about money? How do you get there? Does Financial Freedom ring a bell?
Let us start with a few simple questions. Which school do you want to send your child to? Do you want your child to stop his/her education at graduation level? Why do we want to give them the best education possible? The simplest answer that one can think of is that they become competent to face the world and build a great career.

Spending time and effort on education help us build a good career which enables us to make enough money. This in turn creates a stable financial future for ourselves and our family. Similarly, to become competent related to managing money and taking good financial decisions, we need to put time and effort to gain knowledge and understand the realities of how money and investing works. Most of us have never spent any time or serious effort to become aware and educated about matters related to money or investing. Financial decision making and money matters seem so familiar to us, that we take them for granted. This is the primary reason why a lot of us have poor financial education.

For individuals who aspire to manage their own hard earned money in a sensible way, Financial Education is essential. Having enough money would enable us to realize our dreams viz. – buying a home, securing our retirement, providing our children with the best education, etc. But to create and manage this 'enough money', we need Financial Education.

Basis on which a lot of investment decisions are made:

Investing purely from the view point of Tax Planning. Investing decisions are made purely to save tax and not evaluated based on risk and return.

Peer Advice. We tend to invest in the same investment options that our friends have invested in.

Emotional Selling - You buy many financial products because your relative or close friend is pushing you to buy them

Greedy investments: we see the past record of particular products such as 50% return last year and try to earn easy money

There is no tomorrow: Youngsters think that "there is no tomorrow "and splurge all their money on "Fun"

"How to plan your finances to achieve Financial Freedom"

Name the five things which give you financial freedom?

1.
2.
3.
4.
5.

Five steps you are taking to achieve financial Freedoms

1.
2.
3.
4.
5.

Path to achieve Financial Freedom:

<u>Setting Goals:</u>

List the five goals you have in life:

1.
2.
3.
4.
5.

Goals can be defined as things we want to achieve in life, towards which we direct our efforts. Let us assume that you have a goal of running a marathon. You don't want to start of and run at full speed right at the beginning and later realise that you are unable to finish. Knowing that the distance to be covered is long, you can plan your pace. Also it will help you prepare for the race by training accordingly. Goals can help us be focused and work out a plan to achieve them.

It's rare that anyone has enough money to spend on every single want. Studies show that even multi-millionaires believe that they need about twice what they have to feel worry-free. So everyone has to make choices and set priorities—a good financial plan helps you through that process.

Goals

Goals are statements about where you want to end up. They are what you want to achieve. Goals don't talk about how you will do it. Goals focus on what you want to do.

Goals should be **SMART**

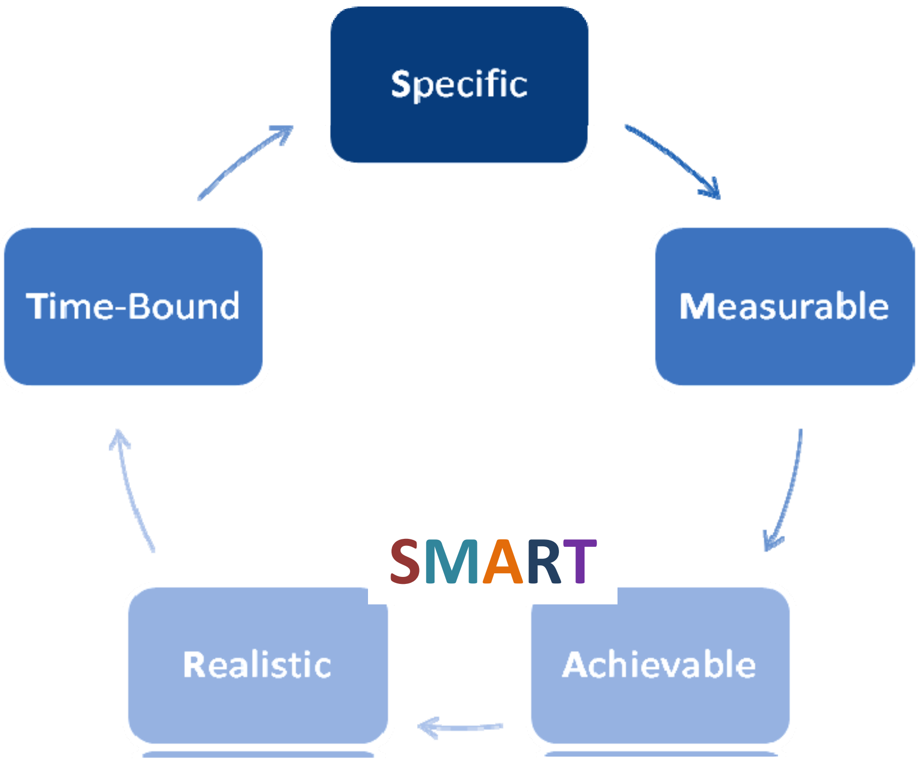
Specific—focused, NOT general.

Measurable—you can tell when you've reached them.

Achievable—they are possible.

Realistic—based on the resources.

Time bound—there is a deadline.



Goals come from your values. What you believe is important will lead you to choose certain goals. Finally and most importantly, write down your goals. You are more committed to goals when you write them down. By documenting your goals, you can see and touch them. You can also share them with others. Keep your goals in a visible place, so you'll see them daily.
One of the important goals for an individual is planning for his family for the risk of his demise.

"Retirement planning"

List down the five ways in which retirement planning was being done 30 years back

1.
2.
3.
4.
5.

What are the 5 things that you need to do for your retirement planning?

1.
2.
3.
4.
5.

How much you should invest to create your retirement fund?

Let suppose Ram at the age of 30 with monthly expenses of Rs.10, 000 wants to retire at the age of 60 (Life expectancy of 75). What is the corpus he requires for his retirement assuming that he will require 80% of his present expenses? And how much amount he should save every month to build his retirement corpus?

To find the corpus and monthly investment , first of all we have to find that how much he will be spending every month at the age of his retirement , because his current expenses in money value are going to increase in future because of Inflation.

Step 1: Value of his expenses at the time of retirement with 5% Inflation?

No. of year after which you will retire	5	10	15	20	25	30
Amount for expenses you need every month at the time of Retirement	(12,762.82)	(16,288.95)	(20,789.28)	(26,532.98)	(33,863.55)	(43,219.42)
Amount for expenses you need every month at the time of Retirement (80% of the requirement)	(10,210.25)	(13,031.16)	(16,631.43)	(21,226.38)	(27,090.84)	(34,575.54)

Why expenses are less at retirement? (80% in above scenario)

Note: Growth in current expenses after 30 years due to inflation

1.
2.
3.

Answer: Ram is retiring after 30 years from now, so his monthly expenses would be Rs.43,219 and with 80% it will be Rs.34,575.

Step 2: How much corpus he requires at his retirement to get continuous flow of cash for his monthly expense requirement?

Note: His monthly expenses now also will be increasing because of inflation of 5% pa.

Assumption: Return on Corpus or investment is 7%.

No. of years after Retirement	Expenses of Rs.10210.25	Expenses of Rs.13031.16	Expenses of Rs.16631.43	Expenses of Rs.21226.38	Expenses of Rs.27090.84	Expenses of Rs.34575.54
5	585,130.95	746,791.84	953,116.66	1,216,445.22	1,552,526.61	1,981,461.08
10	1,117,707.64	1,426,509.65	1,820,627.96	2,323,633.90	2,965,611.10	3,784,954.77
15	1,602,450.28	2,045,177.75	2,610,222.66	3,331,379.05	4,251,777.66	5,426,465.43
20	2,043,655.17	2,608,279.41	3,328,898.92	4,248,612.31	5,422,425.56	6,920,541.77
25	2,445,232.68	3,120,805.39	3,983,026.38	5,083,463.13	6,487,930.27	8,280,425.78
30	2,810,742.02	3,587,298.21	4,578,402.57	5,843,330.78	7,457,735.34	9,518,170.11

Ram will retire at the age of 60 years and his life expectancy is 75 years that makes his expenses requirement for 15 years (75 years – 60 years).

From the above table we can make out that for 15 years, his required corpus is Rs.54, 26,465.

Step 3: Ram would like to open a Systematic Investment Plan (SIP) where he will invest money every month which grows at 10% annualised over 30 years to build his retirement corpus. How much Ram should invest every month for the corpus?

Calculations:

For the calculation purpose we are finding out the corpus for Rs.10 lakhs and after getting the corpus we will multiply it by the required amount:

Interest/No. of Year	Monthly investment require to build corpus of Rs.10 Lac					
	5	10	15	20	25	30
6 %	(14,321.72)	(6,125.04)	(3,468.51)	(2,194.69)	(1,471.50)	(1,021.18)
8%	(13,621.38)	(5,516.23)	(2,943.09)	(1,746.24)	(1,093.09)	(705.41)
10%	(12,958.11)	(4,963.82)	(2,489.91)	(1,381.24)	(804.40)	(480.93)
12%	(12,329.91)	(4,463.57)	(2,101.14)	(1,087.13)	(587.47)	(324.57)
15%	(11,449.24)	(3,802.02)	(1,622.41)	(753.54)	(362.77)	(177.56)

With the above table we can make out that he has to invest Rs.480/month of Rs.10 lakhs. Therefore for Rs.54 lakhs, he has to invest Rs.2, 592 every month = (54/10) x 480 = Rs.2, 592

Assignment:

Calculate the retirement corpus required by you and the monthly investment required to build that corpus based on the tables given below:

1. Your monthly expenses (   )

(For the calculation purpose monthly expenses are given as Rs.10, 000. If your expenses are Rs.20, 000 then multiply the corpus by 2)

2. Your monthly expenses requirement at the time of retirement with inflation rate of 5% ____________

No. of year after which you will retire	5	10	15	20	25	30
Amount for expenses you need every month at the time of Retirement	(12,762.82)	(16,288.95)	(20,789.28)	(26,532.98)	(33,863.55)	(43,219.42)
Amount for expenses you need every month at the time of Retirement (80% of the requirement)	(10,210.25)	(13,031.16)	(16,631.43)	(21,226.38)	(27,090.84)	(34,575.54)

3. Retirement corpus you require getting regular cash flow ___________

No. of years after Retirement	Expenses of Rs.10210.25	Expenses of Rs.13031.16	Expenses of Rs.16631.43	Expenses of Rs.21226.38	Expenses of Rs.27090.84	Expenses of Rs.34575.54
5	585,130.95	746,791.84	953,116.66	1,216,445.22	1,552,526.61	1,981,461.08
10	1,117,707.64	1,426,509.65	1,820,627.96	2,323,633.90	2,965,611.10	3,784,954.77
15	1,602,450.28	2,045,177.75	2,610,222.66	3,331,379.05	4,251,777.66	5,426,465.43
20	2,043,655.17	2,608,279.41	3,328,898.92	4,248,612.31	5,422,425.56	6,920,541.77
25	2,445,232.68	3,120,805.39	3,983,026.38	5,083,463.13	6,487,930.27	8,280,425.78
30	2,810,742.02	3,587,298.21	4,578,402.57	5,843,330.78	7,457,735.34	9,518,170.11

4. Monthly investment you require to build your corpus__________

Assumption: You can take interest rate as per your risk profile.

Assumption:
You can take interest rate as per your risk profile.

For calculation purpose, you have to invest regularly to build the corpus of Rs.10 lakhs. If your requirement is 20 lakhs, then multiply the monthly investment amount by 2.

Interest/No. of Year	Monthly investment require to build corpus of Rs.10 Lac					
	5	10	15	20	25	30
6 %	(14,321.72)	(6,125.04)	(3,468.51)	(2,194.69)	(1,471.50)	(1,021.18)
8%	(13,621.38)	(5,516.23)	(2,943.09)	(1,746.24)	(1,093.09)	(705.41)
10%	(12,958.11)	(4,963.82)	(2,489.91)	(1,381.24)	(804.40)	(480.93)
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15%	(11,449.24)	(3,802.02)	(1,622.41)	(753.54)	(362.77)	(177.56)

Please note that higher the return, higher is risk. It is advisable to see your risk taking ability before choosing a financial product.

Understand your Net worth:

Please take 5 min to read the data given:

The family of Mr. Dipak Shah (34 years) comprises of his wife (30 years)-a self-employed professional, son (3 years) and mother around 55 years.

Annual Income/ Expenditure Statement

Item	Self (Rs)	Wife (Rs)	Gross (Rs)
Income (Salary/ Professional)	2,00,000	60,000	2,60,000
Expenses			
Household Expenses			1,20,000
Misc. Expenses			16,000
Home loan EMI Annualised			60,000
Education			12,000
Personal Loan Repayment			15,000
LIC Premium* (Self & Wife)			7,000
Mediclaim Premium (Self & Family)			10,000

Assets & Liabilities	Rs.
Residential House	6,50,000
Bank FD	27,000
NSC	50,000
Credit card balance	25,000
Phone bill not paid	2,000
Bank account balance	36,000
Home Loan EMI O/s	5,35,000
Personal Loan	2,00,000
Gold Jewelry	60,000
PO MIS	1,00,000

Assets & Liabilities	Rs.
Shares	40,000
Life Insurance Term Plan for Self & Wife	50,000
Furniture	30,000
Television	10,000
Home Appliances	25,000
Canteen bill not paid	2,000
PF (Self)	85,000
Electrical Goods	3,000
Company FD	25,000

What are the assets owned by the family?

1.______________________________ 6. ______________________________
2.______________________________ 7. ______________________________
3.______________________________ 8. ______________________________
4.______________________________ 9. ______________________________
5.______________________________ 10.______________________________

How will you classify the assets owned by the family?

1.______________________________ 6. ______________________________
2.______________________________ 7. ______________________________
3.______________________________ 8. ______________________________
4.______________________________ 9. ______________________________
5.______________________________ 10.______________________________

What are the possible assets that can enhance the wealth of the family?

1.______________________________ 6. ______________________________
2.______________________________ 7. ______________________________
3.______________________________ 8. ______________________________
4.______________________________ 9. ______________________________
5.______________________________ 10.______________________________

Learning: **The focus of the family should be on accumulating assets that will enhance the wealth of the family.**

List all the liabilities for the family

1.______________________________________ 6. ___________________________________
2.______________________________________ 7. ___________________________________
3.______________________________________ 8. ___________________________________
4.______________________________________ 9. ___________________________________
5.______________________________________ 10.___________________________________

Calculate the Net worth of Mr. Shah's Family

Learning Tracker:

1. Identify all the income generating assets owned by you

2. Identify all the liabilities you have

3. Calculate your own Net worth as of today

Budgeting

Making a family budget is a very critical step to ensure success in meeting long term goals. Making a budget is a simple task. You do not require any special skills to make a budget. It just takes some effort and a little time. A budget enables you to become aware of how money comes in and where it is spent. It helps you manage your financial resources more efficiently so that you can reach your goals.

Sources and Uses: Putting It All Together

Income can flow in from a number of places. It can be your salary, rent that you receive, interest that you receive from your investments, etc. The expenses side would depend on the type of lifestyle that your family leads. Creating a budget would help you plan and balance between the incomes received and your lifestyle expenses. The excess of income over the expenses is the savings that you are able create. This savings is the key element which enables you to fulfill your goals in life.

There is a difference between good budgeting skills and making and keeping a budget. By creating a budget you can decide on how you will use your money. Sticking to a budget requires a bit of effort and discipline. Being a good money manager (having good budgeting skills) will help you stick to your budget. This will enable you to focus on saving an adequate part of your income which can be invested wisely. This in turn would help you meet your goals in life.

Before you create a budget it is best to understand how you feel about making a budget. A first step is to think about the reasons for doing a budget. What BENEFITS will you receive from having a budget? With benefits often come costs. So, it's equally important to think about the COSTS associated with having a budget. If you know the COSTS up front, you'll be bettered prepared to stick with your budget.

Exercise

Complete the following chart. How will making and keeping a budget benefit you? Be sure to think through the costs. By making and keeping a budget, what will you be giving up?

A Budget will benefit Me because:	**A budget will cost me because I will have to give up**

Before we start to make a budget, you should know about your present Money Management Skills:

How Do You Manage Your Money?

Please answer the following questions according to your present financial practices:

I pay the rent/mortgage payment and other utility bills on time.

☐ Always ☐ Sometimes ☐ Never

I save 25 percent of my net income.

☐ Always ☐ Sometimes ☐ Never

I keep three to six months of my net monthly expenses in reserve for emergencies.

☐ Always ☐ Sometimes ☐ Never

I plan ahead for annual expenses, such as taxes and insurance.

☐ Always ☐ Sometimes ☐ Never

I set goals and have a spending plan for my net income.

☐ Always ☐ Sometimes ☐ Never

I keep track of my regular expenses.

☐ Always ☐ Sometimes ☐ Never

I pay my entire credit card outstanding before the due date.

☐ Always ☐ Sometimes ☐ Never

Scoring

Give yourself 2 points for each **Always**; 1 point for each **Sometimes**; and 0 points for **Never**.

14-10 You are practicing good money management skills.

10-6 You are making an effort to improve your skills.

6-0 You need to improve your money management skills.

A suggested budget format is shown in Worksheet. You can also make budgets using personal finance software programs. More specifically, a budget can be drawn up in six steps:

- Estimate your future net income for the period of the budget.
- Determine your expected expenditures during the period of the budget.
- Determine what you expect to spend to fund your personal goals.
- Determine whether there is a surplus or a deficit.
- Record your actual income and expenditures.
- Evaluate whether changes in spending and saving are necessary.

In the given below format, you have to draw a monthly budget taking your monthly income and Expenses into consideration: The below exercise will help you to know your monthly deficit/surplus:

Worksheet

The Spending Plan

Monthly Income	**Amount (Rs.)**
Total Monthly Income	

Monthly Expenses	**Amount (Rs.)**
Total Monthly Expenses	**Rs.**
= Monthly Shortage/Surplus	**Rs.**

Investing: Making Money Work for You

Your parents were right: money doesn't grow on trees. It actually grows on other money—which is where we get the old saying, "It takes money to make money." Money does have an amazing ability to make more money. The good news is it doesn't take much money to make this happen. You already have several powerful tools for reaching your financial goals, including a financial plan to help you map out the route and a spending plan to help you get there. In this unit, you will be introduced to two more powerful tools—saving and investing—which will really put your money to work for you.

Saving = Investing

Saving is what people usually do to meet short-term goals. Your money is very safe in a savings account, and it is usually earning a small amount of interest. It's also easy for you to get to your money when you need it just go to your bank and make a withdrawal.
Investing means you're setting your money aside for longer-term goals. There's no guarantee that the money you invest will grow. In fact, it's normal for investments to rise and fall in value over time. But in the long run, investments can earn a lot more than you can usually make in a savings account.

Why are saving and investing so important to your financial plan?

For one, saving or investing money for your financial goals makes you less tempted to spend it. It's in a totally different account from the one you pay your everyday expenses. The best reason for investing is that your money is actually making money for you. Any interest or investment gains you earn get you that much closer to your financial goals. And you didn't have to do anything for it! You will learn more about this amazing money principle in the next section.

Start investing Early:

Did You Know?

There's a huge advantage to investing early. Let's say you start investing Rs.2, 000 every year when you're 18. You put it into an account that grows by 7% each year, and continue to invest the same amount for 10 years. Then you stop and just let that money sit for the next 37years, where it continues to grow at 7% a year, until you're 65 years old.

Now say your sister decides not to invest until she turns 30. Then she puts Rs.2, 000 a year into an account that also earns 7% a year—and does it for the next 35 years, until she turns 65. Who will have more money? You will! About Rs.85, 000 more. After investing only Rs.20, 000 your account will be worth Rs.3, 61, 418. But even though she has invested

Rs.70, 000, your sister will have only Rs.2, 76, 474. That's because you had the power of time on your side.

Illustrations: Power of Compounding

Santosh & Sunil are friends and both want to invest Rs.1 lac @ 10% pa. But Santosh will get compounding interest rate of 10% and Sunil will get Simple interest rate of 10% on their Investments

Now see the power of compounding:

Year	Compounding @ 10%	Simple interest @ 10%
1	1,10,000.000	1,10,000
2	1,21,000.000	1,20,000
3	1,33,100.000	1,30,000
4	1,46,410.000	1,40,000
5	1,61,051.000	1,50,000
20	6,72,749.995	3,00,000
25	10,83,470.594	3,50,000
30	17,44,940.227	4,00,000

1. After one year both will get same amount i.e. Rs.110, 000
2. After 5 years Santosh will get Rs.1, 61,051 and Sunil will get Rs.1, 50,000.
3. After 30 years Santosh will get Rs.17, 44,940 and Sunil will get Rs.4, 00, 000,

A difference of Rs.13.4 lac in 30 years

1. Divya invests Rs.500 today in an account earning 7% p.a interest rate compounded annually. How much will it be worth in?

a. 5 years?
b. 10 years?
c. 20 years?

2. Now Divya finds an account that earns 10% p.a interest rate compounded annually. How much will her Rs.500 be worth at the new rate in:

a. 5 years?
b. 10 years?
c. 20 years?

The Rule of 72

You now know that the concept of compounding means that your money is making more money even while you sleep. One way to see how powerful this can be is called the ***Rule of 72.***

Mathematicians say that you can see how long it will take you to double your money simply by dividing 72 by the interest rate. So let's say your grandparents give you Rs.200 for your birthday and you plan to invest it. If you put the money into an account that earns 6 percent interest a year, how long will it take to grow to Rs.400?

72 ÷ 6% interest = 12 years

So in 12 years, your money will have doubled to Rs. 400. But what if your dad tells you about an account where you could earn 9 percent a year on your money?

72 ÷ 9% interest = 8 years

Now you will have that Rs. 400 in only eight years. By earning just a little bit more interest, you reduce the time to double your money by four years. And this doesn't include any additional money that you may put into your account over time, which would only speed up the process.

But what if eight years seems too long to wait and you want that Rs.400 in four years instead? The Rule of 72 can also tell you the interest rate you need to earn to double your money in a certain amount of time. So for four years it would be:

72 ÷ 4 years = 18% interest

You can now see how even a small difference in the interest rate you earn can make a big difference in how quickly your money compounds — earning you more money — over time.

Risky Business

Two people have different investment strategies. Read about their situations and then follow directions to compare their investment portfolios.

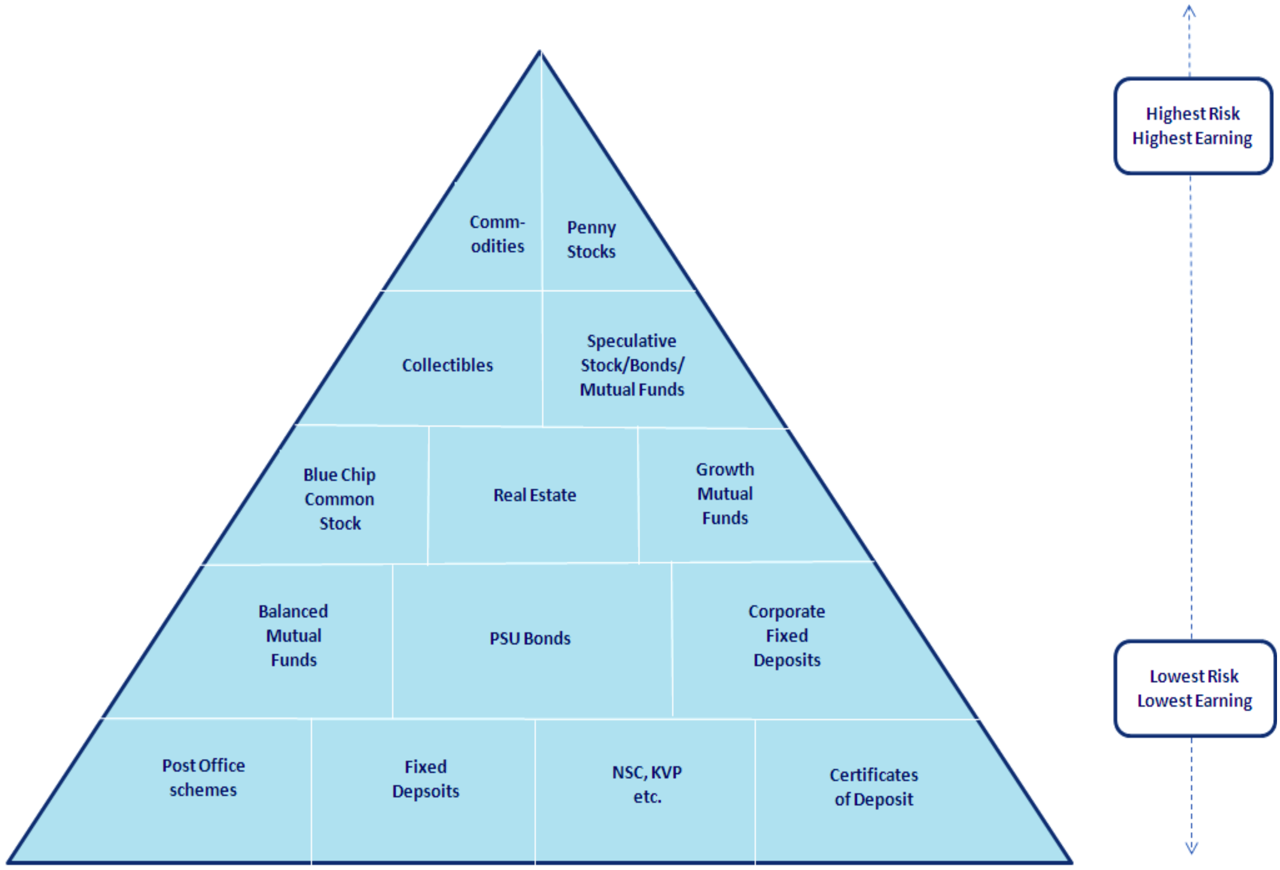
Rajesh Jain, age 27 and single, has an emergency fund in a savings account. His other investments include investment in PPF and mutual fund. Sixty percent of the money in these investments is in a growth mutual fund, and 20 percent of the money is in each of the other two investments.

Sandip Chowta is 22 and also single. He has an adequate emergency fund in Liquid Mutual Fund. The remainder of his investment is in stock which he purchased from SEBI registered Broker,

Elements to Compare	Rajesh Jain	Sandip Chowta
Who has a lower-risk investment program?		
Who has the potential for higher earnings?		
What is each person's highest-risk investment?		
What is each person's lowest-risk investment?		

When many people hear the word "investment," they think of the ***stock market,*** the place where stocks are bought and sold, and they think about the risk of losing all their money. But risk is simply the uncertainty that the anticipated return will be achieved. All investments involve some degree of risk—even relatively safe investments like an insured savings account. That's because the interest earned on the savings account may not keep pace with inflation, decreasing an investor's future purchasing power. But a savvy investor understands and takes steps to manage her or his risk.
The risk/reward trade-off is the principle that an investment must offer higher potential returns to compensate for the increased potential unpredictability. So the greater the risk you take with your money, the higher the potential returns on your investments. The lower the amount of risk you take, the lower the potential returns will likely be. ***Figure demonstrates*** this for some common types of investments.

Financial Planning Pyramid



The risk/reward trade-off is the key to choosing investments that are right for you, because most people have different ideas about how much risk they should take with their money. Some are conservative and want to keep it someplace safe, like a savings account. Others are more aggressive and are willing to invest it someplace riskier, like the stock market. In the end, you have to decide how comfortable you would be with an investment that could frequently go up and down in price.

Of course, the reward for taking on risk is your return on investment. Return can be made up of income such as interest or ***dividends*** (which are a share of the profits you receive as a stockholder). Return can also come about from growth stock prices, called ***capital gains.*** If an investor buys a stock and sells it later at a higher price, the difference between the purchase price and the selling price is called a ***capital gain.*** So if you bought Stock A for Rs.10 per share in 2000, then sold it for Rs.25 per share in 2005, your profit, or capital gain, is Rs.15 per share. If an investor ends up selling a stock at a lower price, the difference is called a ***capital loss.***

When talking about return, people usually cite an investment's ***rate of return*** or rate of interest, which is simply the annual percentage return on an investment. In short, it tells you how fast your money is growing.

Features and advantages of various investment avenues:

Mutual Funds:

A Mutual Fund is basically a pool of funds that comes from investors who share a common financial goal. Let's make it simple; a mutual fund is a financial intermediary, which is established to manage pooled money professionally. A Mutual Fund investor gets units out of the investment made by him in the mutual fund. The units represent the investor's proportionate ownership into the assets of a scheme. The biggest strength of the mutual funds is its pooling strategy. This enables the retail investor to be a part of a diversified investment by investing even a small amount which it would have not been possible in case of individual investments. Along with this benefit, the other benefits which investors enjoy are Professional Management, Economies of scale, Liquidity, diversification, flexibility, and regulated etc.

There is a fund manager is the one who manages the pooled fund in a mutual fund scheme. He takes decision based on his huge experience and investment skills. However, these decisions are governed by certain guidelines which are decided by the investment objective(s), investment pattern of the scheme and are subject to regulatory restrictions.

There are various types of mutual funds schemes available in the market which cater to different risk and return appetite of the investors.

Public Provident Fund:

- The tenure of the scheme is 15 years.
- Range for investment varies from Rs.500 to Rs.70, 000 per year.
- Interest and permitted withdrawals are tax free.
- It is a tax saving instrument as the contribution is eligible from tax deduction from taxable income of a person within limits.
- Under the scheme, there are loan facility and partial withdrawals facility available.

Systematic Investment Plan (SIP):

- Might of Compounding: Compounding make the money grow faster.

- In SIP, a lump sum amount is not required and one can invest in small amounts on a regular basis. This feasibility really doesn't pinch an investor. Also, the contribution to SIP can be made directly from the bank account.
- On a long time frame extreme market conditions are averaged out and hence investors are not impacted by volatility and the returns are usually better than the normal low risk products

National Savings Certificate (NSC):

- The span of the deposit is 6 years and the interest on the deposit is 8% per annum. (Interest is compounded every 6 months.
- The amount contributed is tax deductible within limits.
- They are available in post offices or through agents.

Post Office Monthly Income Scheme:

- The scheme requires a lump sum investment for a period of six years at a monthly interest of 8%.
- The interest earned on the amount is paid as monthly income to the investor.

Investment in Gold:

- One thing to remember is buying jewellery and investing in gold are not the same.
- Several banks have started selling gold coins and bars.
- Gold Exchange Traded Funds through stock exchanges

Investment in Real Estate:

- Investment in real estate serves two purposes. One can save the monthly rental outflow by owning a house and secondly one can increment his income by renting out the house to a tenant.
- Over a period of time the value of the asset usually increases which is known as capital appreciation.

Investment in Insurance:

- The protection against financial risk by paying a fee is known as insurance. A life insurance enables the members of the insured to meet the liabilities in case of some unfortunate situations leading to the stoppage of income.

Types of Insurance:

Term Insurance: In this type of insurance the entire premium goes towards insurance.
Endowment policies: In this scheme, the balance of the premium left after provision of life risk is either invested to create a fund or is returned back to the insured after the term of the policy.
Whole life policies: In this scheme, the amount insured is paid to the nominee of the insured person.

Unit Linked Insurance Plans:

This scheme is designed to get the benefit of both insurance and investment in securities. It is quite similar to endowment policies where, investments are made in securities.

Medical Insurance:

This type of insurance safeguards the insured from unforeseen expenses relevant to medical.

Activity I:

Based on the above features and advantages of the various investment avenues, please suggest which investment avenue best suits to the needs of the below mentioned people:

Mr. Sen is a young professional who works in a private firm. He came to know that his company did not have any pension plan on retirement of an employee. He gets worried about his future life and wants some investment to be made now so that it will support him after retirement. He visits a financial advisor for suggestions. Keeping the above mentioned features and advantages of various investment avenues, what should be the advice of the investment advisor?

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Mr. Chaddha is an investment freak and he has invested in shares of different companies, mutual funds, real estate etc. But he has to pays huge tax on the returns which he makes out of these investments. Now he wants some investment that will aid him to reduce his tax liability. Among the above mentioned investment avenues, which one would be best suit for his requirement?

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Mr. Banerjee is a 32 years working professional. His family consists of his wife, and two children. His son is 5 years old and daughter is 1 year old. His wife is a homemaker. This means that Mr. Banerjee is the sole earner in the family and in case of any unfortunate event like his death or disability, his family would have no means to survive. He wants to safeguard his family from such situations that may occur in the future. Which of the product among the above mentioned products would be the best suit for Mr. Banerjee?

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Important points to keep in mind to achieve Financial Freedom:

Organizing your Financial Data

Mr.Sanjeev Rai is a supervisor in a factory. He regularly invests in the mutual fund and stock market. He bought different types of insurance policies for any unexpected event. He also invested money in properties. He also lends/borrows money to/from his friends for their/his business requirements. One day unfortunately he dies. And his family came to know that he has not maintained any record of any of his investments, insurance etc.

Name the five problems that his family will face?

1.____
2.____
3.____
4.____
5.____

According to you what five things he should have done to avoid the above problems?

1.____
2.____
3.____
4.____
5.____

Important points:

- Maintenance of record of all investments
- Keep the record on nominations
- Draft your will
- Maintenance of record of all assets and liabilities:
- Keep your family informed about the investments made.

Consumerism

Have you heard the term: “consumerism”?
It describes a big piece of our new culture. In short, it can be defined as spend, spend, spend your way to happiness—even if you don’t have the Money.

It’s the belief that the more stuff you have, the happier you’ll be. It’s commonly described as “Keeping up with the Joneses.” By “Joneses,” we mean the people who have stuff that you want.

For example: a nicer house, more expensive car or highly priced clothing that you can’t afford.

In reality: Can you ever keep up with the Joneses? Probably not, there will always be someone with a bigger house, ritzier car and more expensive clothes.
If you let it, keeping up with the Joneses can use ALL of your time and money to get more stuff.

All of the ads are trying to get you to spend money so you can:
Look better—right away
Feel better—right away
Have more things—right away
Be more popular—right away

And, it’s not just you they want to hook. They want your children’s attention, too. In fact, they want to get to your children, so your children will get to you. They want your children to pester you into buying things. This is sometimes called “pester power.” And, saying “no” to your children is often really hard.

Who is behind all of these ads?

People who want to make money out of you. Businesses of all sizes spend large amounts of money to get you to buy their products and services. This is called marketing. Some of these products do benefit you. Some you need. But many, you don’t. Often times, buying unnecessary things limits what you have to share and save—for the benefit of your family now and into the future.

Many marketers use a selling strategy that focuses on a person’s insecurities, appealing to:

- The way you look.
- The way other people will look at you.
- What will happen to you if you don’t use their product or service?

This is why advertisements are so powerful. They tap into your fears, especially the fear of being rejected by others. One way to reduce advertising pressure is to take some time to really look at the ads. By taking the time to question them, you can often see how they are trying to manipulate you. Use the following exercise to identify an advertisement's "hidden meaning." It would seem that being aware of marketers' manipulative message would strengthen your ability to just say "no." The problem is that you—and thousands or millions of other people— are seeing the same "spend" messages over and over. Because these messages are repeated so much, they can appear to define what is real. Even if it is not real, you begin to think that what you see in the advertisement is average (typical or normal life) for everyone. You may think that everyone drives big, expensive cars. Everyone but you, that is. You may think everyone lives in glamorously decorated homes, just like the people in ads or on TV shows. Everyone but you may even start to believe that everyone looks like the people in ads or on TV. Everyone but you may compare yourself to the people in ads and conclude that you're "missing out" and not living at the same level as most people. You may feel that you need to catch up. And then you may, like most other people, start playing the game—trying to keep up with the *Joneses.*

The "Joneses" game:

Robs you of your time.
Uses up your treasure.
Keeps you from fully realizing your talents.
Distracts you from reaching your goals.

Taking Action

Find and review a magazine ad, then answer the following questions:

What is the ad trying to get me to buy?

What messages are being used to try to get me to buy it?

What emotions are they trying to tap in me?

Are they selling something I need?

Who is behind the ad?

Do they have my best interest in mind?

The next time you feel the tug to buy from an ad, ask yourself these questions. Also, get your children and other family members to look at ads and answer these questions. Make it fun .Make a game of it.

Here are some ways to reduce the effects of advertising and focus on stewardship:

Focus on your dreams and goals.

These are the things most important to you and your family. Think about why getting more now can keep you from reaching your goals. Be able to explain this to your family.

Turn off the TV.

Or limit it. The strongest images come from both commercials and shows. This is what causes a warped sense of reality. This is where children get most of their information. They use this information to “pester” you into buying things you may not need.

Get rid of magazines filled with clothing, accessory, perfume and car ads.

These ads build up unrealistic expectations of what you should have and how you should look.

Talk about the “Joneses” concept and your related feelings and pressures.

Talking about it with your spouse/partner, family and friends can help you understand your feelings. It can also give you support not to “play the game.”

Focus on stewardship as a way to shape your financial choices.

Remember that everything you have is your hard money earned. It is your job to take care of these gifts. You know best how to steward your resources, not the companies advertising and trying to sell to you. Want to better manage your money? Blocking consumerism and stewarding your resources can help. Doing so helps you save money, share it and spend it in a way that supports your goals. Another important tool to help you keep your money is “budgeting.” Budgeting is the practice of knowing how you use your money. Tracking your use of money—every penny, every day - can help you see this well.

Ponzi scheme

A Ponzi scheme is a fraudulent investment operation that promises high rates at little risk to investors. The scheme generates returns for older investors from their own money or money paid by subsequent investors, rather than any actual profit earned. The perpetuation of the returns that a Ponzi scheme advertises and pays requires an ever-increasing flow of money from investors to keep the scheme going.

The system is destined to collapse because the earnings, if any, are less than the payments to investors. Usually, the scheme is interrupted by legal authorities before it collapses because a Ponzi scheme is suspected or because the promoter is selling unregistered securities. As more investors become involved, the likelihood of the scheme coming to the attention of authorities increases.

How to Spot one?

The Ponzi scheme usually entices new investors by offering returns other investments cannot guarantee, in the form of short-term returns that are either abnormally high or unusually consistent. In other words it seems too good to be true.

The ultimate unraveling of a Ponzi scheme

- As more investors become involved, the likelihood of the scheme coming to the attention of authorities increases.
- The promoter will vanish, taking all the remaining investment money
- The scheme will collapse under its own weight as investment slows and the promoter starts having problems paying out the promised returns
- External market forces, such as sharp decline in the economy will cause many investors to withdraw part or all of their funds not due to loss of confidence in the investment, but simply due to underlying market fundamentals

Beware of Mis-selling

Buyers Beware. This is the mantra one has to follow in Indian financial markets. From last many years some entities are using fancy words and tactics to lure investors and sell them products only with the intention of earning maximum commissions.

Dividends declared by Mutual funds

This is very common tactic used by agents. Investors who do not how mutual funds with dividend options work fall in the trap thinking that dividend is something extra which they get apart from growth. However the reality is that dividend is your own money which comes back to you and then Net Asset Value (NAV) of the dividend option goes down proportionately. Dividend is more of a marketing trick to increase sales.

Selling based on past performance - this fund has returned 36.6% annual return in last 3 years

Past return is often the basis on which most agents/advisors convince investors to purchase a product. Firstly investors need to be aware that when it comes to equity investments past returns are in no way indicative of what the future returns can be. Another aspect not revealed is how the fund has performed relative to its benchmark. Let us take a case where NIFTY has given 40% return and a mutual fund with NIFTY as benchmark has given 41%. In such a case it is better to invest in Exchange Traded Fund (ETF) tracking the NIFTY and get 40% return, as we would eliminate fund manager risk and the higher costs associated with managing a mutual fund as compared to an ETF. To truly evaluate a Fund, we should evaluate its performance not just in good times, but also in bad times when markets are not doing well.

Products offering guaranteed returns

Now a days lot of products are launched which incorporate an element of guaranteed returns. However it is to be noted that any investment is subject to market risk and investors should not expect guaranteed return on market investments. It is also suggested that in those products where guaranteed return is very low, investors should compare the same with other products such as bank fixed deposits before deciding. Investors must note that past performance is no guarantee for future returns.

Low NAV of a NFO from mutual funds

Most of the New fund Offer (NFO) pay heavy commissions to agents. And to earn this high commission, agents push these products by telling investors all sorts of things. The favorite explanation given is that the investor will get more units. Most Investors also confuse NFO of a Mutual Fund with an Initial Public Offer (IPO) of a company in the Stock Market.

However through recent changes made by SEBI in interest of investors, this is no longer an attractive option for MF agents.

Conclusion

Because of high commission, agents tend to go beyond limits and start selling the product where commission is more. An investor should explore various options available within the asset class chosen by him before investing. Investor will always find a product which suits his requirement. The investor should always ask what amount will be invested and what amount will go towards agent’s commission. SEBI has recently band entry load for mutual fund scheme. Investor need to pay a separate amount towards service charges and money paid to but mutual fund units shall be fully invested as per the objectives of the schemes. This ensures that the investor is fully aware of the money paid to the agents toward the services rendered by him.

Securities and Exchange Board of India

For future financial education programs on any of the following modules;

1. School Children
2. College Students
3. Middle Income groups
4. Executives
5. Retirement Planning
6. Home Makers
7. Self Help groups

OR

Any of the following topics on securities markets namely;

1. How to read an offer document
2. How to invest in the primary market through stock exchanges.
3. How to trade in securities/guide to investors.
4. D-mat account and depositories.
5. Mutual funds-do's and Dont's
6. Collective investment schemes- Do's and dont's
7. Buy back of shares, delisting of securities,
8. Takeover regulations
9. Investor grievances-how to resolve it

Please write to SEBI at: feprogram@sebi.gov.in

Or

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