

Learn with DNA...
Liquid plus schemes

Being young is more reason to plan

Starting early not only gets you bigger returns, but also keeps your payouts low

Mona Shah



The earlier you sow, the earlier you reap, or so that age-old adage may be rephrased slightly. Given the importance of money in our lives, it is important that one plan his finances fairly early in life.

It is important to dream, but it is more important to plan and strategise in order to realise the dream. To take an example, in case you are starting a new venture or planning to diversify your existing business, you also need to identify the source of your capital, among other things.

Yet, when it comes to setting financial priorities, today's young workforce is way too focused on cell phone bills, credit card payments and savings accounts. Ask them what they are doing for the future, or about exigencies beyond their control, and most would draw a blank beyond the conventional tax-saving avenues.

Goes without a saying, if you are young, earning big and want to be in control of your financial future, you must have a plan that allows you to find good investments, reduce taxes, beat inflation, and properly manage money.

The two primary objectives of every young couple should be to set up a savings plan and eliminate debt. You need to make sure that you have set aside something every month.

Besides, the greatest financial risk facing most families is the death or long-term disability of a breadwinner without whom there would be insufficient income to maintain the family's standard of living, hence the need for adequate life and medical insurance cover.

The right course for the young and earning would be as follows:

- Set your goals
- Build wealth
- Manage your finances
- Protect your assets
- Plan your estate and investments

The best way to start is by designing an investment plan to suit your individual circumstances and regularly monitor the same. As you begin and travel on your financial expressway, these lessons should ensure that you remain on track and keep achieving your financial goals on the way.

According to Warren E. Buffett, investing successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What is needed is a sound intellectual framework for making decisions and the ability



to keep emotions from corroding that framework.

Investment

Here are a few things to keep in mind while investing:

1. Risk is inevitable - manage it

Once you decide to put your money to build long-term wealth, you have to decide, not whether to take risk, but what kind of risk you wish to take. Determining your risk appetite involves measuring the impact of a loss on your financial health — and mental well being, too.

2. Start early - benefit from compounding

You may have heard it said that the best time to plant a tree was 20 years ago; the second best time is today. The same is true of investing. When you start investing early, you get to your financial goals with a smaller amount of money than you would by starting late. This is because of the power of compounding.

3. Have realistic expectations - greed is bad

Most people invest in stocks and expect them to double in quick time. If you want to double your money, either buy a lottery ticket or go to a casino, but be prepared to lose everything. Stock market is not gambling; it is ultimately a reflection of economic growth. As such, one needs to align one's expectation of returns in line with the expected GDP growth. Compare the performance of your portfolio with relevant benchmark indices and develop realistic expectations.

4. Invest regularly - use time, not timing

You can't hope to time the market always, though you may be lucky once or twice. There

is no instance of a single investor who has made money regularly by timing the market.

Don't panic when the market is dropping and don't become greedy when prices are rising. Emotions can be the greatest enemy to your long-term investment plan. In retrospect, you may have been better off buying at a time when most investors were selling.

5. Stay invested - be a marathon runner

The markets have seen lots of ups and downs, but history shows that over time, the value of a well-diversified portfolio will increase. That's because prices don't rise every day - they spurt only during a few short intervals of time.

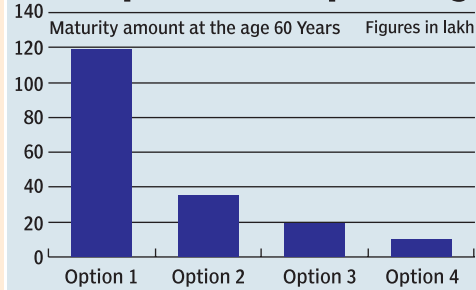
Stay invested for longer periods. It will keep you from making common mistakes such as timing the market, picking bad stocks, speculating on stocks that are worthless, investing on borrowed money, trying to make a killing in some fad-of-the-day stock, etc.

my finance

Early bird wins

Particulars	Option 1	Option 2	Option 3	Option 4
Amount invested p.m.	1,000	1,000	1,000	1,000
Starting age	20	30	35	40
Investment for years	40	30	25	20
Return p.a.	12%	12%	12%	12%
Amount invested	4,80,000	3,60,000	3,00,000	2,40,000
Maturity amount at 60	1,18,82,420	35,29,914	18,97,635	9,99,148

The power of compounding



Insurance

The following three categories of insurance covers should be a priority for all:

1. Term insurance policy: This is a pure risk cover, which gives you protection against the uncertainties of life. Going by the general principle of need assessment for insurance, the coverage should be at least 20 times your current income. It is an ideal way to secure the financial future of your loved ones since you get a high cover at a very nominal cost plus the option to add covers for other eventualities.

2. Personal accident insurance policy: This policy offers compensation in case of death or bodily injury to the insured person, directly and solely as a result of an accident, by external, visible and violent means. The policy operates worldwide and is a 24-hour cover. Different coverages are available, ranging from a restricted cover of death only to a comprehensive cover covering death, permanent disability and temporary total disability.

3. Health insurance policy: This policy provides for cashless hospitalisation in India for the treatment of any illness or disease or accidental injury (not specifically excluded) suffered during the policy period. The payment of claim is made through third party administrators (TPAs) who have been empanelled by the company to provide hassle-free admission and discharge from the network hospitals without making any payment. The reimbursement of domiciliary hospitalisation claims will also be made through the TPA.

The author is a certified financial planner working as senior manager, SRE Financial Planner. The viewpoint is that of the author and does not necessarily represent the view of FPSB India. Feedback to the article may be mailed to myplan@fpsbindia.org.

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As per the Sebi norms, any discounted instrument, like commercial paper, certificate of deposit, T-bill, etc, need not be marked to the market. Also, instruments with less than 6 months of maturity need not be marked to the market. The regulations also require that if the liquid fund or plan has invested in a fixed rate asset, the remaining tenure of the asset has to be one year or less. In case of floating rate assets, the interest reset frequency has to be less than one year or less.

The interest floating rate assets pay keeps changing and are linked to a certain benchmark rate. Hence, the interest being paid out keeps changing.

For a fund to be categorised as a liquid fund or plan, the frequency of change in this interest rate has to be less than one year.

So, for a fund to be more or less a liquid fund, but not be categorised as one, all it needs to do is to get around one of these conditions, like have a mark-to-market component at 10% or more, or have one fixed rate instrument, which has a maturity of greater than one year. Liquid plus schemes typically tend to have a mark to market component of slightly greater than 10%, as they tend to invest in securities of a slightly higher maturity vis-à-vis a traditional liquid fund. Hence, they do not get categorised as liquid funds and can continue paying a dividend distribution tax at 22.44%.

Valuations key risk to Asia markets

Lorraine Tan is among those who believe crude oil will not breach the \$100 mark and the dollar will bottom out somewhere in the middle of 2008. The head of Asia Pacific equity research Standard & Poor's was in Mumbai recently to present her outlook for the Asia-Pacific equity markets for 2008 at a seminar titled, "Will they rise to the challenge or struggle and fall?" She spoke to N Sundaresha Subramanian on the macro economic developments in the region and the outlook for Indian equities. Excerpts:



Are you comfortable with valuations of Indian stocks?

Valuation was looking peakish, sometime ago. But after the recent correction, we feel the valuations look better. We are market weight on India and our Nifty target for 2008 is 5600.

Which sectors are you over-weight in India?

Energy and Technology. Reliance is from the Energy sector and it is hard to ignore it. Technology stocks have been affected because of the weakening dollar and related global events. We are of the view that the dollar may bottom out sometime in middle of next year. Things would get better for these companies then.

What are the key risks you see for the markets in 2008?

We believe the key risk to Asian markets is the frothier valuations. Other than the H-shares, which have a relatively short history, most Asian markets are currently trading well within their historical ranges and are not excessively expensive given

Can you elaborate on the earnings risk?

Further upside will be dependent on earnings growth being sustained at the current levels. For some industries, we would not expect an equivalent hike of average selling prices to that seen in 2007 to drive earnings growth. Hence, margin expansion based on cost containment on improved efficiency will be key. Nonetheless, the exuberant sentiment being seen in Asian markets currently may move markets up too strongly, resulting in increased downside risk if share prices move ahead of fundamentals.

Which markets are your favourites in the region?

We favour China H-shares, Hong Kong, South Korea, and Thailand. Although we feel that there is excessive speculation in the H-shares and Hong Kong markets, there remains the potential for outperformance over the next six months. We have categorised Japan as underweight,

q&a

with expectations that the yen will remain relatively weak and that lacklustre domestic consumption will hamper returns to global investors. We are neutral on other markets.

Why do you prefer them?

We have determined our preferred equity markets driven mainly by market expectations of earnings growth against current valuations. We have also taken into consideration the economic environment and potential for unexpected positive news.

As a majority of these are also emerging markets, we also find

those with government policies geared towards improving efficiency and resource returns more favourable. Taken into consideration is the potential for currency appreciation to be an added boost to US dollar-denominated returns.

Do you feel a recession in the US is imminent?

We do feel recession in the US is avoidable. We expect two rounds of rate cuts in the US by January. And we belong to the camp that believes the crude won't breach \$100.

Even if Asian interest rates don't necessarily move in tandem with US interest rates, the rate cuts in the US are likely to be a positive sentiment driver for equity markets. The interest rate cuts do support our expectations for US GDP growth to be stable at 2% in 2008 and should help allay concerns that the US economy is facing a recession.

How will the Asian governments deal with rising currency?

The falling dollar will, however, be an issue to Asian governments with positive surpluses, particularly if the returns on US treasury bonds - when converted to the local currency - actually yield a negative return. We anticipate that this will spur a growing trend for Asian governments to seek alternative investments, probably through direct investments in global entities in the vein of Singapore's investment vehicle Temasek Holdings, particularly in the face of a continued high domestic savings rate. As such, M&As are expected to speed up in Asia and should provide additional boosts to the equity markets.

Just 5 questions...

Manish Bandi, vice-president, India Infoline



With the Fed meeting scheduled for Tuesday, where do you see the markets heading this week?

This week, market looks steady with select stocks expected to rally. Any Federal Reserve rate cut should not affect the market as the expectation has already been discounted.

What is your take on FIIs investments hitting at a record during December, which has hitherto been considered a slack month?

Record new FII registrations during recent months, with wider participations and investments by new funds, is ensuring inflow momentum in the current month as well.

Though analysts are recommending mid-caps, we have seen this space extremely volatile in the past weeks. Why?

Large number of mid-cap stocks included in the F&O segment resulted in huge leveraged positions in the market and caused volatility.

Any trends that have you identified?

During the last couple of weeks, large-caps have witnessed consolidation, whereas mid- and small-caps have outperformed the market. Accumulation in energy, oil and gas, fertiliser stocks and fresh buying in IT stocks has been seen in the market.

What is your view on the sudden boom seen in the chemicals and fertilisers space?

The chemical and fertiliser sectors had underperformed the market for quite some time despite attractive valuations on forward earnings and current book value basis. Operating margins of fertiliser firms are expected to expand in future, owing to large gas discoveries and expected surge in supply. Even policy changes in these sectors have triggered re-rating and attracted value buying.

Nifty hourly supports for December 10, 2007

Time AM/PM	Support (1)	Upon violation of support (2)	Fall exhausts at (3)
9.55 - 10.30	5954	5936	5918
10.30 - 11.30	5959	5940	5921
11.30 - 12.30	5964	5944	5924
12.30 - 13.30	5969	5948	5927
13.30 - 14.30	5974	5952	5930
14.30 - 15.30	5979	5956	5933

NOTES
Trading derivatives is a risky activity. These studies do not assure profits. Please consult a certified financial analyst before trading.
—Vijay Bhamwani

Post office deposit rates and features

Kisan Vikas Patra	
Interest	Doubles in 8 yrs 7 mth
Effective interest rate	8.41%
Min. amount	Rs 100
Max. amount	No limit
Tax breaks	None
Monthly Income Scheme	
Interest	8%+ 5% bonus at maturity
Tenure	6 yrs
Min. amount	Rs 1,000
Max. amount	Rs 4.5 lakh for single a/c Rs 9 lakh for joint a/c
Tax breaks	Section 80C deduction
National Savings Certificate	
Interest	8%
Effective Interest Rate	8.16% (semi annual compounding)
Tenure	6 yrs
Min. amount	Rs 100
Max. amount	No limit
Tax breaks	Section 80C deduction
Public Provident Fund	
Interest	8%
Tenure	15 -16 yrs
Min. amount	Rs 500
Max. amount	Rs 70,000 p.a.
Tax breaks	Section 80C deduction
Recurring Deposit	
Interest	7.5%
Tenure	5 yrs
Min. amount	Rs 10
Max. amount	No limit
Tax breaks	None
Senior Citizens Savings Scheme	
Interest	9%
Tenure	5 yrs
Min. amount	Rs 1,000
Max. amount	Rs 15 lakh
Tax breaks	Section 80C deduction
Min. age	60 years
Time Deposit	
Interest	6.25-7.5%
Tenure	1,2,3,5 yrs
Min. amount	Rs 200
Max. amount	No limit
Tax breaks	None

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The package offered might include bonus and other items you are not guaranteed to get

Going for placements? Decipher the CTC first

Khyati Dharamsi, Mumbai

With the campus placements season blooming with the winters, it is easy to come across students and parents involved in discussions on companies a student could join. Among the parameters used to pick and choose, the pay packet tends to get the most importance.

But, wait, the pay packet offered may not quite reveal the exact salary that may be credited to your account. There are tricks companies use to show a fatter pay, even though the actual take home would be nowhere near the amount.

Welcome to the world of cost-to-company (CTC) calculations. The term CTC, used to describe the remunerations offered to an employee on an annual basis, generally includes the basic salary, allowances, perquisites and statutory deductions like professional tax, company's contribution to provident fund, premium toward mediclaim and gratuity. But, sometimes, it might



Fine print

Say, the CTC of Rs 5 lakh offered to you includes an annual performance bonus of Rs 1.5 lakh

Now, bonus is given based not only on an employee's performance, but also the profitability of the company or the employee's department

So, even though you work hard, you may not get it because your department has made losses

So, the CTC of Rs 5 lakh may boil down to Rs 3.5 lakh

also include the annual performance bonus and interest-rate subsidy (if the firm gives out any), as a result of which, your monthly take-home salary may be way short of the annual CTC divided by 12.

Say, the CTC of Rs 5 lakh offered to you includes an annual performance bonus of Rs 1.5 lakh. Now, bonus is given based not only on an employee's performance, but also the profitability of the company or the employee's department. So, sometimes, an employee may work hard enough to deserve the

bonus, but may not get any on the ground that his department made losses that year. So, the CTC of Rs 5 lakh may boil down to Rs 3.5 lakh.

Also, employee stock options (Esops) are back in favour and might attract deductions from the CTC.

With not many employees sticking to one organisation for as long as 5 years, the gratuity portion of the salary doesn't hold much reason to rejoice either. The gratuity portion is given to a person only at the end of 5 years in a firm. However, check with

the company on whether they provide gratuity to employees who leave earlier, as a few firms have initiated such steps.

In addition to these cut-offs, there are taxes to be paid. However, in some packages, the basic salary may be lower, while other perks and allowances are included. As a result, the tax outgo would be lower. This would lead to a higher net take-home pay, taking into consideration the lower tax that one would have to pay.

But, in case you intend to take a loan

for your home or any other needs immediately, a salary structure that has more perks and less of basic salary may not be suitable. Financiers and banks decide the loan eligibility of a person based on the basic salary and not the CTC. So, if you opt for a CTC with lower basic salary, the amount of loan you are eligible for would be lower.

Firms deploy the CTC bait for various reasons. They use a bulging CTC figure to lure prospective employees and even to figure out the maximum expenses they would incur if they hire a person. Whatever be their reason, the student is advised to check for the entire salary structure, calculate the tax he would be liable to and arrive at the net take home pay, instead of falling for the bulge alone.

In the end, a fat CTC may help you earn the envy of your classmates for its sheer size. But, it is bound to cause you a lot of heartburn going forward, particularly if you knew that your effective salary is lower than theirs.