We are happy to share this eBook with our readers who have been constantly looking for financial wellness as a life goal. This is also for the benefit of those who seek timely financial updates and believe in investing wisely.

Wealth Creators & Stealers

Your ultimate guide to Life Planning

Col Sanjeev Govila (Retd), SEBI Registered Investment Advisor

Version:

Version 1.0

Publisher:

Hum Fauji Initiatives, *An ISO 9001:2008 Company*

We would love to hear from you:

contactus@humfauji.in

Tele: +91-11-4240 2032 / 4054 5977 / 4903 6836

Mobile: +91-9999 53 522 (only for whatsapp & SMS)

You may visit us online at:

www.humfauji.in

You are more than welcome to visit us:

Hum Fauji Initiatives

E-595, 1st Floor, Daani Plaza
Above Andhra Bank, Ramphal Chowk
Sector-7, Dwarka
New Delhi-110077

Disclaimer:

The articles in this e-Guide are compiled and edited from the various articles written on Hum Fauji Initiatives' personal finance blog. While adequate care has been taken to include latest developments and present a concurrent analysis, investors should engage a Financial Planner for a formal advice. This e-Guide is not an investment advice.

Dedication:

This e-Guide is dedicated to all our clients, colleagues & friends who supported us, right from the beginning of our journey till now and for all the coming years forever ….

Without them, we would not have been where we are now!

Preface

'I was very troubled by the Uri terrorist attack yesterday. My first thought went to the families of the soldiers. In this backdrop, I am requesting you to please initiate a course for the ladies via all the mails you send us telling us step by step how we should become more aware of our financial situations.'

Above is a WhatsApp message we got on 19th September 2016 from an officer's wife, a day after the infamous attack which had inflamed whole of the nation.

This message clearly brings out a few facts which we too have experienced while interacting with ladies in the past about Seven years that our company has been in existence: -

- While the armed forces person may have sacrificed his life for the sake of the nation, the real brunt of carrying on with their lives ultimately falls on the families, irrespective of the support the family might receive from the organisation.
- A large part of life, going forward, has to do with sustained availability of money so that life's important financial goals can be met and desired lifestyle can be maintained.
- Ladies, in general, have low inclination towards learning and dealing with financial matters and hence, are reluctant to take on this mantle of shouldering the financial responsibilities of their families.

We, at Hum Fauji Initiatives, have always strived in our own humble ways to impart action-level knowledge to such stressed families as also the entire armed forces community. This we do through our regular educational emails and the talks conducted by our CEO, Col Sanjeev Govila (retd), all across the country. For example, in Sep 2016, he conducted eight talks at four different locations – Mhow, Manesar (Gurgaon), Chennai and Kolkata etc, addressing about 1050 officers in all.

However, we are also aware that this is just the proverbial drop in the ocean. There is a huge number who do not get the benefit of what we're trying to do because of our lack of reach, language and net access/savviness problems. And this problem is acute in case of ladies who neither get our mails nor attend our talks. Of course, the problem of inclination and awareness that this is as important an issue as anything else can be always remains.

We have generally covered the essential aspects that ladies need to know, what is good for them and what not as far as various financial products are concerned, what to keep in mind when they think of investing the money for the good future of their families, and lastly, how to proceed further financially if a calamity befalls them.

We had conducted this series simultaneously on whatsapp, emails, on our facebook page (also linked through our twitter account) and LinkedIn on Fridays.

We sincerely hope that this eBook gets wide publicity and we are able to educate ladies in the manner that we aim, thus contributing in yet another manner to this fabulous community of Indian armed forces families.

CONTENTS:

Hum Fauji Initiatives

Wealth Creators & Stealers

#1: This basic stuff is important for financial survival

Your ultimate guide to Life Planning

Wealth Creators & Stealers #1: This basic stuff is important for financial survival

Lt Col Arun Sharma doesn't know whether to be happy or unhappy right now. He'd got his posting orders a few days back for taking over Command of a Battalion but in a remote, non-family station in J&K in Counter Insurgency Operations area. While being posted at Delhi, he had taken charge of his finances for the first time in his life and got them into some modicum of order. He had taken a lot of pains to learn the basics of personal finance, got hold of a good financial planner who guided him well and aligned his financial investments in line with Arun's future requirements painstakingly. But this posting at this juncture to an area where mobile phone and internet connectivity, even regular electricity, were a sheer luxury, were threatening to undo his efforts of past one year. He was worried that his finances, not yet fully sorted out, will again slip back into anarchy!

He then hit upon an idea – why can't his wife learn it and handle this since he couldn't?

Sheela was appalled at the idea, to say the least! She said, "Arun, Why are you joking? The only thing I know about money is to sign on the cheque at a place you tell me to, take out money at the ATM and spend it at a good joint! What do you mean managing family's money?" Arun could make out that she's not in a mood for serious discussions on this subject. What he said then shocked her, "Sheela. I'm going to a CI Ops area to command a battalion. What if I don't come back from there? Will you still refuse to have anything to do with the money then?"

The education started the next day onwards. Sheela was her studious best. Arun had always been a great Instructor material, having got 'I' grading in most of his courses.

Arun started off by saying, we all know that money can't buy happiness but then, not having adequate money definitely buys misery. Hence, while money may not be everything in life, it still is something and does make the world go round. If that be so, then why not make sure that whatever we earn or have right now should grow well, be available to us in the quantity we need, at the time we need and enable us to have the lifestyle that we aspire for.

He gave out three basic principles that Sheela needed to be familiar with, to know how to manage the money well. This is how the narrative went:-

Inflation

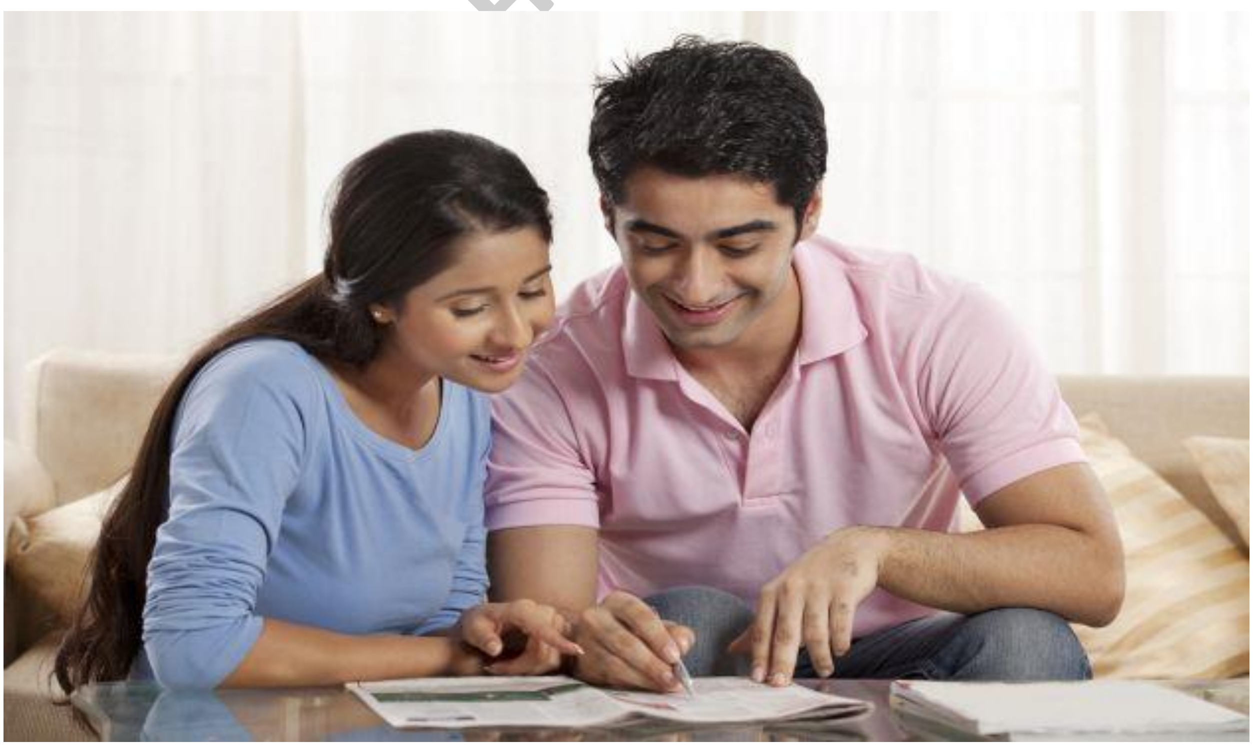
"The very first thing that you need to know is something called Inflation. Simply put, it just refers to the percentage rate at which our everyday things become costly year after year. India's long term inflation rate is typically in the 7.5% compounded per annum range. This implies that if something costs Rs 100 today, a year later it is likely to cost Rs 107.50 and a further year later, Rs 115.60, and so on….

But how does this knowledge affect our own money?

Let's say our money is lying in a savings bank account where the interest rate is 4% per annum today. Our Rs 100, if kept in a savings bank account for one year, will only grow up to Rs 104. Thus what this Rs 100 could buy this year, it will not be able to buy next year because the item would then be costing Rs 107.50 due to inflation while our own Rs 100 will grow to only Rs 104!

And imagine what would be the state if the amount involved was Rs 1 Lakh, 10 Lakhs, 20 Lakhs or even more? Hence, inflation is a very live concept which affects our everyday living. You have to ensure that overall your money should earn more than what inflation can take away."

Sheela thought this was easy, and marveled at the easy manner in which this technical sounding word, Inflation, was explained by Arun. He must be a good instructor to his students, is what came readily to her mind.



Tax

Arun continued. “Sheela, you would have heard about taxation by way of Income Tax entry that appears in my pay slip every month. Income Tax obviously reduces the net money that becomes available to us for our use. You’ve also heard people, including me, grumbling all the time that they’re paying too much of tax on their salary and investments.”

So, how does it show up?

“Say we put some of our money in a bank FD which pays us 8% interest annually - this is definitely above the inflation rate of 7.5%. We may feel that our money is earning above inflation and hence we are safe. But remember, I’m in the 30% tax slab”.

When Arun looked up, he saw a blank look on Sheela’s face. He could make out that tax-slab part had gone over her like an unidentified missile. He explained that everybody’s earnings are taxed by the Government as per laid down tax slabs.

Currently for people up to 60 years of age, they are:-

0% tax for up to 2.5 Lakhs yearly earnings; 10% tax for 2.5+ to 5 Lakhs earnings; 20% for 5+ to 10 Lakhs; and 30% for 10+ Lakhs yearly earnings.

Thus, somebody earning Rs 12 Lakhs a year would pay Rs 1,85,000 as tax since his tax in various tax slabs adds up to 0 + 25,000 + 1,00,000 + 60,000 = Rs 1.85 Lakhs.

Sheela marveled at this simple calculation – so the income tax for the whole year is this easy to calculate! Arun explained that there are some exemptions and additional tax surcharges but this simple calculation is most part of tax calculations.

Arun continued with the FD example, “So Sheela, you see that since I’m in the 30% tax bracket, our entire FD interest will be taxed at 30%. Out of this tax, the bank deducts 10% and the balance 20% has to be paid by me while filing income tax returns.

Thus net return we will get is 5.6% only. How?

8% interest – [30% of 8% interest, ie, 2.4%] = 5.6%.

How does it compare with 7.5% of inflation that you face when you buy those breakfast cereals and the cream biscuits?”

Sheela asked him, “See Arun. I understand that some taxes have to be paid, but is there a way that we can minimize the same legally?”

Arun explained, “As salaried class, whether serving or getting pension, there’s very little we can do anything about the tax on the salary or pension that I receive since I have just no control on what I get and the tax that Govt levies on it. Hence, there’s no use getting worked up over an issue where we have no control. There is a small amount of tax we can save on our salaries/pensions by way of investment in some specified avenues, home loan etc, but that’s really not very much.

However, there is a lot of tax that we can save by intelligently investing our earnings so that we pay no tax or almost no tax thereafter. Thus, we should actively look for saving the tax through intelligent investing. But, this is something most of the people do not bother about, even though this is very much within their control.

So, in effect, most of us worry our heads off on something over which we have no control (‘saving tax on salary/pension’) and worry nothing over which we have full control (‘tax efficient investments after we have earned our salary/pension’)!” Sheela concurred that it was indeed a very stupid and illogical idea to worry about saving tax where people could do nothing and not caring about tax where they could actually do everything.

Power of Compounding

“Sheela, do you remember studying about simple and compound interest in your school”, Arun asked. Sheela affirmed and confirmed that she still sort-of remembers those two small formulae of simple and compound interest.

Arun continued, “This is a small learning which we all know but somehow forget when time comes to apply it. We’ve all learned this in our schools. But most of us are unaware of the REAL power of compounding. If I were to tell you that saving just Rs 10,000 for 10 years in an 8% earning tax-free investment like DSOPF or PPF will get you Rs 18 Lakhs”.

Sheela remembered the days when his painstakingly-made small monthly contributions to DSOPF had enabled them to set up their house since Arun had refused to take anything from her parents in marriage.

“If this surprises you Sheela”, Arun continued, “let me give you more surprise: Investing mere Rs 1000 per month in equity (stocks or shares related) product for 35 years will accumulate Rs 1.48 Crores for you. But if you start just 5 years later, i.e. invest for 30 years instead of 35 years; your accumulation will be less than half, i.e. Rs 70.10 Lakhs. If the period is further reduced by 5 years, i.e. for 25 years, the accumulation will be further halved to Rs 32.84 Lakhs.”

“What’s happening? This is the power of compounding which is helping you accumulate disproportionately since you’ve exhibited the patience and knowledge of continuously compounding your investments year-after-year without succumbing to the lure of taking out money at slight pretext."

Arun had considered compounded returns of 15% per annum on equity in the example above, which is a reasonable figure for such long term equity investments.

So final Learning!

Arun asked if Sheela found it all interesting. Sheela definitely had and she was also happy that she had learnt all this money related stuff without the jargon that she feared all through. Arun concluded the day's learning with a re-cap of the important stuff.

Inflation is a monster which eats into our money unless we're conscious about it. We need to ensure that we invest into products that overall give us positive inflation-adjusted returns.

Tax is a bug bear. At some places, it has to be paid and we can't do anything about it. But we need to invest intelligently so that we don't pay tax where it can be easily avoided.

Make **Power of Compounding** your friend. Avoid the urge to take out money from your long term investments like DSOPF, PPF or equity products at the slightest pretext. An acknowledged intelligent guy like Albert Einstein had said, "Compound interest is the Eighth Wonder of the World".

In the next chapter, Arun decides to teach Sheela how to evaluate what constitutes the definition of a good investment as per their own requirements.

Wealth Creators & Stealers

#2: Know how to invest well?

Your ultimate guide to Life Planning

Wealth Creators & Stealers #2: Know how to invest well?

Continuing with the previous conversation, Arun asked Sheela, “Sheela, suppose I give you Rs One Lakh. What will you do with it?” Sheela chuckled, “Well. It depends on whether you’re actually giving it to me!” But on seeing an exasperated look on Arun’s face, she quickly corrected herself, “Probably I’ll buy good gold jewellery. Gold you know always appreciates over time”.

“Won’t you like to do something with it which comes handy for Isha in future”, asked Arun. Isha is their 11 year old daughter, the only child. Sheela got thinking. “Yes. On second thoughts, I’d like to invest in a bank FD so that we can use it for her College Graduation”. “But FD rates are going down so rapidly and giving you much less returns even than the inflation”, said Arun. Remembering her last night’s education on inflation, Sheela couldn’t answer. “And if this amount is Rs Ten Lakhs instead of One Lakh. And if I were to remind you about our family dream of a European tour next year, Isha’s dream of being an airline pilot, getting a SUV once I finish my Battalion command, etc?”

Sheela got confused. Gold, FDs, Insurance policies, DSOP Fund…. “I don’t know. It’s all so confusing. How do I decide - It could be anything!”

“See Sheela, it could really get confusing if we don’t think through what are we investing for and what are the plus and minus points of what we’re planning to buy. Every product serves a purpose and your own purpose of investing should coincide with it. If not, there’ll be disappointment later. If we just buy what is offered to us or readily comes to our mind, we may rue it later”, said Arun.

Arun then explained to her the concept of **SLR (Safety, Liquidity and Returns)**. Safety implying the preservation of invested money; Liquidity refers to the ease with which complete or part of invested money can be withdrawn; and returns are what the investment earns for us. He clarified that there is no investment avenue in the world which can give all the three 100% perfectly - every product will compromise at least on one of these three SLR parameters.

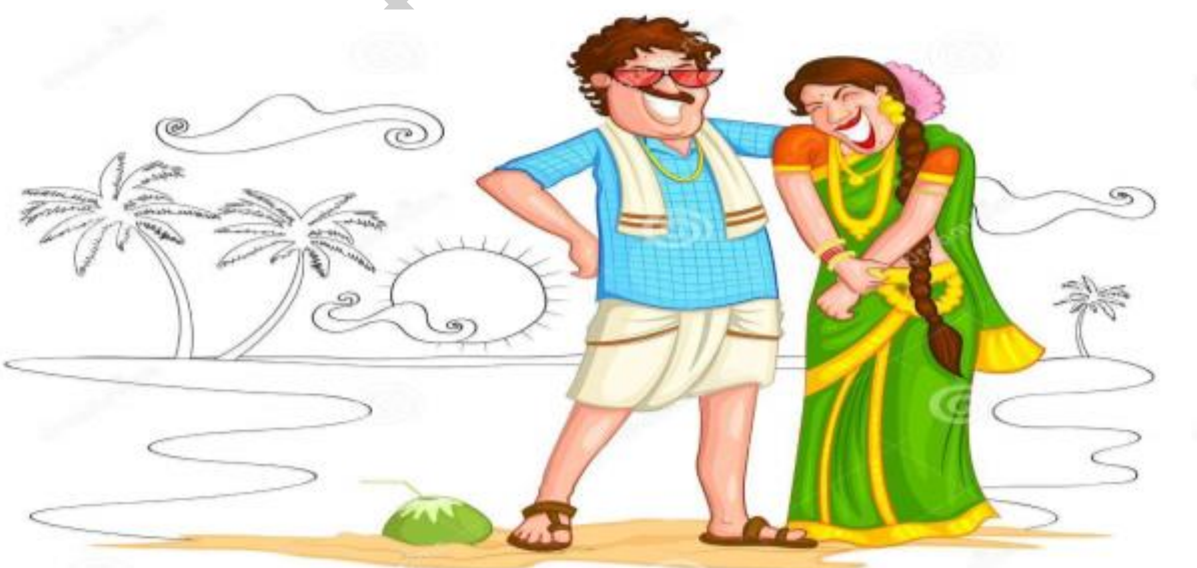
“For example”, he continued, “take DSOPF (Defense Services Officers’ Provident Fund) which is popular amongst all of us. While it provides good safety (Government guarantee) and liquidity (online quick withdrawals), the returns are barely above the inflation rate even though they are tax-free.

On the other hand, if we take real-estate or property as we know it, safety is one big concern especially for armed forces persons who may not be physically around to protect their property. Liquidity could be really bad as it may take months, if not years, to sell a property at reasonable prices. Returns could be block-buster, or pathetic or somewhere in-between – it cannot be predicted.”

Sheela agreed with Arun’s observations since they had always relied on DSOPF whenever they needed money for some big purchases. She also remembered how they have not been able to sell their Dehradun property for the past 2 years since the buyers are quoting prices even below the price at which they purchased it five years back.

Arun summarized the SLR concept by saying, “The best way to choose the correct investing avenue is to look at the purpose you are investing for? This is called Goal-based investing or in simple terms, Financial Planning. If we plan our future requirements and decide in advance where to invest, we’re not likely to go wrong, compared to on-the-spur investing. If we’re looking at Isha’s graduation seven years later, then investing in FDs, insurance policies, RDs, NSCs and even DSOPF will be futile as we will get safety and liquidity, but returns will be below the rate of inflation of education. Remember education expenses are rising at more than 10% per annum. Hence, going in for a stock or equity based product will be the best since returns will be tax-free, extremely liquid, likely to be well above inflation rate even though it may be volatile in the short term (hence, seemingly unsafe).”

“On the other hand, investing in a stock or equity based product for our European tour next year would be grossly wrong as equity investing is for the long term of at least 3-4 years’ horizon while in the short term, it could be volatile, risky or both. For such a purpose, FD or liquid mutual fund would be the best bet as they keep the money safe, and readily available – in such products, we trade returns for safety and liquidity”.



Sheela instantly knew Arun has given her an important lesson and she will have to keep rehearsing it in her mind to get a proper hang of it.

So final Learning!

Safety, Liquidity and Returns (SLR) are the three parameters which should decide the correct avenue to invest the money.

The **suitability of a product to your requirements** is the main criterion for investing your money – and not what is being offered to you.

Planning over the long term and then investing will give you best benefits. Planning will make it clear to you where do you stand today, where do you need to go to and how to reach there.

Your investing mantra should be: Earnings – Investments = Expenses **And NOT,** Earnings – Expenses = Investments. That is, spend what you don't need, rather than Invest what you can't spend.

There's a thin line between **saving and investing**. Do the latter, rather than former. Make your every buck count.

The next chapter will deal with Life insurance and all other types of insurances, detailing what exactly is insurance and how should we deal with this generally-misunderstood product.

HumFauji Initiatives

Wealth Creators & Stealers

#3: Have you protected your family well?

Your ultimate guide to Life Planning

Wealth Creators & Stealers #3: Have you protected your family well?

Having armed Sheela with basic financial concepts, Arun teasingly asked, “Sheela, which is that financial product which everybody wants to buy but never wants to use!” “Arun, isn’t it stupid to buy something but not wanting to use it? Are you pulling my leg?” “No Sheela. Surprising but true; an insurance policy is such a product. Would you like to get my Army Group Insurance cover money of Rs 75 Lakhs or our car insurance money – both implying that something’s happened to me or our car!”

On finding Sheela glaring at him, Arun changed tack and said, “Insurance is the most misunderstood financial product in the world. It is actually a contract between you and the insurance company. For example, in case of life insurance, the company takes on your life’s risk on itself – if anything happens to you, it pays a pre-agreed sum of money to the person’s survivors. In return, it charges a certain premium on a one-time or regular basis. Same is the case with car, medical, house, marine (household goods transportation), disability, critical illness, travel and all other insurances”.

“But Arun, I thought Insurance was for investment. We ourselves took many life insurance policies to save for Isha’s education and marriage”, Sheela quipped. “Agree with you Sheela. But now having learnt more about finance, I realize how we wasted our money. See, Insurance is only to create a safety umbrella around us – secure our prized possessions, whether it is our lives, things or health. But surely not for investing. If we use Insurance to invest, only the agents and insurance company will gain with their fat commissions.”

“Let me give you an example. We bought a LIC Money Back policy in Aug 1996 when we were at Pathankot, with an insurance cover of Rs 2 Lakhs, paying a premium of Rs 18,754 every year for 15 years. We received Rs 50,000 each as the money back at the end of 5^{th}, 10^{th} and 15^{th} year, and Rs 2, 19,800 in Aug 2016 at maturity after 20 years. We thus paid Rs 2, 81,000 in total and received Rs 3, 69,800 which amounts to just 3% returns per year - literally peanuts in 20 years. Actually we lost money big time there”.

“Oh my God! We’ll never ever buy insurance in future”, Sheela moaned.

“No Sheela. It’s not so. Insurance is a big necessity of life, but only if correctly bought. For covering life’s uncertainties, Term life insurance, a no-frills cover, is the only one that everybody actually needs. For example, a term insurance covers for a 28 year old for Rs1 Crore costs just about Rs 8000 a year. You will hardly find any agent selling it since there literally no commission on it but one can easily buy it online or through a good financial planner. If something happens to the insured person, insurance company pays the sum assured; otherwise there’s nothing paid. The enormous amount of premium thus saved can then be invested in good investment products. Thus you get the best of insurance and investment"

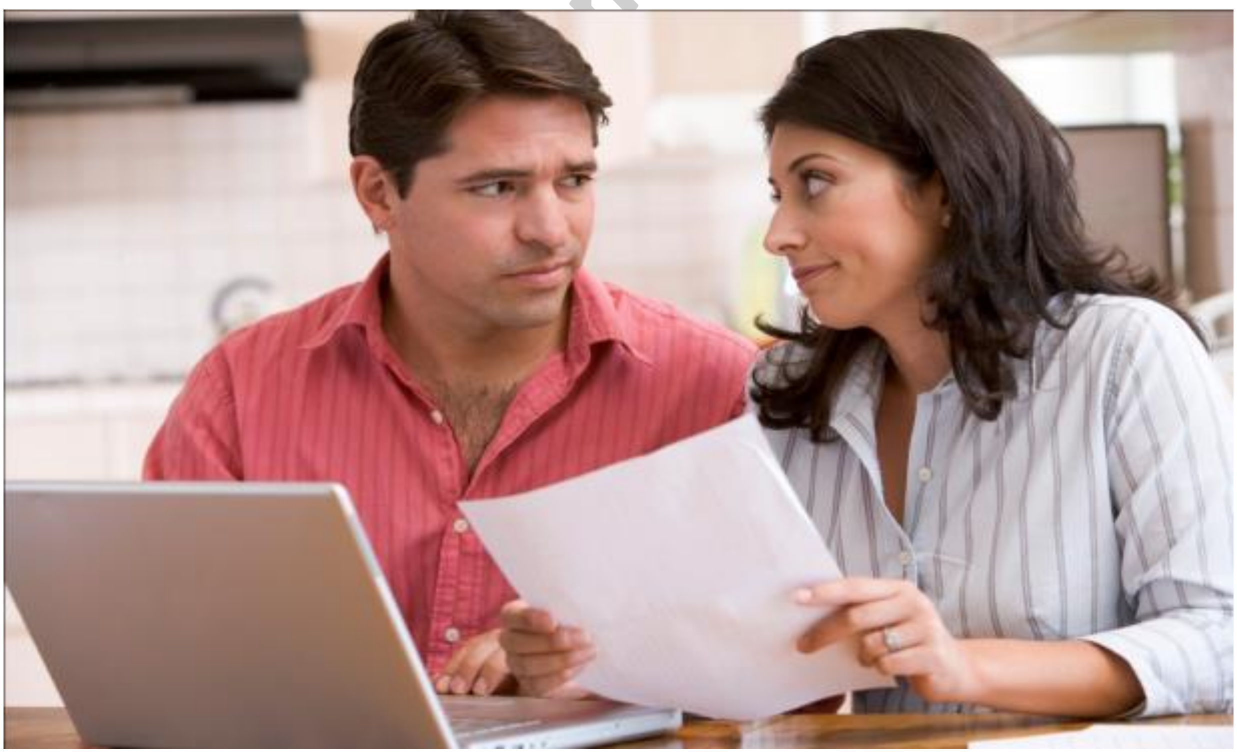
"If that be so Arun, why haven't we taken a Term Insurance", She enquired.

"Because I'm already insured adequately through AGIF for Rs 75 Lakhs. Our financial planner did my insurance analysis and said that I don't require any more life insurance cover. Since you're not working, you too do not require any life insurance."

"What is the meaning of this Arun? Is my life so unimportant, that I do not require any life insurance?" Sheela was hurt.

"Sheela, the basic funda of life insurance is to make good a financial loss in case a bread winner passes away. You, or for that matter Isha too, are important pillars of the family. If something were to happen to any of you, it is a gigantic emotional loss to us. But seen dispassionately, there's nobody financially dependent on the two of you. Hence, there's no point in buying life insurance for both of you presently"

Sheela grudgingly conceded the argument and continued, "What about other types of insurances which you mentioned a while back."



"Yes Sheela. Life insurance is not the only insurance that we require. There are so many precious possessions of our life which need to be protected. We get our car insured because everybody does so but what about our Greater Noida flat, our most expensive possession? What if there's an earthquake, flood or fire which destroys it? Many of us try to save on the 'marine' insurance premium when we transport our luggage in trucks on postings, but is it worth the huge risk we take with our belongings built up over a life-time? We hear so many horror stories of trucks getting washed away in flash floods or destroyed in fire or civil disturbances. We are lucky to have life-time medical cover for ourselves through our military hospitals but suppose a debilitating disease strikes any of us? Or a critical illness like cancer? Will medicines and doctor's diagnosis from Military Hospital alone is the expenditure then?

What about health supplements, extra care persons at home or even the expenses of second opinions and additional medical tests? Something called Critical Illness Insurance is worth its weight in gold when such calamities come in."

"Similarly, what about loss of a limb or partial paralysis or something like that, which results in me having to leave my job? Disability insurance would cover a large part of the loss of job expenses in such cases. And the best part is that these insurances, collectively called General Insurance, are quite inexpensive. Just a few thousands would cover our house, car, critical and disability insurance etc and ensure that if a calamity strikes, we would not be running from pillar-to-post arranging money when we should be handling the emergency."

The oft-heard word 'Insurance' had, by now, acquired a new meaning for Sheela.

So, Final Learning!

Insurance is not an investment. Keep life insurance and investments separate. Combining the two ensures you never get any of them right – neither adequate insurance cover nor good investment.

Term Insurance is the only type of life insurance you ever need.

Some General Insurances are compulsory for you – home, critical illness, disability, vehicle, marine (when shifting luggage), and travel (to cover mishaps to self and baggage during travel). Don't try to save money there – that'll be penny-wise, pound-foolish.

The next chapter will deal with equity and equity products – misconceptions, myths and how it can be your biggest resource for wealth accumulation and its generation.

Hum Fauji Initiatives

Wealth Creators & Stealers

#4: Of Shares, Roller Coasters and dilemmas!

Your ultimate guide to Life Planning

Wealth Creators & Stealers #4: Of Shares, Roller Coasters and dilemmas!

"Sheela, What do you think of shares and share markets?" asked Arun very simplistically. "What? Hope you're not thinking of investing our family's money into those dangerous things! I'll not let you do that", cried a visibly shocked Sheela. "Don't worry Sheela. From now onwards, no investments will be done without your express permission since you're already so knowledgeable! But just tell me what exactly do you understand by stocks or shares as they're variously called?" replied Arun in a pacifying tone.

"Arun, I don't know much about stock markets but I have seen a lot of people losing a lot of money and lot of people making lot of money in shares. To me it doesn't look any different from gambling," said Sheela plainly.

"I agree with you Sheela since, to the uninitiated, it may seem like that. But can you tell me why exactly are they known as Shares?" When Sheela did not respond, Arun continued, "They are known as shares because owning them means owning or sharing a part of the company. Say, you buy 100 shares of Maruti Suzuki Limited, which makes those famous cars. And let's say the company has a total of 1 Lakh shares issued. Then you own 0.1% of this famous company!"

Sheela retorted, “That’s impressive, me owning part of a company but why do the stocks keep moving up and down like a roller coaster?”

“That’s so just because of the differing perceptions of the people who are interested in buying and selling them. Some people think that the company is going to do well, will make good profits and hence give them good share of its profit, called Dividends. And because it will give good dividends, more people will like to buy the company’s shares. When the share is in demand, its price will increase and then the current owners of the shares will sell it at higher prices and make profits. But side-by-side there would be another group of people who think otherwise –that the company will not do so well and hence, its share price, which is already high, will go down. Depending on which group is more dominant at a time, share price moves in that direction. And mind you, this can happen so almost continuously throughout the day”, Arun replied.

“But Arun, if that be so, then why does your financial planner always say that maximum money is made in stocks if you remain invested for a long time?”

“Because Sheela, in the short term, usually for periods less than 3 years or so, the stocks may seem to be moving randomly up or down but if you see the past data, stocks will always give you better returns than most of the other investing avenues over long periods of investing time, provided you’ve chosen the correct stocks. If you check BSE Sensex, which is an index to measure where Indian stock markets are right now, it has given returns of about 16% per annum average over past 15 years. That’s more than double of my DSOPF and difficult to beat by any other investment avenue.”

Arun continued, “And there is a very logical reason why it happens so. See, the companies exist for the purpose of making profits. While any company can weather one or two years of downturn, no company will ever enter any business if the prospects of it making profits in the long term either do not exist or are uncertain or less than what the owners of the company can get from putting their money in bank deposits or other regular avenues. Since the share prices reflect future prospects of profitability of a company, they too go up in the long run as the company’s profits increase, unless the business model of a company is bad or it faces rough weather not visualized earlier.” Arun was at his knowledgeable best.

“How do I know whether the Company I have chosen is good or bad, or good now but will become bad later?” was a very genuine question from Sheela.

"Very good question Sheela, if it were so easy to invest in stocks, let me tell you nobody would've invested in anything else. To make the matters more complicated, you not only need to know about particular companies and their future prospects, but also that particular industry's perspectives, the national and international monetary environment, how do the stock markets work and when to buy and when to sell. And after you've bought the stock, you are expected to be regularly monitoring the performance of the company and its share price."

"Who can do that Arun? Don't we have our daily jobs to take care of?" Arun laughed and replied, "Well, you want to make money and don't wish to work for it? But don't mind, there is a very simple solution to this problem too, where you can get the stock market returns without its pains and hard work. But were we not going out for Dinner today?"

Today's learning!

- When you own a Share (or stock), you own a part of a business.
- Share price of a company move up or down due to the perceptions of the market players of the future profitability of that company.
- A good stock is likely to give good returns in the long term provided it has chosen carefully, monitored regularly and bought as also sold at the right price.
- There are no free lunches in stock markets – knowledge and hard work only will make you successful there. Remember somebody has to lose his money if you are to win with your money in stock markets!

The very next chapter will deal with how you can invest in equity 'without Tears' and get its fabulous returns without having to do all that hard work which Arun has spoken about in this chapter.

Hum Fauji Initiatives

Wealth Creators & Stealers

#5: Stock Investing without Tears

Your ultimate guide to Life Planning

Wealth Creators & Stealers #5: Stock Investing without Tears

After the “Equity markets without tears” bait given to Sheela last night, Arun instinctively knew that Sheela will be keenly looking forward to knowing how she can reap the benefits of equity market investing without its associated pains.

“Sheela, would you be interested in knowing about an investment which invests in stock markets in the manner that you want, your investments are managed by experts at very low costs to you, it does not put ‘all eggs in one basket’, any amount of money can be taken out at 3-4 days’ notice and extremely tax-efficient?” asked Arun teasingly. “Who wouldn’t want to know about such an investment, Arun?” countered Sheela.

“Have you ever heard about Mutual Funds?” asked Arun. Sheela did not remember anybody talking about it.

“Sheela, Mutual Funds (MFs) are the very best manner in which you can invest in stock markets. All the leg-work, the hard work, is done by experts for you while you only have to monitor their performance once in 6 months or so to see that things are doing alright. In fact, the word ‘Mutual’ in Mutual Funds signifies that the power of ‘collective’ investing is harnessed through professional management services.” “Arun that sounds interesting. Tell me more – I’m all ears” cooed Sheela.

“Sheela, we’ve talked about how direct investing in stocks is very difficult for a common man – correct selection of stocks out of about 7800 listed ones, timing their sale and purchase, regular monitoring of the stocks, economy, particular companies, market moods etc are not something which most people can easily do without faltering and burning their fingers.”

“In case of MFs, 45 reputed financial entities like Axis, SBI, Birla, HDFC, ICICI, UTI, JP Morgan, Blackrock, Franklin Templeton etc have been allowed by the Govt (through its regulator SEBI) to operate mutual fund schemes. As on date, MFs manage about Rs 15 Lakh Crores of money of people like us and there are about 850 active schemes of all hues”, said Arun. “Wow! That’s huge, I must say”, was all Sheela could say.

“But this is only financial data. The actual utility of MFs is in how they make equity investing simple and stress-free for people like us. Each scheme is managed by an accomplished Fund Manager who has a team of analysts. This team continuously researches on what stocks to buy, what not to buy, when to sell, when to hold etc. People like us cannot even dream of doing the kind of research that they routinely do.”

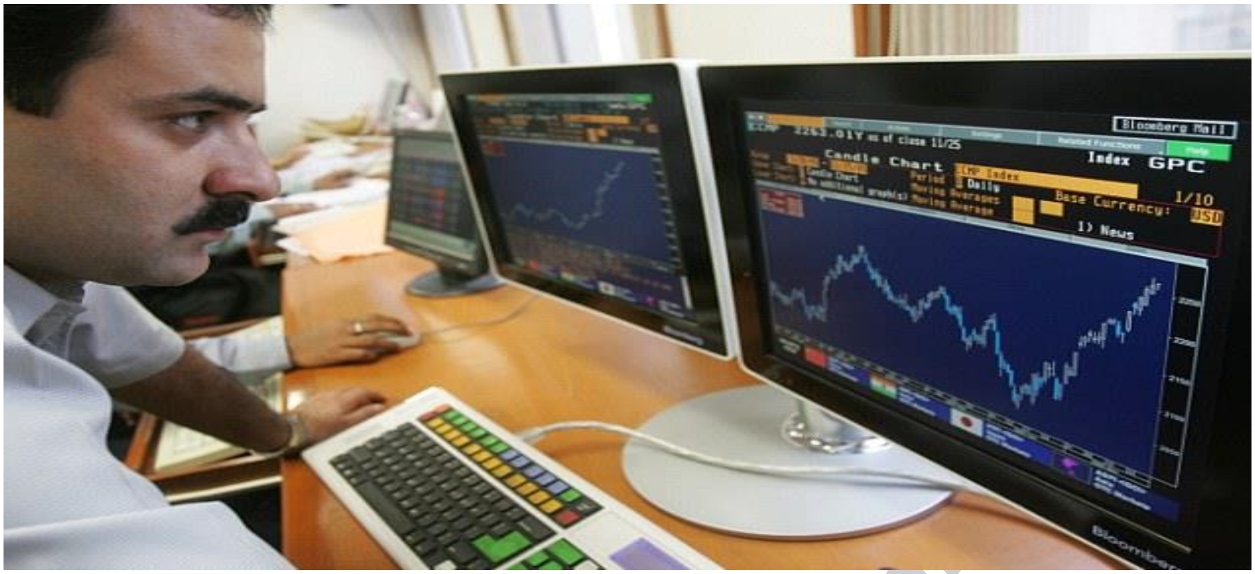
"When we wish to invest in MFs, we choose a bouquet of schemes, typically 6-9, that meet our requirements. The beauty is that in MFs, you can invest as less as Rs 5000 one-time and/or Rs 1000 on a per month basis (called SIP, Systematic Investment Plan), put in any additional amount you wish to any time, increase or decrease or stop or re-start the SIP any time. But when thousands and lakhs of people like us put small amounts, the schemes become very large and financially viable to operate even if the cost charged per person is very low. The flexibility of taking out any part of your money at just about 3-4 days' notice is already known to you. Of course, the fact that investing in equity, including equity MFs should be a long-term commitment to get the best results should not be lost sight of while using the huge withdrawal flexibility that MFs offer. As far as tax benefits are concerned, nothing could be as tax-efficient as equity or equity MFs – if you keep your money invested for just One Year, the complete value of your investment becomes tax-free from thereon. Remember, there is no concept of Tax Deduction at Source (TDS) in MFs for resident Indians."

"You may not come across any other financial investment which gives you so much of flexibility of investment and withdrawal, great long-term returns, huge tax efficiency, and real experts managing your investments for such a low expense," Arun gushed.

Sheela retorted, "If everything is so good about MFs, then why do people not invest in them – to tell you the truth, this is the first time that I've heard about MFs!" "Simple ignorance and a few myths surrounding the MFs is why you didn't find many people investing in MFs in the past. But the trend is changing now. You also need to realize that MFs are actually a basket – every single rupee that you invest in equity MFs gets you a huge diversification of maybe 40-45 stocks. Nobody on his own can get this kind of diversification by investing so less money", said Arun.

"But surely, there must be some negative aspects of MFs too?" asked Sheela.

"Maybe there's one – since the MFs disperse their stock investments vary widely, some people may find MF investing less volatile and hence, less thrilling!!" replied Arun, and continued, "Will you now change your mind about stocks and agree with me that we need to invest money in equity MFs?" Sheela was fully agreeable to this suggestion now.



Today's learning!

- Nobody can afford to miss out on this important investing avenue of Stocks - not even retired people if they are to preserve the purchasing power of their money.
- MFs give a much superior alternative to investing in equities rather than buying stocks directly on your own self.
- The flexibility of investing and withdrawal, low minimum amount of investment required, tax efficiency, diversification of investment, and experts managing your money at low costs – all make MFs an unbeatable investment avenue.
- However, two rules should never be flouted – equity MFs should be invested for the long term, typically three years or more, and they should be regularly monitored and portfolios re-balanced if the best is to be got out of them. There's a strong case for hiring professional financial advisors for such purposes, if you feel you cannot do it on your own.

The next chapter will deal with Fixed Income investing or in common parlance, the 'safe' investments – avenues available, what you get and what you compromise.

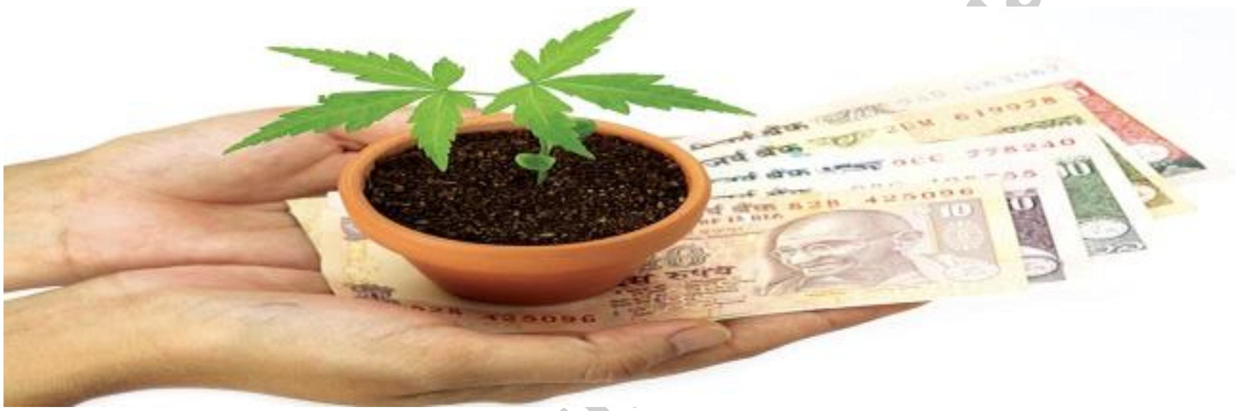
Wealth Creators & Stealers

#6: Safety is the key!

Your ultimate guide to Life Planning

Wealth Creators & Stealers #6: Safety is the Key!

"Sheela, today is a lazy Sunday. So we'll talk about the lazy money", Arun said lazily to Sheela, after a sumptuous Sunday breakfast. "What's the meaning of lazy money – money is money, Arun", she quipped. "Sheela, we've spoken about equity investments earlier where the aim is to earn good returns in the long term while it may be volatile in the short term. Today, we'll talk about safe investments where the aim is to keep the money and the returns safe. Needless to say, the returns will almost always below", said Arun.



He further added on seeing a quizzical look on his wife's face, "In investments, Safety and Returns are two ends of a scale. You move your Investment Slider depending on what you're looking for. For safety, you move away from returns and if you want better returns, you will have to move away from 100% safety mind set. No investment in the world will give you highest safety with best returns". "Yes Arun, I can relate to it now. When we talked about the after-tax returns of bank FDs, we had found that they are not even able to beat the inflation", Sheela replied. Arun said, "Exactly Sheela. In such investments, while we think that our money is increasing, actually its effective value – the purchasing power – is continuously decreasing. That's why I say that while we take an uncertain risk in stocks, we take a certain risk of loss of value in fixed income products!!"

"Oh, I'll take some time to digest that statement, Arun. But what is this 'Fixed Income Instruments' thing that you just now said", came Sheela's genuine doubt.

"All the avenues, where returns are directly or indirectly derived from defined interest rates, like bank and company FDs, DSOPF, PPF, Govt bonds, tax-free bonds and Debt Mutual Funds (MFs), are called fixed income investments. Here, except Debt MFs, we talk in terms of the percentage interest: 7.25% on bank FD, 8.25% on company FD, 8% on DSOPF/PPF, 6.7% on Govt bonds, etc. In case of Debt MFs, the interest gets accumulated from various diversified interest-based investments and reflects in the increased price of the MF (called the Net Asset Value, NAV). But as you've realized, the returns of fixed income investments are likely to be much lower than equity related investments like shares and equity MFs since one willingly 'exchanges' safety for higher returns!", replied Arun.

"Yes, I can also see that but I guess we have to accept that when we're looking more at safety than great returns. But Arun, won't the actual returns we receive gets reduced further if they are to be taxed too?" asked Sheela.

"I must complement you Sheela. Now you're thinking like a real investor!" gushed Arun and continued, "Actually taxation becomes a very important aspect in fixed income instruments. Since the returns are already low, if there is a high tax also levied, the actual returns in our hand become even lower. E.g., if you're in 30% tax bracket and take a bank FD of 7.25% today, the actual returns are 7.25 – (tax of 30% on 7.25%) = 7.25% - 2.175% = approx 5.1%. So, if the inflation is 7.5%, i.e., the rates of things in the market are increasing at 7.5% per year, and your own money in a bank FD is increasing only at 5.1% per year, you can easily see that your money is actually losing its purchasing power at 7.5% - 5.1% = 2.4% per year. In fact, except PPF and Sukanya Samriddhi Account, returns received on all other financial instruments available in Banks and Post Offices are fully taxable."

"Ok. That means if I want safety of my money, I should put money only in PPF for myself and Sukanya Samriddhi for Isha", hurriedly concluded Sheela. "No. You may go wrong there Sheela. See, everything has its purpose. For your emergency money, which should be easily accessible but still earn something, nothing like few small bank FDs of approx Rs 50,000 kept easily

accessible in a nearby bank. PPF and Sukanya Samriddhi might give tax-free returns, but you cannot put more than Rs 1.5 Lakh per year in them, they have very large lock-in periods and returns are just above inflation rate generally. Also, for a person like me, DSOPF is a far better option than PPF due to the larger amount I can put in every year and flexibility of withdrawal while rate of interest of both is always the same. But on the whole, I would be more happy investing in Debt MFs for the long term rather than any other fixed income instrument", replied Arun.

"Arun, I haven't understood this. We talked about Equity MFs being a preferred route than direct stock investments since most of the people cannot do the research, time the sale and purchase of stocks, and do the monitoring required for dealing in stocks. And you had said that Debt MFs invest in Govt Bonds, Bank FDs and Company FDs which we can do ourselves too easily. So, why should anybody invest in Debt MFs and not do it on own self?" asked Sheela.

"Sheela, that's a very natural doubt that you've asked. I'll explain it with a few examples. Our banker is SBI. Suppose we have to do an Rs 5 Lakh FD, we'll go to SBI as a natural impulse and do the FD at 7.25%. Do you know that IDFC Bank is giving 8.25% for the same FD right now? If a Debt MF fund manager has to do a similar FD, they will do research across all banks and search out the best rates, which most of us cannot do. Also, a Debt MF fund manager with huge funds at his command will be able to have better bargaining power – and the benefits flow down to all the investors of that MF. Thus, the investors ultimately get better returns even if the fund manager is investing in similar bank instruments."

"But that's not all. There are four other huge benefits available to investors when they go through the Debt MF route in open-ended funds.

Firstly, they can withdraw any amount of their money, from a few hundreds of rupees to all their invested money, at about 4 working days' notice, thus having easy liquidity all the time.

Secondly, additional money can be invested any time when they have it. Alternately, they can take the Systematic Investment Plan (SIP) route and invest automatically from their bank on a regular basis. This is like a bank Recurring Deposit (RD) but with the convenience to increase, decrease or even stop the SIPs when they want. Thus investment in bulk and/or SIP is all

permitted for any amount.

Thirdly is the huge benefit of taxation. MFs do not have any concept of TDS for resident Indians. In case of Debt MFs, concessional long term gains taxation (based on inflation indexation) kicks in if it is kept for 3 years and more. Thus, if any part of your Debt fund holding is sold before 3 years, the profits are added to your income; but after 3 years, the taxes are likely to be very less and may even be Zero after 4 years or so, due to indexation based on rate of inflation.

Lastly, there are different types of debt MFs meant for different purposes. E.g., if you want money in a hurry but don't want to earn paltry interest of a savings bank account, go for Liquid Funds. For 1-2 years, Ultra Short Term Funds; for 2-3 years, Short Term Funds; and for longer terms, Bond Funds, Accrual Funds, Income Funds, Credit Opportunities Funds, Gilt Funds, etc are all available and can be taken as per the need", Arun thus concluded giving a load-full of information to Sheela.

"Oh. That's a lot about Debt MFs while I didn't even know about their existence till just a few days back!" admitted Sheela.

"Sheela, I really wish that all those who have large amounts lying in inefficient bank FDs, savings bank accounts and other bank and Post Office products shift at the earliest to appropriate Debt MFs. With the recent demonetization, the interest rates are likely to go down fast – it may not be surprising to see bank FDs giving interest well below 6%, fully taxable. You'll be surprised to know that in long term Debt MFs, one not only gets the interest accrued but the price of the Debt MF goes UP every time interest rates are cut by RBI. Thus, you get double benefits, along with all the other benefits we've already spoken", Arun concluded the discussion.

Today's learning!

- Fixed Income refers to the safe investments that we do with our money. Here we trade returns for safety – hence, we should expect and accept much lower returns than equity related instruments.

- Since the returns are lower, taxation assumes a lot of importance. One needs to carefully consider the returns after tax before getting into an investment. Similarly, the final returns vis-à-vis inflation should be seen.

- While there are many investment instruments available in the market, suitability of each as per own future requirements, returns, and taxation should be weighed.

- Debt MFs score over almost all other instruments due to their flexibility of investment and withdrawal, variety of instruments available, large taxation benefits and most importantly, due to the future interest scenario likely post-demonetization.

The next chapter will deal with Real Estate, every Indian's favorite asset class – its reality and myths.

Hum Fauji Initiatives

Wealth Creators & Stealers

#7: Home, sweet home?

Your ultimate guide to Life Planning

Wealth Creators & Stealers #7: Home, Sweet Home?

"Arun, while we've been talking about so many other financial things lately, I just remembered that you wanted to go in for another house for investment and rental some time back. But somehow I find that you're not pursuing it anymore?" Sheela asked while having a cup of steaming tea in the evening. "Sheela, before I answer that question, you answer mine! Do you think we should go in for another property when we already have our ancestral house at Dehradun and the under-construction flat at Gurgaon for which we're already paying EMI installments?" quizzed Arun.

"Because it's always nice to have another property - we'll get good rentals as additional income, property prices always rise, and of course, we save a lot of income tax on the home loan", replied Sheela with a lot of conviction in her words. "That's precisely what I also used to think earlier. But as I've learnt finances better, Sheela I've completely changed my mind", exclaimed Arun. "Do you mean to say that these are all wrong notions? But then this is not only my thinking – you ask anybody and you'll get the same answer", Sheela was quite surprised.

"OK Sheela, let's look at each one of your points one-by-one", Arun continued.

"You say that property only rises. What price rise have you seen in any of the properties across India? In fact, our own Gurgaon property can be sold only at about 25% discount to what we've paid for it. And that property has yet not come into our possession even so far! And this low down of property is not just temporary cyclic changes. Actually, the basic rules of the real estate game have changed. Cash dealings or 'black money' in common parlance, used to drive property market in India. With Government's sustained drive against black money and the recent 'Note Change' or demonetization, real estate is going to have a tough time sustaining the artificially built up rates. In fact, next many years are going to be really tough for real estate industry", explained Arun.

"Arun, I think you're right. Papa was also talking something about circle rates going up?" asked Sheela.

"That is another of the measures taken by the Government to reduce black money in real estate. There was a large gap between circle rate price, i.e. the official price at all properties were deemed to have been sold, and their actual market price. And this large gap used to be filled-in by the unaccounted cash money. With Govt relentlessly raising circle rates all across the country, this black money play has taken a further knock", clarified Arun.

“But then Arun what about rentals? That is a very good source of income especially at old age”, Sheela was quite insistent about it since that’s what she had heard all her life.

Arun patiently explained, “Sheela, when large amount of money is involved, as it is in property, we have to do careful calculations. Our under construction flat in Gurgaon is costing us about Rs 85 Lakhs. We’re not very sure when would we actually get its possession but if we were to get it even today, we’ll barely get a rent of Rs 13-14,000 per month on it. That is annually Rs 1.68 Lakhs of rent. On an investment of Rs 85 Lakhs, that is less than 2% per year return. I’m not even counting here the tax to be paid on this rent, society charges, maintenance cost etc. per year. Even our DSOPF gives more than four times the returns of this! And the rates of the property are not likely to rise for next many many years. So buying a property for rental returns is a big mistake always”.

Sheela was quite over-whelmed when she realized that their life’s biggest investment has probably been a losing preposition so far.

“And Sheela, your last point about tax saving. Since we didn’t have either the money or the financial knowledge, we’ve taken a huge Rs 50 Lakh loan for that Gurgaon flat. The loan is for 20 years at 9.5% rate of interest. Do you know we’ll be paying a total interest of Rs 62 Lakhs on the 50 Lakhs loan? With our 30% income tax slab, we’ll get a tax rebate of about 19 Lakhs on it over those 20 years. In other words, to get a tax benefit of Rs 19 Lakhs, we will be paying Rs 43 Lakhs extra due to the loan. Thus, even after the tax break, the house will actually cost us Rs 1.28 Crores instead of 85 Lakhs that we thought because of the loan interest. Some people argue that after the tax break, the net interest rate that we actually pay is much lower. But then the psychological effect of having a large loan on us for a long period of 20 years is also not something small and cannot be put down in numbers", argued Arun.

"Oh my God! I didn't know we're actually going to pay so much for that flat. I think we should get out of this loan at the earliest", exclaimed Sheela.

"Absolutely Yes, Sheela. We took that loan because we wanted to go in for that flat and we didn't have the money to pay for it. But then, that flat is not something we actually need. Just imagine what a good life we could have lived had we not gone in for this flat! Considering the real estate scenario now and its future, I think we'll just have to live with this bad financial decision", concluded a dejected Arun.

Today's learning!

- Buying a property for getting rent is a bad financial decision since residential property gives about 2% returns on cost of the property. Even a commercial property barely gives returns in the range of 6-8% in India.

- Real estate scenario in India is turning dark, at least for next few years. Think very carefully before putting in your life's biggest investment in this asset class. It should not happen that you become asset rich, cash poor!

- While one house for your own living is a basic human need, just take care that you do not lock up a huge amount of money in this illiquid class of investment just to tick numbers.
- Take a home loan to buy a property only if you do not have money and the house is your actual need. Taking a home loan for saving tax is a big losing proposition.
- Your lifestyle will always be defined by the liquid assets held by you. Real estate will merely increase the 'count' of assets held by you – it will never make your life rich. Invest more in financial assets like DSOPF, Mutual Funds and bank products to meet your financial goals and requirements rather than going whole hog in illiquid real estate.

The next chapter will deal with Gold – is it good as an investment? Is all that glitters Gold?

Hum Fauji Initiatives

Wealth Creators & Stealers

#8: All that glitters may not be Gold!

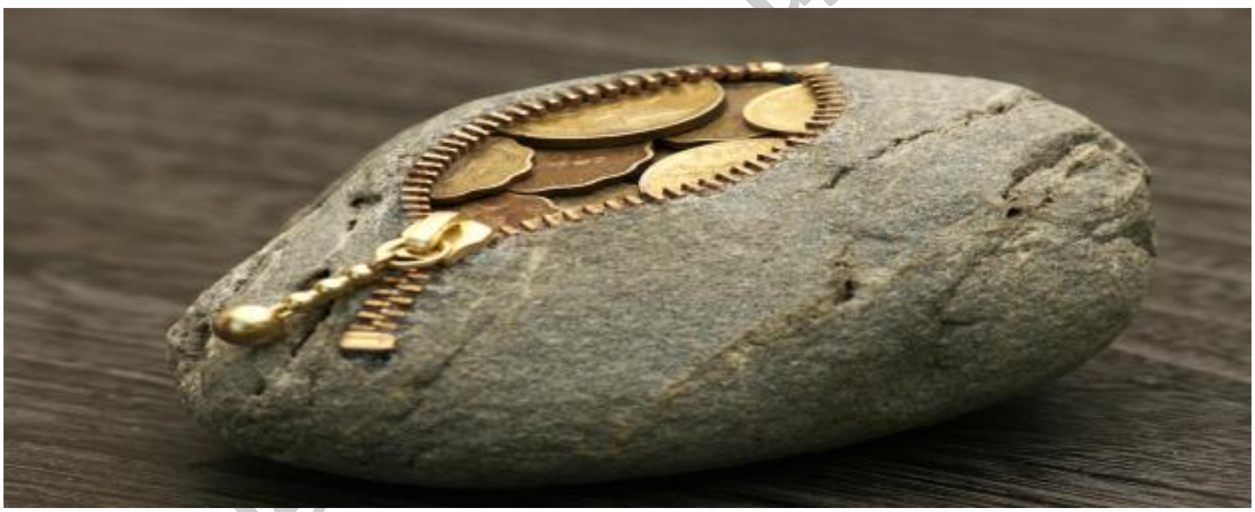
Your ultimate guide to Life Planning

Wealth Creators & Stealers #8: All that glitters may not be Gold!

It was a nice, cool evening and the easy stroll in lush green sprawling lawns was refreshing to the body and the soul alike. Golden rays of the sun were merrily bouncing off the dew droplets caught between grass blades.

"Arun, you see this natural Gold all around you? Reminds me of how majestic Gold looks when worn during parties in the evenings. By the way, why haven't you talked about Gold investments so far?" asked Sheela. Arun smiled and replied, "Sheela. I've been anticipating this question from you for ages now!! OK, just tell me what you think about Gold as an investment."

"I think it is one of the most sensible investments. I have seen Gold only going up over the years in value. Our ancestors also kept all their monies converted to Gold since it is a woman's, even a man's, best friend. Anything can happen to your money – see the recent demonetization. But nobody can ever say that your Gold will be called 'Iron' from tomorrow!" chuckled Sheela.



"Sheela, perceptions can be so wrong. Do you know that gold prices had peaked in Aug 2013 when they reached Rs 34,953 per 10 grams in India and have been on a decline since then? Actually they had peaked in Aug 2012 internationally and had started declining but because the Indian Rupee itself had lost its value, declining Gold prices did not hit Indian shores till a year later", Arun reasoned.

"Do you mean to say that anybody who bought Gold three years back has actually lost money?" Sheela was not convinced.

"The price movement is there for all to see. Sheela, I say – 'Gold zooms when the world is doomed and vice versa'! Just see yourself, you will find Gold doing well only when the world's economies go into doldrums. For example, Gold prices started going up after the 11 Sep 2001 (9/11) Twin-tower attack in USA and really zoomed after the 2008 financial sub-prime crisis all over the world. But the moment economies round the world started recovering from 2012 onwards, all those trillions of Dollars that went into Gold earlier, came right out and got into productive assets like equity.” Arun explained.

“You see, there are Trillions of Dollars of billionaires, hedge funds, pension managers etc floating like a big cloud all over the world, looking for the right opportunity and the best place to park themselves to earn that extra percentage returns. When the world is fearful, this money goes into safe investments like Gold and Government Bonds, but when the economic outlook becomes good, it goes into stocks and similar earning avenues”, Arun continued.

Sheela was still not ready to give up her Goldie possessions! “Arun, do you mean to say that I should sell off my ornaments and gold coins bought over years just because the world has started doing well now? No way, I’m not going to think of doing that even for a moment!” Sheela was very sure of this.

Arun laughed and said, “Even I’m not suggesting that, Sheela. Whatever I’ve said so far is applicable only to the Gold bought as an investment and not the Gold you’ve bought for personal use. But please remember that Gold is actually one of the most worthless metals. It barely finds any productive use anywhere, unlike Silver, Copper and even Tin. In fact, its value is only in the ‘eyes of the beholder’ as they say – on its own, Gold is useless for human beings”. Sheela didn’t like these words even a bit.

Arun continued, “But if you have to buy Gold for whatever reason other than for immediate personal use jewellery, I would recommend everybody to go in for either Gold ETF (Exchange

Traded Funds) which are traded on stock exchanges like a stock or the Gold Mutual Funds. The latter are slightly more expensive than ETF by about 0.5% but you get the facility of buying them systematically through SIP where you can buy Gold starting from as low as Rs 100 per month automatically. Taking this non-physical route, you do not have to worry about purity, getting the right rate (as they are pegged to central rates), selling or buying hassles and there's no problem of safe-keeping your holdings too. So, if you have to save up for Gold for your daughter's wedding, say some years later, use Gold ETF or Gold mutual funds rather than buying Gold jewellery or coins."

"That part I agree with you Arun. My biggest worry while buying Gold jewellery is not to get cheated on price, purity and weight", agreed Sheela.

"And if you do decide to buy Gold as an investment, remember, it is not a hedge against inflation, as some people incorrectly believe. Gold is a hedge against political stupidity, due to which economies go into tail spin!!" chuckled Arun and gave out a hearty laugh.

Arun and Sheela will continue to deal with investments and associated aspects. The next chapter will deal with Taxation and how it affects your investments.

Hum Fauji Initiatives

Wealth Creators & Stealers

#9: Saving tax should not be only reason to Invest

Your ultimate guide to Life Planning

Wealth Creators & Stealers #9: Saving tax should not be the only reason to Invest

Having learnt a lot of money stuff in the past few days, Sheela was brimming with the newly acquired knowledge now. However, there was still one big question bothering her.

"Arun, you remember you told me something about taxes when we had initially started discussing money matters? How can we make sure that we're saving all the taxes that we legally can?" Sheela asked her hubby.

"Yes Sheela. When a lot of tax gets deducted from our salaries, most of us wonder about this particular question. Tax management is definitely an important part of intelligent investing."Arun replied.

"While theoretically there are a large number of tax savings options to a common man, just a few are practically applicable. The most common one is Income Tax **Section 80C**. Provident Fund contributions like PPF, DSOPF and EPF get counted here. Other common avenues that qualify for it are life insurance policy premiums, including for AGIF/NGIF/AFGIS, children's tuition fees, home loan principal provided the house possession has been taken, Equity Linked Savings Scheme (ELSS) mutual funds, NSC, 5-year tax saving bank FDs, Senior Citizens Savings Scheme, Sukanya Samriddhi Yojana, etc. The maximum saving that qualifies for tax deduction under this section is Rs 1.5 Lakhs as on date", clarified Arun.

Sheela asked, "That doesn't seem much and I'm sure everybody must be actually getting there anyway since some policies and provident fund everybody already has. There must be many other tax concessions too."

Arun agreed with her, “You’re right about 80C. The other big concession available is under **Section 24(b)** which kicks in for your home loan after the possession of the house has been taken. The limit is Rs 2 Lakhs for a self-occupied property and there’s no limit for a rented out property on the interest portion of the home loan.”

Sheela chipped in, “That’s a good concession, but as we already discussed earlier, one should take a home loan only if the loan is required and not because there’s a concession available. We can’t put the cart before the horse – the cart will reach nowhere!!”

“That’s very neat, Sheela. You’re very much in on financial matters now.” Arun was visibly pleased.

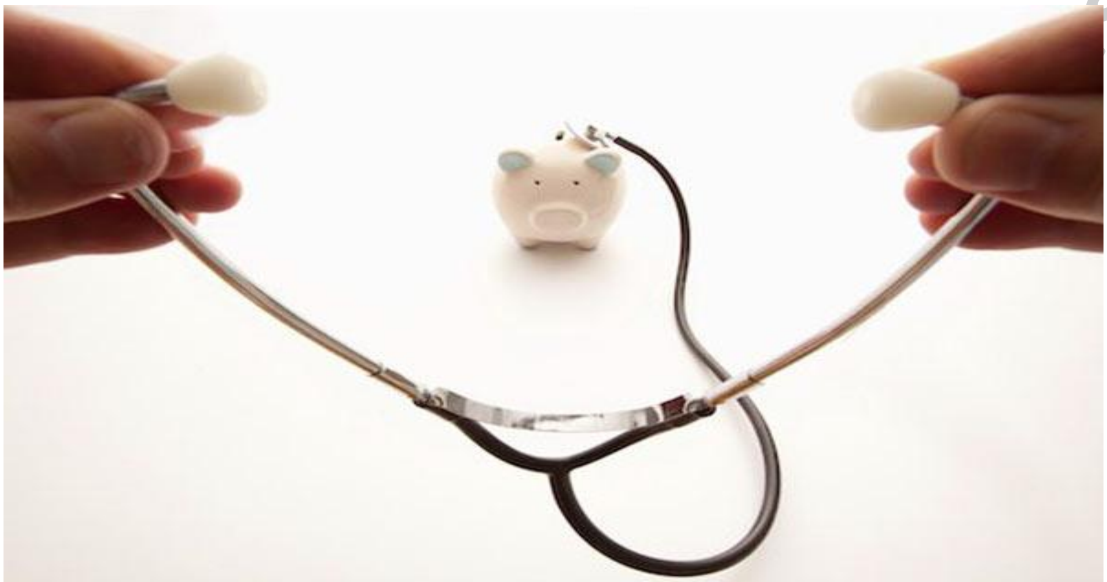
Sheela brimmed, “Thanks Arun. But I’m sure there must be other tax benefits also available.”

“Yes there are, but they’re not as much as under 80C and 24(b) which we’ve discussed. Premium paid for medical insurance up to Rs 25,000 per year for self, spouse and dependent children is exempt under **Section 80D**. For parents, whether dependent or not, but paid by the son or daughter, there is an additional Rs 25,000 available as deduction. And if they are senior citizens, it is Rs 30,000 instead. For people who have medical disabilities of self or dependents or are afflicted with some critical diseases, there are deductions available under **Sections 80DD, 80DDB and 80U**. Thus the Government does try to help if its citizens have medical problems”, Arun continued.

“That’s good. Any other tax benefits which we in our family can think of availing”, enquired Sheela.

“Rest is much specialized kind of benefits. Like **Section 80E** for education loan wherein all interest paid for eight consecutive years on education loan taken for higher studies for self or dependents is fully deductible from gross salary, **Section 80TTA** wherein interest on Savings Bank account up to Rs 10,000 in a year is exempted from tax, **Section 80G** where contributions to specified charity trusts / institutions could be 50% or 100% deductible from gross salary, or the **Section 80CCD** under which an additional Rs 50,000 per year can be claimed as exemption in addition to Section 80C for contribution to National Pension Scheme (NPS)”, replied Arun.

“Oh! That’s a whole lot of exemptions and deductions, Arun”, gasped Sheela.“Yes it is, due to Government’s thrust on some areas like education, retirement pension, charity etc. But it is very important to realize that there is no point in subscribing to schemes like NPS and getting money locked up for your life time for the sake of some tax exemption, or taking a large education loan and incurring huge debt for a long time or taking a medical insurance even when one is fully medically covered under Organization provided facilities, all just because tax exemptions are



available”, cautioned Arun.

Sheela too didn’t want to lose this chance to display her newly acquired financial wisdom, “And Arun, I also remember what we discussed about taxation earlier – there’s only a certain limit till which tax can be saved on the salary. So we should just stop worrying about that part too much. But what’s the most important part is how we invest our salaries further ahead so that we minimize the taxation and increase our overall returns.”

“Great Sheela. How about a cup of coffee on that prophetic statement of yours!”

Today’s learning!

- There are a vast number of exemptions and tax deductions available. One should know them well to save tax to the extent legally allowed.
- To a common salaried person, Income Tax Sections 80C, 80E (education loan), 24(b) (interest on home loan) and 80G (charity) are the most relevant. Learn about them.
- We all fret too much about saving tax on salary – there’s barely any scope that you can save much there in addition to the usual savings of IT Section 80C. This is beyond your control. But what is in your control is how to gainfully invest your earned money so that it earns good tax

efficient returns. But most of the people bother more about the former part where they have no control and pay no attention to the second part, where they have full control.

- And lastly, Death and taxes are two realities of life – you can't escape them anyway.

In the next chapter, Arun and Sheela deal with how should you deal with your finances when a calamity strikes you or someone close to you.

Wealth Creators & Stealers

#10: It's not the end of the world!

Your ultimate guide to Life Planning

Wealth Creators & Stealers #10: It's not the end of the World!

"Hey Sheela, What's up? You don't look your own self today!" asked Arun cheerily. "Arun, I somehow cannot get Savita and her two children out of my mind. Don't know how they will make it through the life now. With Sushil gone last week in that fatal accident, I don't think Savita has any idea about how to manage her financial life. And the children are just too young to even realize what tragedy has befallen them", Sheela replied in a very sad tone.

"I agree with you Sheela. When we find our comrades, friends or close acquaintances going away like this, one is brutally struck by the fickleness of life. But then if we accept beforehand that life is uncertain and prepare for it properly, a lot of financial hardship that is endured by the dependents we leave behind can be avoided", opined Arun.

"No Arun. I don't agree. How can one prepare a family for one's own death, especially if it is the husband who happens to be the main or sole bread winner of the house? It's a given fact that there will be hardships and they cannot be avoided", disagreed Sheela vehemently.

"Sheela. What you're saying is true from an emotional and physical point of view. No amount of preparation can make good the loss of a loved one. But the lady has to pick up the threads of life, after having overcome the initial shock, and come to terms with realities of life especially with regard to her children. There's no doubt that there is an excellent emotional and physical support structure available in the services, but then the fact also remains that there's a serious dearth of informed financial advice available to them", said Arun bluntly.

Sheela still insisted, "I agree with you to some extent, but remember that a large amount of money suddenly becomes available to the ladies in such circumstances. Most of them, however, may have never handled money in the past, and never operated even a bank account. The children are not of much use either since they're normally studying or could be still younger."

"Hence, it's no wonder that the ladies prefer to turn to their friends and relatives even if they do not have much faith in their financial skills. On the other hand, there's a trust deficit in financial advisors and ladies are either wary of approaching them or do not know who can help them out. Due to this, safety of capital and a very high level of liquidity is always the highest priority for them rather than the concept of planning for the life's future financial goals."

Arun couldn't agree more with it, "Well said Sheela. But then such things have to be taken head-on now and there's no escape from handling them". Sheela prodded, "And what do you think can be done by the ladies then?"

"Sheela, the very first and foremost action is to prepare a personal Will, having seen the vagaries of life herself first-hand. It should preferably be registered in a court. The appointment of a good executor in the Will is extremely important. Next important issue is taking adequate term insurance as per own future requirements, primarily relating to those of the children. Insurance of home loans, house properties, car and other important assets is also equally important", rattled off Arun.

Sheela counted, "Preparation of Will and taking adequate insurance cover, preferably Term Insurance Plan, is what you've said so far."

"That is only the start point. The lady then needs to list out future major requirements along with their current costs. These requirements, in most of the cases, are likely to be children's education (graduation and post-graduation), their marriage, purchase of a house or payment of existing home loan instalments, own retirement living, vacations, change of car periodically, etc. The current costs are to be increased realistically by a yearly compounded inflation rate till the requirements are likely to occur so as to get an idea of what will those requirements cost when they actually come up", listed out Arun.

"That certainly is a lot of work, Arun", felt Sheela.

"But much less than the hardships that will have to be gone through if all this is not done", snapped Arun, and continued, "Then try and figure out whether their savings will match up to those figures, taking into account the increased incomes and expenses over the years.
They need to see if the equation 'Income – Expenses = Savings' can be changed to ***'Income – Savings = Expenses'***, since keeping expenses in check and meeting future obligations will be crucial now. If the pension received monthly is more than own requirements, some part of it should also be saved on a monthly basis".

Sheela butted in, “But Arun, the biggest immediate issue is what to do with the large amount that will be received as compensation from various sources and how to ensure that it lasts”.
“Agreed Sheela. The lady needs to invest the received compensation amounts very carefully. Few rules of thumb – keep emotions out of investing; invest as per her financial goal requirements within her risk comfort zone; go into safer debt investments for requirements occurring in next 2-3 years while longer term requirements should go into equity related investments; tendency to go in only for ‘safe’ investments could be detrimental to her future requirements; Real estate and Gold should be taken only on as-required and if-required basis; And insurance as an investment should be totally avoided”, blurted out Arun, as if on a queue.

“And”, Sheela interjected, “take unbiased and professional advice if you feel to since it could make a lot of difference to your family’s future. Last but not the least, your own confidence, Will and steely resolve to deal with the turbulence of immediate phases of life are what will ensure that you survive the ordeal for the sake of your children, your other near-and-dear ones and your own self.”

Today’s learning!

- Passing away of your husband is a rude shock. But let it not be the end of the world for you. What your children do in their life now onwards depends entirely on YOU and literally nobody else.
- Don’t be daunted by the task ahead or the large amount of money that flows in to you. Handled properly, this money can help you realise your late husband’s dreams, especially in regard to your children.
- Preparation of a Will and taking adequate term insurance cover for yourself, are two immediate steps required.
- Figure out your future important requirements and invest your money sensibly to reach those financial goals. Scrupulously follow the Do’s and Don’ts given above.
- If you feel the necessity, do not hesitate to approach a good financial planner to help you. Treat him/her as your financial family doctor.
- Lastly, everything finally depends only on YOU…..

In the next and the last chapter, Arun deals with the concept of financial planning – how the complete education of this e-book can be applied to your life so that you look at money enriching your life and meeting your future requirements ‘financial goals’) rather than merely to get the best returns.

Hum Fauji Initiatives

Wealth Creators & Stealers

#11: Summarizing it all

Your ultimate guide to Life Planning

Wealth Creators & Stealers #11: Will you put it all together for me, Please!

"I think Sheela, we've discussed more finance and investments in these 11 weeks than we've done all our life! And right on time since next week I'll be off for taking up my Command assignment in J&K" exclaimed Arun.

Sheela agreed, "And you know, I'm also pretty confident now that I'll be able to take ahead all that we'd built up during our Delhi tenure here. But one last thing – how to stitch it all together? Is it through, what so many people say, the process of financial planning?"

Arun replied, "Sheela, you're absolutely right. To say that we should plan our finances well is just to state the obvious. However, in spite of this knowledge, most of us do not put in the small amount of effort required to plan for the financial future of self and our families – how many people do you know who have bought a house or a car, or sent their children for expensive higher studies without a loan by simply saving in advance? Most of us plan weekend recreational trips much more diligently than most of our major financial events of life."

"True, Arun," agreed Sheela, "Probably it is the anticipated drudgery of planning or the fear of confronting requirement of large financial sums that make us postpone any sort of long-term planning, till it is right in front of us and can no longer be postponed."

Arun agreed, "Probably that's the case, Sheela. But inherent in your above analysis is the need for a change of attitude. Over a period of time, we have taken it as a fait accompli that on occurrence of a big financial event, we will go ahead and take a loan and pay EMIs for major part of our life. Thus we commit ourselves to a stressful life leading up to the event as we do not have the money ready, followed by the stress of EMIs for a long period due to the loan taken. It is time we reversed the cycle by planning in advance, accumulating money through careful investing and then buying things or meeting commitments."

"Do you know that if we take a home loan of Rs 50 Lakhs for 15 years at 9.5% rate of interest paying an EMI of Rs 52,211 per month, we would pay a total interest of Rs 44 Lakhs, thus actually paying back Rs 94 Lakhs? Hence the house costs us actually 44 Lakhs more than what the upfront cost. Even if we get the highest tax benefit (of 30%) on this loan on interest, we still pay Rs 31 Lakhs as net interest on this loan. Probably, it is time we changed our way of meeting our financial goals by planning in advance so that we save all this additional outgo which just makes the loan companies richer", Arun continued.

"Suppose in the example given by you, we were to plan in advance, how would we gain?" asked Sheela out of curiosity.

“There’s no doubt that we would gain. If the cost of the house today is Rs 50 lakhs and even if we expect it to escalate at a huge compounded 10% each year, the cost of the house would be Rs 1.10 Crores Ten years later. If we save the amount that we would pay as EMI of the loan, ie Rs 52,211 per month for just 10 years in an equity product, assuming a reasonable 12% average compounded returns, we would accumulate Rs 1.2 Crores! So, no tension of loan, lesser period of saving and we get similar house more comfortably and in a newer avatar”, Arun concluded decisively, “And similar logic will apply to all our future financial goals. If we plan, we will be in driver’s seat. If we don’t plan, we will do a catch-up through-out our lives”.

Visibly impressed with the calculations, Sheela asked, “OK, this is good about the loan. But what about other things that come up for everybody – children’s education, their marriages later, vacations, and so many other big expenses in life”.

“Sheela, at different stages of life, different financial goals seem relatively more important to us. For example, if you are in your early thirties and do not own a house, buying a house may seem to be the most important. A comfortable Retirement, which is 25 - 30 years away, may not seem to be a very important goal. But, if you are in your 20s and recently married without children, children’s college and higher education is so far away, it may not seem important. However, over your entire saving and investing lifecycle, are any of these goals less important? No, all the goals are very important. Your financial plan will help you to be ready for each of these financial steps in your life”, said Arun.

“So Arun, how should an armed forces officer actually go about such a planning? It sounds good but seems too theoretical and if I may say, too futuristic to be practical!!” admitted Sheela sheepishly.

“Sheela, I also thought so when our financial planner told me all this three years back. But as we got a financial plan made, which, you may remember, we both had gone through in detail, and started putting it into action, we’ve started finding its true worth. In fact the steps in a financial plan are quite simple:

1) Define your big ticket expenses of future, called financial goals.

2) Work out their present and future likely cost, and what amount of money does it take to reach there.

3) Save for it in appropriate investment avenues, as if your life depended on it, without succumbing to the urge to disrupt the saving schedule or take out money from it even in emergencies, if possible”, said Arun as an experienced investor.

Sheela agreed, "Arun, you make it sound so simple. And of course, I take it that your financial planner has a big role to play in it?"

Arun said with conviction, "Sheela, a financial planner has a very big role to play in it. While lots of people recognise the importance of a financial planner, they look at him to just get them the best returns. That's not what a planner actually is for – his main job is to guide you, get you out of the harm's way and keep you on track to your goals when you otherwise may commit hara-kiri due to sudden impulses which most of the uninitiated are prone to. And let me tell you Sheela, a good planner is worth his weight in gold and finding him is an art, science and lots of good luck!"

Today's Learnings!

- Choice of the investments should be guided by own future requirements than merely by superficial research, own whims and fancies or following the in-thing.

- Financial plan for the life should be the only way investments should be made. It take a bit of effort and diligence to do it, but once done, it could act as a blueprint for the financial life, just occasionally requiring revision.

- It can be done by own self but then utmost self-discipline needs to be maintained.

- Else, find a good planner, whom you believe in and who gives you an unbiased advice and professional guidance with a long-term view.

This article is the last one in our series on basic financial education for armed forces officers, their families and others in this e-book. In this article, we have put together a code here for you on how to take ahead all the learnings of all of the previous articles.

Like it? Take it ahead yourself or get in touch with us if you need our help. We can be with you on contactus@humfauji.in / 011 - 42402032, 40545977, 49036836 / sms or whatsapp on 9999053522.

Or You can also visit us at:

Hum Fauji Initiatives™,
E-595, 1st Floor, Daani Plaza, Above Andhra Bank,
Ramphal Chowk, Sector 7, Dwarka, New Delhi-110077