

Caution pays in the long run

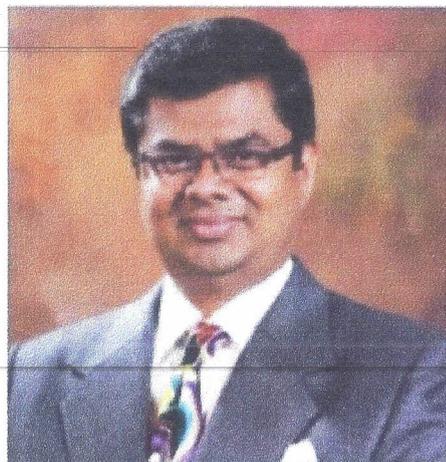
Once an investor has stabilized and improved his lifestyle should he contemplate an investment in speculative bonds

KARAN SEHGAL/ THE GOAN

The year 2013 was worrisome for investors. The stock market remained in narrow range. Real estate prices stagnated. The price of gold reached a peak. This makes it difficult for investors to decide where to invest the money. Given that the price of real estate and gold has already shot up, the investors are better off focusing on more traditional asset classes like mutual funds (MFs), fixed deposits, public provident fund (PPF), liquid funds and fixed maturity plans (FMPs). MFs did not give astronomical returns in the last

who has taken a car loan and education loan, has to pay monthly installments on two loans. Therefore, either prepaying the loan or having fixed income instruments like FDs, PPF and liquid funds are more advisable for him, to cover for contingencies", said Mr Vishal Dhawan – a certified financial planner based out of Mumbai.

A number of investors seem to go be going by this strategy. Mr Amin Tehrani is 51 years old and worked in the automotive industry with MNC brands for decades. Now he has settled in Goa and opened a restaurant.



Rajesh Chedda



Ninad Kamat

INVESTMENT TIPS

- The investment in mutual funds should be made with a long term horizon of at least 5 to 7 years
- Insurance should be taken to protect against a clearly speci-

five years. This resulted in some investors completely shunning them. That should not be the case since equities are the best investment option over really long periods of 10 to 20 years. The investment in MFs should be made with a horizon of at least 5 to 7 years. While investing in MFs, investors should consider options from reputed large cap funds like Franklin India Bluechip Fund and ICICI Prudential Focused Bluechip Equity Fund and mid cap funds like IDFC Premier Equity Fund.

There is no fixed rule to decide how much percentage of portfolio should be invested in MFs. Typically young investors are advised to keep a high portion of portfolio in MFs. 'Age is not the only factor to consider. A 60 year old man who gets an inflation adjusted pension, has health insurance and lives in fully paid up own home can consider keeping more than 50% of his portfolio in equity MFs since he has enough money to take care of his monthly expenses, medical bills and housing etc. At the same time, a 25 year old man,

He explains his philosophy of investing, "I have no dependents. I have insured myself to take care of eventualities. I prefer to invest in MFs and not in FDs. This is because return on MFs is higher than on FDs. I even invest in real estate if I get something at a price I afford". Mr Himan-shu Kakkar is 32 years of age. He is a media professional based out of Delhi. "I have stopped investing in equities and MFs at least for time being. I invested in MFs in 2007 and redeemed those investments recently. The return over last 7 years wasn't much. Therefore, I have chosen to invest in recurring deposit with bank"

A number of investors keep most of their savings in banks' fixed deposits for a fixed rate of interest. Investors in higher tax brackets are not advised to put too much money in banks' FDs since tax on interest is deductible based on the tax slab of the investor. "If an investor is in the 30%+ tax bracket then post tax return on a fixed maturity plan would be much better than post tax return on a bank FD having

fied risk.

- Investors in high tax bracket are not advised to put too much money in bank fixed deposits due to high tax liability
- Investors in high tax bracket can consider investment in fixed maturity plan as income on such investments attract lesser tax compared to other fixed income alternatives
- Since gold has peaked already, investors should not put too much money in gold related investments

similar maturity", said Mr Niranad Kamat – a certified financial planner based out of Margao." FMPs are close ended debt funds which invest in debt instruments and have a maturity of up to 5 years. Investors can also consider putting some part of their money in liquid funds for less than a year maturity. Such funds invest in treasury bills and money market securities with really short maturity. Investment in such funds is liquid enough and often provides higher return than savings bank deposits.

On how to decide on putting money in real estate, Mr Rajesh Chheda – registered investment advisor based out of Panjim said, "Investors should follow pyramid approach to investing.

Just as the base of pyramid is solid, the base of an investor's portfolio should comprise of investments which will provide him fixed and secure income like FDs, PPF, liquid funds and FMPs. Along with such investments an investor must complete his risk management of life, health and disability. After that, an investor may have a priority of owning his own home. Only after an investor has made two types of investments – one to maintain his lifestyle and the other to improve his lifestyle – that he can consider investments in speculative assets and here he can consider investment in real estate opportunities".

At the end, it is of utmost importance for an investor to define his investment goal.