INVESTMENT NAVIGATOR

Play the Balancing Act

—*Vishal Dhawan*

THERE has been a sea change in the expectations that we have from our lives today—whilst we were once happy visiting friends and family at our native place during vacations, today we want holidays to exotic locations overseas.

From the option of having to pick between a Fiat and an Ambassador, we now have 30 new car launches in the next few months to choose from, not to forget the hundreds of models already available, with variants of all kinds. Whilst this explosion of choice has obviously been beneficial, it has also resulted in an increased focus on short term gratification.

Anything that gives us instant pleasure is given precedence over benefits that are likely to accrue over the long term. For example, we have seen a declined focus on saving for retirement because it is so far away amongst people who are younger. In this environment, it is critical to focus on achieving a balance between long-term and short-term financial goals.

So how does one go about achieving this balance?

1. Make a list—Just like a grocery list is recommended when you go to a supermarket to ensure that you don't overspend, you should list out your financial goals—education for your children, their marriages, asset purchases like homes, and cars, parental support, annual holidays, and, of course, regular day-to-day expenses. List each of your goals clearly.

2. Quantify your goals—A goal without a number is unlikely to get you anywhere. Different financial goals have different values and can also differ from individual to individual. For example, a retirement in Mumbai could come with very different costs *vis-à-vis* retirement in Kolkata. It is, therefore, critical to put a number to each of these goals based on your own expectations. Do not forget the impact of inflation on these goals—Rs 40,000 per month that you spend today could be in excess of Rs 2,50,000 in the next 25 years. You may need to seek the help of a financial planner to do this exercise.

3. Rank the goals in order of importance—Remember, your neighbour's financial goals are not yours. Your neighbour's shining new car should not suddenly result in a situation where your most important financial goal is a new car purchase. You will probably find that achieving all your goals may not be possible, so a process of prioritisation may need to be undertaken. Try to achieve a balance between short-term and long-term goals. Too often excessive focus on short-term goals or any one of the goals tends to compromise your overall financial wellbeing. For example, overstretching yourself on your residential home purchase could result in a compromise of your child's education or your own retirement.

4. Manage the risks—Current lifestyles could expose you to health risks, life-threatening or otherwise. Ensure that you have adequate life and health cover to insure your risks. Buying them early increases the chances of getting them cheaper as well as when you are in a good state of health. The gap between needs and funds can always be funded by insurance.

5. Diversify your portfolio—Use a combination of financial instruments—stocks/equity, mutual funds, bonds, precious metals, real estate and bank deposits in line with your financial goal requirements and risk appetite. The products that you buy should be aligned to deliver to your financial goals; for e.g., avoid buying equity for a short-term financial goal where you are likely to need the money in a year as equities can be very volatile over short periods. Similarly, using a 100 per cent fixed income portfolio, though very safe, can result in your portfolio value not being able to match up with inflation.

6. Put the plan into action—Ensure that you start saving towards your financial goals diligently. There is a tendency to put off the implementation of the plans and then try to make up lost time by investing too aggressively. This may not be an appropriate strategy.

7. Monitor your portfolio regularly—It is extremely critical to monitor your portfolio and financial plan annually. There is a high probability that some of the financial goals change along the way and your financial plan may need mid-course correction. However, be careful that you don't check your portfolio each day, as that could do you more harm than good.

"The trick to juggling is determining which balls are made of rubber and which ones are made of glass."

Vishal Dhawan is a certified financial planner by profession and founder of Plan Ahead Wealth Advisors Pvt. Ltd. He can be reached at vishal@planahead india.com.

Vishal's rich experience of 15 years in the financial services industry has led him to frequently write columns and appear on television, including CNBC and Bloomberg UTV. He shares his insights and views in various leading publications, including the Wall Street Journal, Economic Times, Indian Express, Reader's Digest, ET Wealth, Asian Age *and* Deccan Chronicle. *He is also a member of the Financial Planning Association, USA.*

Plan Ahead is a wealth management and financial planning firm that works with both Indian and NRI investors to help them achieve their financial goals and manage their wealth. (www.planahead.in)