

Plan assets based on needs, inflation

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WHETHER YOU pick up a magazine or newspaper, put on your television set or drive through your city, you will be inundated with financial products screaming “Buy me” at you.

One of the most common questions we encounter is “How is this mutual fund” or “What do you think of this insurance plan?” or “Is it a good time to buy stocks now?”


Unfortunately, there are no right or wrong answers to the above — it completely depends on what suits you. So how do you establish what suits you? The starting point to establish what suits you is to devise a financial plan for yourself.

While a financial plan may sound rather complex, it is simply a roadmap that allows you to think about what you want to achieve with your life goals and how your finances will allow you to get there.

Let me illustrate this with an example. Let’s say one of your life goals is to send your child overseas for a higher education. How would you design your financial plan towards this life goal?

■ Establish the current cost of the education that you want to plan for — The costs for higher education vary significantly depending on the type of college, country of education, type

PLAN AHEAD

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- Establish the current cost of the education that you want to plan for.
 - Understand the impact of inflation on current costs.
 - Choose the appropriate asset mix to achieve your target.
 - Choose the appropriate product/products to achieve this targeted amount.
 - Evaluate the progress towards your goal at regular intervals.

of programme and number of years of education.

The total costs of education should be established including the costs of living and travel and not just education costs.

■ Understand the impact of inflation on current costs — Inflation rates on education may vary significantly depending on whether you wish to plan an education in India or overseas. You need to establish the corpus required for the education after adjusting for inflation.

■ Choose the appropriate asset mix to achieve your target — It is critical to establish the right balance of stocks and fixed income exposure so that you understand the returns and associated risks that you will take on the portfolio in order to reach your target.

■ Choose the appropriate product/products to achieve this targeted amount — Once the above steps have been undertaken, you can move to the product selection stage where you can look at the merits/demerits of using deposits, mutual funds, insurance plans, stocks or

other options to achieve your target.

■ Evaluate the progress towards your goal at regular intervals — It is important to review the progress of your financial plan to ensure that you are on track to achieve your financial goals.

However, it is important that you give your products adequate time to deliver as per their designed objectives. A review once a year should be adequate. A financial plan can be developed for all your life goals accordingly.

You may need to take the help of a financial planner to integrate all your goals into a plan so that your overall finances can be aligned to all your goals.

So the next time you see a new product, go back to your financial plan and you will probably find whether the product is suitable for you.

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