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'Equal investment in India and abroad may not be your ideal strategy as NRI'

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Many of the Non-Resident Indians (NRIs) that we deal with live in a state of uncertainty about their final choice of retirement. They are torn between the emotional ties with family in India and a quality of life that they have got accustomed to living overseas. This is especially true as their children grow up and are far more familiar with the way things work in the overseas geography that they live in, than they are with India.

Many a time, an inability to gain citizenship in the country that they live in for example in the Middle Eastern geographies, or uncertainty around how citizenship rules are evolving, for example the US, parts of Europe and Asia, also leads to this inability to decide, even though there may be a desire to take this decision at the earliest.

This uncertainty often translates into a rather unstructured investment strategy or holding too much of liquidity resulting in sub-optimal returns, as this decision on final destination weighs on the minds of NRIs.

Over our years of dealing with NRIs, we do believe that having clarity on the final destination of retirement would make it much simpler to plan their investment strategy.

However, there is still a clear need to create a structure and well defined financial goals in the interim so that earnings are not spent away in lifestyle upgrades, or money decisions are not taken in a piecemeal manner or ad hoc manner which can be very damaging for long term financial health and corpus generation.

A good place to start is therefore to separate the goals that are relatively clear already for example education for children, support for parents, car changes, contingency funds, health care provisions, amongst others where one can define the amounts that one needs to allocate.

Similarly, planning the inflation and currency appreciation/depreciation rates to cover for these goals till milestone years, along with the geography that these will be used in will also be easier.

This scenario planning, basis end use of money in a particular geography, may be a far more effective strategy than a 100 percent India/international investment strategy or a 50 percent international, 50 percent India that most NRIs end up using due to this lack of clarity. For goals that are uncertain, for example, retirement—a 50:50 strategy of India and international assets may work till clarity emerges.

The flexibility of the investment strategy is the most important item to keep in mind whilst creating a structured investment strategy. This may mean that NRIs who are yet to decide on where they wish to retire to, should avoid using assets that either lock in their money or are illiquid or create payment commitments for long periods of time.

Therefore, certain kinds of asset classes like real estate may be inappropriate, due to the inability to liquidate real estate easily and in parts, along with their long cycles of elevated and subdued prices. Many NRIs prefer real estate due to the comfort of owning a physical asset, ability to put away large chunks of both current liquidity and future liquidity.

However, they do find that managing real estate remotely, inability to sell when money is needed and low rental yields in India do not make it a great investment choice in the light of uncertainty. Buying multiple pieces of real estate in different geographies or locations does not take away from the long gestation cycle, low liquidity and low rental yields and may therefore not be the solution.

Insurance products do have a significant savings component but are likely to allow liquidity at a steep price and have long-term commitments on premium payments that may or may not be possible due to professional uncertainties, thus may also need to be avoided. Protection against death or critical illness, which is the most important need, should be the sole focus of insurance planning.

Financial assets like bonds and equities, or mutual funds and ETFs that allow access to diversified portfolios, both in India and internationally, may therefore be a preferred choice to build wealth in the eye of uncertainty due to the flexibility that they offer, along with wealth protection and wealth creation opportunities. The mix between these assets need to be created keeping your defined goals in mind.

50:50 is therefore not your ideal investment strategy, at least for goals where you have clarity on the geography of ultimate usage of funds.

The author is a certified financial planner and founder of Plan Ahead Wealth Advisors, a SEBI registered investment advisory firm.