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9 ways to protect your finances

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Highlights

> *the new company is and assess its prospect*

Slowdown eroding your investments?

As reports of job losses, slowing demand and the liquidity crisis trickle in, here are nine measures that can safeguard your finances.

1 Don’t stop SIPs now
Discontinuing SIPs in a downturn is perhaps the biggest mistake an equity investor can make. It defeats the very purpose of the SIP by denying the investor the opportunity to accumulate more when prices are low. However, a downturn is the time when SIPs actually work to your advantage. It’s simple arithmetic. As markets turn weak and NAVs of funds go down, every SIP fetches you more units. A few years down the line when the market recovers, the accumulated units will translate into a huge corpus. Historically, investors have gained by continuing SIPs through lean market phases and sticking around for the longer term. If you stop your SIPs during this period, you are likely to miss the opportunity to accumulate units at a lower cost; by the time you restart the SIP later, the market may already have run up.

Investors in mid-cap funds should even consider hiking the SIP amount to take advantage of the sharp correction in the segment.

2 Opt for less volatile funds
In the prevailing market situation, hybrid funds are best placed to protect the downside for the investor. These are structured to limit the volatility in returns and suit investors who can't stomach ups and downs, yet need some equity exposure.

3 Avoid investing in property
Builders and housing finance companies are luring buyers with big discounts and low loan rates. The housing market in top Indian cities has not done too well in the past one year. Except in Hyderabad, residential prices in all big cities either fell or rose marginally. Given the looming threat of an economic slowdown, the situation is unlikely to improve in the next few quarters. Builders are sitting on huge inventories which will take a long time to clear. A report by Knight Frank says that the inventory in Delhi NCR will take more than three years to clear if sales continue at the current pace. In Mumbai and Bengaluru, it will take over two years.

This means investing in property is a no-no for now. If you are looking to buy for immediate use, go ahead and buy. But if you plan to invest in a second property, stay away for now.

4 Diversify with gold, US funds
It is always a good idea to diversify the portfolio to reduce the risk. During times of uncertainty, investors tend to flock to the safety of gold – this is evident in the sharp rise in price of gold in recent months. Experts maintain that investors should keep around 10-15% of their portfolio in gold. Investors who had taken some gold exposure would have been partly cushioned from the recent slump in the equity market.

However, avoid buying physical gold (ornaments or bullion) because the making charges eat into the returns and issues such as safety, liquidity and purity. When investing in gold, go for financial assets such as gold ETF or gold sovereign bonds. These allow investors to purchase gold in denominations as low as 1 gram while affording high degree of convenience and safety. "Gold should not be a seasonal exposure; have some investment in gold purely as part of your overall asset allocation," says Hemant Rustagi, CEO, Wiseinvest Advisors.

Another way to diversify the portfolio is by investing in international equities, particularly US stocks. US-focused equity funds provide two main benefits: One, they lend geographical diversification by investing in another country whose market has little correlation to the domestic market. Further, they provide currency diversification. Investments in US-focused
equity funds are dollar denominated, even though you invest and redeem in rupees.

5 Create an emergency corpus
With jobs vanishing, an emergency fund is critical. Building a kitty to take care of medical or financial emergencies is the first step in any financial plan. "For a double-income family, six months' expenses would be adequate as even if one of them loses a job. But single income families may need a bigger buffer," says Vishal Dhawan, CEO, PlanAhead Wealth Advisors.
Families with sole breadwinners, will need a kitty capable of covering 9-12 months' expenses. "Business-owners and self-employed professionals with variable incomes should look at covering 12 months' expenses," adds Dhawan. Besides routine expenses like school fees, groceries, medicines and utility bills, set aside an additional amount as cushion for any unforeseen expenses. This amount should be parked in liquid instruments, so that you can realise the proceeds the moment they are needed.

6 Reduce discretionary spends
They say a penny saved is a penny earned. In a slowdown, you should examine your expenses to identify the ways to earn more. Tweak your lifestyle and budget to reduce discretionary spends and defer big-ticket purchases. Forgo the 'prime' memberships of food apps that encourage you to 'save more' when you eat out. If a couple is eating out thrice a month and spending `6,000, cutting it down to once can help save `4,000 a month.

This is also the time to defer big-ticket expenses. Put plans to purchase a car, house or even a big holiday on hold till the time your finances are more secure. If it is not possible to defer these, look at second hand, pre-owned or refurbished options. Go for 'certified pre-owned' cars, which have been checked by automakers or dealers and have original specifications. The 'refurbished' gadgets or devices have been returned after use, but have been brought back to their original condition with fresh warranty. These come for a much lower price but are as good as new.

It is never a good idea to spend notional money, but this is critical during uncertain times. Don't finance your purchases with money expected in the future, including salary increments, annual bonus, variable pay or profit from investments. Using credit cards to make big purchases depending on future lump sum remuneration should be avoided. Unless you have a steady job in a safe sector, use only cash, not cards.

Going easy on expenses that typically don't warrant a second thought, such as chips, coffee, chocolate, ice-cream or other junk food can save you a good amount of money. For instance, a `10 packet of chips bought 20 days in a month will add up to `2,400 a year.

7 Take medical cover for family

When examining ways to reduce expenses, don't even think of cutting out health insurance from your budget. "Health insurance acts as the perfect wealth protector in one's portfolio," points out Ravi Vishwanath, ED and CEO, Reliance Health Insurance.

In fact, in this uncertain environment, make sure your family has a medical cover apart from the group cover provided by your employer.

8 Formulate debt strategies

The loss of a job can throw your finances into a tizzy if you have big loans to repay. Unlike corporate defaulters who have access to formal mechanism for loan restructuring, retail borrowers enjoy no such privileges. But you can leverage your repayment history and relationship with the lender to extract some concessions. Whether it is a home loan or a car loan, banks typically don't want to repossess the assets and will try to avoid litigation as far as possible. In most cases, they are more than willing to make repayment easy. Approach the lender, providing justifiable reasons and request for rescheduling, before it initiates action on recovery.

"A postponement for months together may not be possible. But, extending the period of loan if there is room could be considered, depending upon the repaying capacity. This will reduce the EMI amount, providing some relief," explains VN Kulkarni, consultant and former credit counsellor. A word of caution: such extensions will increase the interest burden too. Ensure that you prepay lump sum amounts once you recover from the financial crisis to get around this conundrum.

Unless you act fast, your credit score will suffer, making it difficult for you to obtain loans in future. You must convince the lender that the crisis is temporary and your intention is to eventually repay the loan.

9 Don't jump jobs in a hurry

When the job market is looking jittery, it is best not to be adventurous with your career. A lot of new companies have mushroomed in the past few years, but many of these startups are bleeding heavily and could close down if the economy worsens.

If you are planning to switch jobs, do in-depth study before you jump ship. Find out how financially sound the new company is and assess its prospects. In a slowdown, only the market leaders are able to keep their heads above water. "There is clearly a sectoral impact but we see consolidation happening across sectors and leaders shall break ahead," says Rituparna Chakraborty, Co-founder of TeamLease Services.