



# Financial Planning Unravel the Mystery

# Agenda



- ❖ Need for a Sound Financial Plan
  - ❖ Investments
  - ❖ Financial Plan – Other Elements
  - ❖ Q & A
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# Need for a Sound Financial Plan

# Need for a Sound Financial Plan



- ❖ We are no longer a saver's paradise. Long term trajectory of interest rates is downwards, notwithstanding medium term movements
- ❖ Focused approach on building a sufficient Retirement Corpus, as average life expectancy increases
- ❖ Acts as a guide to achieve financial goals & milestones in a seamless manner
- ❖ Better prepared for black swan events like the ongoing pandemic
- ❖ Achieve Financial Freedom to be able to focus on other areas of interest

The goal is not more money, The goal is Financial Freedom

# Elements of Financial Plan



- ❖ Investments
  - ❖ Insurance (Life & Medical)
  - ❖ Taxation
  - ❖ Succession Planning
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# Investments

# Key Investment Mantras



- ❖ Avoid media clutter. Stick to personal goals and plan important to reach that goal
- ❖ Impact of emotional bias on investment returns is a very important factor, yet neglected factor
- ❖ Avoid chasing momentum/consensus based investing
- ❖ It pays to have a contrarian view
- ❖ Asset Allocation is Key. Leaders keeps changing

Investing is largely an anti intelligence activity

# Media Clutter - 2020 v/s 2021



2020

## Coronavirus fallout: IMF predicts bigger economic crisis than Great Depression

COVID-19 has disrupted our social and economic order at lightning speed and on a scale that we have not seen in living memory



Who We Are

This page in: EN

PRESS RELEASE | JUNE 8, 2020

## COVID-19 to Plunge Global Economy into Worst Recession since World War II

FitchRatings



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NON-RATING ACTION COMMENTARY

## Deep Global Recession in 2020 as Coronavirus Crisis Escalates

Thu 02 Apr, 2020 - 7:54 AM ET

2021



EUROPE NEWS

## IMF increases global growth forecast, says crisis end is 'increasingly visible'

PUBLISHED TUE, APR 6 2021 9:31 AM EDT  
UPDATED TUE, APR 6 2021 10:55 AM EDT



## Chart: World economy predicted to return to pre-pandemic levels in 2021



NEWS



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## One Year After the Pandemic Struck, Global Economy About to Boom



# Avoid Media Clutter



THE TIMES OF INDIA [OPEN APP](#)

BUSINESS

**Karvy sees sensex at 100,000 by 2020**

TNN / Jun 5, 2014, 07:19 IST

Bloomberg | Quint

**Gold to Reach \$3,000—50% Above Its Record, Bank of America Says**

Elena Mazneva

Posted on 11:03 AM IST, 21 Apr 2020  
Updated on 10:08 PM IST, 21 Apr 2020

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**Rakesh Jhunjhunwala predicts Nifty will hit 1,00,000 by 2030**

Focus

**Bank of American neutral on gold price; no longer holding \$3,000 target**

 **Neils Christensen** [Twitter](#) [LinkedIn](#)  
Tuesday November 24, 2020 13:37

Euphoric sentiments – Indicators of Distribution Phase

# Greed and Fear



❖ Investment Returns + Behaviour Gap = Investor Returns

❖ Investors behaviour during Greed and Fear Cycle is the most important determinant of the final investment return.

❖ Investors loose sight of micro picture, in an attempt to over emphasize on macro picture

# The Herd Mentality



If an investment has a consensus view, most times it is already factored in the price

- ❖ Real Estate post 2012
- ❖ MidCap/SmallCap Stock Rally in 2017
- ❖ Gold during 2006-2012; Q2-Q3 of 2020
- ❖ Telecom sector stocks in 2020

You either get good news or good price, seldom both!

# It pays to have a contrarian view



Some of the best investments are made when no one is interested

- ❖ Pharma Sector stocks underperformance during 2017-2020
- ❖ Technology sector during 2017
- ❖ Gold during 2017-18
- ❖ Commodities during 2017-2020

What could now be the contrarian view...?

# Asset Allocation



## Wealth Creation



### Equities

Asset Class that goes through volatile phases of growth, correction and consolidation



### Real Estate

Asset Class that has long cycle of growth and long phases of price and time correction.



### Gold

Asset Class, that acts a good hedge against inflation and considered as safe haven in times of global economic stress

## Wealth Management



### Debt

Asset Class that aims to provide stability to portfolio by generating steady returns

Every Asset Class has a cycle depending on the various economic activities. Asset Allocation strategies help to navigate through such economic cycles to generate maximum risk adjusted returns

# Asset Allocation – Common Myths



- ❖ Equity Allocation =  $100 - \text{Age}$
  - ❖ In Long Run, Equities will always go up
    - Hangseng has generated NIL (point to point) returns from 2006 till date, notwithstanding volatile movement during the period
    - Similar case for NIKKEI and FTSE
  - ❖ Gold and Real Estate are not prone to correction
  - ❖ There is no capital loss in Real Estate
  - ❖ Bank FDs always generate positive returns. Important is to consider the real return as against nominal returns
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# Strategic Asset Allocation v/s Tactical Asset Allocation



## Strategic Asset Allocation

- ❖ One of the most commonly used Asset Allocation Strategies
- ❖ Investment is made in different asset classes with a defined %, linked to an investor's risk tolerance and continues to have an ongoing representation
- ❖ Closely links to Buy and Hold Strategy

## Tactical Asset Allocation

- ❖ Investment is made in different asset classes within a % range, with an intent to go 'overweight' on asset class expected to do well in future and 'underweight' on asset class which has done well.
- ❖ Booking profits and holding cash / cash equivalent is common
- ❖ Does not tantamount to trading, as the view is for at least more than 12 months.

A combination of strategic & tactical asset allocation can help maximize risk adjusted returns

# Tactical Asset Allocation Views



## Equities

❖ Avoid lumpsum investments. Follow SIP/staggered investments approach.

- *Nifty is currently trading at a trailing PE ratio of 30+; forward PE ratio of 20+, way higher than long term averages.*

- *Complacency is high. Record new investors added in 2020/2021, have not seen a sustained corrective phase of markets*

- *Most expected good news, included elevated earnings, is already priced in. Any accident, especially around earnings, could trigger a prolonged correction*

❖ Keep booking profits. Sit on cash

*Cash is one of the most underrated asset class. It may not generate returns, but gives the ammunition to leverage when opportunities present themselves*

❖ Track Promoter Activities

- *Aggressive buying, increasing stake by promoters in 2020*

- *Record IPOs (promoters selling stakes) since Q4 2020*

❖ Global cues matter, especially factors around liquidity and inflation



# Tactical Asset Allocation Views



## Real Estate

- ❖ WFH to bring a paradigm shift in real estate landscape over next few years. Larger cities to experience relatively lesser congestion
- ❖ Leaders keep changing. Peripheral Regions, Tier 2 & 3 cities, rural areas expected to do better than the leaders (large cities) of last bull run.
- ❖ Prices still not conducive for investor activity to pick up in larger cities. Largely end use driven deals happening in Tier 1 cities

## Gold

- ❖ Bull cycle that started in 2019 expected to regain momentum as the risk on mode subsides globally. Currently in consolidation phase but expected to outperform other asset classes over next few years

# Tactical Asset Allocation Views



## Fixed Income

- ❖ Interest Rates in short to medium term is expected to remain stable / move upwards. Investors can look for floating rate instruments / short term avenues rather than blocking money for longer periods of 5 years and above
  - ❖ The trajectory for long term interest rates is downwards and hence important to create appropriate investments for very long periods in excess of 10 years and above
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# Plan for black swan events



## Typical Retirement Plan for Indians and CoVID Impact

Sources of Cash Flow	During CoVID
<ul style="list-style-type: none"><li>- Rental Income received through Real Estate</li><li>- Interest received on Debt, largely Fixed Deposits</li><li>- Systematic Withdrawal of returns in equities</li><li>- Any other source of cash flow</li></ul>	<ul style="list-style-type: none"><li>- Rentals have crashed, in a lot of cases they have been empty for a very long time</li><li>- Fixed Deposit rates have dropped significantly, including the rates on the small savings schemes managed by the Government</li><li>- Equities crashed almost 50% in less than 1 months time</li></ul>

❖ While our portfolio team may consist of master blaster players like Sachin and Sehwag (wealth creating assets like equities, real estate and gold), it is important to have players like Dravid who may not score at a higher rate, but can stay rock solid during crisis times (investments which guarantee fixed cash flows like pension, even though they may not generate significant returns).

❖ Bank FDs cannot be treated as equivalent of Dravid, as they will still have interest rate risk. They are best akin to night watchman who will chip in with some useful runs



# Financial Plan Other Elements

# Financial Plan – Other Elements



## Insurance

- ❖ Term Plan is absolutely mandatory. It is the cheapest form of succession planning
- ❖ Insurance coverage has to be calculated carefully rather than adhoc numbers like INR 1 crore
- ❖ Don't fall prey to schemes like 'ChildCare', 'WomenCare' .....
- ❖ Medical costs are increasing, absolutely critical to have a large medical cover

## Succession Planning

- ❖ Recent events have reiterated the importance of effective succession planning
- ❖ Notwithstanding any age or health condition, a will is an important element of succession plan
- ❖ Ensure that someone in the family has broad oversight on key financial plans / documents.
- ❖ Ensure nominations in all financial accounts (banks, investments, insurance etc)



# Q & A

## Contact Us:



[deepak@madhubanfinvest.com](mailto:deepak@madhubanfinvest.com)



# Thank You

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