Make your financial planner your friend for life

A higher level of transparency between the investor and the financial planner helps smoothen the process of information flow among the two

In financial planning, transparency between the client and the planner, in most cases turn out to be mutually beneficial. Such a relationship enhances the investor's trust with the financial planner which in turn leads to sharing of more information with the planner. And for the planner, such flow of information helps him/her to analyse the situation of the investor in a much better way which in turn helps him/her get the best possible solution for the investor.

So as an investor, while you speak to your financial planner, it's very important to lay out your true picture relating to your financial position. Over time, as you get to know your financial planner better, you should let him/her know how and how much money is coming in, how and where the money is going, what are the short, medium and long term goals of you and your family and your present budget for meeting those goals.

Financial planners and advisors say it's better for investors not to hold back your wishes, incomes, expenses etc. from the planner. On their part, financial planners and advisors acknowledge that it's not easy for an investor to spell out all about his/her finances and goals to a near-stranger in the first meeting itself.

To break this barrier, financial planners and advisors also talk to their investors in a way which could give them the confidence that they could trust the person who's trying to help them create wealth and reach their financial goals over a long period of time.

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CASE STUDY

'EQUITY INVESTMENT SHOULD BE CONSIDERED FIRST FOR LONG-TERM INVESTMENT GOALS'

I am a 37-year-old married man and have a sole proprietorship business. I have an eight-year-old child. I started a monthly SIP of Rs 2,000 in 2017 and from February this year, increased the total SIP amount to Rs 5000 per month. The current value of the portfolio is Rs 58,000. I am a bit confused whether I should go ahead with these investments or need to plan some investments for my retirement when I turn 58. My current monthly expenses are around Rs 50,000.
We also have some life policies:

PLAN 1: Maturing in 2026, maturity value of Rs 2 lakh
PLAN 2: Maturing in 2022, maturity value of Rs 2 lakh
PLAN 3: Maturing in 2024, maturity value of Rs 1.75 lakh

We also have a family floater health insurance for Rs 5 lakh. Please suggest some plan for my retirement.

— S Naveenshankardutt

Rohit Kumar replies,

As per the details given, your child's higher education goal is nine years away. Any higher education course like MBBS, MBA, BTech costs approximately Rs 10 lakh today and will cost Rs 20 lakh after nine years, considering inflation of 8% per annum in education sector which is higher as compared with general inflation rate. Similarly, your current monthly expense which is Rs 50,000 will became approximately Rs 1.19 lakh after 21 years when you will retire at the age of 58 considering the annual inflation rate of 6% per annum.

SOLUTIONS

- **For child's higher education expense**
I suggest you to start two Systematic Investment Plan (SIPs) of Rs 6,000 each in hybrid equity oriented funds. Assuming approximate return of 9.5%, your contribution of Rs 12.90 lakh will grow to Rs 20 lakh approximately.

- **For retirement planning**
Start additional SIP of Rs 14,200 in three multicap funds. Assuming approx. return of 11%, your contribution of Rs 48.38 lakh will fetch you Rs 1.76 crore; plus invest your insurance maturities in mutual funds as and when you receive it which will become Rs 23.22 lakh at 11% once you turn 58. So, your retirement corpus will be Rs 2.10 crore. Furthermore, equity as an investment option should be considered first for any of long-term investment goals.

After that you can invest in debt funds and earn 7% annuity which will be Rs 1.19 lakh approximately. per month. Seeing the rise in medical cost, Rs 5 lakh family floater policy will not be enough for your family so you should increase it to at least Rs 10 lakh.

> **Assuming approximate return of 9.5%, your contribution of Rs 12.90 lakh will grow to Rs 20 lakh approximately**

—The author is an IFA, The Financial Shop

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GURU SPEAK

'A FINANCIAL PLANNER ENSURES FINANCIAL WELL-BEING OF HIS CLIENTS'

Vatsala Pachisla

Transparency and trust are the key pillars in the relationship between financial planners and their clients. The faith that they put in each other should be akin to a doctor-patient relationship. Similar to how a doctor has a fiduciary duty to care for his patient's physical health, financial planners guide and improve their client's financial well-being. A doctor can only prescribe the best solution to the patient's problem if the patient is completely transparent about the issue he is facing. If the patient does not reveal all symptoms and aspects of his medical history, the doctor might recommend an ineffective treatment to the problem. Just as a doctor, a financial planner also needs to know everything, to ensure his clients' financial well-being. His plan will be based on the information provided by the client. Hence, the patient needs to be upfront about his needs, aspirations, assets, liabilities and his risk appetite.

Similar to the doctor's ineffective treatment, the financial planner's recommended plan of action could be inefficient if the client does not disclose all the required information. For example, a family dispute is critical to be shared with the financial planner since it could result in a massive liability in the future. Hence, to achieve his financial objectives, it is crucial for the client to be transparent with his financial planner.

On the other hand, both the doctor and financial planner have an inherent duty to disclose all information about the products they suggest to their customers. Recommending and investing in the suitable mutual funds (based on the financial plan created) can serve as an excellent medium for the client to achieve their financial goals. Ultimately, the transparency and trust between a financial planner and client goes a long way in providing sound financial health and prosperity of the client.

— The author is a director, Fortitude Securities, Mumbai

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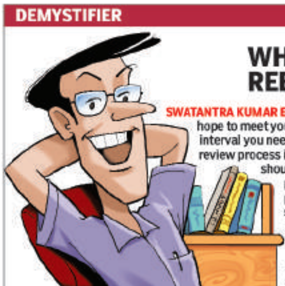
NEXT EDITION:
In our next edition we will discuss how investing with a long term perspective could help you negotiate through life's ups and downs.

DEMYSTIFIER

WHEN AND HOW TO REBALANCE A PORTFOLIO



SWATANTRA KUMAR EXPLAINS: You have done your financial planning and hope to meet your life's financial goals over the years. At a regular interval you need to review your portfolio. Now if the results of the review process indicate that you need to rebalance your portfolio, you should act on it immediately. Due to market forces, the plan may have gone off track. Rebalancing is the process to bring the plan back on track. It may entail selling some of the equity or debt mutual funds, and take some other corrective actions and then eventually deploying the money in a way so that the plan is put back on its original path. Usually your financial planner or advisor will help you rebalance your portfolio.

Send in your suggestions, queries to **utiswatantra1@utiswatantra.co.in**
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