MAKE MFs YOUR ARSENAL TO MEET LIFE'S FINANCIAL GOALS

TO MEET THOSE GOALS, HAVE A WELL THOUGHT-OUT STRATEGY

Can some elements of a war strategy be incorporated in a financial plan to meet life's financial goals? The answer is a yes. Here are some military strategies which could be used to put in place a long term investment strategy.

THE CHALLENGES:

Income, expenses, budgets, time left to achieve each of the financial goals, etc. could turn out to be the stumbling blocks in implementing the financial plan.

ASSESSMENT & PLANNING:

Look at the current situation, set goals, timelines and plan then the investment path.

PLANNING:

Given the challenges, one needs to plan the investments so that each of the goals and timelines are met.

SWOT:

Given these hurdles, one should analyse one's strengths, weaknesses, opportunities and threats.

ARSENALS:

Liquid funds are used to meet emergency financial needs, while debt funds are used to achieve short term goals and equity funds to meet the long term needs.

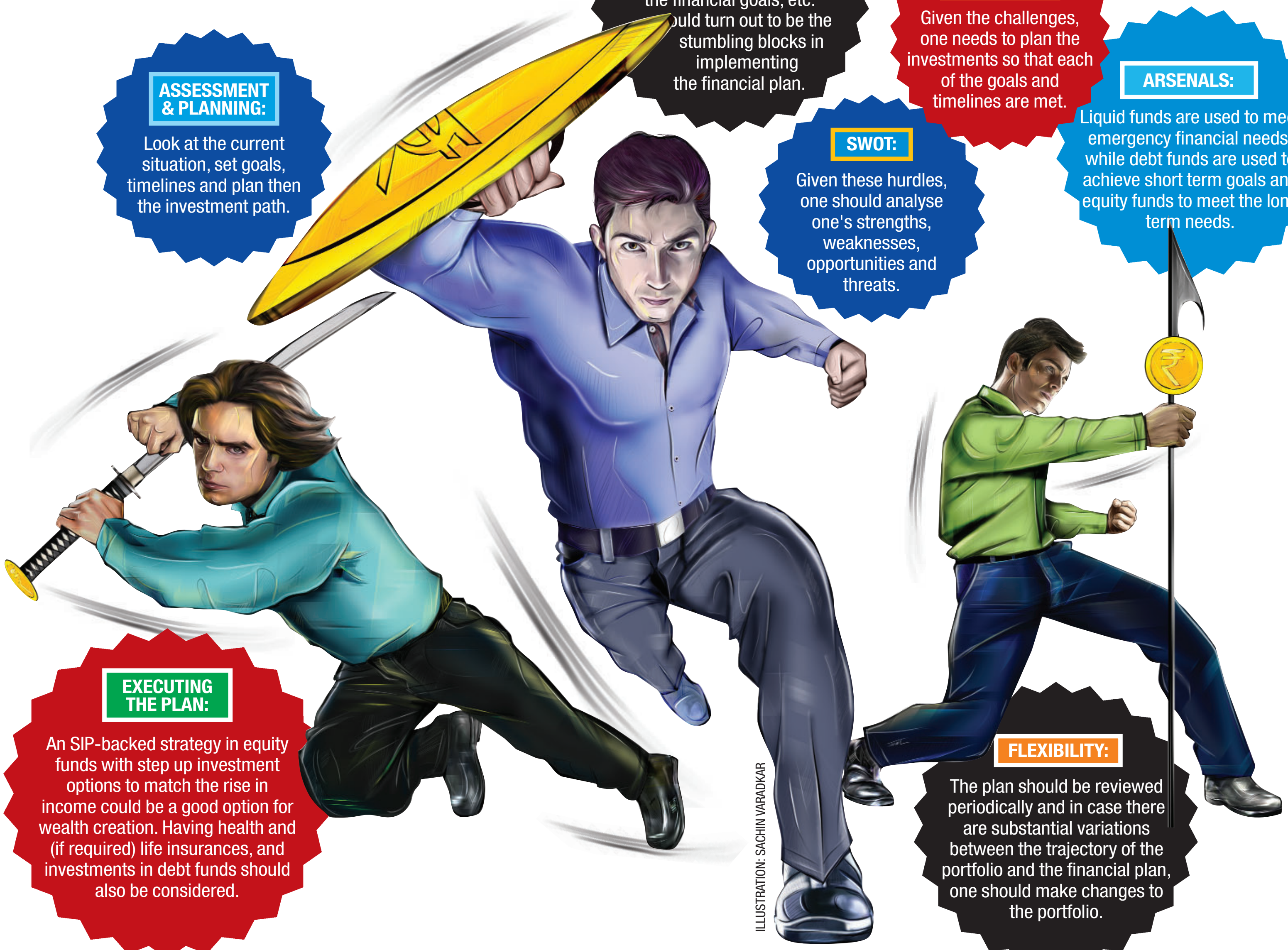

ILLUSTRATION: SACHIN VARADKAR

EXECUTING THE PLAN:

An SIP-backed strategy in equity funds with step up investment options to match the rise in income could be a good option for wealth creation. Having health and (if required) life insurances, and investments in debt funds should also be considered.

FLEXIBILITY:

The plan should be reviewed periodically and in case there are substantial variations between the trajectory of the portfolio and the financial plan, one should make changes to the portfolio.

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GURU SPEAK

EMERGENCY FUND ACTS AS A MORALE BOOSTER

Yuvaraja

One must create an emergency fund before investing for long-term goals. The amount of emergency fund can be based on total outflow in a month including expenses and EMIs. Ideally, emergency fund should be 3 to 6 months of monthly outflow. If one spouse earning, they need to create emergency fund of up to six times monthly outflow. If both spouses are earning, it can be 3-4 times.

Following are the emergencies that can occur:
1. Loss of job or income
2. Medical emergencies over and above health insurance cover
3. Sudden death in the family
4. Any other unexpected events

IN THE ABSENCE OF EMERGENCY FUND, FOLLOWING ARE THE REPERCUSSIONS:
1. Premature withdrawal of FDs and other fixed income instruments
2. Stoppage of regular and systematic investments for long term goals
3. Withdrawal of equity oriented investment which were mapped for long term goals
4. Reduction of ability (low morale) to negotiate the salary with the new employer

EMERGENCY FUND CAN BE CREATED THROUGH FOLLOWING WAYS:
1. Parking lumpsum in fixed income schemes like liquid funds, ultra-short term, short term funds and fixed deposits
2. Recurring savings through RD, SIP in debt mutual funds, etc.
3. Diverting bonus amount, if any towards creating adequate emergency fund.
4. Segregating/ mapping existing FD and other fixed income instruments for emergency fund.

An emergency fund acts as a morale booster and confidence builder; it is crucial and important to create contingency/emergency fund before starting any investment for short, medium and long term goals.

—The author is an independent financial advisor