

DECISIONS CAN SHAPE DESTINIES...

SO DECIDE CAREFULLY

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gives some tips in investments.

All of us take decisions in various areas in life – where will I stay? Where will I work? When will I retire? How will I spend my time? How will I spend my money? and of course how and where will I invest? Many of these involve money and are financial decisions. Here are some case studies of some money decisions which investors may have taken, the issues they faced and what possible solutions were suggested to make good these decisions in time.

Decision: Taking an additional loan for property purchase

Guided by the recent rise of property in her locality, an investor decided to buy additional property. She had a significant amount of her portfolio exposed to real estate. She had young children and was also investing monthly for her children's education and their marriages. Although she had existing property loans, to make this purchase, she took an additional loan.

Issues faced: A significant amount of her wealth was already locked in an illiquid asset class-i.e. real estate. The addition of a new EMI caused undue stress on her monthly cash flows. Going for another property purchase proved to be an

impractical choice as her cashflows did not support that decision. By taking an additional loan, her monthly

investments for her children's goals got impacted.

Possible Solution:

The investor was asked to consider generating some rental income from the existing real estate that was lying vacant. These cash flows helped ease the monthly flows. Some cash lying idle with the investor was used to prepay part of the earlier loan thereby reducing the existing EMI. The monthly investments were reworked to start saving towards her important goals.

Decision: To commit monies into a product having a lock in period and high costs

On the suggestion of a good friend, an investor invested into a Unit linked insurance Plan (ULIP) with a high monthly premium. He was told that this scheme gives twin benefit of insurance and

returns. When he checked the value of investment, it had considerably eroded. He had purchased it three years ago but felt that he was now stuck. As this scheme had a big surrender

Choice

Decision: Investing in sectoral / mid cap schemes on the basis of advice given by relatives

On the suggestion of a relative, an investor got lured by the recent good returns which mid-cap schemes gave in the last couple of months, and decided to invest huge sums of monies in mid-cap and sectoral mutual fund schemes.

Issues faced:

Mid-cap schemes

by their nature take more aggressive bets and invest into mid to small size companies. Therefore as risk is related to high returns, they do have potential to deliver high returns but these returns come with high volatility. In this investor's case, what he witnessed was the huge volatility in the value of his investments which he could not stomach and actually contemplated exiting from these investments at a loss.

Possible Solution: Since these were recent purchases he was advised to hold on to these funds, as an exit would have attracted exit loads. As these earlier investments were monthly, the additional investments in mid-

charge, the investor would suffer a loss if he wanted the money back, before 5 years.

Issues faced: The policy premium was high and it was getting difficult for him to pay monthly. On the other hand, as this product had high exit charges, the investor was faced with a probable loss on surrender. In addition, the overall investment value had eroded due to various charges like premium allocation charges, fund management charges and admin charges. The investor was not aware of the product and was now in a fix.

Possible Solution: The investor was asked to convert the policy to a paid up status. This meant that he would stop paying further premiums. This would save him from paying high surrender charges as he was not surrendering the policy. This monthly sum saved, could be invested into a combination of term insurance premium and an open ended mutual fund scheme. The quantum of insurance was driven by the investor's insurance need. The mutual fund monthly investments were basis his saving capacity, risk profile and investment horizon.

cap/sectoral schemes were stopped, restricting further investments in these schemes. The investor was advised to make further investments, appropriate to his risk appetite and investment horizon. Accordingly his investments were diversified into various asset classes as well as investment styles, with mid cap schemes being used only for very long term investment horizons.

The above examples of decision making remind us that our decisions, should be well thought out and based on the big picture and should not be taken on the basis of hearsay or what worked for someone else. Remember, decisions can shape destinies, so decide carefully.

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