INVESTMENT PLANNING GUIDE

Life is about growth - a child will grow, have an education and a career then build their lifestyle. Ideally, you would want to have a better lifestyle than you had 10 years ago. You would also want to achieve bigger financial goals and have more wealth as you age.While your income may continue to grow as you progress in your career or business, income is not wealth. Creating wealth takes gradual effort, much like filling a large tank with a small can. An 'Investment Plan' is the name of your roadmap to turn your savings into wealth and meet your financial goals.

Content

What is an Investment Plan?

An investment plan is an important part of your comprehensive financial plan. Your investment plan will ultimately fight for space in your monthly budget. Adjusting your budgets with an investment plan will help you prioritise your present money flows for a better future.

An investment plan details your portfolio allocation. It contains a comprehensive roadmap of your investment in your family's goals and the tools you can use.

01 **How much to invest every month?**

02 **Where to invest every month?**

03 **When and how much to withdraw?**

04 **How to allocate your windfall income for long-term benefits?**

The right investment plan will help you spend more time with your family and career and less time on keeping safeguarding your savings. Also, your investment plan should help you make your savings work harder for you and your family's future.

Here's how an investment plan can help you:

01 Automate your Investments

Savings alone is not enough to resolve your problem in terms of future financial needs. Savings must be turned into investments as soon as possible and start growing faster than inflation.

An investment plan helps you to automate this conversion so that your savings are turned into investments quickly. Thus, your money can start working towards a better future for your family sooner.

02 Invest as per your Risk Appetite

The secret to returns from any investment is long-term, unhindered growth. So, the longer you stay put with the investment plan, the higher the growth you can expect to see. However, if the plan affects your normal survival and you need fulfilment, you will be forced to withdraw. Thus, losing the results.

Your risk appetite indicates the level of risk you can bear on your invested sum of money without losing a good night's sleep. Risk appetite is important as it helps you stick with an investment plan.

03 Turn Bonuses into Long-Term Wealth

Without a set investment path, you are more likely to get carried away by sudden windfalls like bonus incomes. The results? You will find your bonus incomes disappearing without adding a significant value to your life.

Learn how to spend your annual bonus?

A comprehensive investment plan will help you avoid this pitfall and draw maximum value from your income growth. With the investment plan, you can invest the money adequately towards long-term goals or to generate more

04 Ensure Money is Available when you Need it

A good investment is not the ultimate destination for your money. It should be available when you need it the most, that is, it should make you financially independent.

An investment plan not only lays out the map for investing your savings but also when to withdraw from them. So, your money is available to you when you need it to meet a financial goal.

05 Improve your Lifestyle

Growth in lifestyle with time is a normal expectation and often an automatic event. However, your income alone is not enough to support this.

An investment plan lets you invest in your future lifestyle as well. Thus, with a plan, you are more likely to have a better lifestyle.

06 Grow Wealthier with Time

The ultimate aim of earning money and saving is to improve your overall financial health with time. Your investment plan not only expedites this process but can also ensure that your wealth continues to grow.

A realistic investment plan will continuously keep a majority of your savings invested for better growth. Thus, with time, your wealth grows, not only beating inflation but much more.

Investment Plan VS Financial Plan

An investment plan is a part of a comprehensive financial plan. Thus, it is a component of a financial plan. However, you can also draw up an investment plan without an elaborate financial plan.

Here are the key differences between the two:

BASIS	FINANCIAL PLAN	INVESTMENT PLAN
Meaning	A financial plan is a detailed roadmap depicting where you are financially and where do you want to reach	An investment plan is an aspect of a financial plan which derives the investment that you need to make to reach your goal
Scope	Revolves around your life and family	Revolves around your savings and future goals
Purpose	Provides a comprehensive picture of all your financial needs	Draws a roadmap to meet the future financial needs
Focus	Its focus is on assessing current finances, managing debt, ensuring safety.	Its focus is on determining the investments that can give you the best returns based on your capacity.

What should you Consider while Buying an Investment Plan?

Your investment plan is a long-term roadmap for using your savings to ensure a better financial future. Thus, it needs to consider all the factors that may have a say in your future and investment appetite.
These factors would involve the following:
- Your risk tolerance
- Timelines for your goals
- Liquidity needs
- Investment terms and conditions

1. Risk Appetite

It defines your risk-taking capacity. In simpler words, it is the amount of risk you are prepared to take. Risk appetite varies from person to person, thus, you need to assess your appetite rather than following someone else's. Risk appetite assessment is important in determining the investment option you will invest in.

For example, if you have a high risk-taking capacity, you can opt for higher risk instruments that have chances of higher return such as equity stocks, etc. On the other hand, if you do not like to take risks, you can consider safer options such as debt funds.

2. Goal Timelines

You are likely to have more than one goal that you would want to achieve. Different goals can take different amount of time to achieve. Goals can be

- **Short term**
- **Long term**

It is important to consider the goal timeline to get more clarity on the investment. This is because your investment choice can differ based on the time taken to achieve the goal.

3. Liquidity of Investment

Liquidity means how fast your chosen investment can be converted to cash. Before you invest in an option, consider how liquid it is. Consider how often you require money.
More liquid investments can be really helpful in times of emergency as they can provide you with money faster.

4. Terms and Conditions

Before buying an investment instrument, it is very important to read all the terms and conditions associated with it. These can give you every detail about the ins and outs of your policy.

Knowing your policy is important so that you do not get cheated.

How to Draft an Investment Plan?

Now that you know how an investment plan can help, you must be wondering how to make one. Follow our step-by-step guide to create your investment plan.

01 Define your Goals SMARTly

The goals that you set should be definite and particular. Vaguely defining your goal can pose an obstacle later on.
To effectively define your goals, use the SMART goals criteria.

What are S.M.A.R.T Goals?

This is a criterion with which you can set clear goals and objectives. SMART is an acronym that stands for

S

Specific

The goals you set should be clear and concise.

M

Measurable

Goals should be such that they can be measured. This is important as it will help in assessing and tracking your progress.

A

Achievable

This is very important. The goals you set must be achievable by you. Vague goals that cannot be acted upon should be avoided.

R

Relatable

The goals you set must be relevant to the current scenario and be in line with the environment and your ultimate motive.

T

Time-bound

A specific timeline must be attached to your goals. You should set realistic deadlines so that you can work on them sincerely.

Examples of SMART Goals:

- Higher Education for Ayesha (daughter): Top B-School, 15 years from now, Rs 50 lakhs
- Ayesha's Marriage: 20 years from now, Rs 30 Lakhs
- Rental House Property: 3 BHK Highrise Apartment in NCR worth Rs 60 Lakhs, in five years
- Vacation with Family: 5 years from now, total budget Rs 5 lakhs

02 Decide Asset Allocation

Asset allocation is the way you will invest your money in different types of investment options. Your risk appetite defines your ideal asset allocation. So, the first thing you need to do is assess your risk appetite.

How to Assess your Investment Risk Appetite?

If you have been investing for some time now, your investment risk profile will be apparent by now. However, if you are just starting, here are a few factors that will help you determine your position:

a) Age: A younger age means you can afford a higher risk.

b) Occupation: Low occupational risk means higher investment risk appetite.

Low-risk occupations include highly skilled jobs, clerical and administrative positions. Whereas, start-up ventures, sales and business development roles, contractual employment are high-risk occupations.

c) Dependent Family: Having more dependents means lower risk appetite.

d) Education or Market Awareness: If you understand the market forces and can evaluate high-risk investments, you can allocate more money to them.

e) Time to Goal: The more time you have for achieving a goal the higher the investment risk you can take for it.

Thus, you need to arrive at one of the three conclusions about your risk capacity and willingness. Also, your ideal asset allocation would look somewhat like the following:

Risk Profile	High-Risk	Fixed Income	Liquid
Conservative	0 – 10%	60 – 90%	10 – 30%
Moderate	10 – 30%	50 – 70%	10 – 20%
Aggressive	30 – 50%	30 – 50%	10 – 20%

While this is your overall risk profile, these ratios define the high-risk allocation ceiling you will tolerate in any of your investments.

03 How much to Invest in Each Goal?

Depending on your risk profile, you can allocate a higher sum to high-risk investments for your long-term investments. Thus, for long-term goals, you can expect to have more growth in your investments.

For example, for a moderate investor, the investment returns for different goal timelines could look like the following:

Time to Goal	Investment Risk	Expected ROI
10 years +	Highest	10%
5 to 10 years	Moderate	8%
Less than 5 years	Safe	6.5%

So, you can assume a rate of return on your investments for each financial goal. Just make sure to assume a conservative ROI for a higher chance of meeting the goal.

04 Estimate How much to Invest for Each Goal

Now that you have an expected ROI, time, and the future value of the amount you will need to meet the goals, you can estimate the investment amount. This is the amount you will need to start investing now towards these financial goals. You can use a compounding interest calculator to estimate your regular saving needs for each goal. For example:

Goal	Time to Goal	High-Risk	Fixed Income	Liquid
Ayesha's Edu.	15 years	High	10%	12,000
Ayesha's Marriage	20 years	High	10%	4000
House Property for Rental Income	5 years	Low	6.5%	17,000
Family Vacation	5 years	Low	6.5%	7000

Thus, your total investment for the goal can be divided as follows:

Goal	Monthly Investment	High-Risk	Fixed Income	Liquid
Ayesha's Edu.	12,000	3600	8400	0
Ayesha's Marriage	4000	1200	2800	0
House Property for Rental Income	17,000	3400	11,900	1700
Family Vacation	7000	1400	4900	700
Total Investment PM	**40,000**	**9600**	**28,000**	**2400**

All you need to do is find the best investment options to allocate your savings among high-risk, fixed income, and liquid investments.

05 Find the Best Investment Options

You already know how much you want to invest in which type of investment option. Now, all you want are investment options that will let you:

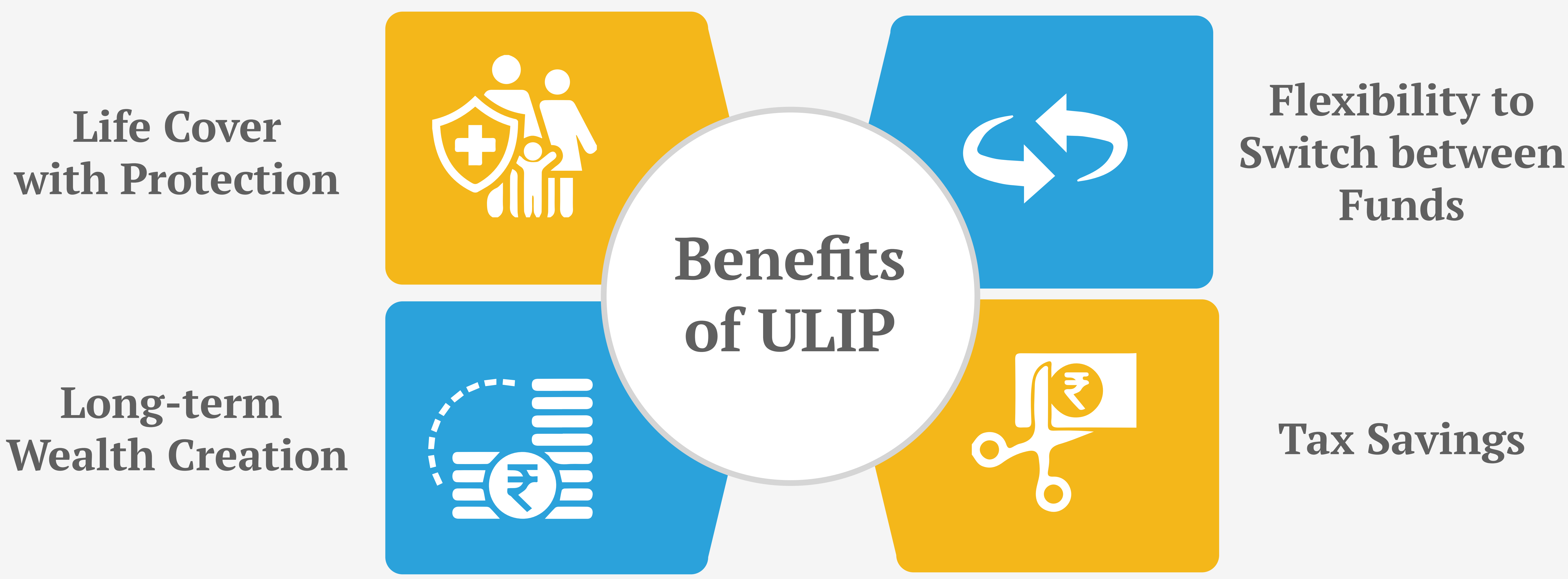
a) Invest at your own pace
b) Have adequate liquidity
c) It can be kept for an extended period of time.
d) Are they reliable investment options?
e) Have a well-defined risk profile.
f) Have a bare minimum of tax-incidents.

The time of your goals limits your choice and universe of investments for them. For example, you have the following investment options for different investment periods:

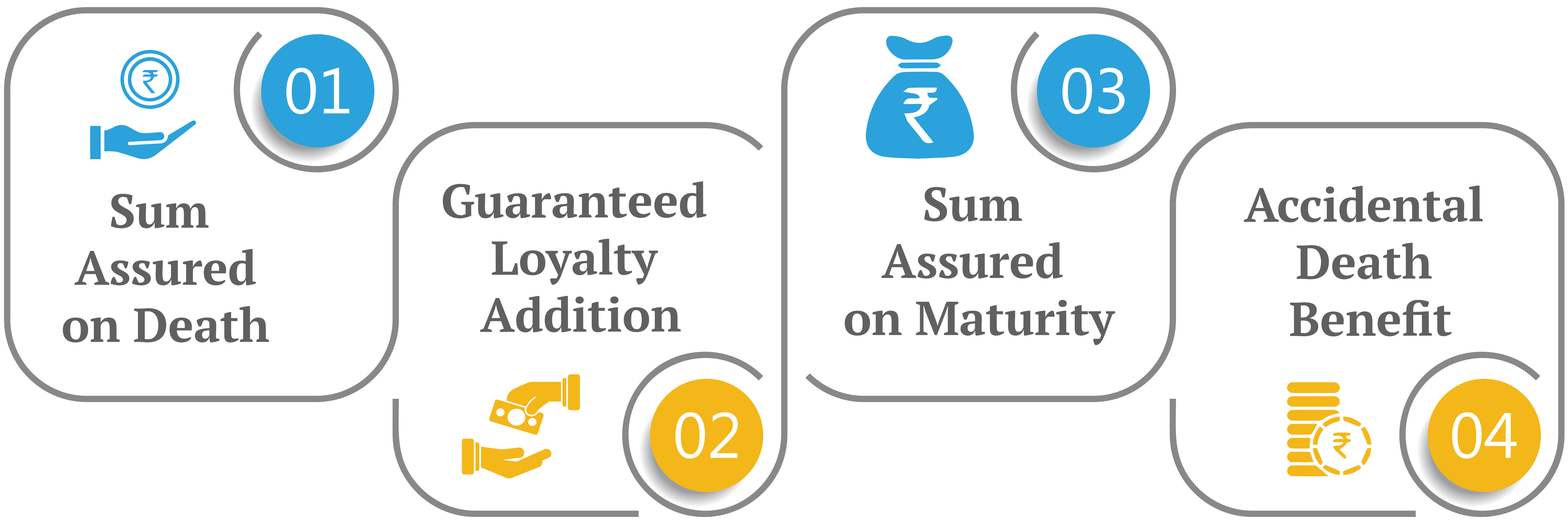
	Up to 5 Years	5 to 15 Years	15 Years and More
Safe Investments	National Savings Certificate Bank & Post Office Fixed Deposits Debt Mutual Funds Corporate FDs Bonds	Unit Linked Insurance Plans (ULIP) Guaranteed Savings Plans Endowment & Money-back Plans New Pension Scheme (NPS) Tier-II Account Bank & Post Office Fixed Deposits Debt Mutual Funds Bonds	Unit Linked Insurance Plans (ULIP) Guaranteed Savings Plans Endowment & Money-back Plans New Pension Scheme Tier-I Account New Pension Scheme (NPS) Tier-II Account Public Provident Fund (PPF) Bank & Post Office Fixed Deposits Debt Mutual Funds Bonds
High-Risk Investment	New Pension Scheme (NPS) Tier-II Account Equity Linked Savings Scheme Equity Stocks Gold ETFs Equity Mutual Funds Gold Funds	Unit Linked Insurance Plans (ULIP) Equity Linked Savings Scheme (ELSS) Equity Stocks Gold ETFs Equity Mutual Funds Gold Funds	Unit Linked Insurance Plans (ULIP) Equity Linked Savings Scheme Equity Stocks Gold ETFs Equity Mutual Funds
Hybrid Investments	Balanced Mutual Funds	Unit Linked Insurance Plans (ULIP) New Pension Scheme (NPS) Tier-II Account Real Estate Investment Trusts Balanced Mutual Funds	Unit Linked Insurance Plans (ULIP) New Pension Scheme Tier-I Account New Pension Scheme (NPS) Tier-II Account Balanced Mutual Funds

You may have noticed that ULIP appears in all three categories for 5 years plus investments. That is because you can invest with a 100% allocation to either equity or debt funds in ULIPs, or even in a mix of both.

The best investment option for you will be the one that maximises your tax exemption, especially for your long-term goals. Almost all life insurance investments, including the following, offer maximum tax exemption:



ULIPs offer a life cover as well as the opportunity to invest in the market. The returns are linked with the market. If you want more flexibility and high-growth prospects, ULIP is a great option for you. You can choose the funds in which you want to invest as per your risk appetite.



Guaranteed Savings Plans

Guaranteed saving plans ensure a reliable long-term income that is useful post retirement. Ideally, the plans would require a large lump-sum investment that pays out at the end of the policy term to help you meet post-retirement expenses.

Money Back Policy Features

Guaranteed Savings Plans

An endowment plan provides you with a safe investment option along with a life cover. These are considered the safest plans to invest as these payout fixed amounts on death or at the time of maturity.

The returns of the endowment plan are mostly risk-free as these are not affected by the market positions. That is, they are not linked with the market.

Investments to Protect Important Family Goals

Tax exemption is important, but should not be the only reason you need to use these investment options. These are must-have investments for your children’s goals, as you wouldn’t want them to miss their goals in case of a mishap with you.

Premium protection options in these plans help you to provide for your child’s goals even after your death. After your untimely demise, the remaining investments in the plan will continue as if you were alive, and your child will receive the final maturity value.

Investments for Retirement Goal

Retirement is one of the most complex and long-term financial goals of your life. It requires you to first build a large corpus, and then invest this corpus for a safe, long-term income .

Thus, you need to choose the right investment plans for this goal, with the following two must-have features:

- Tax-exemption at maturity and accrued interest.
- Wealth maximization through dynamic investment in equity and debt investments

The two most suitable investment options for this goal, which offer the above features, are:

- Unit Linked Insurance Plans (ULIPs)
- New Pension Scheme (NPS) Tier-I Account

ULIPs like Invest 4G from Canara HSBC Life Insurance, offer Century option. This option allows you to continue the ULIP until the age of 100. Thus, you can use the same plan to build your retirement corpus and withdraw your pension after retirement.

06 Start Investing & Review you Plan Annually

After you have selected the investments for your specific financial goals, you now have your investment plan ready. All you need to do is start investing. Also, you should revisit your investments and make amends every year as your income increases.

You may need to start a new investment if you want to:

- Allocate your windfall bonuses.
- Increase your investments as per your income growth.
- Have a new financial goal to save for?

Keep an Eye for your Changing Risk Profile

Your investment risk profile is as fluid as your life itself. In fact, your investment risk profile is only a projection of your personal and professional life. Thus, any changes in your life affect your investment risk profile, and your portfolio mix should follow suit.

So, while you revisit your investment plans, make sure to adjust your risk profile and new portfolio mix accordingly. This will ensure that while your savings earn good interest, the money is available to you when you need it without any loss in value.

In any case, even when nothing significant has happened in your life, age is a factor which you should consider. As you age, you are getting closer to the point when you would like to park your wealth safely and enjoy the fruits

Engage a Professional Financial Planner for Investment Planning

Professional support is the icing on the cake, especially with an investment plan. As you can see, investment planning is not as simple as it looks. A little more mathematical input can improve your investment situation and roadmap with long-term effects.

Thus, as far as possible, you should run your investment plan through a professional financial advisor or certified financial planner at least once.

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