

Low Risk Very Low Gain

Delhi-based superintendent engineer Tejinder Pal Singh must increase equity exposure and insurance cover for a financially sound future

Tell him that he should have invested more in equities during the early days of his career and Tejinder Pal Singh nods in acquiescence. He knows now, as he did then, that equity investment is indispensable to wealth creation. "But at that time my funds were limited. So security of returns was top priority. Moreover fixed-income options were offering handsome double-digit returns," says the 39-year-old superintendent engineer with ONGC. The interest rate cut in bonds and deposits hit him hard. "I am in a government job not known for high increments. Now my biggest concern is funding my children's education," he says.

Singh is the sole breadwinner of

his family of four. Routine expenses eat away half his post-tax monthly income of Rs 40,000. Another Rs 13,000 is skimmed off by a home loan EMI. Two systematic investment plans (SIPs) of Rs 1,000 each and about Rs 2,000 in a pension fund constitute his incremental savings. Singh started investing in mutual funds only a few months ago. "Increasing equity exposure was long overdue. I chose SIPs since they are the best way to discipline investments," he says. Recently, he has also put Rs 10,000 in a new fund offer.

Wary of the volatile markets,

Singh keeps away from direct equity. Petronet LNG and Cairns Energy are the only scrips in his kitty. Their current value is nearly Rs 43,000.

In 2003, Singh purchased an apartment in Delhi for Rs 10 lakh.

Name: Tejinder Pal Singh

Age: 39 years

Monthly income:
Rs 40,000 (post-tax)

Financial dependents:
Three



Photograph: BHASKARNA RAO

Rx



Money Today
Portfolio Analysis
in partnership with
mySIP
a part of
mySIP
for FINANCIAL PLANNING
Value Education
for MUTUAL FUND ADVICE

INCOME & EXPENDITURE



**REDUCE OUTGO
INCREASE SAVINGS**

Only Rs 7,000 available for investment every month. **Reduce EMI** by liquidating low-yield investment to increase investible surplus funds

CASH FLOW	CURRENT	SUGGESTED
Income per month (post tax)	40,000	40,000
Monthly expenses	20,000	20,000
Monthly EMI	13,000	8,000
Money left for saving/investing	7,000	12,000

Savings increases from 17.5% of income to **30%** of income

GOALS

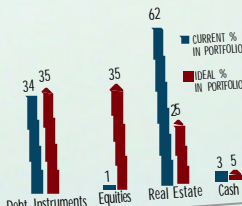


	YEARS FROM NOW	FUTURE COST (RS)	INVESTMENT NEEDED (RS/pm)
Elder daughter's education	5	10 lakh	11,920
Younger daughter's education	10	10 lakh	4,098
Elder daughter's marriage	12	25 lakh	7,282
Younger daughter's marriage	17	37 lakh	2,029
Retirement corpus	21	60 lakh	5,500

Total investment required every month: **Rs 25,329**

ASSET ALLOCATION

SECTORS (%)	TOP 5*	EQUITY HOLDINGS (%)
Energy 66.89	Petronet LNG 39.85	
Basic/Engineering 3.27	Cairn India 26.23	
Technology 2.74	Jai Prakash Associates 0.85	
Services 2.39	Bharat Earth Movers 0.82	
Metal & metal products 1.71	Areva T&D India 0.52	



INSURANCE AND RETIREMENT



- Must invest Rs 5,500 every month in an equity fund to build retirement corpus of Rs 60 lakh
- Already invests Rs 2,000 in a pension fund. Only needs to invest additional Rs 3,500
- Consider turning money-back plan into paid-up policies. Invest the premium saved in a diversified equity fund or ELSS

MUTUAL FUNDS

Reliance Equity Advantage G	HOLD
Reliance Equity Opportunity	SELL
SBI Magnum Global G	HOLD
HDFC Equity	BUY
Franklin India Prima Plus	BUY
Reliance Vision	BUY
DSPML Opportunities	BUY

The real estate boom has zipped up its value and today the property is worth approximately Rs 40 lakh. Most comfortable with investments that offer guaranteed returns, Singh has put in about Rs 18 lakh in debt instruments including provident funds, bonds and fixed deposits (FD). A good investment decision has been to open two-in-one bank accounts where the excess balance in a savings account is automatically swept into an FD for higher returns.

For insurance, Singh has picked up two money-back policies and one pension plan. Annual premium outgo is Rs 21,508 but total sum assured is only Rs 6 lakh.

One look at his long-term goals (see facing page) and it is clear that Singh's current investment approach will definitely not do. The future cost of education and marriage of his two daughters adds up to Rs 82 lakh. Assuming that he does not use any of the present corpus for funding the expenditure, Singh must invest about Rs 25,000 every month. An extra Rs 5,500 have to be channelled into equity funds for the retirement corpus of Rs 60 lakh. But net of all expenses, Singh's monthly savings are just Rs 7,000. Is it possible to squeeze out funds from the tight cash flow to meet his goals?

Yes. The trick is asset re-allocation. To kick off, we suggest Singh prepay part of his home loan by dipping into his FDs, provident funds and Reserve Bank of India (RBI) bonds. The 10.25% loan rate is higher than the interest rate of these investments. (See Box) Liquidating

them to pay a part of the loan will reduce the EMI and increase his saving capacity. Assuming that the EMI shrinks by Rs 5,000, Singh now has Rs 12,000 a month for investment.

If he uses the present corpus to fund his elder daughter's education, the amount to be invested for other goals reduces to about Rs 13,000. Considering this and his now lower EMI, this target is easily achievable.

this SIP to Reliance Vision which is a consistent performer. The third fund in his portfolio, Reliance Equity Advantage Fund, is quite new. Ideally, one should only choose funds with a good track record. Singh can remain invested in this fund but mustn't up it further. For increasing equity exposure, he can choose from funds such as HDFC Equity, Franklin India Prima Plus and DSPML Opportunities.

With this, his equity portfolio will also become more diversified. Currently, 67% of his equity investments are concentrated in the energy sector. This is because of his two stock holdings. Further fund investments will correct this flaw and also reduce vulnerability to risk.

And what about the Rs 5,500 for his retirement corpus? That should come from rejigging Singh's insurance portfolio. Despite paying reasonable premiums, his total cover is abysmally low. Singh should immediately purchase a term policy of at least Rs 20 lakh for 20 years. Annual premium will be about

**WHY PREPAY
YOUR HOME
LOAN?**



- One should consider part or full prepayment of home loans if interest rates earned on investments is lower than the loan rate. Here's a simple calculation to explain why:

Home loan: Rs 10 lakh

Interest rate: 11%

EMI: Rs 13,775 for 10 years

- If you have investments that earn 8% annual return, liquidate them to prepay the loan
- A prepayment of Rs 3 lakh will reduce tenure from 10 years to 5 years 9 months
- Instead of tenure, you have the option to reduce the EMI to Rs 9,642—a monthly saving of Rs 4,133

Where should Singh invest his savings? Equity, equity and more equity. Given his valid fear of the roller-coaster markets, mutual funds are the way to go. In his present collection, Magnum Global is a good mid-cap fund. Singh should continue his SIP in it and can even increase the amount. Reliance Equity Opportunities hasn't had a great run this year. We think he should switch

Rs 13,000. Not only will his cover jump by Rs 14 lakh, it will cost him Rs 8,000 less every year. Money-back policies though apparently attractive are an inefficient medium of insurance. We suggest Singh convert his plans into paid up policies. The cash redeemed maybe used to invest in an equity linked savings scheme. This is tax efficient and will take care of his retirement plans.

Need help with your investment plans? Log on to www.moneytoday.in and click on Portfolio Doctor to submit your portfolio and read more cases