CASE STUDY - RISK MANAGEMENT STRATEGY FOR A PORTFOLIO

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Year of Submission: December, 2008

APPENDIX - I

CERTIFICATE FROM THE GUIDE

This is to certify that the Project work titled “Case Study – Risk Management Strategy for a Portfolio” is a bona fide work carried out by Mr. Conrad Isidore Frank (Roll No. DPGD/JL06/0071), a candidate for the Post Graduate Diploma Examination of the Welingkar Institute of Management Development & Research under my guidance and direction.

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1. INTRODUCTION

Most of us think of artists, designers, and financial traders as having portfolios to market their talents. The word portfolio comes from a Latin word *port* meaning to move. The second syllable, *folio*, means paper or artifacts. Thus a portfolio is a moveable collection of papers and/or artifacts or samples. Because people often move through several different careers, it makes sense for students and potential job seekers to compile and display work skills.

Portfolio:

Portfolio means a collection of investments like company shares, fixed interest securities or money-market instruments held by an institution or a private individual. The main characteristic of a serious investment portfolio is diversity. Diversity is achieved by spreading investments across assets to minimize risk as per the risk taking capabilities of individual investor. By owning several assets, certain types of risk (in particular specific risk) can be reduced. There are also portfolios which are aimed at taking high risks – these are called concentrated portfolios.

Portfolio Management is the management of selected groupings of investments using integrated strategic planning, integrated architectures, and measures of performance, risk management techniques, transition plans, and portfolio investment strategies.

Portfolio management focuses on *five* key objectives:

1) Defining goals and objectives of the portfolio in terms of returns as well as the risk factor.
2) Determine what to invest in and how much to invest.
3) Identifying, eliminating, minimizing, and diversifying risk
4) Monitoring portfolio performance: - Understanding the progress your portfolio is making towards achieving of the goals and objectives of your organization.
5) Achieving a desired objective will likely be achieved given the aggregate of investments that are made.

ASSET CLASSES

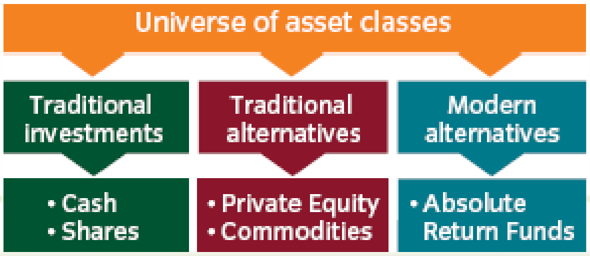
An asset can be defined as anything that which can be bought, sold or exchanged; and an asset class is nothing but a category of an asset. An asset class is a group of securities that have similar financial characteristics. There are many asset classes but the most traditional and popular ones are cash, bonds and shares, but many assets are also considered as investments. These are commodities, art, classic cars and wines.

In recent years there has been a rise or increase of interest in alternative asset classes such as commercial property. 'Modern alternatives' which includes investments in various mutual funds, securities etc. which are absolute return funds are also becoming more and more popular.

Thus the various asset classes are as follows:

1) Real estate
2) Mutual funds
3) Commodities
4) Shares
5) Securities and Bonds
6) Money market
7) Fixed deposits
8) Public Provident Fund
9) Post savings
10) Insurance
11) Arts

So from the chart below it can be easily identified the traditional and modern alternatives of investments.



Real Estate:

Investing in accounts that own real estate directly can be particularly useful in building retirement assets. First, real estate returns sometimes run counter to both stocks and bonds and can therefore help diversify your portfolio. Second, property values and rental income have traditionally tended to parallel inflation, so real estate holdings can help protect your future purchasing power.

And since values tend to rise and fall more slowly than stock and bond prices, real estate can help reduce your portfolio's volatility. However, it is important to keep in mind that the real estate sector is subject to various risks including fluctuation in underlying property values, expenses and income, and potential environmental liabilities.

Benefits:

• Real estate is booming sector.

• In a diversified portfolio, real estate can help offset the volatility of other asset classes such as shares.

Risk:

• It has got low liquidity.

Mutual Fund:

A mutual fund is types of investment vehicle where investors pool their money in order to allow each investor participate in a portfolio of securities. The individual investor doesn't actually own each security but instead, he owns shares of the mutual fund.

Benefits:

• It provides a way for the investor to achieve diversification.

Cash investment:

Cash investments mean investment in the form of hard cash which is designed to protect the money while earning some interest. In the past decade most of the people had their cash investments in the form of deposit accounts that pay regular interest and enables easy access to the money. It is one of the safest types of investments although the buying power of cash can be eroded because of the effects of inflation over time. Cash is one of the least volatile asset classes.

Cash investment is mostly suitable for short term investment horizons as it offers security and liquidity i.e. ease of access.

There are various types of cash investments in addition to bank deposits. They are Certificates of Deposit, Commercial papers, Treasury Bills, Government securities (G-sec) etc. and the market in which these investments are traded is called as Money Market. Money market can be an easy way for common investors to get access to these cash investments. They are used by individual investors who desire safety, security and easy
access to their money.

Benefits:

- Cash investments have low risk, high levels of security, and are highly liquid.
- Cash investments are highly predictable.
- In a diversified portfolio, cash can help offset the volatility of other asset classes such as shares.

Risks:

- Returns are generally lower than those of either bonds or shares, and may not keep pace with inflation over the medium to long-term.

Bonds:

A loan made by an investor to a government or a company is called as 'bond'. It is also referred to as 'fixed income' or 'fixed interest' investment. In return for the money that has been invested by the investor the borrower agrees to pay a certain rate of interest and repay the amount of loan at the end of the pre agreed period or maturity date.

There are mainly two types of bonds:

* Government bonds: As the name suggests these bonds are issued by the government itself. These bonds are traditionally considered to be the 'safest' type of bond as they are backed by the government guarantees and are generally easy to buy and sell.
* Corporate bonds: Corporate bonds are issued by companies mainly to finance or expand operations. Generally the returns on these bonds are higher than the government bonds but they also carry a higher level of risk.

Benefits:

* Bonds can offer a steady and predictable income, as well as security of capital if bonds are held to the date of maturity and there are no defaults by the issuers i.e. the investor.

Risks:

* There is a risk that the issuer may default on the loan and the probability of this happening is directly dependent on the credit worthiness of the investor.
* Fluctuations in interest rates can affect the value of a bond and generally when the interest rates rise, bond prices fall and vice versa.

Shares:

Shares represent ownership stakes in the companies that issue them. When a person buys shares, he becomes a part owner of the company and may have a right to vote on key decisions and also share profits through the payment of dividends.

Shares often have proved to be the best performing asset class giving returns greater than bonds, commercial property and cash investments. They have also had a very high volatility of returns. Shares generally have a high risk-reward profile than cash or bonds.

Benefits:

* Over the years, shares have outperformed other asset classes over the long-term. Shares can also provide a combination of income (through dividend payments) and capital growth i.e. when the profits of the company in which investment has been done continue to increase then the demand of its shares is likely to grow and its share prices more likely to rise.

Risks:

- High volatility of stock market and have experienced both extreme highs and lows.
- There are chances of winding up of a company and the shareholders are last to get their money invested in that company.
- May not be possible to recover the original amount invested as value of shares can go up as well as down.

Commodity:

Commodities are mainly raw materials such as energy, metals like gold and silver, corn, wheat, cotton, coffee, sugar etc. When all these raw materials are grouped together, commodities forms an asset class.

Commodities at times can be a very good investment as they differently than other asset classes. So, moderate investment in commodity market apart from shares and various other portfolios can reduce the overall risk of the investment. That means there can be a benefit to diversing a portfolio by making a modest allocation to commodities. Similar to shares, commodities also have a high risk-return profile.

Benefits:

- Lack of supply and growing demand has created a very strong market in certain commodities such as oil and basic metals.
- Commodities are a very effective means to branch out investment risk because they move differently from shares and bonds.
- Commodities, unlike shares and bonds, react well to unexpected inflation – so they can be a good way to protect the portfolio.

Risks:

- Commodity prices can be volatile so it is necessary to diversify investment over a wide range of sectors.
- Commodity prices suffer whenever the economic growth is slowing down.

Absolute return fund:

Absolute return funds do not represent any asset class such as shares or bonds. On the contrary they are representatives of a wide range of strategies investing in shares and bonds and other asset classes which have the objective to generate positive returns in all market environments.

The investors in these strategies are all the rich people and big institutions such as pension funds and insurance companies. Absolute return fund allow investors to achieve a smoother return on capital than provided through investments in other high return asset classes like shares. It provides protection when there are sharp downward movements in the market.

Benefits:

- Absolute return funds can make money in all type of market environment and focuses on generating consistent positive returns.
- Absolute return funds tend to behave differently to other asset classes such as shares or bonds, which can make them a useful tool for balancing risk in a portfolio.

Risks:

- Highly dependant on the skill of the manager and poor decision can lead to a poor performance.
- Some absolute return funds have very high fees that are linked to the performance of the funds.

Asset allocation:

Asset allocation means dividing money among different asset classes according to investment objective and risk tolerance. Research has shown that the allocation of assets amongst shares, bonds, cash and other investments is the most important factor in determining the long-term results of investments – the key is to strike the right balance.

2. METHODOLOGY

Since Portfolio Management is a vast topic, it is not possible to get proper and detailed information from surveys and is difficult to arrive at a proper conclusion. So we decided to go for *interview* as our methodology. We interviewed top personnel from various companies and organization such as India Bulls, Met Life and Anand Rathi. The questions put forward to them were open ended questions because through open ended questions it is possible to get details about various asset classes and the investors risk appetite together with the possible rate of returns. So from all the above companies the gist of what we got is given below in a tabular form:

Given below is a self explanatory comparison on different instruments available for Investments today.

Yields	**Perspective**
4 to 10%	Banks offer liquidity but if you place your funds in the Bonds you can be locked in for the term applied for.
Your Principle amount can double or shrink in a matter of days.	Offers great liquidity, but you have to be constantly monitoring the same.
Returns of 8 to 11% P.A., along with a steady income flow to plan your future investments.	Long term investment, coupled with benefits on enhancing liquidity through rent discounting, planning your future income inflows. Escalations in the prices in the market can make your asset grow notionally.
Returns of 4 to 6% p.a.	Mostly bought for future self usage, good chances of growth in the price of the real estate over a period of time.

Investment Avenues	Returns	Volatility	Liquidity	Risk
Stock Market	High	Very High	High	Very High
Bond/Notes	Moderate	Moderate	High	Low
Bank Deposits	Moderate	Low	High	Low
Precious Metals	High	Moderate	Moderate	Low
Real Estate	High	Low	Low	Low

Source: **Knight Frank India Research 'India Property Investment Review'**
Yahoo finance
Money control.com

3. CHAPTERS ON ASSET CLASSES

Chapter 3a : REAL ESTATE

Real estate till recently was considered as one of the asset classes for investing the money and the main reason being the rise in the property rates. It is expected that the capital values of residential properties in most metros will go up to 20%-30% in the next few years. Experts believe that the market will continue to boom and there are every chance to earn profits. In fact real estate has been giving returns significantly higher than those offered by most other asset classes.

Analysis of real estate as an investment opportunity:

- Real estate as an asset is not as liquid as compared to stock markets and bank deposits as an investment.
- Leasing residential and commercial property in metros can fetch a pre-tax return of 6-9% and 8-11% respectively.
- Capital appreciation, if any, provides an additional return on investment.
- Investment in real estate carries an entry load of 10-15% towards stamp duty, registration, brokerage etc.
- Tax benefit is available on interest on housing loan raised in India.
- Tax exemption is available on re-investment of sale proceeds of property in eligible avenues.

<u>Residential Investment</u>- Average Returns 5-8%

Investing in residential property is considered a good investment as it gives a sense of security and a status in the society.

There are usually 2 types of investments in Residential Investments:

1) **<u>Self Occupied</u>** - A self occupied property generally yields returns after you sell the same and the returns depend upon various factors like when you bought the property and when you sold it.

2) **To be leased out** - In leasing typically the returns vary from 5% - 7% annually only on the basis of rent received per year. The property escalation factors are not attributed here. With a lot of Multinational Companies, Foreigners, Banks etc in the market it is very easy to buy an apartment and lease the same out.

Commercial Investment - Average Returns 11-14%

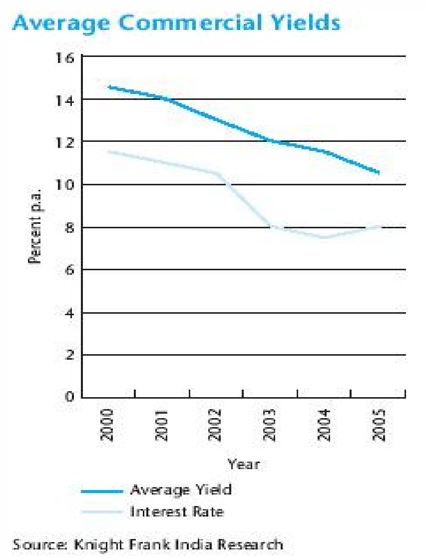
Investments in Commercial Properties leased out to Multinational Companies can be money spinners in a span of 6 years. Leasing a property to an MNC or a Bank or any other corporate house for a period of 99 months can give a constant return over the investment.

Retail Investment – Average Returns 11-14%

Nearly every Metro City in India has experienced the New Retail Invasion of a new concept of Malls, Multiplexes and tops it up with the Every Friendly Indians who love eating out.

4 reasons investing in Real Estate is good.

- Higher, risk adjusted returns as compared to various other asset classes over a period of time.
- Investment in real estate provides an assurance of a regular income
- There are high chances of capital appreciation.
- Results into portfolio diversification. The fall in yields has resulted from decreasing interest rates and increasing appetite from investors. This has in turn resulted from abundant liquidity options available coupled with the acceptability of real estate as a conventional class of asset.



However since Dec 2007 there has been a sort of reversal trend in real estate due to inflation hitting has high as 13% in August 2008 and interest rates on housing loans hovering around the 13% mark. These events have drained the liquidity of out the market which is making it difficult to acquire new loans for real estate purchase. Overall sales of residential property have declined to 15% per quarter since Dec 2007 in major cities like Mumbai which is reflecting in drop in reality rates by 10 to 13%.

Real Estate Mutual Funds:

SEBI has approved the guidelines for the much awaited real estate mutual funds (REMFs) on June 26, 2006. These funds have given excellent risk-adjusted returns. As per NAREIT (National Association of Real Estate Investment Trust), the 5-year compounded annual growth rate (CAGR) on such funds is 12.1%. For real estate, the risk is lower than equity. Historical trends in nations having REMFs suggest that the returns will be in line with other fund categories. Many analysts believe that realistic long-term CAGR will be 15% per annum. This is identical to long-term returns on equity and balanced mutual funds.

Pros and cons of investing in these mutual funds:

For a small investor, investing in property will now become affordable, owing to a substantial reduction in minimum investment size. Buying a REMF unit will be far cheaper than buying a small office or residential property in a tier-II city. Thus, there are now minimal entry barriers and no leasing or maintenance hassles. Additionally, there will be more liquidity as REMFs will be listed on exchanges. But while property rental income provides an element of stability, REMFs are still susceptible to fall in property prices. The real estate sector in India is characterized by low liquidity and price inefficiencies. Thus, the sector will take some time to mature. Funds are going to be close-ended with minimum three-year duration. Real estate sector projects have higher gestation periods. Thus, investors have to be patient and cannot expect quick bucks.

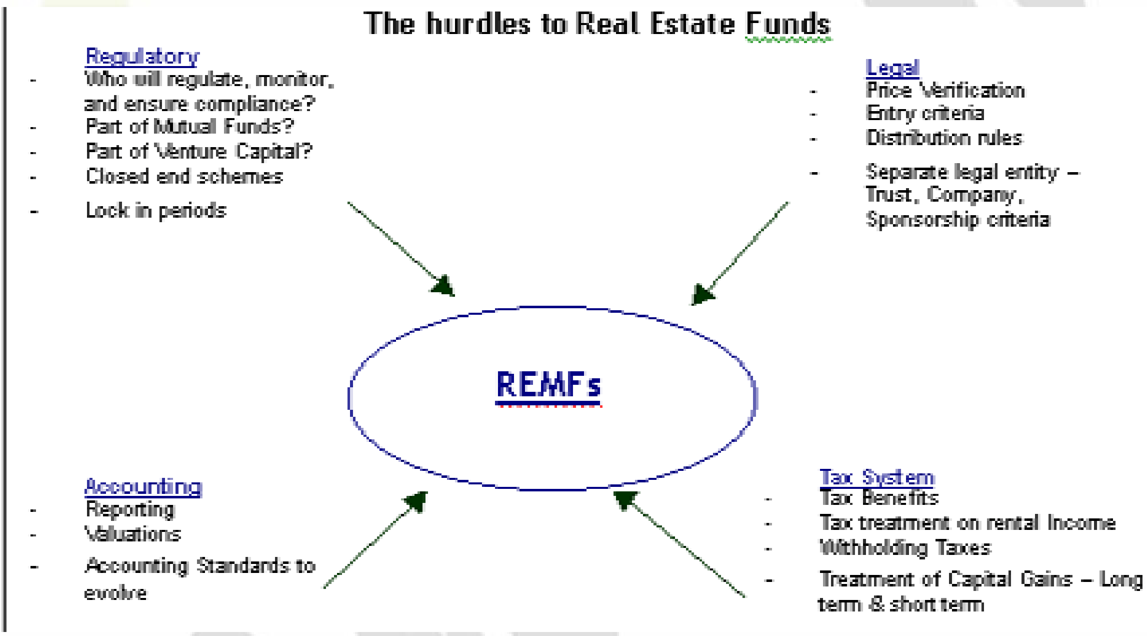
Impact of these funds on real estate industry:

REMFs will provide an additional and cheaper source of capital to the industry. This capital can even be used to finance land purchase. This will be a boon to the industry, as banks do not provide land finance. As REMFs will be listed on exchanges, they will render more liquidity, transparency and price efficiency in the industry. And, of course, REMFs provide an excellent exit mechanism for developers and investors. This is by way of transferring developed properties to REMFs.

Hurdles to real estate funds in India:

Real Estate Mutual Funds are currently non-existent in India, however for a certain class of domestic investors real estate participation is allowed through Venture Capital. SEBI, RBI and the Finance Ministry will bring forth a blueprint for REMF's in India. This requires a favorable legal, regulatory, accounting and tax system and environment.

Some of the issues that can come up are shown in the exhibit below:



Chapter 3b: MUTUAL FUNDS

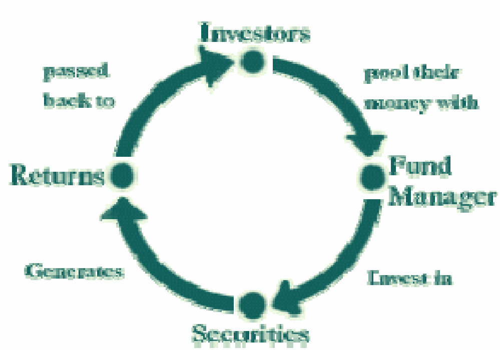
The definition of a Mutual Fund is a form of collective investment that pools money from many investors and invests their money in stocks, bonds, dividends, short-term money market instruments, and/or other securities.

In a mutual fund, the fund manager trades the fund's underlying securities, realizing capital gains or losses, and collects the dividend or interest income. The investment proceeds are then passed along to the individual investors. The value of a share of the mutual fund, known as the net asset value per share (*NAV*), is calculated daily based on the total value of the fund divided by the number of shares currently issued and outstanding.

Mutual fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document. Investors of mutual funds are known as *unit holders*. The profits or losses are shared by the investors in proportion to their investments. A mutual fund is required to be registered with Securities and Exchange Board of India (SEBI) which regulates securities markets before it can collect funds from the public.

Mutual fund operation chart:

The mutual funds normally come out with a number of schemes with different investment objectives which are launched from time to time. They are as follows:



Schemes according to Maturity Period:

A mutual fund scheme can be classified into open-ended scheme or close-ended scheme depending on its maturity period.

1) **Open-ended Fund/ Scheme:**

   An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. Investors can conveniently buy and sell units at Net Asset Value (NAV) related prices which are declared on a daily basis. The key feature of open-end schemes is liquidity.

2) **Close-ended Fund/ Scheme:**

   A close-ended fund or scheme has a stipulated maturity period e.g. 5-7 years. The fund is open for subscription only during a specified period at the time of launch of the scheme. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the stock exchanges where the units are listed.

Schemes according to Investment Objective:

A scheme can also be classified as growth scheme, income scheme, or balanced scheme considering its investment objective.

1) **Growth / Equity Oriented Scheme:** The aim of growth funds is to provide capital appreciation over the medium to long- term. Such funds have comparatively high risks. These schemes provide different options to the investors like dividend option, capital appreciation, etc. and the investors may choose an option depending on their preferences.
2) **Income / Debt Oriented Scheme:** The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures, Government securities and money market instruments. Such funds are less risky compared to equity schemes.

Balanced Fund:

The aim of balanced funds is to provide both growth and regular income as such schemes invest both in equities and fixed income securities in the proportion indicated in their offer documents. These are appropriate for investors looking for moderate growth. NAVs of such funds are likely to be less volatile compared to pure equity funds.

Money Market or Liquid Fund:

These funds are also income funds and their aim is to provide easy liquidity, preservation of capital and moderate income. These schemes invest exclusively in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, government securities, etc. Returns on these schemes fluctuate much less compared to other funds.

Gilt Fund:

These funds invest exclusively in government securities. Government securities have no default risk. NAVs of these schemes also fluctuate due to change in interest rates and other economic factors as is the case with income or debt oriented schemes.

Index Funds:

Index Funds replicate the portfolio of a particular index such as the BSE Sensitive index, S&P NSE 50 index (Nifty), etc. These schemes invest in the securities in the same weightage comprising of an index. NAVs of such schemes would rise or fall in accordance with the rise or fall in the index.

Mutual funds vs. other investments

Mutual funds offer several advantages over investing in individual stocks. For example, the transaction costs are divided among all the mutual fund shareholders, who also benefit by having a third party (professional fund managers) apply their expertise, dedicate their time to manage and research investment options. However, despite the professional management, mutual funds are not immune to risks. They share the same risks associated with the investments made. If the fund invests primarily in stocks, it is usually subject to the same ups and downs and risks as the stock market.

How to Select a Mutual Fund:

Unfortunately, there's no one size fits all strategy when it comes to any type of investing. You need to take into consideration what your needs are and what your future financial goals are. Everyone's situation is unique. When choosing a mutual fund one should first get a prospectus then, call the fund company. In many cases, the prospectus is available right on the company's website. Each year end, many financial publications list the year's best performing mutual funds. Naturally, very eager investors will rush out to purchase shares of last year's top performers. That's a big mistake. Remember, changing market conditions make it rare that last year's top performer repeats that ranking for the current year. Mutual fund investors would be well advised to consider the fund prospectus, the fund manager, and the current market conditions. Never rely on last year's top performers.

In conclusion, mutual funds are a way for investors to diversify their risk and still benefit from professional money management. The prospectus identifies key information about the mutual fund including its operating boundaries and its costs. The fund manager operates within those boundaries and is important in order to achieve good results within those boundaries. Do your research, and then talk to a professional investment advisor about mutual fund investing.

Article: Mutual Funds Universal Appeal

Indian financial scene presents multiple avenues to the investors. There is incredible growth rate in mutual fund industry to provide reasonable options for an ordinary man to invest his savings. Investment goals vary from person to person. While somebody wants security, others might give more weightage to returns alone. Somebody else might want to plan for his child's education while somebody might be saving for the proverbial rainy day or even life after retirement. With objectives defying any range, it is obvious that the products required will vary as well.

Indian MF industry offers a plethora of schemes and serves broadly all type of investors. The range of products includes equity funds, debt, liquid, gilt and balanced funds. There are also funds meant exclusively for young and old, small and large investors. Moreover, the setup of a legal structure, which has enough teeth to safeguard investors' interest, ensures that the investors are not cheated out of their hard-earned money. An investor normally prioritizes his investment needs before undertaking an investment. Investments for specific goals normally find their way into the debt market as risk reduction is of prime importance. This is the area for the risk-averse investors and here, mutual funds are generally the best option.

One can avail of the benefits of better returns with added benefits of anytime liquidity by investing in open-ended debt funds at lower risk. Fund managers analyze the companies' financials more minutely than an individual can do as they have the expertise to do so. They can manage the maturity of their portfolio by investing in instruments of varied maturity profiles. Since there is no penalty on pre-mature withdrawal, as in the cases of fixed deposits, debt funds provide enough liquidity. Moreover, mutual funds are better placed to absorb the fluctuations in the prices of the securities as a result of interest rate variation and one can benefits from any such price movement.

Apart from liquidity, these funds have also provided very good post-tax returns on year to year basis. On an average debt funds have posted returns over 10 percent over one-year horizon. The best performing funds have given returns of around 14 percent in the last one year period. In nutshell we can say that these funds have delivered more than what one expects of debt avenues such as post office schemes or bank fixed deposits. Though they are charged with a dividend distribution tax on dividend payout at 10 percent (plus a surcharge of 10 percent), the net income received is still tax free in the hands of investor and is generally much more than all other avenues, on a post tax basis.

Moving up in the risk spectrum, we have people who would like to take some risk and invest in equity funds/capital market. However, since their appetite for risk is also limited, they would rather have some exposure to debt as well. For these investors, balanced funds provide an easy route of investment. Armed with the expertise of investment techniques, they can invest in equity as well as good quality debt thereby reducing risks and providing the investor with better returns than he could otherwise manage. Since they can reshuffle their portfolio as per market conditions, they are likely to generate moderate returns even in pessimistic market conditions.

Next are the risk takers. Risk takers by their very nature, would not be averse to investing in high-risk avenues. Capital markets find their fancy more often than not, because they have historically generated better returns than any other avenue, provided, the money was judiciously invested. Capital markets interest people, albeit not all for there are several problems associated. First issue is that of expertise. While investing directly into capital market one has to be analytical enough to judge the valuation of the stock and understand the complex undertones of the stock. One needs to judge the right valuation for exiting the stock too. Entrusting the job to experts, who watch the trends of the market and analyze the valuations of the stocks will solve this problem for an investor and also enables them to pick stocks at the right moment. Sector funds provide an edge and generate good returns if the particular sector is doing well.

Next problem is that of funds/money. A single person can't invest in multiple high- priced stocks for the sole reason that his pockets are not likely to be deep enough. This limits him from diversifying his portfolio as well as benefiting from multiple investments. Investing through MF route enables an investor to invest in many good stocks and reap benefits even through a small investment. This not only diversifies the portfolio and helps in generating returns from a number of sectors but reduces the risk as well.

Their appeal is not just limited to these categories of investors. Specific goals like career planning for children and retirement plans are also catered to by mutual funds. The returns generated by these funds come under capital gains and attract tax at concessional rates.

Besides this, if the objective was to save taxes, the industry offers equity linked savings schemes as well. Equity-based funds, they can take long-term call on stocks and market conditions without having to worry about redemption pressure as the money is locked in for three years and provide good returns. The benefits listed so far have essentially been for the small retail investor but the industry can attract investments from institutional and big investors as well. Liquid funds offer liquidity as well as better returns than banks and so attract investors. Many funds provide anytime withdrawal enabling a big investor to take maximum benefits.

Risk Return Grid

Risk Tolerance/Return Expected	**Focus**	**Suitable Products**	**Benefits offered by MF's**
Low	Debt	Bank/Company FD / Debt based Funds	Liquidity, Better Post-Tax returns
Medium	Partially Debt,	Balanced Funds, Some Diversified Equity Funds and	Liquidity, Better Post-Tax Returns, better

	Partially Equity	some debt Funds, Mix of shares and Fixed Deposits	management diversification.
High	Equity	Capital Market, Equity Funds (Diversified as well as Sector)	Diversification, Expertise in stock picking, Liquidity, Tax free dividends

As mentioned earlier, the appeal of mutual funds cuts across investor classes.

In other developed countries, mutual funds attract much more investments as compared to the banking sector but in India the case is reverse. We lack awareness about the benefits that are offered by these schemes. It is time that investors irrespective of their risk capacities, made intelligent decisions to generate better returns and mutual funds are definitely one of the ways to go about it.

Chapter 3c: COMMODITIES

Commodity Market:

Commodity market is a market where raw or primary products are traded. Various metals are also traded such as gold, silver, zinc etc. The trade is regulated by the Forward Markets Commission. For long the investment universe for Indians consisted of stocks, jeweler, real-estate and bonds. Now, yet another avenue has opened up — commodity futures. Commodity trading is nothing but trading in commodity *spot* and *derivatives* (futures). Commodity derivatives are traded on the National Commodity and Derivative Exchange (NCDEX) and the Multi-Commodity Exchange (MCX). Gold, silver, agri-commodities including grains, pulses, spices, oils and oilseeds, mentha oil, metals and crude are some of the commodities that these exchanges deal in. Trading in commodities futures is quite similar to equity futures trading.

The commodity market in India gives a daily average turnover of Rs 12,000-15,000 crore. All commodities produced in the agriculture, mineral and fossil sectors have been sanctioned for futures trading. These include cereals, pulses, ginned cotton, un-ginned cotton, oilseeds, oils, jute, jute products, sugar, gur, potatoes, onions, coffee, tea, petrochemicals, and bullion, among others. Though it is five years since the government issued a notification allowing futures trading, commodities attract but lukewarm interest among retail investors. Commodities generally carry a high risk and attract only those investors who are willing to take higher risks and earn money.

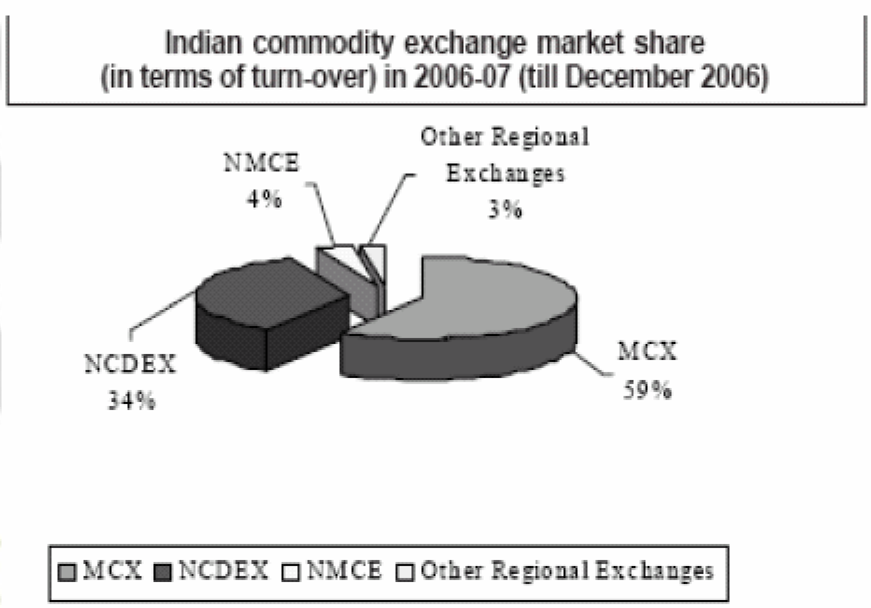
Analysis of Commodity market:

There are two primary approaches of analyzing commodity market:-

1. Fundamentals focus on financial and economic theories as well as political developments to determine forces of demand and supply.
2. Technical focus on the formation of charts and formula to capture major and minor trends, identify buying or selling opportunities assessing the extent of market turnarounds.

Commodities allow a portfolio to improve overall return at the same level of risk.

Any investor who wants to take advantage of price movements and wishes to vary his portfolio can invest in commodities. Investors must understand the demand cycles those commodities go through and should have a view on what factors may affect this. Investments must be made in those commodities which can be easily analyzed rather than speculate across products which the investor does not have any idea.



Equities versus commodities

Unlike equities, commodities touch every day life. For instance, sugar. Yet, investors keep away from commodities, unable to understand the market. But commodity markets are easier to understand than one imagines.

For one, there are relatively few factors at play, unlike in the case of the equity market where a wide spectrum of factors — earnings, free cash flows, interest rates and risk premiums — drives prices. Also unlike equities, commodities do not carry operational and management risks.

Though to a certain extent, commodity prices are driven by geopolitics and duty structures, they most often reflect the underlying demand-supply situation. A mismatch between them causes price changes.

The risk tag

Investment in any asset class — commodities, stocks, bonds or treasury bills — carries its own risk element. Commodities, in general, are tagged high-risk. This has been validated using statistical tools based on historical data.

Standard deviation is the common tool used to quantify risk, but it reflects volatility more. The risk element is the possibility of the actual varying, on the negative side, from the expected.

Commodity trading is done in the form of futures and that throws up a huge potential for profit and loss as it involves predictions of the future and hence uncertainty and risk. A major difference is that the information availability on supply and demand cycles in commodity markets is not as robust and controlled as the equity market.

Chapter 3d: MONEY MARKET

It is a financial market for short term borrowing and lending mostly for thirteen months. In the money market banks lend to and borrow from each other, short term financial instruments such as certificate of deposits (CDs) or enter into agreements such as repurchase agreements (repos). It provides short to medium term liquidity.

Money Market funds:

Money market funds better known as liquid funds provide stability, liquidity, capital preservation and most importantly high interest rates than bank accounts. Investing in money market funds means the fund manager invests in 'cash' assets such as treasury bills, certificates of deposit and commercial papers. The return on these funds, though fluctuate but the rate of fluctuation is very minimal as compared to other funds but they are not guaranteed. These funds are mostly purchased by corporate and individual investors who wish to put their surplus money in a fund for a short period.

Balanced funds:

As the name suggests, these funds aim for balance and hence are made up of a mixture of equities and debt instruments. These funds are mostly suitable for investors who are looking for a moderate capital appreciation as the risk is relatively low as compared to other funds. The investors interested in these types of funds are those who seek to grow their capital and get regular income. The debt or bond element of the fund provides a level of income and acts as the safety net during dynamic periods in the market, while equities provide the potential for capital appreciation.

Debt funds:

The aim of debt or income funds is to make regular payments to its investors, although dividends can be reinvested to buy more units of the fund. These funds generally invest in fixed income securities such as bonds, corporate debentures, government securities (gilts) and money market instruments. Opportunities for capital appreciation are limited and the downside is that as interest rates fluctuate, the net asset value or NAV of the fund could follow suit – if interest rates fall, the NAV is likely to increase and vice versa.

There is also a risk that a company issuing a bond may default on its payment, if it is not financially healthy. However, if the fund invests in government securities there is little risk of the government defaulting on its payment.

Money market includes the following:-

1. Treasury Bills
2. Commercial papers
3. Certificate of deposit
4. Call or Notice money
5. Government securities having an unexpired maturity unto one year.
6. Any other instruments as may be permitted by RBI/SEBI from time to time

1. <u>Treasury bills:-</u>

<u>Meaning:</u> - Treasury Bills are money market instruments to finance the short term requirements of the Government of India. The Treasury Bills are commonly referred as *T-bills*. These are discounted securities and thus are issued at a discount to face value. The T-bills are issued by the Government/Reserve Bank of India. The return to the investor is the difference between the maturity value and the issue price.

<u>Types of Treasury Bills:</u> - There are different types of Treasury bills based on the maturity period and utility of the issuance like, ad-hoc Treasury bills, 3months, 12months Treasury bills etc. In India, at present, the Treasury bills are the 91-days, and 364-days Treasury bills.

<u>Benefits of investment in Treasury Bills:-</u>

- No tax deducted at source
- Zero default risk being sovereign paper
- Highly liquid money market instrument
- Better returns especially in the short term
- Transparency
- Simplified statement
- High degree of tradability and active secondary market facilities meeting unplanned fund requirements.

Portfolio Management Strategies

Strategies for managing a portfolio can broadly be classified as active or passive strategies.

Buy and Hold strategy:- A buy and hold strategy can be described as a passive strategy since the Treasury bills once purchased, would be held till its maturity. The salient features of this strategy are:

- Return is fixed or locked in at the time of investment itself.
- The exposure to price variations due to secondary market fluctuations is eliminated.
- There is no risk of default on maturity.

Buy and Trade strategy: - This strategy can also be described as an active market strategy. The returns on this strategy are higher than the buy and hold strategy as the yield can be optimized by actively trading the treasury bills in the secondary market before maturity.

2. Commercial Papers:

Commercial papers are short term borrowings by Corporate, FI's, and PD's from Money Market.

Features:-

- Commercial Papers when issued in physical form are negotiable by endorsement and delivery and hence highly flexible instruments.
- Issued subject to minimum of Rs 5 lakhs and in the multiples of Rs. 5 Lac thereafter
- Maturity is 15 days to 1 year
- Unsecured and backed by credit of the issuing company
- Can be issued with or without Backstop facility of Bank / FI

Commercial Papers can be issued in both physical and demat form. When issued in the physical form Commercial Papers are issued in the form of Usance Promissory Note. Commercial Papers are issued in the form of discount to the face value.

Commercial Papers are short-term unsecured borrowings by reputed companies that are financially strong and carry a high credit rating. These are sold directly by the issuers to the investors or else placed by borrowers through agents / brokers etc. Companies use CPs to save interest costs.

These instruments are normally issued in the multiples of five crore for 30 / 45 / 60 / 90/ 120/ 180/ 270 /364 days maturity.

3. Certificate of Deposit:-

CDs are short-term borrowings in the form of Usance Promissory Notes having a maturity of not less than 15 days up to a maximum of one year. CD is subject to payment of Stamp Duty under Indian Stamp Act, 1899 (Central Act). They are like bank term deposits accounts. Unlike traditional time deposits these are freely negotiable instruments and are often referred to as Negotiable Certificate of Deposits.

Features:-

- All scheduled banks (except RRBs and Co-operative banks) are eligible to issue CDs.
- Issued to individuals, corporations, trusts, funds and associations.
- They are issued at a discount rate freely determined by the issuer and the market/investors.
- Freely transferable by endorsement and delivery. At present CDs are issued in physical form (UPN).

These are issued in denominations of Rs.5 lakhs and Rs. 1 Lac thereafter. Bank CDs have maturity up to one year. Minimum period for a bank CD is fifteen days. Financial Institutions are allowed to issue CDs for a period between 1 year and up to 3 years. CDs issued by AIFI are also issued in physical form (in the form of Usance promissory note) and is issued at a discount to the face value.

4. Call or Notice money:-

The call money market is an integral part of the Indian Money Market, where the day-to-day surplus funds (mostly of banks) are traded. The loans are of short-term duration varying from 1 to 14 days. The money that is lent for one day in this market is known as "*Call Money*", and if it exceeds one day (but less than 15 days) it is referred to as "*Notice Money*". Term Money refers to Money lent for 15 days or more in the InterBank Market.

Banks borrow in this money market for the following purpose:

- To fill the gaps or temporary mismatches in funds.
- To meet the CRR & SLR mandatory requirements as stipulated by the Central bank.
- To meet sudden demand for funds arising out of large outflows.

Thus call money usually serves the role of equilibrating the short-term liquidity position of banks.

Article: Foreign and Private Banks stay off call money market.

Reserve Bank of India has framed a time schedule to phase out the second category out of Call Money Market and make Call Money market as exclusive market for Bank/s & PD/s.

Most foreign and private banks are staying away from the interbank market owing to volatile rates and a directive from the Reserve Bank of India not to 'overindulge' in the call market.

Call rates rose to a high of 9 per cent intra-day on Monday after closing at 2 per cent last week. The rates had earlier fallen to 1 per cent following easy liquidity on account of higher government expenditure.

Till recently, foreign and private banks were net borrowers in the call money market. Call money is the interest rate charged by banks to borrow funds from the interbank market and is a standard source of fund for global banks to finance their operations.

The central bank had observed that most private and foreign banks raised short-term money to fund their long term assets by rolling over the borrowings.

Smaller foreign banks with limited net worth have been particularly hit hard as their borrowings in the call market have been linked to capital adequacy.

Under the new norms, a bank can borrow up to 200 per cent of its net worth and can extend it up to 300 per cent if the capital adequacy is 11.25 per cent. There were no such limits linked to capital adequacy earlier.

Bigger foreign banks are now exploring cheaper source of funds such as raising deposits through certificate of deposits (CDs) or sale of loans to other banks, referred to as assignment of loans.

These banks, which are custodians of foreign institutional investors (FIIs), are sitting on a huge dollar kitty since the RBI has not been buying the greenback for quite some time.

Foreign banks prefer to swap these dollars into rupees even if it works out costlier. If the swapping cost is higher, it works out cheaper than borrowing rupees from the call market when the rates are as high as 12-13 per cent.

According to a foreign banker, call market volatility has increased following the tight money policy of the RBI. There is a limit on bank borrowing and lending. So even if a bank has funds it cannot lend if the borrower bank has hit the counterparty limit with it. While CDs could be raised around at a maximum rate of 11-12 per cent, call rates in the recent past moved up to beyond 15 per cent owing to the RBI's policy of keeping a tight rein on money supply.

Assignment of loans has worked out cheaper as there is a lot of demand from non-banking finance companies and smaller banks to buy assets.

In its review meeting with foreign banks before the annual monetary policy, the RBI had blamed them for pushing up short-term rates by offering higher quotes.

Foreign banks, however, said the criticism was unfair. The liquidity tightness and the subsequent rise in short-term rates was more a creation of the RBI since the market was not clear whether banks could borrow funds from the RBI by pledging their surplus gilts under the repo and lend it to the market, said a foreign banker.

5. Government Securities:-

Like Treasury Bills, G-Secs are issued by the Reserve Bank of India on behalf of the Government of India. These form a part of the borrowing program approved by the parliament in the 'union budget'. G- Secs are normally issued in dematerialized form (SGL). When issued in the physical form they are issued in the multiples of Rs. 10,000/-. Normally the dated Government Securities have a period of 1 year to 20 years. Government Securities when issued in physical form are normally issued in the form of Stock Certificates.

Such Government Securities when are required to be traded in the physical form are delivered by the transferor to transferee along with a special transfer form designed under Public Debt Act 1944.

The transfer does not require stamp duty. The G-Secs cannot be subjected to lien. Hence, is not an acceptable security for lending against it? Some Securities issued by Reserve Bank of India like 8.5% Relief Bonds are securities specially notified & can be accepted as Security for a loan.

Earlier, the RBI used to issue straight coupon bonds i.e. bonds with a stated coupon payable periodically. In the last few years, new types of instruments have been issued. These are:-

Inflation linked bonds: These are bonds for which the coupon payment in a particular period is linked to the inflation rate at that time - the base coupon rate is fixed with the inflation rate (consumer price index-CPI) being added to it to arrive at the total coupon rate.

The idea behind these bonds is to make them attractive to investors by removing the uncertainty of future inflation rates, thereby maintaining the real value of their invested capital.

FRB's or Floating Rate Bonds comes with a coupon floater, which is usually a margin over and above a benchmark rate. E.g., the Floating Bond may be nomenclature/denominated as +1.25% FRB YYYY (the maturity year). +1.25% coupon will be over and above a benchmark rate, where the benchmark rate may be a six month average of the implicit cut-off yields of 364-day Treasury bill auctions. If this average works out 9.50% p.a then the coupon will be established at 9.50% + 1.25% i.e., 10.75%p.a. Normally FRB's (floaters) also bear a floor and cap on interest rates. Interest so determined is intimated in advance before such coupon payment which is normally, Semi-Annual.

Zero coupon bonds: These are bonds for which there is no coupon payment. They are issued at a discount to face value with the discount providing the implicit interest payment. In effect, zero coupon bonds are like long duration T - Bills.

Risks involved in G-sec

G-Secs are usually referred to as risk free securities. However, these securities are subject to only one type of risk i.e., interest-rate risk. Subject to changes in the over all interest rate scenario, the price of these securities may appreciate or depreciate.

Interest rate risk:-

Interest rate risk, market risk or price risk are essentially one and the same. Theses are typical of any fixed coupon security with a fixed period-to-maturity. This is on account of an inverse relation between price and interest. As interest rates rise, the price of a security will fall. However, this risk can be completely eliminated incase an investor's investment horizon identically matches the term of the security.

Chapter 3e: Insurance

Insurance could be defined both in law and economics as "**form of risk management primarily used to hedge against the risk of a contingent loss.**" It is also defined as "**equitable transfer of the risk of a potential loss, from one entity to another, in exchange for the premium.**"

Insurer is the company that sells the insurance. Insurance rate is a factor used to determine the amount, a called the premium, to be charged for a certain amount of insurance coverage.

Principles of insurance:

Commercially insurable risks typically share 7 common characteristics.

1) A large number of homogeneous exposure units.
2) Definite loss.
3) Accidental loss.
4) Large loss.
5) Affordable premium.
6) Calculable loss.
7) Limited risk of catastrophically large losses.

Insurer's business model

Profit = Earned premium + investment income – incurred loss – underwriting Expenses.

Life and general insurance in India is still a nascent sector with huge potential for various global players with the life insurance premiums accounting to 2.5% of the country's GDP while general insurance premiums to 0.65% of India's GDP. The insurance sector in India has gone through a number of phases and changes, particularly in the recent years, when the govt. in 1999 opened up the insurance sector by allowing the private companies to solicit insurance and also the allowing FDI up to 26%. Ever since, the Indian insurance sector is considered as a booming market with every global insurance company wanting to have a lion's share. Currently the largest life insurance company is still owned by the government.

Major Players in Indian Insurance

Life Insurance

Public

Life Insurance Corporation of India

Private

HDFC Standard Life Insurance

Max New York Life Insurance

ICICI Prudential Life Insurance

Om Kotak Mahindra Life Insurance

Birla Sun-Life Insurance

TATA AIG Life Insurance

SBI Life Insurance

ING Vysya Life Insurance

Bajaj Allianz Life Insurance

MetLife Insurance

Reliance Life Insurance Company Limited

Bharti AXA

37

Aviva Life Insurance

Sahara India Insurance

Shriram Life Insurance

General Insurers

Public

National Insurance

New India Assurance

Oriental insurance

United India Insurance

Agriculture Insurance Company of India Ltd

Private

Bajaj Allianz General Insurance

ICICI Lombard General Insurance

IFFCO-Tokio General Insurance

Reliance General Insurance

Royal Sundaram Alliance Insurance

TATA AIG General Insurance

Cholamandalam General Insurance

Export Credit Guarantee Corporation

Some of the life insurance advantages offered by different types of Life Insurance Policies are:

1) If an estate owner has not accumulated enough assets for his family, Insurance quote helps create an instant estate for the sake of the Family's security.

2) Life Insurance provides the option to pass equal assets to the children who are not active in the Family business at the time the family business is passed on.

3) Life Insurance policies can help secure the future of children for college/educational purposes as the amount of life Insurance Policy increases on a minor's or parent's life.

4) The growth of a cash-value policy is tax-deferred - you do not pay taxes on the cash value accumulation until you withdraw funds from the policy.

5) Life Insurance can be useful in paying estate taxes, along with other estate settlement amounts. Federal Estate Taxes are due nine months after death.

6) If there's a Business Transfer, life insurance can provide ready cash to finance a transaction between business owners who are ready to buy the deceased owner's share from his or her estate after death.

7) If there's a home mortgage, one can pass the family residence to their spouse/children to free them of any mortgage if one has a Life Insurance Policy for the same. It is

preferred to have a decreasing term policy that decreases in face amount as the mortgage balance is paid down.

8) Life Insurance helps retain your Business from the loss of a key employee. Untimely death of a key employee can pose severe financial loss to the business.

9) The right insurance proceeds can provide liquidity to pay off personal loans or business loans.

10) Charitable Remainder Trusts provide tax benefits. Life Insurance helps replace a charitable gift.

11) A lot of Insurance products presently provide good returns, which could be a beneficial way for saving necessary funds for retirement years.

12) Benefits are available immediately and may be used to help pay expenses such as final illness and funeral costs, eliminating the need to sell estate assets to cover these costs.

A carefully signed Life Insurance Policy with desired ownership and beneficiary arrangements helps secure you and your family in the long term. At Life Insurance Cheap we will help you identify the best Insurance Program available for you to leverage the various advantages offered by Life Insurance.

Chapter 3f: POST OFFICE

Post offices are also seen as a place for investing money. It is usually only those investors whose risk appetite is very low but is assured of guaranteed returns invest in various schemes of post offices.

Reasons for investing in Post office schemes:

- Safe, secure and risk-free investment options.
- No Tax Deduction at Source (TDS).
- Nomination facility is available.
- Nomination can be changed at any time
- The instruments are transferable to any Post Office anywhere in India.
- Attractive rates of interest.

Post office schemes:

- Post Office Monthly Income Scheme
- Post Office Time Deposit Scheme
- Post Office Savings Account
- National Savings Certificate
- Kisan Vikas Patra

Government schemes offered through post office:

- Public Provident Fund
- Senior Citizens Savings Scheme

Post office monthly income scheme:

- • Interest rate of 8% per annum payable monthly.

- • Maturity period is 6 years.
- • Minimum investment amount is Rs.1000/- or in multiple thereof.
- Maximum amount is Rs. 3 lakhs in single account and Rs. 6 lakhs in a joint account.
- Non-Resident Indian / HUF cannot open the Account.
- Minor has a separate limit of investment of Rs. 3 lakhs and the same is not clubbed with the limit of guardian.
- A separate account is opened for each deposit.
- Any number of accounts can be opened subject to the maximum prescribed limit.
- Facility of automatic credit of monthly interest to saving account if accounts are at the same post office.
- Facility of premature closure of account after one year @ 3.50% discount.
- No deduction of 3.5% if account is closed on completion of three years.
- Facility of reinvestment on maturity of an account.
- Interest not with-drawn does not carry any interest.
- Maturity proceeds not drawn are eligible to saving account interest rate for a maximum period of two years.
- Account is transferable from one post office to any Post office in India free of cost.
- Nomination facility available.
- Rebate under section 80 C not admissible.
- Interest income is taxable, but no TDS
- Only scheme in Post office where monthly interest is payable.
- Most suitable scheme for senior citizens and for those who need regular monthly income.
- Deposits are exempt from Wealth Tax.

Post office time deposit account:

Period	Rate of Interest
One Year	6.25%
Two years	6.50%
Three years	7.25%
Five years	7.50%

- Interest is calculated quarterly but payable annually.
- No interest is payable on un-drawn interest amount.
- Minimum amount of deposit is Rs.200/-. No maximum limit.
- Account can be opened by an individual, two adults jointly and minor through guardian.
- A Minor who has attained the age of 10 years can open the account in his/her own name to be operated directly.
- Non Resident Indian / HUF can not open the account.
- Any number of accounts can be opened.
- Account can be closed after 6 months but before one year without any interest.
- Two, three and five years accounts can be closed after one year at a discounted rate of interest.
- Facility of redeposit on maturity of an account.
- Deposits not drawn on maturity are eligible to saving account interest rate for a maximum period of two years.
- Account can be pledged as security against a loan to banks/ Government institutions.
- Accounts are transferable from one Post office to any Post office in India.
- Rebate under section 80-C is not admissible.
- Interest income is taxable.
- Deposits are exempt from wealth tax.
- No T.D.S.
- Nomination facility available.

Senior citizens savings scheme-2004:

We are all well aware that interest rate on Small Saving Scheme has been reduced to 5% in the last four years. The decline in interest rate was initiated from 1st January 2000. The interest rate on 31-12-1999 in Monthly Income Scheme was 13% which has come down to 8% with effect form 1.3.2003. The decrease in the interest rate has negative impact on the 43 life of Senior Citizens. The dwindling interest income was cause of concern and hardship for them on the living conditions of the Senior Citizens. The interest income is a life time benefit for the senior citizens. The Budget for 2004-2005 presented in Parliament had two beneficiary aspects, as for as small Saving Schemes are concerned. The first one is that rates of interest on small savings which were unlikely to be expected to be reduced have been kept stable with no change in rate of interest in any Post Office scheme. The second beneficiary aspect was the introduction of Senior Citizen Saving Scheme-2004 with a higher rate of interest to any other small savings scheme which has come into operation from 2nd August 2004. The main objective of the scheme is to provide a relief to the senior citizens and to check the further decline in their interest income.

Post office savings bank:

- Minimum amount Rs20/- in case of non- cheque account, Rs.500/- in case of cheque account.
- Minimum balance of Rs.500/- is to be maintained for a cheque account.
- Account is opened with cash only.
- Maximum balance permissible Rs. 1,00,000/- in a single account and 2,00,000/- in Joint account.
- Two/Three adults, individuals, minor through guardian.
- A Minor having 10 years of age can also open an account directly.
- One individual account and one joint account can only be opened at a post office.

National savings certificate:

- Minimum investment Rs. 500/- No maximum limit.
- Rate of interest 8% compounded half yearly.
- Rs. 1000/- grow to Rs. 1601/- in six years.
- Two adults, Individuals, and minor through guardian can purchase.
- Companies, Trusts, Societies and any other Institutions are not eligible to purchase.
- Non-resident Indian/HUF can not purchase.
- No pre-mature encashment.
- Annual interest earned is deemed to be reinvested and qualifies for tax rebate for first 5 years under section 80 C of Income Tax Act.
- Maturity proceeds not drawn are eligible to Post Office Savings account interest for a maximum period of two years.
- Facility of reinvestment on maturity.
- Certificate can be pledged as security against a loan to banks/ Govt. Institutions.
- Facility of encashment of certificates through banks.

- Certificates are encashed at any Post office in India before maturity by way of transfer to desired post office.
- Certificates are transferable from one Post office to any Post office.
- Certificates are transferable from one person to another person before maturity.
- Duplicate Certificate can be issued for lost, stolen, destroyed, mutilated or defaced certificate.
- Nomination facility available.
- Facility of purchase/payment to the holder of Power of attorney.
- Tax Saving instrument - Rebate admissible under section 80 C of Income Tax Act.
- Interest income is taxable but no TDS
- Deposits are exempt from Wealth tax.

Public provident fund:

- The Public Provident Fund Scheme is a statutory scheme of the Central Government of India.
- The Scheme is for 15 years.
- The rate of interest is 8% compounded annually.
- The minimum deposit is 500/- and maximum is Rs. 70,000/- in a financial year.
- One deposit with a minimum amount of Rs.500/- is mandatory in each financial year.
- The deposit can be in lump sum or in convenient installments, not more than 12
- Installments in a year or two installments in a month subject to total deposit of Rs.70,000/-.
- It is not necessary to make a deposit in every month of the year. The amount of deposit can be varied to suit the convenience of the account holders.
- The account in which deposits are not made for any reasons is treated as discontinued account and such account can not be closed before maturity.
- The discontinued account can be activated by payment of minimum deposit of Rs.500/- with default fee of Rs.50/- for each defaulted year.
- Account can be opened by an individual or a minor through the guardian.
- Joint account is not permissible.
- Those who are contributing to GPF Fund or EDF account can also open a PPF account.
- A Power of attorney holder can neither open nor operate a PPF account.

- The grand father/mother cannot open a PPF behalf of their minor grand son/daughter.
- The deposits shall be in multiple of Rs.5/- subject to minimum amount of Rs.500/-.
- The deposit in a minor account is clubbed with the deposit of the account of the Guardian for the limit of Rs.70,000/-.
- No age is prescribed for opening a PPF account.
- Interest is not contractual but rate is notified by Ministry of Finance, Govt. of India, at the end of each year.
- The facility of first withdrawal in the 7th year of the account subject to a limit of 50% of the amount at credit preceding three year balance. Thereafter one Withdrawal in every year is permissible.
- Pre-mature closure of a PPF Account is not permissible except in case of death.
- Nominee/legal heir of PPF Account holder on death of the account holder can not continue the account, but account had to be closed.
- The account holder has an option to extend the PPF account for any period in a block of 5 years on each time.
- The account holder can retain the account after maturity for any period without making any further deposits. The balance in the account will continue to earn interest at normal rate as admissible on PPF account till the account is closed.
- One withdrawal in each financial year is also admissible in such account.
- The PPF scheme is operated through Post Office and Nationalized banks.
- PPF account can be opened either in Post Office or in a Bank.
- Account is transferable from one Post office to another and from Post office to Bank and from Bank to Post office.
- Account is transferable from one Bank to another bank as well as within the bank to any branch.
- Deposits in PPF qualify for rebate under section 80-C of Income Tax Act.
- The interest on deposits is totally tax free.
- Deposits are exempt from wealth tax.
- The balance amount in PPF in PPF account is not subject to attachment under any order or decree of court in respect of any debt or liability.
- Nomination facility available.
- Best for long term investment.

Kisan Vikas Patra:

- Minimum Investment Rs. 500/- No maximum limit.
- Rate of interest 8.40% compounded annually.
- Money doubles in 8 years and 7 months.
- Two adults, Individuals and minor through guardian can purchase.
- Companies, Trusts, Societies and any other Institution are not eligible to purchase.
- Non-Resident Indian/HUF are not eligible to purchase.
- Facility of encashment from 2 ½ years.
- Maturity proceeds not drawn are eligible to Post office Savings account interest for a maximum period of two years.
- Facility of reinvestment on maturity.
- Patras can be pledged as security against a loan to Banks/Govt. Institutions.
- Patras are encashed at any Post office before maturity by way of transfer to desired
- Post office.
- Patras are transferable to any Post office in India.
- Patras are transferable from one person to another person before maturity
- Duplicate can be issued for lost, stolen, destroyed, mutilated and defaced patras.
- Nomination facility available.
- Facility of purchase/payment of Kisan vikas Patras to the holder of Power of attorney.
- Rebate under section 80 C not admissible.
- Interest income taxable but no TDS
- Deposits are exempt from Wealth tax.

[1]

[1] Source: www.bajajcapital.com/gss/introgovtscheme.html

4. FINDINGS

4.a: Interview Transcripts

4.a.1: Mr. Sankalp Mishra, Associate Vice President, INDIABULLS.

Q: What are the factors you consider while designing Portfolio?

A: As INDIABULLS is mainly into equity trading, we mainly design portfolio consisting of 100% equity. We consider many factors like age of person, his income, his risk taking capabilities etc. While doing so, we always person what he thinks. If a person is ready to take risk, then he is always ready to invest in equity shares. After knowing expected returns, we can suggest him for different kinds of investment. But, if that person is only interested in trading in Large Cap Companies, then we can not force him to go for Small Cap Companies.

Q: Which are the companies you mainly suggest from Large Cap for investing in Equity Funds?

A: There are no hardcore rules for that. In that also, first we have to ask what person thinks about companies in large capital. If he is having his choice, then we have to stick to it. Otherwise, we have our own research department who provides us with necessary information like expected returns, performance in last one month or in one year. Depending upon that, we try to devise a best portfolio for that person.

Q: Do you suggest Mid Cap and Small Cap companies?

A: This totally depends upon research and in which sector that company is. If a particular sector is outperforming, companies in that sector may be performing good, because, for a sector to perform good, most of companies in that sector are performing good. Obviously, some are exception to that. But, still you can expect good returns from that sector. It is like, out of 100% companies in small cap, some companies can perform extremely well and can enter into mid cap. Same with mid cap companies, they also can perform extremely well and can enter into large cap. So, if a person is ready to take high risk, he can go for mid cap and small cap companies. But, we always suggest some percentages of large cap investment, as these companies will not perform so badly that they will enter into mid cap or small cap. So, you can expect a study returns out of that investment.

Q: Is it necessary to invest in different kinds of companies as large cap, mid cap and small cap?

A: Not necessary. But, if you invest in different companies, then mainly your risk gets divided into three main structures. Out of that you can expect good returns from large cap companies. Then, from remaining two sectors if companies perform well, then you are always in plus point. And, if those companies doesn't perform well the also you have cutting edge as you have large cap also. So, your risk is mainly divided. Also, when you divide your investment into three types, you get more diversified options. Now, suppose a sector is not performing well and any company(s) from that sector is (are) in large cap, still you can invest in that company. And a sector which is outperforming, investments can be done in mid cap companies also which may give you higher returns than large cap companies. Anything can be your outcomes, depending upon performance of shares of that company.

Q: Is there any criteria for measuring performance of particular shares for particular company?

A: Yes, there are softwares available with INDIABULLS for calculation of that. But, as you are going into deep, we will just consider that performance of share of company can be dependent on performance of that sector (software, power, oil & gas etc), performance of that company in past 1 year or last quarter. People mainly look at the balance sheet of the company if the company is not well known or large cap company. So, there can be other criterions as you may consider. As in case of IPO, people may visit company web site or registrar to know who are the Board of Directors. So, performance or expectations can be derived from many factors.

Q: As you said in age criteria, how you can calculate risk for different age groups, like 25-30, 30-50 and 50 above?

A: There are many criterions. Like, a person between 25 to 30 ages is aggressive; he can take more risk to get high returns in his early life. As, age increases, he will become more mature, he may think of having fixed returns from his savings for his future. At the age of 50 and above, person may not be too aggressive, but, still he may invest in share market depending upon his nature, his experience in that. Traditionally, there is no rule defined saying person of one age should invest in respective sectors only. It changes from person to person. A person at the age of 25 also may be too conservative; that he will not invest in share market at all. And a person at the age of 60 also trade in share market, because he may have more money or he has experience in trading.

Q: Suppose, a person with no experience in share market comes to you and asks for portfolio; then what you will recommend him?

A: We may ask for his risk taking capabilities depending how much money he has for investment. According to us, at the age of 25-30 person can invest into share market completely. For first time investors, we recommend 40% into large cap, 30% mid cap and remaining into small cap. Or it can also be 40:40:20. It may change depending on willingness of person to do so. For a person between age of 30-50 years, we may recommend him to invest 70% in share market. Out of that, we may recommend 50% in large cap, 30% in mid cap and 20% in small cap, that too depending upon amount of money and expectation for returns. For a person of age 50 years and above, we may recommend him to invest 50% of total amount for investment in share market. Out of that amount, we may recommend 60% in large cap, 20% in mid cap and 20% in small cap.

Q: What do you think about other classes of assets to consider as a part of Portfolio?

A: Other classes may be mutual funds; insurance and commodity trading MCX & MCDX etc are booming sectors now a day. Mutual funds gives you fixed rate of return other than fixed deposits. Fixed deposit is looked as a traditional investment. People invest some amount of money in FD for a specific time period in bank which gives more interest rate. Insurance comes your way as general insurance, life insurance or any other form of insurance, where you pay premium till a certain maturity date. Commodity trading has also gained importance over a period of time. But, commodities like Gold and Silver are dearer to women as they purchase on some occasions or festivals. Over a period of time, that commodity can be sold at price in market, so very less risk in that. MCX & MCDX are yet to open for general people. Once done for people, they may enter into that market as well. But, still MF gives you mainly diversified portfolio to reach to the various kinds on investments.

4.a.2: Interview Transcript:

Jain Vikram Ashok Kumar, Sales Manager, MetLife India Insurance Co. Pvt. Ltd.

Q: What are the factors you consider while designing Portfolio?

A: Normally, designing a portfolio for a person is totally different from person to person. Generally, recommendations from person are very important. Without his consensus we can't provide him with any portfolio. Portfolio Managers try and take out information from him regarding various factors like family background, income, expected returns, any experience regarding trading in any asset classes etc. This helps managers to choose right option for person.

Q: Can you just brief us regarding relevance of each factor?

A: See, family background is very important when you try to design portfolio for a person to know that if he is from conservative family or not. Person from a conservative family may not go for trading in share market with his 100% investment. He may have made his mind to invest in Fixed Deposits, Mutual funds etc from where he will get fixed returns and he may not be ready to take risk by investing in mid cap and small cap companies. Also, if he is from a family background where only men are working or service or with huge family dependency, he may not be interested in taking risk by investing in share market. On the other hand, he will invest in banks where he is getting fixed returns. Banks are also providing with good rate of return approximately 10%. For senior citizen, they have some more facility. Income is also relevant as portfolio managers should know how much money he is having at the end of month to invest in various financial instruments. Depending on family size (dependency), his perception about a particular asset class can be very important factors. That is why we say that all factors are important. And these all factors are acting simultaneously while designing portfolio. Expected returns are the most important factors without which portfolio managers can't design portfolio. Because if a person is expecting high returns out of total investment, then managers can't design portfolio consisting of only share market. So, then it becomes mix of many asset classes. Then future needs of person are also taken into consideration. Ex. He maybe looking for a house, car etc in near future; then accordingly investment have to be done.

Q: After knowing all the factors, how portfolio managers design portfolio?

A: Portfolio managers never do the research. They have their dedicated teams for share market, commodity market, mutual funds and insurance. So, they will select from available options like top five shares etc.

Q: What can be the ideal portfolio for a person between age of 25 to 30 years?

A: As I said before, there is no ideal portfolio for anyone, because everything depends on person. But, still to design an ideal portfolio, we can allocate him to invest 80%-100% in share market as these people are hot blood, ready to take high risk for high returns, also family dependency can be low in these segment people. People at this age can trade more and can generate good returns. These people are less patient, they will try for trading Intraday also. This may give them the brief idea how things actually work. Thy have very less beliefs about share market. But, at this age, share market is good opportunity for them. Also, in some cases people invest in mutual funds or bank saving account or fixed deposit for some maturity period if they have some plan in future. These kinds of investment can also be useful in their bad times if they get unexpectedly low returns from share market investment. Some can go for some insurance schemes also. No hard n fast rules.

Q: What can be the ideal portfolio for person in age group of 30-50?

A: For a person in this age group, there are many responsibilities. He has wife, kids, may be retired parents in his family. After earning for some years and in his early 30's, person can think of having new accommodation for him where he can put money. He may purchase car, other utilities at home like new TV, fridge etc. so. And if he had traded in share market before, definitely it will be first preference for him. Then, he may have choice for mutual funds, FD etc. At this age, he may also think of some Govt. Bonds or investment in money market. This is period where there are many options available. He may purchase Gold, Diamonds for his wife or his wife can purchase on occasion of any festivals. Person gets promotion and is well settled till age of 50. Still, he has worries like higher education of son, daughter's wedding, his retirement fund etc. He can also divert his investment from share market to fixed returns investment as age goes up from 30 years to 50 years. They also can put some money in paying installments for their PPF (Public Provident Funds) which have got good interest rate of 8-10% and also has got exemption from Income Tax.

Q: What can be the ideal portfolio for person of age above 50 years?

A: Persons, here are mainly worried about their retirement and after retirement funds like pension etc. So, there can be persons who can go for pension funds schemes. They actually calculate their monthly expenses considering inflation and put money in fixed deposits which will get mature after their retirement. At this age people have enough money to spend. So, they can just put this money in bank account and get fixed interest rate. But, there are some people at the age of 50 years and above, who actually trade in share market and commodity market. At this age, they don't have any other work unless they are working somewhere as professor or some research firm where experience is useful. So, they sit in front of computer and do trade in share market and commodity market. At this time, they will not go for IPO's but, mainly invest in large cap and mid cap only.

Q: What do you think about insurance as an asset class for investment?

A: Talking about insurance, our main target group is people above age of 40 years. In insurance, people have low risk and high returns. Mainly there are many plans like ULIP etc. LIC is biggest insurance company. Various types of insurance schemes are available in market like Life Insurance, Medical insurance, Fire Insurance, Car/ Bike Insurance etc. People in this age group mainly go for life insurance. Post office is also one of the types of reliable investment. It has got low risk but low returns also. But, it has high liquidity.

Q: Finally, as investor if you have to invest Rs.1 crore, what would have been your ideal portfolio?

A: Share market-	45% [45 lakhs];
Mutual funds-	30% [30 lakhs];
Govt. Bonds/ Debentures-	10% [10 lakhs];
Insurance-	10% [10 lakhs];
Fixed deposits-	5% [5 lakhs].

4.a.3: Interview Transcript:

Mr. Shrikant Shetty, Vice president, ANAND RATHI.
Mr. Ashok Vashistha, Branch manager, ANAND RATHI

Q: What are the factors you consider while designing portfolio?

A: Firstly, portfolio managers need to know the Risk Appetite (Risk Taking Ability) of that person for whom we are designing portfolio. We discuss on various factors as to know the risk appetite of that person. Then we draw conclusion based on that. The various factors we consider are:

- **Background of family**: Background of person shows how that person is thinking about investment i.e. conservative or aggressive. Salaried persons will not completely invest money into share market. Instead they will invest into Fixed Deposits, Mutual Funds, and Govt. Bonds to back up any loss or low returns in case of share trading.

- **Income of that person**: Income of person can show how much money he is having at the end of the month to invest into various financial instrument. With this, we also can know the life style he is used to. Because if a person with a high life style will spend more and will go on spending more every time. Person with more income and conservative spending habits may be having more amount of money to invest. He may put his money in banks and remaining money into some investment which will give him fixed returns every time.
- **Expected returns**: Person can have some benchmark regarding the percentage returns, he is expecting from a particular type of investment. This is the minimum requirement for any person interested in investing into investment instrument. Based on the above, portfolio managers design type of investment in different instruments or classes of assets. Means, portfolio managers may suggest him different kinds of investment in which returns are high.
- **Family dependency**: It also states that how much risk a person can take for his investment.
- **Perception/ Bad experience**: Perception about a kind of investment can play important role for a person not to believe on that, whatever may be performance currently. This perception may be due to bad experience of other person in past. Therefore, it is very necessary to understand why his perceptions are so.

Q: What is perception about Gold as commodity investment?

A: Gold is not investment trading. Gold is looked upon as traditional investment. Women purchase Gold for them mainly at the time of festivals or some ceremony. So, portfolio managers never ask to invest into Gold because anyways people are purchasing it. Silver is also traditional investment. Now a day, Platinum and Diamonds are also termed as traditional investments.

Gold can be used in your bad times as it is having low risk, moderate returns (depending upon market rate) and high liquidity. Gold kills inflation because as inflation is increasing, Gold prices are also keeping pace with it. So, at any time you purchase and sell Gold, you will never be in loss.

Q: What you think about Real estate?

A: Real estate has come up with good land prices. Now a day, his sector is booming. But, for some people only it is looked as investment instrument. Like person after age of 30 may think of purchasing house for his family. So, in this case the investment is not trading like share market. But, some people do trading, who are High Net worth Individuals. They purchase property in some amount and over a period of time they sell at higher rate. Person thinking of setting up new business will purchase land for him other than his house. This is also called as permanent investment. But, there is problem with real estate trading. The risk associated with it changes according to location. In rural area, risk is very high as many factors like fertility, distance from urban or semi-urban area etc. are considered. Risk in semi-urban area is very low as many people from rural area are shifting towards semi-urban area. Because they can't afford to move in urban area, they prefer semi-urban area. The rates in semi-urban area are also high as there are many semi-urban areas connected to rural areas and urban areas also. Risk in urban area is moderate as many rich people shift towards urban area from semi-urban area. And many rich people are shifting towards remote places like semi-urban area for peaceful living. Ex. In Mumbai, many people are coming in to stay here. They mostly stay in semi-urban areas like Virar, Vasai, Dombivli, Kalyan and near areas. Property rates in these areas are booming. Also, many people from south Mumbai are shifting towards Mumbai suburbs like Mulund, Thane, and Mira Road etc. Therefore risk associated with Real Estate can be different from place to place. Liquidity in case of real estate is also very low. When you think of selling of property you posses, it may take from one month to one year. So, it will not helpful in bad times as Gold, shares, FD can be.

Q: Why Art is coming up as an investment instrument?

A: Rich people when purchasing accommodation in good locality, they want to renovate house according to society requirement. Therefore, now a day people who are interested started purchasing Art as a medium to decorate house. They purchase Art from Art Gallery, Antique pieces from other parts of world, Auctions in Museums etc. and keep in house. When they want to sell it or purchase another one, they sell it at higher prices by arranging Auctions or keeping in Galleries. Because of this, some people have started investing in Art keeping future value of that Art. They purchase an Art and sell it after some period at higher prices. But, as in case of Real estate, Liquidity is the main problem for every other person to invest in this sector. Also, calculating the actual value of Art is very difficult as only few people are good in that. With the help of these people, HNI's can think of trading in Art.

Q: How you design a portfolio when we are having Rs. 1 crore with us?

A: See, it will depend on your own thinking about asset classes and what are the percentage returns you expect. Depending upon that, you should first fix your bench marks and then start thinking.

4.b: Ideal portfolio designed for various kinds of people

4.b.1: Portfolio designed for a conservative person:

Share market-	35% [Rs. 35 lakhs]
Mutual Funds-	35% [Rs. 35 lakhs]
Fixed deposits-	10% [Rs. 10 lakhs]
Money market-	10% [Rs. 10 lakhs]
Commodity-	5% [Rs. 5 lakhs] [Not for trading]
Banks Saving-	5% [Rs. 5 lakhs]

Assumption & Explanation:

Conservative persons are mostly from Conservative family background or with more no. of persons depending on him or he may be a retired/ aged person, who is worried about their near future. So, their risk appetite is very low. They invest money into some investment instrument from where they will get fixed returns which will be very useful.

When designing portfolio for these people, very less amount is be assigned in share market where risk is high. So, we have assigned 35% for share market wherein we can have diversified portfolio like investing largely into large cap, who perform well with less risk. In those 35 lakhs, we can have 60% for large cap, 40% for mid cap companies.

As mutual funds are having low risk, money can be allocated to this asset class also. Other forms of investment like fixed deposits, money market are always having low risk. Bank savings are very necessary as day to day expenses can be met by this investment. Commodity can be purchased for safe investment as every family does it. Commodities like Gold and silver are traditional form of investment from long time. They help in killing inflation.

Assuming that person of any age and conservative can purchase real estate for his own family from the returns he gets from fixed returns investment. He will not think of others asset classes like Art.

Real estate can not be a pert of portfolio's till that person is HNI or into some construction business or Broker for construction. Now a day, infrastructure bonds are in market. So, if a person wants to invest in that, he can go for it.

4.b.2: Portfolio designed for a moderate person:

Share market-	50% [Rs. 50 lakhs]
Mutual funds-	25% [Rs. 25 lakhs]
Fixed deposits-	10% [Rs. 10 lakhs]
Money market-	10% [Rs. 10 lakhs]
Bank savings-	3% [Rs. 3 lakhs]
Commodity-	2% [Rs. 2 lakhs] [Not for trading]

Assumption & Explanation:

These types of people are having moderate risk taking capability. But, still they don't prefer other type of asset classes where returns are very low. In share market also, they go for small cap companies with very little investment; so that even if they don't get expected returns, they are not worse off.

Considering this, we have allocated 50% investment to share market i.e. 50 lakhs. In this asset classes, person can choose between large cap, mid cap & small cap companies or sector wise companies who are performing good. Lots of options are available with the person to choose. Out of those 50 lakhs, 50% for large cap, 30% for mid cap, 20% for small cap companies can be allocated.

Mutual funds are also having lots of schemes, having good returns. Mutual fund companies are having lots of schemes for different levels with different allocation for different sectors.

In this case, person can invest into fixed deposits with good returns for limited period of time say up to 3 years. Then, he can divert his money from one asset class to another depending upon performance of the other class.

As time passes if person can think of trading in commodity if he can generate high risk appetite for him for certain amount of money. He also can go for another asset class like insurance, if he thinks there is a need for that.

In case of moderate risk taking people, they keep less amount of money in their bank accounts as their vision is too invest more and get more returns and keep doing that. They like to mostly get the experience in share market and new asset classes like commodity trading.

4.b.3: Portfolio designed for an aggressive person:

Share market-	65% [Rs. 65 lakhs]
Mutual funds-	15% [Rs. 15 lakhs]
Fixed deposits-	10% [Rs. 10 lakhs]
Bank savings-	3% [Rs. 3 lakhs]
Commodity-	2% [Rs. 2 lakhs] [Not for trading]

Assumptions & Explanation:

Aggressive, high risk taking people are mostly young people between 25-35 years or people who are HNIs. These people always trade in share market in different sectors. Therefore, we have allocated 65% i.e. 65 lakhs for share market. Out of that, 40% for large cap and 30% for mid cap and small cap companies each. Whoever may be the person on the earth, he will never take 100% risk of putting whole amount into sector which is risky. Therefore, diversified portfolio comes into picture.

These people mostly never look at Money market as asset class because they believe in high liquidity. They are always on look-out of with sector performing well, so that they can pool their money from one asset class to another and get good returns.

5. CASE STUDY

Case study: Financial Planning Interrupted

Any financial planner worth his salt will vouch for the importance of diversification while building a portfolio. Furthermore, the diversification needs to work at various levels. For example, within each asset class, it is pertinent to be invested across multiple instruments; similarly, the portfolio should be diversified across various asset classes as well. Our team of financial planners recently met a client whose portfolio was anything but diversified. And this wasn't his only problem. To make matters worse, he seemed to have contravened every basic tenet of financial planning, making his portfolio an ideal candidate for a makeover.

The facts of the case:

- The client is 40 years of age, and the sole earning member in his family.
- His wife is a homemaker and his sons are aged 10 and 5 respectively.
- He is employed with a multinational corporation and his salary income more than makes up for his expenses i.e. the monthly cash inflows outweigh outflows.

The client's investments/financials are as follows:

- He has invested in 3 properties (including the one in which he resides), which account for 83% of his assets.
- Equities (stocks and investments in only 2 diversified equity funds) account for 16% of assets.
- The balance (1%) is held in cash/savings bank accounts.

He has opted for 2 child ULIPs (unit linked insurance plans), the total annual premium for which is Rs 120,000

On the liabilities front, he has an outstanding home loan and also a loan against his mutual fund investment.

As can be seen, property i.e. real estate as an asset class accounts for a disproportionately high portion of the asset portfolio. Furthermore, all the properties are in the same city, depriving the client of any diversification opportunity. While it is important to have property in one's portfolio, it certainly shouldn't account for such a high proportion. Also given that property as an asset class tends to be rather illiquid (a distress sale when liquidity needs are urgent could lead to a loss-making proposition), only accentuates the unenviable situation. A downturn in property prices could spell disaster for the client.

How much should property account for in your portfolio?

The remedy for this situation lies in introducing other assets like equities into the portfolio and thereby converting the portfolio into a more balanced one. Studies have shown that equities as an asset class (if invested smartly) can outperform others like real estate, gold and fixed income instruments over longer time frames. Considering that the client's needs (planning for retirement and providing for children's education) are long-term in nature, the presence of a higher equity component should be treated as vital.

The solution - put on hold any plans to buy more property. At Personalfn, we maintain that each individual should be invested in property to the extent that it can provide for inheritance. With 3 properties, the client has adequately taken care of that.

The surplus cash inflows should now be utilized to beef up the portfolio's equity component. But the same needs to be done in a planned manner. Sadly, the client has not even set himself any concrete objective in terms of planning for retirement or providing for children's education. In other words, it's yet another case of investing randomly without setting any objectives. To complicate matters, the client has erred by investing nearly Rs 3 m in just 2 diversified equity funds, again pointing to lack of diversification.

Identify your financial goals at the outset

The solution - set tangible objectives (in monetary terms) and then invests in well managed equity funds in a disciplined manner for achieving the same. This will help on various levels. First, the enhanced equity component will ensure that the portfolio becomes well-diversified across asset classes. Second, it will make the equity investments diversified across multiple schemes. Finally, it will aid in gainfully utilizing the surplus monies.

On the insurance front, the client is woefully underinsured. Considering that he is the sole earning member in the family, the ideal choice would have been to opt for a term plan. Term plans are pure risk cover plans; they offer the opportunity to obtain a high insurance cover at relatively lower premiums. After getting himself adequately insured, savings based products like ULIPs should have found place in the portfolio. The client should rectify the anomaly by buying a term plan and fortifying his insurance portfolio.

Term Plans - Comparative premium chart

The liability side could do with some rework as well. While the home loan can aid in tax planning (interest and principal repayments qualify for deduction from gross total income), we aren't quite convinced about the loan against mutual fund investment. The client is sufficiently liquid and certainly doesn't need to shoulder the burden of a redundant loan repayment. He would be better off paying off the loan at the earliest. The client's financial status and condition make a rather interesting reading.

On the surface, we have an individual, whose income streams more than make up for his expenses, whose asset portfolio seems rather well-stocked. In other words, it's a seemingly picture perfect situation. But scratch the surface, and a radically different picture emerges.

The investments are lop-sided in favour of a single asset class (i.e. property). Despite the needs being long-term in nature, the client is virtually unprepared to meet those needs; in fact, he hasn't even quantified his needs - which should be the starting point for the exercise. He doesn't have an adequate insurance cover and has in his books avoidable liabilities.

The case only underscores the difference between "having finances" and "being financially sound". And missing out on the latter could well mean that one is headed for a financial disaster. [2]

[2] Source: Yahoo Finance

6. CONCLUSION

	Risk	Return	Liquidity
Real Estate	Depends	Depends	Very Low
Mutual Fund	Low	High	High
Commodities	High	High	High
Stocks	Depends	Depends	High
Govt. Sec.	Low	Low	Low
Money Market	Low	Low	High
Fixed Deposit	Low	Low	Low
PPF	Low	Low	Low
Insurance	Low	High	Moderate
Post Office	Low	Low	High

Real Estate Assumptions:

Risk associated with areas	
RURAL	**VERY HIGH**
SEMI – URBAN	**VERY LOW**
URBAN	**MODERATE**

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