

# ASSET ALLOCATION REPORT

Ms. Mukta Negi

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Dear Ms Negi,

Congratulations on your next step towards a financially planned future! In the first instance, our Wealth Report provided you a rough idea where you stand vs. your desired financial goals.

We will now give you what you should do to start addressing the issues identified in the Wealth Report. Making investment decisions may sometimes sound intimidating but Your Financial Advisor is here to assist you. In this report we are going to suggest you where to optimally invest depending on your financial situation.

### **A summary of your Wealth Report**

Unfortunately, you are currently not set to meet your financial goals. However, you are saving at our recommended level per month. Moreover, despite of saving at recommended level, your savings are still not enough to meet the financial goals. Thus, we have prioritised the goals for you. The table below shows a list of all your financial goals along with their priority and their current status.

Priority	Goals	Status
1.	Retirement	Not Met
2.	Emergency Fund	Not Met
3.	Payback loans	Not Met
4.	Down Payment for 2BHK Flat	Not Met
5.	Car	Not Met
6.	I phone 7	Not Met
7.	Two Wheeler	Not Met
8.	Jewellery	Not Met

You are currently saving optimally. But now you just need to invest wisely.

Your current saving rate is around 46% which is a fantastic number. Now, you just need to be a smart investor and allocate your savings in the asset classes that suits your profile. We have provided you with all the details which will help to not only achieve your goals but also have a financially independent future.

### **Your current status of goals**

Unfortunately, your current monthly savings are not going to be sufficient to meet all your goals.

Let us go through these step-by-step.

### **Step 1: The Theory: what it should be ideally**

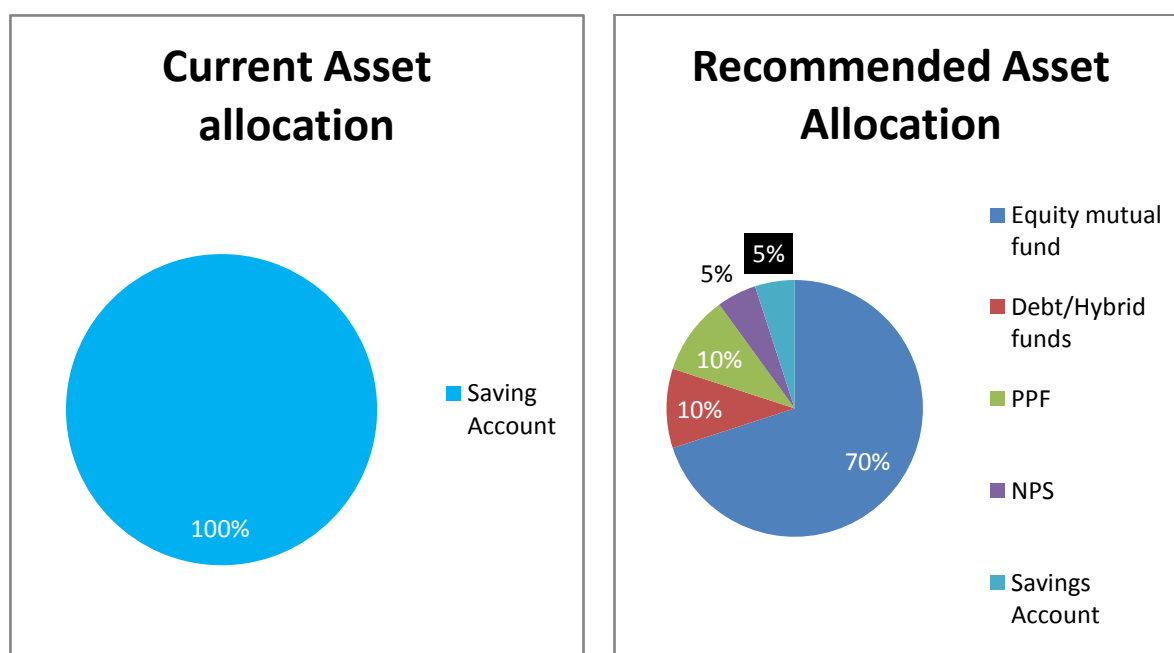
A person's investment approach should depend on two factors:

- Return expectations: What return do you need from your investments to meet your goals?

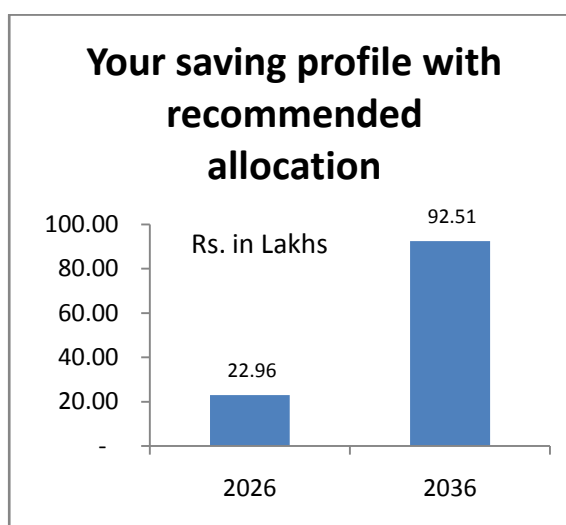
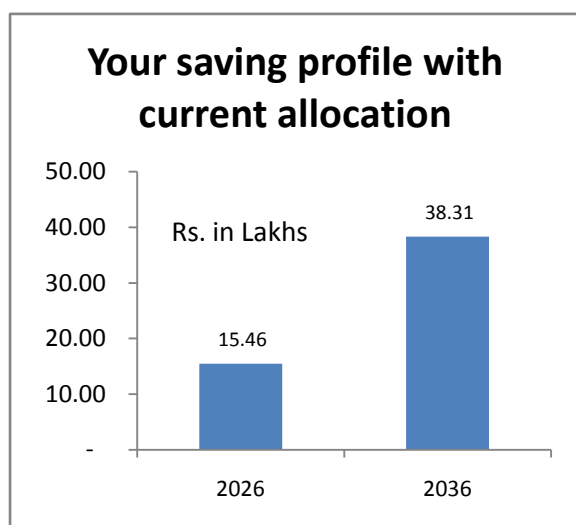
- You require around 11% returns to meet your goals.
- Risk-taking ability: What is your ability to sustain a loss in investments?
  - You are in the age group of 20-30 years. You are young and have a long working career to “withstand and make-up for” any losses you might have in investments. You have higher risk-taking ability.

Historical data (5 years, 10 years, 20 years etc) suggests Equities generate higher returns than most other asset classes. Thus it is always advisable to invest a major portion of your savings in equity. Thus **we recommend you that your portfolio should have 70% investment in equity mutual funds, 10% in debt or hybrid mutual funds, 5% in national pension scheme, 5% in savings account and 10% in PPF.**

The diagram below shows a comparative analysis of your current asset allocation and the asset allocation that we recommend for you. You are currently depositing 100% of your savings in your saving account.



Hypothetically, if you were to follow the above (with the Caveat that you “allocate it – shut it – forget it” – i.e. you put the money and don’t even look at it for a 5-10 years period), you can achieve a startling difference in your savings at the end of 10 years and 20 years.



You can see that by just changing the way you invest, you can have your savings work for you. Now, **imagine having extra savings of around fifty four lakhs in your hands just by following some simple advice.**

## **Step 2: The Practice: what can you make the most of**

What we discussed above is the theory – this is a tried-and-tested formula that is being used by advisors and bankers throughout the world. However, this requires some “tweaks” to your particular financial situation and aspirations. Certain of your goals are short-term in nature (i.e. due in the next couple of years). And one thing we would mention – the high return that equities offers – is **OVER LONG PERIOD OF TIME** – i.e. at least 5 years. Hence, we have to adjust your allocations to meet some of your short term goals (in the least risky way possible).

Warren Buffett, the world’s most famous investor says – “Do not save what is left after spending. But spend what is left after saving”. So we would recommend you to **SAVE BEFORE SPENDING**.

We recommend that as soon the salary hits your account, you should allocate money first to your savings and financial goals. Only after that, should you think about your regular monthly expenditure. Also, each goal should be thought of as a separate pool of money.

In the table below, a comprehensive evaluation of your goals is provided. We have also mentioned how much you should save and where should you invest the money.

Goals	Amount (Rs. In lakhs)	Target Date	Current Allocation	Recommended Allocation	Equity Fund	Hybrid/ Debt Fund	Savings Account	PPF	NPS
Retirement	46.5	Dec 2053	0	3,000	1,500	0	0	900	600
Emergency Fund	1.35	Dec 2017	0	7,500	0	3,750	3,750	0	0
Payback Loans	0.3	Dec 2016	0	0	0	0	0	0	0
Down payment for 2BHK flat	6	July 2024	0	0	0	0	0	0	0
Car	7	July 2020	0	0	0	0	0	0	0
I phone 7	0.7	Dec 2017	0	0	0	0	0	0	0
Two wheeler	0.5	Dec 2022	0	0	0	0	0	0	0
Jewellery	0.7	Dec 2017	0	0	0	0	0	0	0

For achieving your retirement needs you should invest Rs. 1,500 in equity funds, Rs. 900 in Public provident fund and Rs. 600 in National Pension scheme.

Similarly, for emergency fund you should invest Rs. 3,750 in debt/hybrid mutual fund and save the same amount in your saving account.

Now, below is the list of funds that you should consider investing in order to achieve the desired financial goals. Therefore, you need to invest Rs. 1,500 in one or more equity funds mentioned below and Rs. 3,750 in one or more debt or hybrid funds mentioned below. Moreover, we advise you to invest through monthly SIPs as this way you would not only be able to invest on a regular basis but also it would diversify the risk associated.

Asset Class	Total investment amount	Name of the funds
Equity Mutual Fund	1,500	<ul style="list-style-type: none"> <li>HDFC Mid-Cap Opportunities Fund - Direct Plan</li> <li>Birla Sun Life Top 100 Fund - Direct Plan</li> </ul>
Debt/ Hybrid Funds	3,750	<ul style="list-style-type: none"> <li>Franklin India Government Securities Fund - Composite Plan - Direct Plan</li> <li>HDFC Gilt Fund - Long Term Plan - Direct Plan</li> <li>HDFC Balanced Fund</li> </ul>
Public Provident Fund	900	-
Savings Account	3750	<ul style="list-style-type: none"> <li>Kotak Mahindra Bank</li> <li>Yes Bank</li> </ul>
National Pension Scheme	600	-

## Why you should invest in these Funds?

### **HDFC Mid-Cap Opportunities Fund - Direct Plan**

**Investment Objective:** To generate long-term capital appreciation from a portfolio that is substantially constituted of equity and equity related securities of Small and Mid-Cap companies.

We like the fund as it has a low expense ratio of 1.18% and the fund has delivered over 40% returns per year in the last 3 years.

### **Birla SunLife Top 100 Fund - Direct Plan**

**Investment Objective:** An Open-ended growth scheme with the objective to provide medium to long term capital appreciation, by investing predominantly in a diversified portfolio of equity and equity related securities of top 100 companies as measured by market capitalization.

We like the fund as it has a low expense ratio of 1.21% and the fund has delivered close to 28% returns per year in the last 3 years.

### **HDFC Balanced Fund**

**Investment Objective:** To generate capital appreciation along with current income from a combined portfolio of equity & equity-related and debt & money market instruments.

The fund was started in September 2000 and has been performing very well since inception and it has delivered 28% return per year in the last 3 years.

### **Franklin India Government Securities Fund - Composite Plan - Direct Plan**

**Investment Objective:** The fund aims to provide steady returns with low risk and highest possible safety by investing primarily in Government Securities and come with a guarantee of repayment for both principal and interest. The average maturity of the securities in the plan would be over three years.

This fund has given returns of around 15% per year in the last 3 years and has a very low expense ratio of 0.67%.

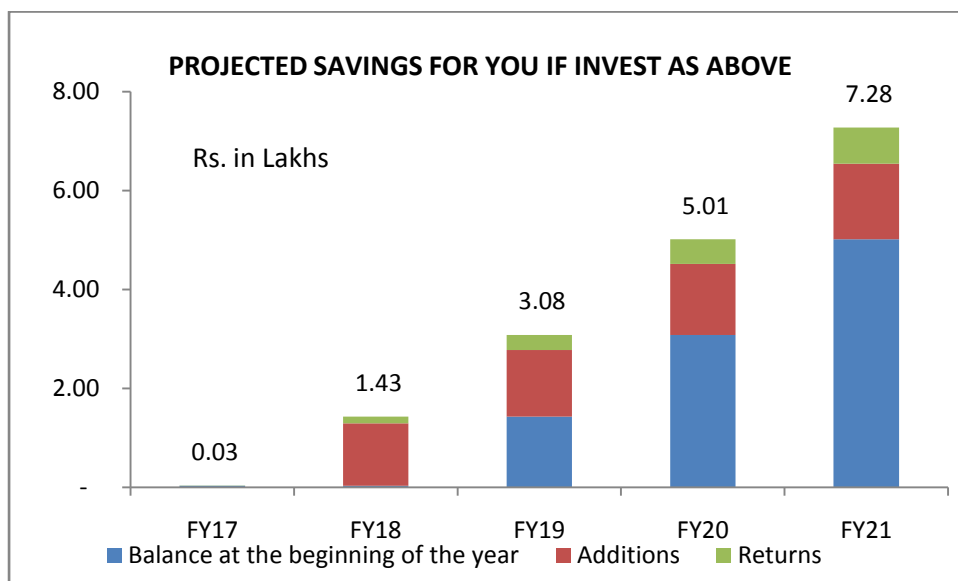
### **HDFC Gilt Fund - Long Term Plan - Direct Plan**

**Investment Objective:** The scheme is a dedicated gilt scheme which seeks to generate reasonable returns with investments in government securities, securities guaranteed by Govt with medium to long term residual maturities.

This fund has given returns of around 15% per year in the last 3 years and has a very low expense ratio of 0.32%.

Now, the graph below shows the effect of making the investment in the recommended funds through SIPs. The projection for the next five year shows that the value of your investments will grow around 228 times just by following some simple advice and investing systematically. In the beginning of FY17 (1<sup>st</sup> Apr 2016) your investments were around Rs 3 thousand and by the end of FY 2021(31<sup>st</sup> Mar 2021) the value of your investments will grow to around Rs 7.28 lakhs. Moreover, the graph also shows how the proportion of returns in your net investment is increasing over the course of time.

So your money is starting to do the hard work.



### **Step 3: Implementation: How to set up the monthly SIPs**

#### **What is SIP?**

Systematic Investment Plan is an investment strategy wherein an investor needs to invest the same amount of money in a particular mutual fund at every stipulated time period.

Investing in SIP enables an investor to take part in the stock markets without actively timing them and he/she can benefit by buying more units when the price falls and less units when the price rises. This scheme helps reduce the average cost per unit of investment through a method called Rupee Cost Averaging.

## Do you need a Demat Account for investing in Mutual Funds?

Demat Account is not required for investing in Mutual Funds and you can take a regular plan without paying any commissions/brokerage through the following ways-

- a) **Offline-** Visit Asset Management Company office and they will guide you through the process
- b) **Online-** Visit the site of the Mutual Fund AMC in which you want to invest and just follow the simple steps required.

### What is KYC?

RBI regulations have become very strict these days. Before anyone makes any sort of investment, he/she requires to provide “KYC” information to whoever you invest the money with – be it a bank, mutual fund, stock market etc. This information is standard and has to be submitted only once. We are sure you are familiar with the requirements already.

You require (1) a Proof of Address and ; (2) PAN Card details for KYC

- Proof of address to be provided by Applicant. Please submit ANY ONE of the following valid documents:
  - 1. Passport
  - 2. Ration Card
  - 3. Registered Lease
  - 4. Sale Agreement of Residence
  - 5. Driving License
  - 6. Voter Identity Card
  - 7. Latest Bank A/c Statement/Passbook
  - 8. Latest Telephone Bill (only Land Line)
  - 9. Latest Electricity Bill
  - 10. Latest Gas Bill
  - 11. Adhaar Card
- PAN card

If you have a Demat Account, you can also invest through it by calling your broker or even on the app in your Smartphone. This method is convenient but you need to pay a small amount of brokerage.

If you don't have a Demat Account and want to invest through one you can setup an account either with your Bank or any other broker for e.g. IIFL, Sharekhan. You just need to give them a call and they will send an executive at your doorstep to guide you through the process. They do this because they are incentivised by the lucrative commissions they get.



If you plan to invest through a broker, we suggest you to stick with our recommendations, reason being sometimes the broker try to sell products which are not of high quality as the commissions on them is higher. So next time when you come across someone mis-selling you a financial product, just dodge them anyhow.

#### **Step 4: Monitoring: Best way to monitor**

The best way to monitor all your SIPs is through Consolidated Account Statement (CAS). Consolidated Account Statement is a single account statement that consolidates financial transactions in all your portfolios, across all schemes of all mutual funds. It is sent either on or before the tenth day of the succeeding month, detailing all the transactions and holdings at the end of the month, including transaction charges paid to the distributor, across all schemes of all mutual funds and to everyone whose portfolio transactions have taken place during that month.

Keep in mind that you must update your PAN and KYC details in all portfolios in the mutual fund industry by approaching the respective mutual funds or their registrars.

#### **Some important things to keep in mind**

Some important points:

- You can stop an SIP at any time – without any penalty
- You can withdraw money (while ideally we don't like you to – but in case of any emergency). Rest assured all mutual funds have one-day liquidity – which means that you can withdraw your money and it could be in your account in a 3 day period.
- Don't worry about newspaper headlines on what is happening to the equity market. None of us can time the market well. If you maintain SIPs in good times and bad, you benefit.

To know more about SIPs you can also visit these links:

<http://timesofindia.indiatimes.com/business/india-business/Smart-ways-to-gain-from-SIPs/articleshow/36637323.cms>

<http://economictimes.indiatimes.com/wealth/invest/investment-in-sips-yields-better-returns-than-timing-the-market-study/articleshow/53257429.cms>

<http://www.livemint.com/Money/SlfLB2dC9LOqwP5NJPga7M/For-salaried-persons-SIP-or-lump-sum.html>

[http://www.business-standard.com/article/pf/benefits-of-equity-systematic-investment-plan-114041000254\\_1.html](http://www.business-standard.com/article/pf/benefits-of-equity-systematic-investment-plan-114041000254_1.html)

<http://www.idfcmf.com/learning-center/why-invest-in-sip-systematic-investment-plans.aspx>

**For any further query or advice always feel free to contact us.**



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