

## Thumb rules for smart financial planning

HEMANT BENIWAL

IN LIFE people want shortcuts – I think that's the reason thumb rules find some place in one's life. Financial planning is a complete process to achieve your goals, but sometimes you want quick answers. And here comes role of thumb rules – they just give you some idea about financial decisions.

### Saving and investing rules of thumb

■ What should be my asset allocation?;

This is the most common rule of thumb that is used in the investment world. Rule says equity percentage in your portfolio should be equal to 100 minus your age or in other words debt should be equal to your age. For example, if you are 30 you should have 30 per cent of your investments in debt and 70 per cent in equity.

■ How much emergency fund?

An emergency fund helps people in case of sudden loss of income and medical emergency. Thumb rule says one should have an emergency fund equal to three to six months of monthly expenses. You can keep it at three months if you are a government servant but in case of private job or profession, you should keep it on the higher side of the range.

### Retirement rules of thumb

■ How much corpus for retirement?

You should have 20 times your income saved for retirement and plan to replace 80 per cent of pre-retirement income. But, here, retirement means a retirement at age of 60 and life expectancy of 80 – and a conservative lifestyle.

■ How much to invest monthly?

"Indians are great savers" sorry "Indians were great savers". The new generation is somewhat different and they would like to enjoy the present and have no idea about future. If you have just started to work and would like to have a very simple lifestyle and retirement at age of 60, you can do it with saving (read investing) 10 per cent of your income. If you are planning for an early retirement, start with 20 per cent savings.

### Insurance rules of thumb

■ How much insurance should I have?

Here insurance means insurance. Rule says one should have sum assured of eight to ten times of his yearly income. I think this rule is far from perfect but still can be used as starting point. This does not take care of any of your goals, liabilities and even complete expenses. Some modified version of this rule says that if you are in early 30s insurance should be 12-15 times

of your annual income and if you are in 50s take six to eight times.

### Loan/liability/home rules of thumb

■ How big should be my house?

The value of house should be equal to two to three times of your family annual income. So if you and your spouse are earning total Rs 20 lakh, you should buy a house in range of Rs 40-60 lakh. Buying house is one of the most important financial decision and one should look at more factors.

■ Maximum EMI that I can have?

Ideally zero will be the best answer but few of the big assets like home requires some loan to buy them. Experts agree that your EMIs should not be more than 36 per cent of gross monthly income at any point of time. It should be even lesser when you are close to your retirement. If you want to talk about home loan EMI, it should not be greater than 28 per cent of your gross income. Now tenure of loan is missing here – for tenure read number six and eight rules of thumb.

### Rate of return rules of thumb

■ In how many years my amount will double?

It's a very simple and most common rule – if you divide 72 by rate of return you will get the number of years in which your money will double. For example, if you expect a rate of return of 12 per cent your money will double in six years (72/12=6) and what about if rate of return is 8 per cent – 72/8=9 years. This can also be used in reverse order at what rate your money will double in five years – 72/5=14.4 per cent.

■ Rule 10/5/3

This is a US rule of thumb which says in long term you can get 10 per cent return from equity, 5 per cent return from bonds (let's say FDs) and 3 per cent from the T-bills (liquid funds – these returns are more or less close to the range of inflation). For Indians, rule can safely be 12/8/6. Indian economy is growing at some different pace and even inflation numbers are different. Can we safely say if inflation is 6 per cent (T-bill rates) we can get 8 per cent from the fixed deposits and 12 per cent from the equity or in other words – in long term equities will deliver twice the return of inflation.

(Hemant Benawal is a CFP<sup>SM</sup> and is director of Ark Financial Planners. The views expressed here are personal. FPSB India is the sole marks licensing authority for the CFP<sup>SM</sup> marks in India)



WEALTH WISE

## Savings in gold, realty need to move to financial assets

McKinsey says 70% of household savings not exposed to equities

RAVI RANJAN PRASAD

Mumbai

CONSULTANCY firm McKinsey has recommended moving Indian household savings in physical assets like gold and real estate to financial assets to increase the flow of financial savings to domestic equity markets.

According to McKinsey, 70 per cent of Indian household savings are in physical assets like gold and real estate.

Naveen Tahilyani, partner, McKinsey, addressing delegates at a Fici conference on capital markets on Wednesday, said, "Savings in gold is not productive because it doesn't flow into the financial system; the investments in gold and real estate by Indian households is purely for returns."

For moving physical assets to financial assets, the McKinsey report suggested creation of gold-backed capital market products like exchange-traded funds (ETFs) and gold saving schemes (GSS) that replicate the risks and returns of physical gold.

"Real estate investment schemes (REIS) should be launched to address investor need not fulfilled by present alternatives like real estate PMS (portfolio management service)," the report said.

"REIS can take the form of pooled investments in both upcoming and existing commercial properties, to cater to different classes of investors; investors with lower risk appetite can invest in ready properties for assured rental income, and investors with higher risk appetite can invest in upcoming properties for capital appreciation," the McKinsey report said.

Gold ETFs, since their launch in 2007, are gradu-



### The recommendations

■ Report suggested creation of gold-backed capital market products like ETFs and gold saving schemes (GSS) that replicate the risks and returns of physical gold

■ McKinsey also suggested activation of broker sales channel to increase the distribution of gold ETFs, as the margins on ETFs is the same as cash equities

■ Proportion of household savings flowing into the equity markets has reduced from about 8 per cent of total savings in FY05 to 4 per cent in FY10

ally becoming popular among investors. GSS is a new product where investors can invest in smaller denominations of Rs 100 or Rs 500 per month to build their gold portfolio.

Kotak, Reliance and SBI Mutual Fund have launched GSS schemes.

The report recommended players to focus on customer education on gold ETFs and GSS and independent financial advisers to deepen retail participation.

McKinsey also suggested activation of broker sales channel to increase the distribution of gold ETFs because the margins on ETFs are the same as cash equities.

With the glitter of gold all around, proportion of household savings flowing into the equity markets has reduced from about 8 per

cent of total savings in FY05 to 4 per cent in FY10.

According to the report, out of Indian household savings of Rs 15,50,000 crore in FY10, 6 per cent is in gold, 35 per cent in real estate and 26 per cent in bank deposits.

Indian households have the highest savings rates in the world. Household savings rates have increased from around 11 per cent in 1980 to over 35 per cent today.

However, the stock of physical savings in India is significantly higher than that for other economies: India (70 per cent), US (33 per cent), Germany (50 per cent) and Malaysia (34 per cent), the report said.

Savings in financial assets are dominated by bank deposits and insurance, with only about 8 per cent of all fi-

"SAVINGS in gold is not productive as it doesn't flow into the financial system and are purely for returns"

Naveen Tahilyani  
Partner, McKinsey

ancial savings moving to the capital markets in FY10.

"Over the next four years, India will require Rs 110,00,000 crore to ensure GDP growth of 9 per cent from the next financial year, while most of this requirement will be met by internal accruals, bank credit and foreign borrowings, a gap of around Rs 20,00,000 crore has to be bridged by the capital markets," the McKinsey report said.

"But based on the present capital market structure and growth rate, only around Rs 10,00,000 crore can be funded from the capital markets, which leaves a gap of about Rs 10,00,000 crore, which will require deepening of the capital markets," the report said.

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## North zone of LIC celebrates insurance week from Sep 1 to 7

FC BUREAU  
New Delhi

THE government-owned Life Insurance Corporation of India (LIC), on completing its 55 years of service of the nation, celebrated a week-long insurance week from September 1 to September 7. The insurance week was celebrated in all the 17 divisions of LIC north zone, covering 320 branches and 154 satellite offices.

The celebrations, commenced on LIC Day, that is from September 1, had the theme of "Join the LIC family". The activities were focused in such a manner that the message and importance of insurance is understood by the younger generation.

Nilesh Sathe, zonal manager of LIC northern zone along with eminent doctor, Sonia Malik, member of zonal advisory board, inaugurated the week long celebrations.

The activities on the first day included hoisting of the corporate flag, playing of the corporate anthem, inauguration of an exhibition related to LIC activities, planting of trees, flagging off of the LIC van, which visited the rural areas to spread the message of insurance.

LIC has a huge network of 112 divisional offices, 2048 branch offices, 1169 satellite offices, 70 customer zones, 25 Mash centres, 17,287 premium points and 10,32 life plus offices in India.

## Once bitten, SBI has no plan to launch fresh teaser home loan

PRESS TRUST OF INDIA

Mumbai

THE nation's largest lender State Bank of India, which had introduced the concept of teaser loans in the country, on Wednesday made it clear that it will not be joining its rivals in launching a similar product this time around.

"We have no plans as of now to launch any special home loans," chairman Pratip Chaudhuri said here.

Reminiscing of the bank's earlier brush with the Reserve Bank in this regard, he said, "We have been through the teaser loan definition. We respect the regulator's stance."

## SBI was the first lender to offer teaser products in the days of ample liquidity in November 2009

The country's largest private lender ICICI Bank had recently launched a dual rate home loan product which offers fixed interest rate to start with after which the loan turns float-

ing. The announcement was followed by the launch of a similar product by mortgage major HDFC too this Monday.

Talking of the bank's earlier experience, Chaudhuri said, "We had tried to argue (with the RBI), to reason, but the regulator has a position and already we have provided 2 per cent on our teaser loan portfolio that is Rs 500 crore. I think it was a stiff enough penalty and we would not like to live through it again."

Fearing an asset bubble build-up and to contain the impact, the Reserve Bank had increased the provisioning for such assets by a steep fivefold to 2 per cent recently.

SBI, under the chairmanship of Chaudhuri's predecessor OP Bhatt, was the first lender to offer teaser products in the days of ample liquidity in November 2009. Courtesy the product, it gained a dominant position in the housing loan segment by overtaking HDFC.

Soon, other lenders also followed suit but all the banks, including SBI, discontinued the product after the RBI tightened the norms. Reacting to the banking ombudsman's suggestion to not charge prepayment penalties from borrowers on floating interest rate, Chaudhuri said as it is SBI does not charge any penalties.

RITWIK MUKHERJEE

Kolkata

KOLKATA -headquartered Peerless Funds Management Company, an arm of Peerless General Finance and Investment Company (PGFIL), country's largest residuary non-banking company, is now keen on tapping the retail investors who are keen on leveraging the market correction.

"Domestic equity markets have corrected significantly. We expect situation to stabilise over the next two to three months. Therefore, retail investors should take opportunity of market correction and enter the equity assets class for long term out perform-

ance," Akshay Gupta, managing director and chief executive of Peerless MF, said while rolling out the company's maiden equity fund – Peerless Equity Fund, an open-ended equity scheme. The objective of the scheme is to generate returns with long-term capital appreciation by investing in equities and equity-related securities in diversified sectors, he said. Peerless Equity Fund is a multi-cap diversified fund and will have the corpus allocated in large, mid and small cap stocks.

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## Market honcho proposes SWF to boost equity investment

PRASANNA DESHPANDE

Mumbai

CAN the creation of a sovereign wealth fund (SWF) by the Indian government, which will buy stocks listed on domestic exchanges, shore up confidence of local investors? It can, or so feels Gagan Rande, CEO of Religare Securities. Speaking at a Fici conference on capital markets, Rande suggested that corpus of the SWF could be the securities transaction tax (STT) and capital gains tax collected by the government from investors.

The bull run in the Indian market ensured that the Union government's collection from STT increased to Rs 8,576.07 crore in finan-

cial year 2007-08 from just Rs 585.50 crore in financial year 2004-05. STT collections for financial year 2008-09 was Rs 5,500 crore.

Rande said just like the RBI, which intervenes to stem wild appreciation (or depreciation) in the rupee, a SWF can buy stocks in a big way till such time investor confidence returns.

He said there was a constant need to educate investors about the long-term benefits of investing in equities, given the dwindling retail participation in Indian equity markets.

"Household financial savings in India are driven by deposits and insurance and only 8 per cent of the savings comes in the capital mar-



GOOD SHOW: Bull run in the market ensured that government's collection from STT increased to Rs 8,576.07 crore in FY08

kets," he said, adding that other financial tools comprising gold ETFs, real estate investment plans and fixed income products have failed to take off despite being in existence for a long time.

Anup Bagchi, managing director and chief executive

officer at ICICI Securities, said ETFs and structured or hybrid products should get more prominence in the market for achieving decent returns rather than focusing on individual stocks that can take a beating due to weak market sentiments.

Retail participation in broader equity market can also be increased through the new pension scheme (NPS) products, said Ashu Suyash, MD and country head, Fidelity Fund Management. "Opening up NPS to invest in equity markets will provide more impetus to the market, as it will increase wider investor participation," Suyash said.

Putting weight behind investor education, Tarun Bhatia, director of capital markets at Crisil Research, said volatility has gone up considerably and market players have failed to sell India's long-term growth story to investors.

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WHATSINIT  
4me

### Home saver loans vs normal home loan

■ WE ALL are quite familiar with a regular home loan account, wherein, the borrower pays EMIs every month, comprising interest and principal amount, for the entire loan duration.

Here, a borrower may pre-pay a loan, but once pre-paid, he will not be able to withdraw that amount in times of need. But how about a loan account, in which you can deposit whenever you have surplus to not pay interest on that amount; and can also withdraw the same in times of need. In this case, the interest will be calculated on the original loan amount. In other words, a home-saver home loan account has characteristics similar to your savings account, which allows you to deposit or withdraw money at will, and help you pay your home loan faster, with lesser interest outgo.

Let's assume that a person has taken a normal home loan of Rs 25 lakh at 8.5 per cent interest for 20-year duration.

The monthly instalment will work out to around Rs 21,696. Of this, in the first month, the interest portion is Rs 18,750 and the balance Rs 3,743 goes toward principal repayment, leaving Rs 24,96,257 as the loan outstanding at the end of the first month. The next month's interest will be calculated on remaining loan amount, that is, Rs 24,96,257. Let's compare this scenario with home-saver home loan account, with a deposit of Rs 6,000 per month, in addition to your loan EMI, considering the rate of interest as 9 per cent. The EMI paid by you in this case will be Rs 22,493 and your total interest paid will be Rs 16,11,087, compared with Rs 27,06,939 in the case of a normal home loan. The actual repayment period also gets reduced to 143 months.

Here, we have taken a difference in the interest rate of normal home loan and home-saver home loan comes at slightly higher interest rate. In the example above, it not only saves you from interest amount of Rs 10,95,852, but also reduce the tenure by 97 months. Further, tax advantages are much higher in case of home-savers loans.

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**SANKHYA INFOTECH LIMITED**  
Regd. Off: 4<sup>th</sup> Floor, 405 Module NSIC Building, ECIL Post, Hyd - 500062  
**NOTICE OF ANNUAL GENERAL MEETING**  
Notice is hereby given that the 14<sup>th</sup> Annual General Meeting of the Company will be held on 30.9.2011 at 10.00am at "NSIC Building ECIL Post, Hyderabad".  
Place: Hyderabad For Sankhya Infotech Limited (N.Sidhar)  
Date: 8.9.2011 Chairman & Managing Director

**OBJECTONE INFORMATION SYSTEMS LIMITED**  
Regd. Office: 8-3-988/34/7/2/1&2, Kamalapur Colony, Srinagar Colony Road, HYDERABAD - 500 073

**NOTICE**  
NOTICE is hereby given that the 15<sup>th</sup> Annual General Meeting of the Members of OBJECTONE INFORMATION SYSTEMS LIMITED will be held on Thursday, the 29<sup>th</sup> September, 2011 at Regd. Office: 8-3-988/34/7/2/1&2, Kamalapur Colony, Srinagar Colony Road, HYDERABAD - 500 073 at 11.00 AM to transact the business set out in the notice individually sent to all shareholders along with Explanatory statements forming part thereof. A member entitled to attend and vote at the meeting is also entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a member of the company. Proxies in order to be effective must be lodged with the company at least 48hrs before the meeting.

Notice is here by given pursuant to section.154 of the Companies Act, 1956 that the Share Transfer Books and Register of Members of the company will remain closed from 27<sup>th</sup> September, 2011 to 29<sup>th</sup> September, 2011 (both day inclusive).  
**By order of the Board**  
**For ObjectOne Information Systems Limited**  
Place: Hyderabad Sd/- K. Ravi Shankar  
Date: 02-09-2011 Managing Director