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About Author

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7 TYPES OF INDIAN INVESTORS, WHICH ONE ARE YOU?

Decisions make a lot of difference in our lives. While right decisions at right time can chart a good future, wrong ones can screw things up. This holds true for our finances also. Those who intelligently plan their finances always have an edge over those who invest money in a haphazard manner and without any proper planning. But we also can't ignore the fact that everybody learns from mistakes. It is human to err, but learning from it and not repeating the mistake is what is expected of a mature investor. Maturity comes over time. To grow up as an investor, it is important to do a self-check to understand the weaknesses and shortcomings which could help rectify them. But foremost is to understand that what kind of investors are we.

TYPES OF INVESTORS:

Typically investors can be qualified into 7 broad categories. The first two are Rajnikanths of markets as they are not impacted by any market conditions. These 7 types of investors are:

1. **Only Savers:** Majority investors in India are from this category. When you say equity they will look at you as if you were some Andaman tribal people lecturing on GPRS. They never invested a single penny in equities. Their answer to equity is equity is risky so why take the risk. They are happy with what they are getting but not greatly thrilled, all the same.
2. **Regular Investor:** This is a rare breed. They have a long term view over equity. They will never discuss small market events. They are also a bit mechanical in investing. They invest when they have a surplus and withdraw when in need. They are convinced over the fact that equity will beat all other investments in long run. Generally you feel very comfortable in their company as they understand finances & talk sensibly.

Now come the investors who are actually affected by market see-saw or roller costar rides.

3. **Window shoppers:** They will be the first to read or get information over an investment but they will never participate in markets. They will constantly float opinions and talk about personal finance but will not dare to risk own money. He is the non playing captain who will never dare to sweat himself but would be the first one to talk about strategies.
4. **Seasonal Traders:** These are experienced people but who have earned nothing from the investments. These are generally close to employees of trading house or investing professionals. They live in a fantasy that all the "first news" comes to them. They show they are

waiting for the right opportunity to make a killing in the markets. They are irregular investors and have high volumes of trade but what about earnings??... Keep guessing.

5. **Scapegoats:** He is basically a friend of financial product sellers. Agents complete majority of their targets form these investors. He takes advice from all... from colleagues, panwala, fellow bus travelers etc. Absolutely, no discrimination at all. He is typical 9 to 5 person busy earning money and managing his daily chores thinking he would be rich someday. Brokers enjoy their money.
6. **The Hi-tech Lalaji:** These people are champs of their business and think that they can be successful when it comes to investing too. They suffer from "I know everything" syndrome and do not hesitate to show off their contacts. Their common reactions are Don't give me advice..... I have been investing before you were born.... I traded in gold when it was Rs 600 per tola.... Pay for advice? Instead make me your partner ...Thinking of meeting Jhunjunwala ji to discuss a new idea.... They display an experience, you wish you had yourself!
7. **Mr Cool:** These investors never panic and hold their nerves at all times. They are cool and confident. They work against herd mentality and are ready to listen to others view points. They take decisions of their own and stick to it. They follow disciplined approach and rarely invest in dubious schemes. They advocate transparency and appreciate the longevity in investments.

The last five investor types are affected by market conditions and they re-balance as per their mentioned characteristics.

INVESTMENT STRATEGIES FOR YOUNG PEOPLE

We thought of writing Investment Strategies for young people & here it is. You may be unmarried or recently married or may be on the verge of starting a family. You might be new to professional life or settling in your career. Also you may or may not have bought a house. If you are in these parameters go on to read....

GENERIC SOLUTIONS

At the seed stage of life if you inculcate the right strategy in handling finances, you will lead a very comfortable life. You should list down their financial goals and make a financial plan. Construction of a house without a blue print is dangerous; so one must plan before you really act. One can take help of professional Financial Planners to give them a right

direction. Make sure that all financial products should be taken on NEED based analysis and one should clearly avoid products that offer mixture of needs life investment with insurance etc. We have tried to provide a road map on financial management but they are generic in their approach. The actual decision should be based on their situation.

- **Insurance for young people**

You should opt for Term Insurance only, for at least 15 times of your annual income. For example, if the income is 5 lacs a year, the sum assured should be Rs.75 lacs. Term insurance for such amount may cost around Rs. 10-12000/- depending upon his age, health and habits. He should avoid any other kind of Life Insurance or Unit linked insurance plan. If there are no depended no need of term plan also. Accidental and Mediclaim Policy if not provided by employer should be taken separately.

- **Property Investment**

One should look for property investment only if one is going to stay in such house for at least next 10 years. There is really no hurry to take immediate decision.

- **Emergency Corpus**

The person at such age at times live on credit and by the end of the month, many of them are short of cash. One should start putting some amount in Short Term Funds to create an Emergency corpus of at least 6 months expenses. Avoid 100% reliance on credit cards. Develop habit of using cash or debit cards.

- **Financial Investment**

You should open a PPF (Public Provident Fund) account as soon as you get into job even if you are investing through EPF (Employee Provident Fund). We are not suggesting young investors that they should put the maximum amount permissible which is Rs.70000. But one should open the PPF account and just put little bit so that at least the account completes its lock-in period as soon as possible. Also one must start SIP (systematic Investment Plan) in Diversified Equity Funds. This should be at least 10% of your monthly income.

- **Start Saving for Retirement**

You should not think that he/she is too young to start thinking of retirement (after all we are not Rajnikanth who can defy age and health problems). We just want to say that even a very small contribution towards retirement corpus at this stage would become a huge amount at the time of retirement as you have the

Insight|

POWER OF TIME in hand. At later stage, time cannot be compensated by investment huge amount also. SIPs in Diversified Equity Funds are the best option for such planning.



● Loans for young people

Loans like Education Loan or Home loan are good but in case one takes loan for buying expensive Car or exotic holidays that is a wrong approach. Also use of credit card should only be to substitute handling of cash and ease of payment and strictly it should not be used as tool to get loan.

MISTAKES YOUNG INVESTORS SHOULD AVOID

1. Investment Linked Insurance (ULIP)
2. Spending on WANTS/DESIRES rather than only needs
3. Investing in Liabilities and not Assets
4. Making Portfolio similar to your parents
5. Not giving importance to financial literacy
6. Being conservative investor at this stage of life

RETURNS CANNOT BE YOUR GOALS

In a seminar, where I was talking to a group of young investors, I repeatedly told them to have Financial Goals before they start investing. Annoyed by my repetition, one young guy stood and said, my goal is to achieve 30% returns per annum. Can you help me to achieve that?

Now let me clarify his statement to all of you.

- The world's richest and the most successful investor of all times "Warren Buffet" could not achieve 30% return consistently over his 50 years of investing.
- His rate of return on investment is mere 24.7% p.a.
- If you would have invested Rs.1 lac with Warren Buffet 50 years before, you would be worth more than Rs. 621 crore today. This is just equal to what was his compounding rate of 24.7%.
- But if your rate of return would have been 30%, your 1 lac would have become closer to Rs.5000 Crore.

For god sake, I can't give that much return to people, if someone can achieve that, please contact me, I shall

give all what I have. For sure, I will give Rs. 1 lac. Investing just for earning return cannot be anyone's target or AIM. Having more money cannot make you happy, but fulfilling your dreams can make you happy. All of us have certain dreams in our life and those dreams need to be fulfilled to lead a happy life. In the hindsight, we all land up investing for our goals only, it is the long term goals for which we don't plan or for that matter we are not clear.



Let me explain you in other words.

- We all have savings account and we keep money there. Even though we may not really need the money, but still we are comfortable to keep the money there even at the lowest return. The reason we have our money there is one of our financial goal, that is EMERGENCY. So even if we are getting high returns elsewhere, we prefer to meet our goal than to earn high return.

I am not trying to say that we should not be hunting for returns. But returns are by product of investing, the main aim is to achieve our Financial Goals. Typically people go wrong in Financial Planning when it comes to their Long Term Goals. Achieving long term goals involves careful study of few factors.

- What is the present cost of that goal
- What will be inflation factor over the years
- What product mix we have to take so that the goal can be comfortably met
- What should be the periodic investment towards that goal
- What should be the PLAN B in case of any mis-happening

Just aiming at returns will not lead to goals. If I ask you, my aim is to drive fast, would you agree. Or if I say, I want to take the train that has highest speed. It sounds odd. You definitely need speed when it comes to traveling but speed cannot be your goal. Your goal is the destination that you want to reach. "An investor without investment objectives is like a traveller without a destination." Also at times, driving should be a mix of speed and caution, we should strive for balance and not just speed. Similarly, we always advocate for a Balanced Portfolio which will help you in achieving your Financial Goals.

Keep your asset allocation intact and you will then not only achieve your goals but also have desired speed as well.