10 Essentials to stay financially fit in 2017

by Ramesh Govindan, 27th Dec, 2017

Investment Advisory

Financial Resolutions for the New Year.

Come New Year and its celebration time. Its generally a happy time spent with near and dear ones. In the same spirit, its good to take stock of one's financial well-being as well and chart a set of resolutions that could help you stay financially fit in the year 2017.

Here's a list of ten resolutions which could help you with this:

Resolution 1: Go digital. With online banking, wallets and UPI seeing a significant penetration and surge, a large portion of transactions can be done digitally. What's more, one can earn some good karma by introducing these facilities to one's maid, cook or driver!

Resolution 2: Move excess money in the bank to an FD or a liquid fund. Too much money in the bank is not going to help. What with most banks offering 4% on saving accounts.

Resolution 3: Stick to the asset allocation that has been decided for the portfolio. Reams of data have been published outlining the virtues of asset allocation. The trick is to stay the course and not get swayed by short term volatility.

Resolution 4: Continue the SIP even if that near-term data looks shaky. In the short run, SIPs may not appear great, but for a great majority of investors, regular disciplined savings is a tool that can build a nice corpus over time. Caveat here is that one should ensure there aren't too many or too few schemes in the list. If you are a new investor, it's always a good time to start an SIP.

Resolution 5: MF scheme selection should be based on long term trends in performance and consistency of fund mandates and managers. Most investors and their wealth managers tend to highlight near term performance over long term consistency. Its important to allow some time for the portfolio picks to play out. Similarly, while stock picks are great conversation items at parties, selection of the stock needs to be after careful research. Remember, one's financial well-being is more important than idle party chatter. If an investor does not have the time or inclination to conduct this study, its best to allocate monies to a set of well rated mutual funds.

Resolution 6: The Indian mindset considers Bank FDs to be safe and comfortable. Of course, they are. But, with falling rates along with tax on the income, these are not great long term investment options. Its critical to measure the after-tax returns on any investment. An investor can diversify into Debt MFs and FDs of well rated and safe Institutions (for some one in the low tax bracket).

Resolution 7: A trend that is emerging of late is for wealth managers to offer portfolio management schemes and close ended private equity fund and real estate funds. These sound sophisticated and exotic, which in turn, drives investors to believe that these are superior vehicles to simpler instruments such as mutual funds etc. However, one needs to assess the level of risk, cost and historic performance (if any) before committing to these options. Most have steep exit costs or lock ins. Hence, exiting may be expensive or not possible at all. If the investment thesis does not play out as expected, there may be no flexibility to exit and reallocate. A detailed study and careful examination is a must, before signing up.

Resolution 8: It is imperative to monitor an existing portfolio at regular intervals. MF schemes may have outlived their utility or may have changed the mandate. Stocks may not have turned out as expected. A clean up ensures robustness of the portfolio. Even better, if there's a quarterly or a half yearly review built in.

Resolution 9: Current lifestyles have forced us to take stock of insurance needs. While a decent health cover is always helpful, sufficient term life cover is an absolute must. Unit linked plans need to be viewed as investment products and measured accordingly, whereas most investors blissfully, ignore this aspect. Pure term cover works as the best form of life insurance. Period.

Resolution 10: A house keeping exercise will do a world of good in keeping one's portfolio ship shape. Important documents and bank accounts need to be up to date to reflect the current details. Unused bank accounts need to be shut, as there is no point in retaining too many accounts. An aspect a significant percentage of Indians tend to over look due to sentimental reasons, is to ensure a will is written. Age is not a consideration here as human life is dynamic and uncertain. Large households and families with special needs, would be well advised to look at setting up Trusts to ensure continuity and smooth transition of wealth.

The 10 commandments outlined above are timeless and thus, it's always a good time to revisit them. The motto for the year ahead should be simplification and consolidation.

30 minutes a week can go a long way in ensuring a robust financial portfolio.

Cheers to a wonderful 2017 !