

ICICI BANK CUSTOMER FIRST SERIES

A consumer education initiative

Financial Planning Series: Article 3 of 3

TIMES BUSINESS ASSOCIATE COMMUNICATION

Monitor And Review Your Financial Plan



When we begin a fitness regime, we love the visible results that come out of the rigour. Soon we realise we need to make changes; our focus moves from reduction to maintenance; we have a better understanding of what works for us. We are then not keen on fads, but like to review our choices with care. So it is with financial plans. We need to review and change as our objectives and circumstances change.



Life Cycle

The ability to save alters with age and changes in levels of income. Younger families save less and spend more; investors in their mid-forties tend to find themselves earning well and being able to save more. As income levels stabilize and move up, investors tend to seek investment options that enable long-term growth.



Need for Income

Younger investors have a higher confidence in their ability to enhance their earnings. They do not seek investment income. Retired investors realise the drop in their earning abilities, and rely increasingly on investment income. Portfolios need to move in tune with changing needs and age.



Goals Move

Planning for retirement takes a lower priority over saving for the children, in early years. A retirement corpus tends to become inadequate when inflation is high.

Changes in lifestyle preferences occur as families are exposed to different cultures and places. Financial goals need redefinition from time to time.



Attitudes Alter

An investor with a smaller corpus would be very cautious with his investment choices. As his wealth grows, his ability to take risks may alter, because his goals are now well funded. Risk preferences change with the amount of wealth accumulated over time.



Asset Performance

There are times when equity is the best choice. Sometimes, debt seems a better option. Every asset class goes through its performance cycles. By making tactical changes to our allocations to various investment options, we can enhance returns and reduce risks.



Goal Alignment

Investment portfolios benefit from a periodic review and a check-

SMS CONTEST

Question

Investing in a single investment option leads to _____.

Answer

- A. increase in liquidity
- B. increase in risk
- C. increase in diversification

To answer SMS DISHA A, B or C to 53030 and win a 2N 3D holiday.* Contest open for the day of publication. *Terms and conditions apply. Visit www.dishac.org for details and winners.

list for alignment with goals. If a large amount of money has been invested in a property in the interest of growth, the incremental savings need to be invested keeping in mind the amount locked up in the property.

Periodic Review

Simple mistakes like leaving too much money in savings accounts, extending oneself too much into equity, or holding many illiquid options, will come to the fore in a periodic review. Viewed against changes in needs, preferences and goals, the portfolio can be evaluated and modified.

Financial planning is not a one-time decision to make an investment plan and adhere to it. It is

DID YOU KNOW?

A popular thumb rule for equity allocation is to invest 100 minus your age in equity. A 20-year old investor thus can have 80% in equity while a 60-year old, 40% in equity.

FAQs

Is it not a better idea to be a long-term investor, than to review the portfolio annually?

To review a portfolio annually is to understand how it is working for you. Your understanding of your finances improves with each review. Every review need not result in drastic changes to sell or buy something. Long-term investing and portfolio review are compatible and not conflicting.

I have been investing all my money in gold. Is that ok?

However good an investment option may look, putting all the money in one asset may not be a good idea. Consider diversifying your portfolio into other investment options.

about tweaking the portfolio to changing needs.

Centre for Investment Education and Learning

We welcome your questions, suggestions and feedback on this column. Please use the Email Us link at www.icicibank.com or send an SMS to 53030. Please include your full name, address and phone number. Your comments may be edited for clarity and space.

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Plan your investments.



Always make a periodic review of your financial plan.

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