



PERSONAL FINANCE CORNER

Financial Planning: A Critical Need Today

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Financial planning is the art of meeting one's financial aspirations with given resources in a scientific manner. It helps one manage personal financial affairs in the best possible manner.

These could be quantified in terms of aspirations of lifestyle maintenance and retirement planning, capital required to become an entrepreneur, education/marriage of children, owning an asset or even of philanthropic nature.

Most individuals are not able to quantify their life requirements and hence cannot plan for them. They rather believe in their destiny and wait for things to happen for them. If they do not succeed, they do compromise and accept whatever comes to them.

There could be a better approach than this, i.e., to hire the services of a financial planner who helps them to plan their lives and guide them along the correct or realistic path in achieving their required life goals. As per Ibbotson Associates, a financial consultancy firm in the US, factors, and the extent to which they contribute towards the success of one's Portfolio over a longer period are:

Strategic Asset Allocation: It is an allocation of the portfolio based on long-term expectations for returns, risk and correlation between various asset classes. This is where a Financial Planner spends maximum time to see how much money is required to meet life aspirations.

The client's financial plan is prepared which is quantifying their life aspirations, present assets and future cash flows. Based on this, a strategic asset allocation of the client is arrived at. Selecting the correct asset allocation helps the client to achieve 94 per cent success in their financial goals as per Ibbotson findings.

Market Timing: This is when decisions are based solely on price movements, volume data and expectations. It is not possible for anyone to time the market on a sustainable basis over a longer period of time.

The techniques of re-balancing, Systematic Investment Plan (SIP), value averaging should be applied to the client's portfolio once the Strategic Portfolio of a client is arrived at. Doing this along with strategic asset allocation helps client to achieve 95.5 per cent success in the long run.

Security Selection: It is the active management of specific securities within an asset class. The success in security selection is achieved by investing in the managed products where there is a specialist who selects the securities on behalf of the client. This specialist is a portfolio manager/fund manager who takes the inputs from research outfits and does their analysis before selecting a security. Applying the same and the above two factors help clients achieve 100 per cent success in their portfolio in the long run.

Most of the individuals, who are backed/encouraged by brokers spend maximum time on the last two factors i.e. do I buy/sell today or wait? Or do I buy company A or B? They tend to ignore the bigger picture on strategic asset allocation. When things do not work their way, they blame the outside atmosphere. Hence the services of a certified financial planner are essential, who could help his clients plan their strategic asset allocation.

Why Financial Planning Is A Necessity

Increased Wealth Creation: Earlier it was only the old business families who generated a lot of wealth. However, today there are various profiles of individuals like senior company executives, professionals, entrepreneurs, business families who are creating more and more wealth in the economy.

Uncertainties in life are going up: today if one is doing well in their respective professions, it is no guarantee for them to do well through out. One needs to plan for these uncertainties of life.

Products are more market linked: Earlier the products available in the market were very limited and more of fixed returns. While in today's scenario, the quality & choice of these products has improved but they are more market linked. Investor's need to spend sometime in understanding these products or need advice on these products from advisors who could understand them.

Lack of time: Successful people are not able to devote much time to their investments. They prefer to spend that time in their profession. It is easier for them to create wealth rather than managing it. Keeping in mind the said parameters, it is essential for individuals to make their financial plan and arrive at the strategic asset allocation for their financial needs.

Individuals could either do it themselves or hire the services of a certified financial planner who could make sure that their client's investments happen as per their desired financial plan.

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