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Dear Investor,

Nidhi Investments celebrated its third anniversary on 14^{th} October 2012. With grace of God and the blessings of all well-wishers like you, we grew our clientele in 11 States of India (including Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu, Rajasthan, Gujarat, Madhya Pradesh, Uttarakhand, West Bengal, Goa and NCR) and 4 countries overseas (including U.K, California, UAE and Africa) in the third year itself. God willing, we will soon have clientele in all parts of the country and also plan to further expand globally. We hope you are liking our website www.nidhiinvestments.com

To be able to be in touch with you, we have our page on FB https://www.facebook.com/pages/Nidhi-Investments . You are most welcome to become a part of it and get regular updates from us.

It gives me immense pleasure to present you "Nidhi Yearbook Vol III" which is a compilation of my articles published on the renowned global portal www.wordpress.com . These articles have been read and appreciated by readers all over the world (from 51 Countries). You may access these articles by logging on to www.professorbajaj.wordpress.com . These articles are basically aimed at investor education and awareness.

We are committed to make every effort to protect the investors from getting cheated by the fraud practices happening in the market. Our biggest asset is the trust of all you investors which helps us to scale new heights every day.

We look forward to your continuous trust and support which would enable a fruitful long term relationship.

We also look forward to your valuable feedback and suggestions on our services, articles or anything else. Please feel free to write us on saurabh@nidhiinvestments.com

Regards

Prof. Saurabh Bajaj *(BE, MBA, FRM)*

Chief Investment Planner

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Time-Time ki Baat Hai – Part 2

Posted on September 28, 2012

“Hey Niraj, am back to seek your help again” said Uncle Shrikant to his nephew Niraj Desai.

“Completely my pleasure uncle, please tell me, how can I be of help to you.” Said Niraj

Shrikant: As you know, my younger son, Aakash is going for MBA to Australia.

Niraj: That’s great !! Congratulations

Shrikant: Please hold on!! The problem starts here. I had taken a child plan for Aakash in 1991 for a sum assured of Rs. 1 Lakh. The plan matured last December and I received a maturity value of Rs. 2.05 Lakhs. However, his course fees is more than Rs. 20 Lakhs. I am not able to understand what to do ? I don’t want him to start off his career with a loan. Thus, I was thinking of using some of my retirement money to fund his education.

Niraj: Do you think you should do so ??

Shrikant : I don’t know, that’s why I have come to seek your help.

Niraj : Well, in my opinion, he should take an education loan and you should not use your retirement funds because of following reasons:

1. First thing, education loan is a low cost loan. So effectively we will be availing money at a lower cost and thus invest your retirement money at relatively higher return avenues.

2. Even if both the interest rates are almost the same, we need to understand that Aakash can get an educational loan and has a lifetime to repay it. However, you won't get a loan for retirement, and at this age, you can't be going in for risky investments as well.

3. The Education loan repayment would have 2 benefits for Aakash. The interest payment would give him a tax break u/s 80E. Also, it will instil a habit of spending less from day 1 of earning. For example, after MBA if he gets a job with a take home salary of Rs. 85,000 p.m. and has to pay an EMI of Rs. 40,000 towards his Education loan, then he will learn to live with the balance salary of Rs. 45,000 p.m. Thus, when his loan is repaid, this excess of Rs. 40,000 can be used in saving for his kids and retirement.

On the other hand, if there is no loan, he will be tempted to spend more from his salary, as he won't have any major responsibilities. It will later be difficult for him to spend less and save for future.

Shrikant : You sound pretty logical. But I must say, your generation has a totally different mindset. Our generation always believed in living a debt-free life.

Niraj: Even we do uncle. We would love to have a debt-free life. But when the resources are limited, then the choice has to be made, between whether to take the responsibility on ourselves or whether to risk the retirement of parents.

Shrikant (getting little emotional) : You are absolutely right Niraj. But I must say, I really feel bad that because of my lack of planning, today my son has to take a loan for his education. Ideally, I should have planned well to fund his education. In fact, I did that. But due to my conservative nature, and belief in traditional endowment plans, I could not match inflation. Any ideas which Aakash can follow, so that his children don't have to take educational loan.

Niraj (smiles): I would suggest that when he starts earning, he should plan for both, his retirement as well as for his children's future separately. Also, he should take into account inflation of 6-7% and invest into assets which give him returns over and above inflation. Lastly, not to chase plans having names "retirement plans" or "child plans". Most companies are selling expensive insurance-cum-investment plans and looting investors under the disguise of planning for their children or retirement.

Shrikant : Times have changed. We all need to change according to time. Thanks for changing my thinking, Niraj.

We look forward to your feedback and comments on the above article. Please feel free to contact us on saurabh@nidhiinvestments.com if you have any questions.

(The views mentioned in the article are personal opinion of the author. The characters used in the article are hypothetical)

Readers Comments:

"Bhai after long time, yet pretty nice piece of info. 1 should always keep in mind investments returns should always above the inflation rate."

- Hasan Chobarawala, ICAI, Ujjain (M.P)

"Amazingly written and made lucid for people to understand.. super like."

- Manan Bansal, AVP, Deutsche Bank, Mumbai

"Hey this really very nice article, I must say.
A perfect scenario gives you better idea. As it is very difficult to take a decision on restructuring our saving and that too retirement savings. Very well explained. Everyone should have financial planning."

- Sonal Agrawal, L&T Infotech, Pune.

5 mistakes to avoid while filing your IT returns !!

Posted on July 12, 2012

And now its that month of the year, when the running around starts for IT returns filing. With the advent of technology, and the initiatives taken by Income-Tax department, hopefully we will not see long queues in the Income Tax Office, for ITR filing.

You can conveniently file your IT returns online. Additionally, for those who are still not too tech-savvy, IT Deptt is coming up with innovative ideas like setting up kiosks in Malls, Societies etc. You can also submit your physical IT Return forms at the kiosks in your neighbourhood. What more can you ask for ??

Now only thing you need to do, is to avoid some common mistakes while filing the ITR so that it saves lot of after-effort for the IT deptt as well as you to correct the errors.

1. Choose the correct ITR form

With a vast array of ITR forms (ITR 1, 2, 3, 4, 4S and V), people often get confused about which form to fill up. To pick up the right form for you, refer to below list:

A] ITR 1 (Sahaj) : To be filled up by individuals with salary, pension, rental income from one property, tax-free capital gains and income from interest.

B] ITR 2 : To be filled by individual and HUFs with salary, pension, rental income from more than one property, taxable capital gains, income from interest and foreign assets.

C] ITR 3: To be filled by partners in a firm with interest, salary, bonus, commission, capital gains, more than one property.

D] ITR 4 : To be filled up by individuals and HUFs with income from business / profession with gross receipts more than Rs. 60 Lakhs a year. (If gross receipts are less than Rs. 60 Lakhs, but the income is less than 8% of gross receipts, still ITR 4 to be used).

E] ITR 4S (Sugam): To be filled up by individuals and HUFs with income from business / profession and gross receipts upto Rs. 60 Lakhs a year.

F] ITR V : Remember this is “V” and not 5. This is an acknowledgment form and is to be filled by all the above mentioned categories.

2. Remove all TYPOs

The young generation is pretty familiar with the word “TYPO”. Any typing mistake they make, and excuse themselves by calling it a TYPO. Sorry friends, but you cant afford to make a TYPO in your ITR. There is a low chance of you getting an error at the time of filling it. But one TYPO can delay your refund by a pretty long time. So be doubly careful while filling up your information especially like PAN, Bank Details and other info too.

3. Verify tax paid data with form 26AS

Most people are only aware about Form 16 or Form 16A that they get from their employer / bank. However, it is equally important to verify the TDS details and the advance tax paid details in Form 26AS. There could be a possibility wherein, your bank / employer has deducted your TDS but it is not credited to your PAN due to some technical errors. It could be an error that the deductor has not quoted your PAN correctly in his TDS return. Also, we might forget to mention some FD interest in our return, which would be verified with 26AS.

4. Fill up the tax saving deductions with utmost care

The tax saving investments, you have done prior to 31st Mar, need to be carefully mentioned in their respective sections. It is seen that while filling up information on 80C, sometimes people also include ‘employers’ contribution the PF. Remember, its only the ‘employee’ contribution that qualifies for 80C.

Another common mistake is that some people write the entire EMI paid on home loan in 80C or 24B. Remember to put the principle in 80C and interest in 24B.

There are some other lesser known sections like 80E (payment of education loan interest), 80G (donations to charitable organisations), 80DD (expenses on a disabled dependent) etc. If you have made payments towards any of these, make sure that you mention them in your ITR, so that you get the deduction.

5. The last step

Do not forget to attach ITR V with your physical return. Chances of missing ITR V in physical return are less, as they would not accept your physical form without ITR V.

But if you are e-filing without digital signature, do not forget to send the signed ITR V to CPC Bangalore. If your ITR V does not reach CPC Bangalore within 120 days of e-filing your return, then your return is not considered to be complete.

You will observe that the way things are moving, you can be more self-dependent for filing of your returns. Taking professional help could definitely help, but now you need not depend on someone just to 'stand in queue' on your behalf. Filing IT returns is in your own interest. They help you for:

- Availing any kind of loan like home, personal or education;
- Visa and immigration processing;
- Income proof / net worth certification;
- Refund claims (in case of excess taxes paid); and
- Applying for a higher insurance cover.

We look forward to your feedback and comments on the above article. Please feel free to contact us on saurabh@nidhiinvestments.com if you have any questions.

(The views mentioned in the article are personal opinion of the author)

Readers Comments:

"Good Info in right time. Thanks"

- Proprietor, Swastik Sales, Bhubaneshwar

" Nice, Helpful to become self-dependent to file the return. Thanks"

- Rajesh Patange, Ad Designer, Mumbai

Falling Rupee, Falling Markets……Opportunity for NRIs !!

Posted on June 5, 2012

"I told you not to invest in India. Look what's happening there" said Anvesh, a 35 year old NRI IT professional , to his colleague Niraj. "Rupee has slid so much against the dollar. The markets have fallen so much. The GDP numbers of India are so discouraging."

"You are right" smiled Niraj. "So where do you think we should invest ?"

"Not too sure. May be in the US." Anvesh replied in a confused tone.

"Ok. So Indian GDP growth at 5.3% looks unattractive to you and US GDP growth at 2% looks attractive. Why so?" asked Niraj.

"Because the growth rate in India was much higher earlier. In fact, it used to be in the range of 8-9%." Said Anvesh.

"But it is still way higher than the Growth rate in the US, UK (0%), Germany (1.7%), France(0.33%)* or any other destination you might think of. Don't you think so?" asked Niraj.

*(*source: http://www.tradingeconomics.com/gdp-growth-rates-list-by-country)*

"Ok. I will take your point on GDP growth. But what about the market levels? They have fallen so much. I found them really attractive when Sensex was at around 20,000 levels." Said Anvesh.

"Now that's a typical herd mentality thought. You want to buy at expensive levels and sell at low. How will you ever make money ? When Sensex was at 20,000 levels, it was at a forward P/E of around 25. Currently it is at a forward P/E of 13-14. Effectively, you can enter the equity markets at a much better valuation now. In other words, you can get the same Sensex at a 44% discount. Now isn't that a much better deal and a much better valuation?" asked Niraj.

"You seem to make sense. But now my next concern is about the exchange rate. The rupee has fallen so much. Does it make sense to buy rupee for investing in Indian equities?" asked Anvesh.

"What was the exchange rate when you wanted to invest at 20,000 levels of Sensex?" asked Niraj.

“Well, not too sure. But somewhere around Rs. 44 per dollar.” Said Anvesh.

“Now you compare yourself. Suppose you had 1000 dollars to invest that day, you would have invested Rs. 44,000 in Indian Markets at a P/E of 25-26.

Whereas, today 1000 dollars would fetch you Rs. 55,000 to invest and that too at a P/E of 13-14. This is like getting additional 25% discount to invest in Indian equities. And guess what, this additional discount of 25% is available only to us NRIs as we have our savings in dollars. Indian residents have their savings in rupees. So they will only get the 44% discount as discussed above. So this is a great opportunity for NRIs to invest in India.” Explained Niraj.

“Ok, one last question. Going by GDP growth rate, China is having the highest GDP growth rate in the world, even higher than India. Shouldn’t we invest in China then?” asked Anvesh.

“Well, to be very honest, I don’t have in-depth knowledge about Chinese economy and Chinese Companies. What I broadly know is, they operate more like a closed economy. So I would always prefer to invest where I have higher comfort level and higher access to knowledge.” Said Niraj.

“And so would I. Thanks for opening my eyes, Niraj. Indian economy still has great potential to generate good returns on investments. In fact fallen rupee and fallen markets is a great opportunity to invest. And we all should capitalise on it.” Said Anvesh.

We look forward to your feedback and comments on the above article. Please feel free to contact us on saurabh@nidhiinvestments.com if you have any questions.

(The views mentioned in the article are personal opinion of the author. The characters used in the article are hypothetical).

Readers Comments:

“Very nicely written, and it also contains a lot of useful facts. I enjoyed your professional manner of writing the post. Keep it up..!”

- Chetak Chakkarwar, Progressive Insurance, Ohio.

“You are appointed Honorary Indian Brand Ambassador”

- Sanjeev, Company Secretary.

Don’t Retire Hurt !!

Posted on March 21, 2012

Retirement Planning has become a buzz-word these days !! Every newspaper, every news-channel seems to talk something or the other about retirement planning. What is more surprising is, when talking about retirement planning, everyone is just talking about wealth one needs to accumulate for retirement. Agreed, you do need a good amount of wealth when you retire so that it generates regular income for your sunset years. But does it mean, retirement planning should just focus on the wealth creation and nothing else ?? Not Really !! I will share a small story here:

Mr. Dasgupta retired 4 years back, at the age of 58. His retirement corpus included 3 things: (A) His Provident Fund of Rs. 15 Lakhs (B) His Endowment Policy of Rs. 2 Lakhs (C) His home.

Today, after 4 years, Mr. Dasgupta is facing a post-retirement depression. He has nothing to do. He can’t sleep for all day long. He can’t even watch TV for too much time. The monthly income generated from his “retirement wealth” is too meagre for him to make any ambitious plans of travelling. At the age of 62, he has already lost interest in life and awaiting death, in spite of not having any major illness.

We need to take some important lessons from this story. Whenever you think about retirement planning, ask few questions to yourself:

1. What age do you want to retire?

This depends on the nature of your work. Just to give you an example, cricketers and other sports people retire at 36-37, whereas some politicians start their career at 40. So assess your work profile, and considering various factors, arrive at the age when you would like to retire (or stop working in the current field). This would also give you the number of years you have to plan your retirement, thereby giving you better insights for planning. For example, if you have decided that your work stress wont allow you to work after the age of 50 and you are already 38, then you know that you got only 12 years for retirement and need to plan accordingly.

2. What do you mean when you say, you would retire?

You will have to define, what retirement exactly means to you. When you answer the first question, you would also be working on this question. If you are salaried, you would stop going to office. If you are a business person, you would go to office, but may be for lesser hours. So define your own retirement as per your profile.

3. If retirement means stopping to do what you do currently, what is that you would like to do?

Most of us think that retirement is to take rest and to enjoy. Indeed it is. But we will have to do little more homework and brain-storming to find out, how many hours of a day we want to rest and how do we define enjoyment. Find out what are your hobbies for which you are not able to shell out time currently, and would like to give them more time in your retirement. If you are planning an early retirement, understand that you would not require more than 2-3 hours of additional rest than you are having now. If you are taking a 6 hours sleep currently, you wont be able to sleep for more than 8-9 hours in early retirement (unless suffering from some major health problems).

4. Which city and place do you want to stay when you retire?

The metropolitan city in which you have worked all your life may not be the best place to retire. But then to buy a big house in a remote area and staying there could be an equally bad idea. Even if you think that, post-retirement, you would not be able to cope up with the fast life of metro cities , make sure that you do not stay at a place which is too far from basic necessities like hospitals, jogging parks etc. You would be needing these places in retirement years. Some people dream of buying a bunglow at a hill-station and stay there for retirement. Before doing so, also analyse the approach to the closest city which would have good medical facilities. Also, hill-stations could be a good place when you visit it for 7-8 days. But staying there requires a pretty different kind of mindset and liking. Assess if that lifestyle would suit you long enough to settle down there.

5. What would be your lifestyle?

Higher than current or at par with current (Lower than current is totally undesirable as it would totally defeat the purpose of planning). Some people believe that they have sacrificed all their desires all their lives and now is the time to live them. Not wrong, I would say. So identify, if you are one such person. Or you are a person who would still be comfortable with the same lifestyle, with some moderate progress in the same. This also involves assessing your current monthly and yearly expenses, arriving at monthly expense figure for retirement (after taking inflation into account) and also figuring out, what would be the source of this income. For example, if your current monthly expenses are Rs. 25,000 and you plan to retire after 20 years, then a 5.5% inflation would push these expenses to around Rs. 80,000 p.m. with the same lifestyle. Now, you will also have to find out, how this amount of Rs. 80,000 will be earned by you at retirement. Since you wont be working, you will have to accumulate a significant wealth which would generate an income of this amount.

Once you are ready with the answers of above questions, try and keep following things in mind for your retirement planning:

1. Your retired life could be as long as your working life i.e. 25-30 years. Don't be a loser by spending this life waiting for death. Enjoy this life equally (if not more) like your working life.

2. You may devote time for some social activities that interest you. You may also try playing some sports. Apart from this, if you are gifted with some special talent like teaching then you may take up some 2-3 hours classes to pass-on your talent to the younger generations. The purpose is not to earn money but to keep yourself busy and command some respect from the society.

3. Travel to places, if you love to. Make a list of places you would like to travel when you retire. Also, treat this as separate goals and arrange finance for the same during your working years.

4. Do brainstorming about your city of retirement. Assess the amount of money needed to buy a house in that city and plan accordingly.

5. Do not invest in risky assets post retirement. The time to take risks is only in your working years. Retirement years, you need to be happy with the lower returns generated by fixed deposits and government bonds. However, for that money to be enough, start building wealth for the same at a younger age itself.

We look forward to your feedback and comments on the above article. Please feel free to contact us on saurabh@nidhiinvestments.com if you have any questions. (The views mentioned in the article are personal opinion of the author. The characters used in the article are hypothetical).

Readers Comments:

"A really nice article again. Simple words yet message gets across so well. Now I wait for new articles from you, they simply add to my knowledge/information. Wish you All the very best for ur venture."

- Namrata Damame, Oracle, Seaford, East Sussex

"Saurabhji, this article throws light on aspects of retirement dat most ppl do not even think of,definitely highlighted certain pointers fr me. keep writing nd kindly keep us posted."

- Yogita Maharsia, Homemaker, Mumbai.

5 Mistakes to Avoid While Saving Tax !!

Posted on February 28, 2012

Its March knocking on the door and the same mad rush is seen everywhere. For what ?? To save tax of course.

Be it businessman or salaried or professionals, there is still a huge chunk who are yet to make their tax saving investments and while doing so at the last moment, are likely to make a lot of mistakes. What could be those mistakes and why should one avoid them, lets have a look:

1. Making long term commitments without considering all factors

Last year, Mr. Sunil had made a contribution of Rs. 36,000 towards PF deducted by his employer. So he bought a 15 year policy with an annual premium of Rs. 64,000 so that his Rs. 1 Lakh limit is achieved. However, this year, due to increase in his salary, his PF contribution has increased to Rs. 48,000 p.a. But still he has to pay Rs. 64,000 premium towards his policy. So, in effect, he is paying Rs. 1,12,000 this year towards 80C, however, he would be entitled for deduction of only Rs. 1 Lakh. This problem could continue further, as his salary is expected to increase every year and so would his PF contribution.

Similar story has occurred with Mr. Pramod. He had availed a home loan and was paying an EMI of Rs. 25,000 p.m. As per the repayment schedule, out of the total Rs. 3 Lakhs paid, only Rs. 71,000 was the principle and balance was interest. Thus, he purchased a ULIP with an annual premium of Rs. 29,000 and 5 years payment commitment. As we know, that every year, the principle component increases and interest component decreases, next year, he will have the principle component increased to Rs. 96,000 and will still have to pay Rs. 29,000 towards the ULIP premium.

If they had invested the balance amount of Rs. 64,000 and Rs. 29,000 in an avenue which does not compulsorily requires annual investment (Example ELSS, PPF, NSC etc) then this problem would not arise.

So its better to be careful while choosing long term commitment amount. You might be required to pay them for long, but wont be able to avail tax benefit on the same.

2. Thinking that all life insurance policies qualify for tax deduction.

It is a general myth (mostly propagated by insurance agents) that a life insurance policy is the best thing for saving tax. Before agreeing or disagreeing to the same, I would like to draw your attention to something more important.

Not all life insurance policies would qualify for tax benefit u/s 80C. If you want to avail this benefit, you will have to ensure that the life risk cover is at least 5 times the premium paid by you. (This is as per the current tax laws. It could increase to 10-20 times the premium in the new budget). Thus, if you think of following the first point and your agent starts pushing you for a single premium plan, first check if the plan is giving you a life risk cover of 5 times the premium or not. In most cases, single premium plans do not have this feature and would, therefore, not qualify u/s 80C.

There is another breed of products (of course insurance-cum-investment plan), which requires annual payments, gives 5 times life risk cover in the first year, but the cover drops to 1.25 times the premium paid from the second year. You need to be cautious while buying these plans, because, they will give you tax benefit in the current year. But the next year premium will not be eligible for tax deduction, but you still will have to pay the premium.

3. Not considering the other items that qualify for tax deduction

Before arriving at the amount you need to invest for tax saving, make sure you have accounted for few other less-known items which qualify u/s 80C. One of the most important amongst them is the tuition fees paid towards your children's education. Also, if you are salaried, don't forget to deduct the HRA, Conveyance Allowance (within the prescribed limits) before you arrive at your amount required to be invested to save tax. Seeking professional help for the same could be of great help.

4. Investing Blindly for just Tax saving

This tax saving season, many fly-by-night organisations (claiming themselves as NGOs) call and request you to donate them to save tax u/s 80G. While it is always good to do charity, it is also important that it is done for the right purpose and it is being used for the right purpose.

Remember that out of the amount donated to such NGOs, only 50% would qualify for tax saving. Just to give an example, if you still have a taxable income of Rs. 10,000 on which you want to save tax. Suppose You are in a 20% tax slab. If you donate this amount to the NGO, Rs. 5000 will qualify for tax saving. So in effect, you will pay tax on the balance Rs. 5,000 i.e. Rs. 1000. Which means your tax saving is Rs. 1000 and total money going from your pocket is Rs. 11,000 (Rs.10000 Donation + Rs. 1000 tax)

As against this, if you do not donate, you just require to pay Rs. 2000 as tax. There is no tax saving, but the total money going from your pocket is only Rs. 2000. We are nowhere suggesting that you should not donate. But while donating,

A] Don't do it just to save tax.

B] Check the credibility of the organisation if they are putting your money to the right purpose.

5. Not Being realistic with your expectations.

You have several options like PPF, LIP, NSC, ELSS, Bank FD etc for saving tax u/s 80C. Having said that, each of them have some merits and demerits over others. While choosing the investment product, take your overall financial planning into account and then make the investment. I have seen some people having expectations like, "Advise me a product for tax saving which will give me guaranteed tax-free returns of 15%. Also, there should be no lock-in for this product."

Alas !!! If there existed such product, then maybe no other products were needed at all. But as on date such product does not exist, which will satisfy all these conditions. Some product will fulfil the 'guaranteed' part of it, and some other will fulfil the tax-free 15% part of it. So unless you are reasonable with your expectations, you will not find the right product for tax saving.

We look forward to your feedback and comments on the above article. Please feel free to contact us on saurabh@nidhiinvestments.com if you have any questions.

(The views mentioned in the article are personal opinion of the author. The characters used in the article are hypothetical).

Readers Comments:

"Nice Article Sirji."

- Vikram Agrawal, Microsoft, Hyderabad.

"Simple and Great Article. Very Much knowledgeable. Thanks"

- Mahendra Tita, Accounting Executive, Surat.

Things you didn't Know about PPF !!!

Posted on January 7, 2012

"It's the HR mail again. I need to do my tax savings now and submit the proofs." Said Monisha, a 26 years old Software professional to her colleagues Akshay and Neha.

Neha: Me too !! Where should I invest ??

Monisha: Of course PPF !! I have heard from everyone that it is the best option for 80C. Also, the markets look scary these days. I need something with guaranteed returns. Now they have increased the interest rate also on PPF. We get 8.6% guaranteed.

Akshay (smiling): Well Of course, it is "One of the best" options for 80C!! But are you aware of a few things about PPF ??

Neha (Curiously): Like ??

Akshay: First, the 8.6% is not really a guaranteed rate forever. It is actually benchmarked to the 10-year government bond yield. So for this year, the PPF will earn 8.6% which is 0.25% above the average benchmark yield in the previous financial year.

Monisha: Ohh !! So does that mean, it could earn lower returns in coming years ??

Akshay: Yes, as we know that interest rates have peaked and are expected to go down, the benchmark yield could also go down by some extent. So we might even have an year where the PPF earns 5.75%, if the benchmark yield drops to 5.5%.

Monisha: But I will toh get 8.6% only na, as I have invested in this year itself ??

Akshay: It doesn't work like an FD Monisha. If you make an FD for 5 years at 9.5%, then it will keep earning 9.5% irrespective of the market movements for 5 years. But this won't happen in case of a PPF. Here, the interest will be calculated every year depending on the benchmark and will be paid accordingly, irrespective of which year you invested the money.

Neha: Oh No !! PPF was the only option that was giving tax-free guaranteed returns. Now that's also gone. I was planning to invest full Rs. 1 Lakh in PPF for tax saving purpose this year. Till Last year, I could invest only Rs. 70,000.

Akshay: Neha, we are salaried people. We anyways do not need to invest full Rs. 1 Lakh in PPF. We anyways contribute towards EPF. Suppose each month we are paying Rs. 2250 towards EPF (which gets deducted from our salary), then in the financial year, we have already saved Rs. 27,000 u/s 80C. So, now we have to save only Rs. 73,000 for tax saving purpose.

Also, while making tax saving investments, we should also consider our overall financial planning. For example, our EPF is going in debt instruments, our infra bond investments (u/s 80CCF) is going into debt instruments and now if we invest the balance Rs. 73,000 in PPF, we are holding a debt heavy portfolio. This is not good for our long term goals.

Neha: Also, one thing I didn't like about PPF is that its maturity is too long. We would get the amount after 15 years. That's too much of a lock-in period. Thus, PPF scores low on liquidity aspect.

Monisha: No No !! This is wrong !! PPF can be withdrawn after 5 years. I think 5 years lock-in isn't too bad !! What do you say, Akshay ??

Akshay: I will answer this in two parts. First Part, PPF can be withdrawn after 5 years. But the withdrawn amount will be clubbed with your income for that year. So, basically whatever amount you withdraw from PPF, is **taxable** if you withdraw it before maturity (i.e. before 15 years of account opening).

Second part, even after 5 years of opening the PPF account, entire amount is not available for withdrawal. To give an example, suppose, Neha has opened her PPF account on 1st April 2006, and it has completed 5 years on 1st April 2011. Every year, Neha has deposited Rs. 70,000 in PPF. For calculation purposes, I am ignoring the interest part for now. So as on 1st April 2011, the balance in Neha's PPF account is Rs. 3.5 Lakhs. However, she will be able to withdraw 50% of the balance 3 years back i.e. 50% of balance as on 1st April 2008. If the balance on 1st April 2008 was Rs. 1,40,000 then on 1st April 2011, the liquidity available to Neha is only Rs. 70,000. And that too, taxable.

Neha: See !! I was right !! PPF scores very poor on liquidity. I have Rs. 3.5 Lakhs in my account, but I can withdraw only Rs. 70,000 (only 20% of the available balance), that too taxable!!

Monisha: But you can also take a loan on your PPF. Right?? Then it won't be taxable.

Akshay: Yes, but I find it really a bad financial planning if we have to take a loan against our own investments. As regards PPF, the interest on loan will be 2% costlier than the interest which we will earn on it. So, to me, it will be a bad deal.

Neha: Yeah, me too !! I am toh planning not to invest even a single rupee in PPF this year.

Akshay: Don't make this mistake !! Whether you like it or not, you are compelled to pay at least Rs. 500 per year to your PPF account or you need to pay a penalty.

Neha: That didn't sound too nice, but Rs. 500 is something I can manage and pay every year. Or should I pay more??

Akshay (smiling) :As I have already told you, this decision should be driven by your overall financial planning.

Monisha (interrupting): Are you trying to say, that PPF is not a useful option any more ?? I don't agree.

Akshay : You are right !! And I was just saying the same, that this decision would vary from person to person as per his / her profile. For example, a self-employed person, of age group 30-35, who does not make any contribution towards EPF, should definitely invest Rs. 30-35 thousand per year towards PPF so that debt investment is included in his portfolio.

But salaried people like us, who are young, and should not have more than 30-35% exposure to debt, need to first work out our total EPF contribution for the year. Also, we are investing Rs. 20,000 in the infrastructure bonds (which is also a debt investment). So if the sum of both is already Rs. 37-42 thousand, then no need to invest in PPF. Just invest the mandatory Rs. 500 and forget it.

Neha (doing some calculations): So I should invest Rs. 4,500 in PPF, as Rs. 12,500 was my EPF deduction and I invested Rs. 20,000 in 80CCF bonds. So that would add up to Rs. 37,000. And what to do for the balance investments?

Akshay: Neha, Monisha, I am not an expert to be giving you any exact figures. Whatever, I have told you is what I have been discussing with my investment advisor. What is right for me, may not be exactly right for you. Monisha is 26 and already married. Neha is 24 and single. So the planning for all of us could differ. The best would be take professional help without any delay.

Neha, Monisha: Thanks for the useful info Akshay. Our doubts about PPF are also clear. And now we also understand that tax planning works best when it is in line with our financial planning too.

We look forward to your feedback and comments on the above article. Please feel free to contact us on saurabh@nidhiinvestments.com if you have any questions.

(The views mentioned in the article are personal opinion of the author. The characters used in the article are hypothetical).

Readers Comments:

"Great Article and a must read for Service class people to get all the clarifications on PPF. To be very frank, I was not knowing about the PPF % being driven by the Govt. Bond Yield rate on a yearly basis. This was a nice addition to my GK too.."

- Amit Chandrayan, Sr. Business Analyst, CSC, Chennai

"I started reading your articles very recently and find it very simple and helpful. They are not like the other articles that talk a lot but do not give any specific direction. Great going – congratulations.

I am a novice in investing and looking for help. I believe you provide professional help. How can I contact you – I have already emailed you my problem statement."

- Harsh Agrawal, Project Manager, Aricent Group, Delhi

"Great article and well written. Ten years of IT job and yet did not realize that PPF rates could vary…Good job."

- Binesh Gopalan, Lead QA, Netscout Systems, Bangalore.

It's the way we look at it !!

Posted on December 9, 2011

"Who can be wiser than me? I had purchased a land for Rs. 12 Lakhs in 1996. I recently sold it for Rs. 1.12 Crore. This is what I called wealth creation. And this is possible only in real estate." Said Dinesh, a 38 year old businessman to his friend Akshay.

"That's wealth creation in true sense. But why do you say its possible only in real estate?" Asked Akshay.

"What should I say then? Is there any other investment avenue that could create this kind of wealth for me?? An FD would have fetched me 8-10% kind of returns. Even your mutual funds, stock markets etc can give me 20-25% kind of returns. May be gold could have been 2-3 times of Rs. 12 Lakhs. But nothing else would give a wealth creation of 8 to 10 times." Said Dinesh.

"It's the way we look at it, Dinesh. You are comparing the start value and end value of one asset with the CAGR return of the other. How will you get the right comparison then?" asked Akshay.

"I didn't understand. Please explain it clearly." Said Dinesh.

"See, you are saying that you purchased the flat for Rs. 12 Lakhs in 1996 which has a current market value of Rs. 1.12 Crore. Now if you have to compare with other asset classes, let's find out, how much that would be worth today, if you had put the same Rs. 12 lakhs in them in 1996." Said Akshay.

"Hmm, fair enough, please go ahead. I think I agree with you till here." Said Dinesh

"So now, let's assume that you had put the same Rs. 12 Lakhs in an FD at that time. Taking into account the changes in interest rates that have taken place, and going by your figure of 8-10%, lets assume that your money grew by 9% p.a. all these years. So today, it would be worth Rs. 43.7 Lakhs. Whereas, if you had invested Rs. 12 Lakhs in gold in 1996, it would be worth Rs. 73.2 Lakhs today. " Said Akshay.

"See, I told you. Whichever way you look at it, it is going to be less than real estate. Gold is better than FD, but nothing has beaten real estate" Said Dinesh confidently.

"Hold on Dinesh. We are yet to look at one more asset class. If you had invested the same Rs. 12 Lakhs in an equity MF like HDFC Top 200, then can you imagine what it would be worth today?"

"No, tell me what it would be?" asked Dinesh Curiously.

"It would be worth Rs. 2.28 Crores today. More than double of what you earned from your flat." Said Akshay.

"Ohh is it ?? But, it could be a one-off case Akshay. Tell me, if any other fund has done it." Asked Dinesh.

"Why not? If you had invested the same Rs. 12 Lakhs in Reliance Vision Fund in 1996, then it would be worth Rs. 2.52 Crores. If you had invested the same amount in Birla Sunlife Equity Fund, then it would be worth Rs. 2.64 Crores. And if it was Reliance Growth Fund, then the Rs. 12 Lakh would have become Rs. 4.56 Crores today." Said Akshay.

"Ohh !! Now, that's awesome wealth creation Akshay. How come I never came to know about it ?" asked Dinesh.

"The problem is, when it comes to real estate, we remember the total purchase cost and then we hold it for a long term and finally we remember the selling cost. So we can feel the growth.

Also, since it is a little tedious process to keep buying and selling real estate in short term, we prefer to hold it for a long term.

However, for mutual funds or equities, we remember the per unit price or the per share price and sell it as soon as we get some returns in it. As equities / mutual funds are easily redeemable and come with lot of liquidity, we just keep buying and selling them. As a result, we think that equities and equity mutual funds can generate small returns but cannot create wealth.

Also, in earlier days, due to the entry load of 2.25% in Mutual funds, MF agents also encouraged us to keep selling our units every now and then to invest the profits in some other mutual fund. His motive to do so was to earn a commission of 2.25% every time you transacted.

But actually, if you held on to the right stock / mutual fund for long term, you would create much more wealth than real estate." Said Akshay.

"Thats crazy !! Ok, One more question. I am sure, it's only a few mutual funds which have created this kind of wealth and not all. How do we make sure that we have chosen the best mutual fund?" asked Dinesh.

"Find an expert !! Find a good financial advisor who is truly an 'advisor'. He can study your risk profile and suggest you to invest in the best fund. And also remember the most important fact about investments. Investments are like trees. You need to give them time to grow. If you look at any of the above asset classes (except FDs), they all have grown phenomenally because the investment was a long term investment. So diversify your portfolio across asset classes and your wealth would multiply automatically." Said Akshay.

"Thanks for sharing all this knowledge Akshay. I have now understood that:

1. Always invest for long term.
2. All asset classes have their own benefits. So have a diversified portfolio.
3. Take professional help for the above."

We look forward to your feedback and comments on the above article. Please feel free to contact us on saurabh@nidhiinvestments.com if you have any questions.

(The views mentioned in the article are personal opinion of the author. The characters used in the article are hypothetical).

Readers Comments:

"Gud one Saurabh, "Investments are like trees. You need to give them time to grow."

May be we should ask our parents on how they did it. Only then we will realise that investment has to be done after analysing all the aspects."

- Adarsh Rao, Dell, Bangalore

"Another Gem Saurabh!!! I agree with that "Take professional help for the above." Because there are no free lunches..:)

- Hasan Chobarawala, ICAI, Ujjain.

Then Why do we Earn So Much ??

Posted on November 29, 2011

"This is the limit Mom, I can't take this anymore" said Shikha, a 31 year old lady to her mother, Arundhati. Earlier, Shikha was working with a private sector bank, after which she gave birth to a beautiful daughter. Shikha had quit her job to be able to take care of the child. Now her daughter is around 16 months old and her mother, Arundhati has come over to her place to help her.

"Sumit (Shikha's Husband) doesn't have a taste. You won't believe Mom, he bought a small Maruti, when we had decided to buy a big luxury car. We can easily afford an EMI of the luxury car. All he needs is to stop his nonsense SIP. But he doesn't listen to me. I mean, how stupid is that? Do you remember my friend, Deepika ? Her Husband has a similar pay as Sumit. He recently bought a luxury car. That's what I call classy." Said Shikha to Arundhati.

Arundhati Smiled, "How big a Car do you need for a 3 of you, Shikha ? Don't you realise that the Luxury car that you are talking about would increase the EMI by almost 4 times of what Sumit is paying right now? Why to take that unnecessary financial burden on yourself when you don't really 'Need' it? Just because Deepika or her husband bought a bigger car? And you want to show-off that even you have no less than her?"

Shikha said, "You don't understand Mom!! If we can't spend, why do we earn so much?"

Arundhati said, "I would definitely like to answer this question of yours, Shikha. A person earns so much so that he can give a happy and comfortable life, not only to himself, but also to his family; And not only for today, but also for the years to come; even if few things go against expectations like a death or a job loss. He doesn't earn so that, he and his family blows off everything that he is earning and also burden themselves with so much debt, that tomorrow, if one things goes against expectation, the entire family is affected adversely.

It is a not only a sensible thing, but also a prudent responsibility of the bread-earner to save for future. Having said that, it is also responsibility of the family to help him do that, by keeping their own demands in check."

Shikha Said, "But Mom, we used to spend like crazy when I was working. Now, all of a sudden these restrictions in spending are making me sick. Why do we have to do this?"

Arundhati Said, "Things have changed, dear. Earlier, you both were working. Also, you both didn't have expenses for the childcare which you are incurring right now. So for Sumit, its a double whammy; Drastic drop in income support (which was coming from you, even after you spent 40-45% of it); And also, the non-discretionary expenses have gone up where we cannot compromise, like healthcare, baby-related essentials etc. So the only option remains is to cut down on discretionary expenses which aren't too necessary."

Shikha said, "That's what I am saying Mom. He can easily stop making his investments. That is a discretionary and unnecessary expense we are incurring. Rather, that Rs. 10000 p.m. could be used to pay a higher EMI for a luxury car or for any other household expenses."

Arundhati Said, "That would be the most unwise thing to do. Ok, tell me. Is Sumit having a government job ?"

Shikha said, "No he's not!!"

Arundhati Said, "Then imagine, who's going to fund his retirement? When he retires, and the income stops coming, how will you guys fund your household expenses at that time?"

Shikha Said, "May be some money will be accumulated by that time." Her tone wasn't too confident this time.

Arundhati said, "That 'some money' actually needs to be a Substantial amount. Looking at your current lifestyle, you would require a corpus of around Rs. 3-3.5 Crores at the time of your retirement so that, at that time you could keep getting an income of around Rs. 1.5 Lakh p.m. to fund your household expenses; And how do you think these Rs. 3 Crores will be accumulated if Sumit keeps skipping and stopping his investments every now and then? Since he has started his SIP of Rs. 10,000 when he was 29, he can easily accumulate that kind of wealth. If he acts undisciplined, his and your retirement could be a nightmare."

Shikha Said, "But Mom, then how did Papa manage all these issues. He never stopped me from spending ever!!"

Arundhati said, "2 things I would like to mention here:

1. When your Papa was Sumit's age, he too was a great saver. He saved and accumulated so much, so that he does not have to stop you from spending when you grow up.
2. He didn't stop <u>YOU</u> from spending, but he always kept telling <u>me</u> to keep a check on <u>MY</u> spending habits when we were your age.

The point is, when you plan and save in your early years, you do not have to worry too much when your kids grow up or when you are about to retire. If you keep splurging everything that you have right now, maybe your daughter won't have the same thoughts about Sumit, which you are having about your Papa."

Shikha Said, "You have explained me all these things in such a beautiful manner Mom. All these days, I was just thinking that when we are earning, we should spend more and show-off a better lifestyle to others. But now I realise that, just to show-off and impress others, we cannot risk the future of our kids and our own too. Also, I would want my daughter to be proud of Sumit, the same way I am proud of my Papa. Thanks for clearing my mind. Love you Mom."

We look forward to your feedback and comments on the above article. Please feel free to contact us on saurabh@nidhiinvestments.com if you have any questions.

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Readers Comments:

"This a good lesson for all those who spend more than expectations. Spending as per our need can improve our financial condition during retirement. Save 20 % of income every month will have happy moment during retirement.

Thanks for sharing this article."

- Surendra, GKTCS, Pune.

"I Need to show this to my wife. Coz I dont think my mother-in-law would be in a position to explain all this to her. Lolzzz

Great Article !! Broadly I am following similar fundas but would be more focused now, thanks to your articles.

Keep writing !!"

- Karan Mittal, HUL, Mumbai

About the Author

Prof. Saurabh Bajaj is an MBA from Narsee Monjee Institute of Management Studies (NMIMS) Mumbai, one of the top 10 management institutes in India. He also holds the prestigious *FRM* (Financial Risk Manager) degree awarded by Global Association of Risk Professionals (GARP), USA. Till date, there are less than 15,000 professionals in the world, who have been honored with this degree. After his MBA, he joined J P Morgan, the second largest Investment Bank in the world. He has worked with J P Morgan as Risk Analyst for more than two years.

Prof. Bajaj also holds Advisory certifications awarded by AMFI (Association of Mutual Funds of India) and IRDA (Insurance Regulatory and Development Authority). During his stint at Bombay Stock Exchange, he has handled Investment Management and Treasury operations of the BSE Corpus. He has set up his entrepreneurship venture in the field of Financial Planning and Investment Advisory under the name "Nidhi Investments" and holds the profile of Chief Investment Planner. The clientele of Nidhi Investments has already spread into 11 States of India (Including Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu, Rajasthan, Gujarat, M.P., Uttarakhand, Goa, West Bengal and NCR) and 4 Countries overseas.

He is actively involved in investor education through his blog www.professorbajaj.wordpress.com which has readership in over 51 countries. He has written various articles like "7 Commandments of Successful Investing", "Look Before ULIP", "What's there in the name" etc. uncovering the various myths prevalent in the layman investors mind.

He sits on the expert panel of CA Club India, MBA Club India and Lawyers Club India as an Investment Expert. He has been awarded the title of "Best Article Writer" from CA Club India.

He was ranked 8th Merit at All India level NMAT which got him selected for MBA programme at NMIMS, Mumbai. He did his MBA with Capital Markets as his specialisation.

Soft Skills has become an inevitable part of every selection process, business process and teaching learning process these days. The students from small towns and tier II cities, in spite of being talented and well equipped with technical skills, are seen struggling in all these selection processes due to their lack of exposure to these soft skills. Mr. Bajaj has a zeal for training candidates to develop these skills and has been imparting the same since last three years. This zeal and passion inspired him to set up his own firm called "Knowledge Circle" which aims to train candidates for soft skills.

He has conducted "Capacity Building Soft Skills workshop for Faculties" at ITI Gunj, ITI Pusad, ITI Digras and ITI Umarkhed. This was the first ever soft skills workshop for faculties in the history of ITI's in Vidarbha. He was also invited by Shivaji Education Society to conduct similar Soft skills workshops for the faculties and office staff of Shivaji Junior College Pusad, Shivaji High School Pusad, Shivaji Vidyalaya Belora and Shivaji Vidyalaya Bhojla. He has been invited by MSBTE (Maharashtra State Board of Technical Education), Mumbai to conduct Soft skills training workshop for the faculties of Polytechnic Colleges in Entire Maharashtra (Mumbai Region, Pune Region, Aurangabad Region and Nagpur Region).

He has conducted training workshop on "Effective Presentation Skills" for the relationship managers of HDFC Mutual Fund, Andheri Branch, Mumbai.

He has also been invited at College of Management and Computer Science, Yavatmal, College of Dairy Technology, Warud, B N College of Engineering, Pusad, B D College of Engineering, Wardha, College of Engineering and Technology, Akola, Dr.N.P.Hirani Institute of Polytechnic, Pusad etc. for the Guest lecture on "Developing Interview Skills". Till date, he has trained 900+ participants from over 80 organizations across various fields of soft skills.