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NIDHI YEARBOOK

VOL I

COMPILATION OF ARTICLES BY PROFESSOR BAJAJ PUBLISHED ON

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Dear Investor,

Nidhi Investments celebrated its first anniversary on 14th October 2010. With grace of God and the blessings of all well wishers like you, we grew our clientele in 7 States of India (including Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu, Rajasthan, NCR and Uttarakhand) in the first year itself. God willing, we will soon have clientele in all parts of the country and also plan to expand globally.

It gives me immense pleasure to present you "Nidhi Yearbook Vol I" which is a compilation of my articles published on the renowned global portal www.wordpress.com . These articles have been read and liked by investors all over the world. 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 everyday.

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@gmail.com

Regards

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

Chief Investment Planner

Nidhi Investments

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Time- Time ki Baat hai : Part – I

By professorbajaj

"I have seen the world Son!! Not for nothing I have these gray hair" said Mr. Anand Desai, 56 Years old businessman to his son Niraj Desai, 28 years old professional working with a leading IT company. "No Dad, I am also a post-grad in technology. Not a kid anymore."

Well the discussion started with, Niraj wanted to take a term insurance plan for himself and do an SIP to take care of his retirement fund, whereas Mr. Anand was pushing him to buy an endowment plan.

"Lets take your example Dad, you bought an endowment plan for 20 years in 1990 with a sum assured of Rs. 50,000. The plan matured in 2010 and we got a total amount of Rs. 1,02,500 (Sum Assured + Bonus). If we add up the premium paid up in all these years, it itself adds up to around Rs. 52,000. Now, we are thankful to God that you were safe and sound all these years. Let us imagine for two minutes, if something were to happen to you in say 2001 (when I was still studying) then the sum assured which we would have got was to be somewhere around Rs. 60,000- 70,000. What do you think, we would have been able to do with that amount? Also, how significant is the maturity amount which we have received now?" Said Niraj putting his argument forward.

"You mean to say, I was a fool to do that at that time ??" asked the enraged father.

"No Dad, your decision at that time was right taking into account the situation at that time. In those days,

If you wanted to save tax, there was a compulsion to invest Rs. 20K in PPF, 20K in NSC and 20K in LIP. So largely, the government itself made the investment plan for you.

The tax rate was high and thus a tax relief was a good enough incentive to take the endowment plan. Retirement planning was not "truly" the concern to invest.

The interest rates were high and were themselves enough to beat the erstwhile inflation.

Added to that, the stock markets weren't so well regulated and there weren't too many players in the mutual fund industry. So you didn't really have too much of a choice to plan your investments.

Thus, your decision at that time was right to a great extent. But you had made this investment expecting that you will lead a comfortable retired life with the maturity proceeds. Now you think, how sufficient would this maturity amount of Rs. 1,02,500 be to fund your retirement.

In fact, we have been lucky that this amount is almost double than what we have invested in a time span of 20 years. The reason for the same is, the high interest rate era for at least 7-8 years in the earlier tenure of the policy (From 1990-1998). If the similar policy was taken in say year 2000 or today, then due to lower interest rates, the maturity proceeds would not be enough to fund even one year of retirement, forget about the entire retired life" explained Niraj.

"But in a term plan, you won't get anything back when you survive. Do you?" doubted Mr. Anand.

"Let me explain with the help of this example, Dad. If I take an Endowment Plan with a life risk cover of Rs. 15 Lakhs (which might be somewhat inadequate) and a term of 30 years, my annual premium works out to be around Rs. 50,000. At end of the term, I will receive the sum assured of Rs. 15 Lakhs plus the bonus might make it close to Rs. 28 Lakhs after 30 years. Now, here I have a lower risk cover and even the Rs. 28 Lakhs would be a very insufficient amount for retirement taking into account inflation all these years.

As against this, If I go for a term plan with a life risk cover of Rs. 25 Lakhs (which is quite necessary), I can avail it for a premium of Rs. 3,500 – Rs. 4,000 p.a. I agree that I will not get this amount back, but now at least I am substantially covered for my life risk.

Now, the balance Rs. 46,000 which I am saving, I can invest in some good diversified mutual funds through SIP. That ways, I would be able to generate a return of around 12% on my investments in the long term and would get around Rs. 1.36 Crores after 30 years for my retirement. So I am better off with a higher risk cover, higher retirement kitty and also no obligation to invest every year and also I have complete liquidity available with me. This liquidity would be available to me in the endowment plan only at the cost of surrender charges" Said Niraj.

On this Mr. Anand raised another doubt "If Endowment plans were so bad, why are all the insurance companies launching new endowment plans these days?"

"The reason for all these companies coming up with traditional plans or endowment plans is quite different. ULIP was the hot favourite of all these companies and agents till the time they were allowed to deduct charges as they like and also paid hefty commissions to the agents.

From 1st Sep 2010, new IRDA guidelines have restricted them from high charges and thereby paying high commissions to the agents. Thus, now neither the companies nor the agents are too very interested in selling ULIPs.

Thus, now they are coming up with traditional plans which are even more non-transparent than ULIPs and give leeway to the companies to deduct heavy charges, pay heavy commissions without the investor having remotest idea about the same. Even the agents are being told by the companies to shift their focus to traditional plans by scaring the investors about the markets being at such high levels." Explained Niraj.

Mr. Anand was thoroughly surprised with all these facts so far. He asked, "So basically it is all commission driven. Nothing else? And how can these people misguide us like this ?"

"There is something lacking at the part of the investors also, Dad. In India, they call it 'Buyer Beware'. We are hardly beware of what we are buying and why we are buying – especially when it comes to financial products. One of the biggest motivators for us to invest is 'pass-back' by the agent. We drive away the fees-based advisor who might be giving some good advise to us even if those products do not fetch him good commissions. That is when these guys start doing wrong-selling of products just to earn high commissions. If we want to get genuine advise and good service, we have to change our 'Free-Lunch' mindset. Once the advisors start getting paid for doing right things, they will be more motivated to give genuine advise."

"You are so very right Son. I was really living in very wrong perceptions." Said Mr. Anand, having tears in his eyes and smile on his face.

"You are not wrong Dad. Its just that some things which were right once upon a time, may not be right today because of the changing scenario. Ye Sabb 'Time-Time ki baat hai' and we got to change with the changing times" Smiled Niraj.

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

(All the characters in the above article are hypothetical. There resemblance to any person, living or dead, will be purely coincidental)

Reader Comments to “Time- Time ki Baat hai : Part – I”

“A Lime light to the need of the Hour….. A true story of every Indian Family! Good Article Sir”

- Nipun Tulsyan, Hyderabad, October 22, 2010 at 7:17 pm

“Bhai G…. dekho is baar to aapke article ki tag line par hi chal pada Time Time Ki Baat Hai…

Last Time main har baar kaphi der k baad padh pata tha par is baar jaldi padh liya… or bhai g mere comment to kya h bus aap hamara marg darshan kar rahe ho so uske liye aapko bahot bahot dhanywaad h Bhai g…we all are looking forward to get more from you….”

- Giriraj Sharma, Rwanda, Africa, October 23, 2010 at 7:41 am

“nice article with full practical knowledge keep posting and spread awareness for all financial products”

- Manoj Bhalla, Noida, October 23, 2010 at 9:11 am

“Nice article. I will take a print of this article for my father .

I use excel sheet to explain this to my friends. Unfortunatly they don’t believe in that as they think agents are more knowledgable in that field and I am just doing some random math.

I will forward this to all my friends as this time its coming right from the Investment Guru.

Waiting for next part.”

- Vikram Agrawal, Microsoft, Hyderabad, October 24, 2010 at 4:32 am

New ULIPs : Are they Any Better ??

By professorbajaj

"No Sir, the Old Expensive ULIPs have gone now. The New ULIPs have been launched with much lower charges. You should invest in them". These are the new "in-statements" of the insurance advisors these days who were going ga-ga over the Old ULIPs to be purchased before 31st August as according to them, the ULIPs will be totally unattractive after 1st Sep 2010. (Obviously, they were viewing the discontinuation of the old ULIPs as a painful extinct of their money making machine).

What is surprising is, how can these guys suddenly take a 180 degree turn on their opinion in such a short time? Must say, they really need to practice a lot to do so.

Anyways, what is more relevant for us is, are the new ULIPs any better for us ?? Lets have a look

Lower Charges

The new ULIPs are being marketed with the USP of having "Lower" charges. Now why are the charges lower ? Because they are less than the exorbitantly high charges earlier. Something like saying, "Earlier we were hitting you with a Stone, Now we are hitting you with a brick. So you should be happy". Why should I be happy ?? I am still getting hit with the charges when I have cheaper options available with me. Or in other words, what I can see is, the "Low" charges of new ULIPs are still higher than the charges of Mutual Funds. So why should I still go with ULIPs ??

Mandatory higher Life Risk Cover

IRDA has suddenly realised that any insurance product should have a component of insurance in it and thus the new ULIPs would have a minimum life risk cover of 10 times of the annual premium paid. Again, problem remains the same. If a person pays a premium of Rs. 50,000 then the life risk cover would be Rs. 5 Lakhs. Now a life risk cover of Rs. 5 Lakhs is still a very insufficient amount for a person who is paying Rs. 50,000 as premium and would be earning in excess of Rs. 3 lakhs p.a. So new ULIPs lose on insurance front as well. Term plan still remains the best option. For a 30 Year old, a term plan of Rs. 50 Lakh could be available at a premium of just Rs. 8000-8500 p.a. Would be surprised if any new ULIP could match that. So why ULIP then ??

Increase in Lock-in Period

"ULIP is a long term product and thus the lock in is increased from 3 years to 5 years". The investors in our country would give up on liquidity generally for 2 reasons : One is tax saving and other is assured returns. This is why we have successful investments in Banks FDs (for assured returns) and ELSS for tax savings in spite of lock-ins. However, given that after the current DTC, ULIPs will not qualify for tax savings, how good a deal it would be to give up your liquidity for 5 years ?? Also, if you decide to invest say Rs. 1 Lakh in the new ULIP this year, then you need to invest this amount for next 5 years. However, you might not get the tax benefit from April 2012. So you will need to pay Rs. 1 Lakh for this ULIP and Rs. 1 Lakh for the tax saving investments as well. So why ULIP ??

Lower Surrender Charges

Again referring back to the point of "Lower Charges" above, my first question is

"Why should there be surrender charges at all ?"

Their Answer, "To recover the initial acquisition costs"

My next question, "Why there is such a high acquisition cost?"

Their answer, "Because we have to pay high commissions to our agents"

My further question, "Why do you pay such high commissions to agents"

Their answer, "Because they have to convince a lot for these products. People don't buy easily"

And My Final Conclusion is, "People don't buy easily because there are surrender charges and several other charges which make these products unattractive". So basically this is a vicious circle of Surrender charges which would also sound like the "Egg and the Hen Story". Point is, ULIPs still have surrender charges and thus they would strangle my liquidity.

Minimum Return Guarantee of 4.5%

The minimum return guarantee might sound like a breather to those who are scared of the markets. But in my opinion, this feature kills the long term benefits of ULIPs. The problem with ULIPs was never that it is linked to the market. The problem was with the heavy charges and the way it was being marketed. So introducing this feature would compel the insurance companies to park more money into debt products and thus my dream of creating wealth for my retirement with the help of ULIPs will be shattered to pieces.

To Conclude

In a nutshell, I would say that, though the new ULIPs could be "slightly" better than old ones, they are still not good enough an investment or insurance option. For insurance, go term, get high risk cover at low premium. For investments, go SIPs, get benefits of liquidity, flexibility and still earn good returns in the long term without having headaches calculating surrender charges.

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

(The views mentioned in the article are personal opinion of the author. The readers are advised to use their own judgement and consult their investment advisor before making any investment decisions.)

Readers Comments to "New ULIPs : Are they Any Better ??"

"Whoa !!

So the fooling around still exists !! I thot these guys have become investor-friendly now.

Looks like its more of a confession that we were making a bigger fool of you earlier, but making a smaller fool of you now"

- Karan Mittal, Mumbai, October 6, 2010 at 5:11 am

"Instead of making it 'charges and chrages every where' on account of Agent commission, it should start follow MF way. Service charges to be paid by Customer directly instead of Insurance Cos taking even more money on name of commission. Yes Insurance Agents deserves service charge as they are giving you serivce and taking pain on your behalf. But getting directly paid by customer will ensure their interest and better service towards customer rather than Insurance Cos. Also, who wants to take pain themselves and do the process directly they don't incur any charged unnecessarily. (Note: I still have personal opinion of keeping insurance & investment seperate)"

- Vikram Agrawal, Microsoft, Hyderabad, October 6, 2010 at 8:27 am

"I have a question !!

One of the agents told me that by investing in ULIPs I will get Insurance + Investments + Tax Savings.

Going by this article I lose on all 3.

So what is the point in going for ULIP ? Or is there anyone for whom NEw ULIP will be suitable ??"

- Sneha Alka, Pune, October 7, 2010 at 11:51 am

professorbajaj Says:

October 7, 2010 at 6:41 pm

"Very Good Question Sneha.

Not only your agent, but in general, maximum agents try n sell ULIPs with this mantra only. What they do not tell you is, how much investment, how much insurance, what charges and how much is his commission.

If he tells you, you would come to know that you lose on all 3 fronts going the ULIP way. So in my opinion, there is no point in going for ULIP.

Would there be anyone for whom new ULIP would be suitable ?? Answer is yes. For All those who are still having a nice sleep over investment planning issues and still mind paying fees for a good advice, ULIP is still a very good product. They don't need to pay a fees to the advisor. Other disadvantages, well, they are destined for that I must say.

Thanks for your visit and feedback. Looking forward to more in future."

Buying Health Insurance ?? Few Check Points !!

By professorbajaj

And here comes the much awaited article on health insurance. A big thanks to all those who have suggested this topic to me.

Health Insurance is neither an unknown term for us nor is the need for it. The growing costs of health-care and increased vulnerability to diseases have automatically induced the need for health insurance. Even if our employer provides a group health cover, it is advisable to have one of our own so that it helps us in event of job-change, job-loss or job-quit.

However, the problem is, many of us just go ahead with buying any health insurance plan without doing any home-work. This results in delayed / declined claims and disputes / regrets later on. The better idea would be to do a check of some key points before we go in for buying a health insurance plan for ourselves.

1. Prefer Floater over individual policies

Although the benefits of a floater are more or less known to everyone, it is not uncommon to see people going for individual plans. In addition to lower costs, the floater is also more beneficial in terms of providing a higher health cover to all the family members.

Another good idea could be buying separate floater plans for you + Spouse and your parents. This would reduce the overall premium costs and would still give you a sufficient health cover.

2. Check for exclusions

This comes as one of most important factors when evaluating across health insurance plans. Many of us select a health insurance plan merely on the basis of lowest premium. I agree that, premium amount should be one of the major factors to arrive at a decision. However, it cannot possibly be the sole factor for sure.

Check for exclusions. There would be few exclusions which are permanent in nature and common across plans. However, there would be few which can vary from plan to plan and Company to Company. These are the tricky ones which deserve a closer look. Also, there are a few illnesses which could either have a waiting period or a limit on claims. We also need to check if we are comfortable with those.

3. Check for Sub-Limits and "Caps"

It is one of the most favourite areas of the insurers to play around. Plans that sound cheaper than others could have a sub-limit / cap on room –rent, specific claims, ambulance charges etc. Having a careful look at those gives us an additional factor to do a compare among plans.

4. Check for Co-Payments

There are a few plans available for the elderly (60+ , 65+ etc) which come with a Co-Pay feature. As the name suggests, the feature basically means that in case of a claim, the insurance company will pay (say) 70-80% of the claim amount and the balance needs to be paid by the proposer. Now the good news is, even if it is Co-pay, health insurance plans are available for those who need it the most.

The Check-point is the ratio of Co-Pay. Also, read the fine print for cases in which the company would not Co-pay.

5. Check for No-Claim Bonus

Generally, all plans would offer us a no-claim bonus. However, the way of offer might differ. Some might reduce the premium and some might enhance the sum insured. We also need to have a look at what is more suitable to us. Although a reducing premium looks tempting, I would also suggest considering a higher sum insured given that our age would also be increasing and thereby the need for a bigger sum insured.

6. Check for Cashless Facility

This is probably one of the most controversial features of health plans in the last few months. Now that the nationalised insurance companies have restricted the cashless facility to a few hospitals, private insurers are still offering cashless facilities at their network hospitals. While checking for cashless, we would be choosing the widest network of hospitals and also see if the nearest hospital from our place appears in the list. Even if they have a wide network and we can't find a network hospital in our vicinity, the plan might be useless for us.

7. Check for In-Patient and Out-Patient Benefits

Health plans have started coming in multiple variants. Some of them just offer in-patient benefits (claims arising due to 24 Hour hospitalisation) while other also cover us for out-patient benefits (Consultation, Pharmacy Bills, Diagnostic Tests etc). Also, some plans come with a complimentary (though it is not actually complimentary) annual health check-up. This health check-up works out to be a good feature as it helps in early detection of any irregularities in the body.

The flipside could be, the in-patient + out-patient combo plans are relatively expensive than the plain in-patient plans. Thus, the out-patient benefits could be evaluated and then compared to see which one suits our needs better.

8. Check for Lifetime Renewals

As you are reading this blog, there is a high chance of you being well under 60 and can thus get a good health cover today. But this won't be the story once you cross 60. You may either not get a health cover, or you would get it with a compulsory Co-Pay feature. So just make sure, you buy health insurance at an early age and then never think of discontinuing it. There are few companies who offer lifetime renewals of health covers. They would come really handy to you when you cross 60 and would be in greater need of health insurance.

9. Go For Medical Tests before buying

Our advisor might sound to be our well-wisher when he advises us to give a clean health declaration and prevents us from the "trouble" of going for a medical test. But I would sincerely advise you to go in for a medical test (even if it involves some cost) before buying a health insurance. This would reduce the chances of denial of claim by the company under the excuse of, any material health issues being "hidden" from them.

10. Check for Hassle Free Processes

Last, but not the least, this point would be amongst the chief factors to decide a plan. Check if the processes to settle claims are hassle free. Specialist health insurers could be a better choice as compared to general insurers as far as the claim related hassles are concerned. "No-TPA" models can act as a double edged sword. Thus, make sure your advisor provides you service for claim settlement as well.

In a Nutshell …..

Buying insurance after doing a thorough study of above points might not be a cakewalk; but trust me friends, it would be worth it. Going merely by, what one company tele-caller / salesperson convinces us about, might not be a good idea. Also check if the person advising has the complete boutique of companies and products with him and also has thorough knowledge about them.

Lastly, I would like to re-iterate, buy health insurance with an intention of not needing to use it. Remember, its an insurance to cover our financial losses, not to give us returns. So, lets take good care of our health and be happy with the tax saved (u/s 80D). And let the Sum insured become bigger and bigger with the no-claim bonus, so that it could be used when we grow old.

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

(The views mentioned in the article are personal opinion of the author. The readers are advised to use their own judgement and consult their investment advisor before making any investment decisions.)

This entry was posted on September 16, 2010 at 7:26 pm and is filed under Investment Advisors, Professionals.

Readers Comments to "Buying Health Insurance ?? Few Check Points !!"

"Thanks for honoring my request.

I was also looking for a check point on maternity benefits. Couldnt find it in your article.

Could you please comment if it should be cheked while buying health policy?"

- Navnidhi Randhawa, New Delhi, September 16, 2010 at 7:39 pm

professorbajaj Says:

September 17, 2010 at 10:52 am

"THanks for your comments dear.

Your point is well taken. I should have included it in the article.

Coming to your question, yes it could be checked if the maternity benefits are being taken care by the health insurance. However, there would be waiting period of 2-4 years depending on the company. So it is advised to take a health insurance plan well in advance before planning for a baby (in case you want the plan to cover maternity benefits). However, do not delay the planning for child by another 2-4 years just to get the maternity benefits reimbursed. Hope I have answered your question to your satisfaction.

Please do keep visiting this space for more articles and we welcome more suggestions for topics you would like to read on. Thanks again."

"Sir G…. jabardast….

Gagar me Saagar Bhar Liya…. ek hi page me sabkuch short me b or detail me b…… agar aapke jaisi ye baate insurance agent 10% b bole kah raha hu nihaal ho jaye hum jaise log….

Simply Superb"

- Giriraj Sharma, Rwanda, Africa, October 4, 2010 at 7:20 pm

Do We Really Understand the meaning of Risk ??

By professorbajaj

The other day, I was talking to a friend of mine, Sunil (name changed), when he told me that he is looking for a good life insurance policy for his father, who is 65 years old. Sunil also said that most of the policies do not cover his father and others demanded a very high premium. Being a person closely associated with the financial industry, I knew that this would be obvious and told him so. And then I asked him, "why do you want to buy a life insurance for your father?" To my great surprise, his answer was, "Because I want my Father to live upto the age of 100 years". Noble thought, indeed, probably we all would want our parents to live upto that age. But the question is how a life insurance policy would ensure that he lives upto 100 years?

Another story, one more friend of mine, Deepak (name changed) was worried as his wife Roshni, who is a homemaker, wanted him to buy a life insurance policy for her. Deepak was aware that taking life insurance on a non-earning member is not a wise decision. But Roshni insisted that, If Deepak loves her, he should buy a life insurance policy for her. If he doesn't, it means it does not matter for Deepak, whether Roshni is there or not. Again, the question that remains unanswered is, how can a life insurance policy save your life ?? How can it ensure that you live long ?

Do we really understand it ?

From the above two stories, I could conclude that most of us don't really understand the meaning of risk and the meaning of insurance. We think that an insurance cover would act like some "Protective Shield" (Don't know if this word coincides with some insurance policy name) around us which would save us from death.

The Possible Culprit !!

When I tried to track back, I came across a few TV commercials, who have mis-communicated the meaning of life insurance to the audience. For example, there was an ad on TV, wherein an animated character is being chased by a tiger. While running, the character pulls out a laptop from his bag, fiddles with a few keys and his life insurance premium is paid. He turns back and shows the e-receipt to the tiger, and the tiger turns back.

Now, although it might be a good ad to watch for entertainment purpose (because of the happy ending), this is not the meaning of life insurance. If sometimes we are really trapped in a life threatening situation, we cannot relax just because we have a life insurance. Our life insurance policy just means that, it will provide "X" amount to our family, in case something was to happen to us. But, you would agree with me on this one, our family would be much better-off with we being there, than the insurance amount.

In a Nutshell..

So for both, Sunil and Deepak, it is advisable to take a health insurance (rather than a life insurance) for their father and wife respectively, so that in case of some health problem, they do not have to halt the treatment because of finances. This, in a way, could result in a longer life for them. Again, this does not mean that by taking health insurance, it will be ensured that they will have a good health. They would still be required to take good care of their health. "Insurance" would just protect them against financial losses in case of an unforeseen event.

Also, when it comes to buying life insurance, it should always be taken for the earning member of the family. And that too, a term insurance, so that a higher cover can be taken a low premium and the family is well protected against the risk of an untimely demise of the earning member.

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

(The views mentioned in the article are personal opinion of the author. Readers are advised to use their own judgement and consult their financial advisor before taking any financial decisions)

This entry was posted on September 6, 2010 at 12:42 pm and is filed under Investment Advisors, Professionals, Students.

Readers Comments to "Do We Really Understand the meaning of Risk ??"

"Well explained the purpose of life issurance. And yes people take not only ulip but endowment policies as investment/savings. My father took policy for my mother just as forceful saving. This is actually almost equally wrong as ulip."

- Vikram Agrawal, Microsoft, Hyderabad, September 7, 2010 at 4:19 am

professorbajaj Says:

September 7, 2010 at 5:10 am | Reply edit

"Thank you so much for your valuable comments Sir.

It is so very true that people buy insurance as an instrument for investments. But this is equally true, that for mixing insurance with investment, insurance industry (Companies and Agents) both are also equally responsible, if not more.

In fact, Mr. J Hari Narayan (Chairman, IRDA) has himself admitted recently that "The Insurance Industry has made a mistake in marketing insurance as investment. It is a risk product." (http://www.moneylife.in/article/76/8810.html)

Ideally, he should have come up with this statement long back. Nevertheless, better late than never.

Hope that slowly but steadily people start understanding the meaning of risk and buy insurance for the right reasons. Thanks again for your visit and feedback. Looking forward to more."

"What Timing !!

Even I was forcing my husband to buy a life insurance for me (from my friend) as she is a good friend of mine.

But your article has come as a perfect eye opener, that too at the right time.

Can you write some article on health insurance specifically related to women looking for maternity benefits ??"

- Navnidhi Randhawa, New Delhi, September 7, 2010 at 8:21 am

"Nice one Sirjee. You are really creating awareness among people through your series of blogs. Keep it up, Nice one ."

Regards,

- Rashmi Agrawal, Gurgaon, September 7, 2010 at 10:05 am | Reply edit

"Sir jee…. sirf ek hi word h bacha h mere paas kahne or likhne k liye..'JABARDAST'

Ek request or thi bhai g…. aajkal articles ki posting thodi slow ho rahi h or aapse expactions minimum one per week to ho hi gayi h sir g….but as usual your other aricle this is also eye opener….

Thanks for making awarness…."

- Giriraj Sharma, Rwanda, Africa, September 8, 2010 at 8:21 am

"Nice article sir !! Even after reading the artickle, people still go in for ULIP or endowment policies, god save them "

- Lalit Agarwal, Chennai, September 14, 2010 at 3:59 am

Hum Sochte Bahut hai….

By professorbajaj

Few days back I was watching an ad featuring Bipasha Basu, in which she says, " Fitness ke baare mein hum Sochte bahut hai, Par Karte kuch nahi". And it suddenly made me realise, "Thats so true". And after giving some more thought on the same, it striked me that we have immense knowledge of so many things we should be doing and so many things we should not be doing. But the question is, are we putting all this knowledge to action ?? We want to do so many things which are right and necessary, but we want to do them either "tomorrow" or "one of these days". I just thought of making a list of few important things which we know we should be doing.

1. Health is Wealth

This golden old saying is never going to fade out. For a good and happy life, we need a good health and nothing can replace a daily exercise for good health. (For those, who still want to get away with an excuse of "Having no time", I would urge them to think again. If you cannot take out 10-15 minutes from your daily schedule for your own health, its time you take up some serious classes on time management.) Exercising doesn't just mean joining a high profile gym. This is because more than often, people think they have "started" exercising just by buying the membership of the gym. Problem is, the effort to carry ourself to the gym itself becomes such a Herculean task, that we somehow manage to "drag" ourselves to the gym for not more than 7 days a month. The good news is, we can exercise even without going to the gym. Only thing is, we have to take it up very simply and practically. Lets take out only 10-15 minutes from our morning schedule and exercise. Trust me, you will be amazed to see the way your productivity goes up by doing this.

2. Managing risks

Although we are fully aware and convinced that we need to buy life insurance and health insurance to protect our family from financial crisis, we are still just "thinking" of buying them. Friends, emergencies will never come with a one-month notice. We got to be well protected against any unforeseen adversities and emergencies. So, do not delay getting ourselves insured for both life and health. Any regrets later of not buying insurance will not give us anything other than repentance. Those who think, that they will buy insurance only after their health starts deteriorating, there could be a higher chance of you being denied an insurance cover. So buy it in the days of good health itself.

Now, Which plan to buy for a life insurance ? Which plan to buy for health insurance ? What should be my insurance amount ? Well, either we know about it, or we need to take efforts to know about it. We cannot keep perpetually waiting and postponing something as important as this.

3. Planning for future

Now to be precise, by future I mean retirement. Lets ask ourselves, when do we want to plan for retirement ? In a few days ?? Which will turn into few years soon only to make us realise that now I will be able to accumulate a smaller kitty for your retirement in spite of saving a bigger amount, just because I have let the time slip away from my hands. So what is the right time to plan for retirement ? Its now. Our smallest amount saved and invested today can contribute in a big way at the time of your retirement.

4. Spending quality time with our family

When do we spend quality time with our family ? Only when we go on a vacation ? And what about other times ? So do we have to keep waiting for a vacation to be able to spend quality time with family?

My dear friends, spending quality time with the family does not necessarily mean taking them out to an expensive restaurant on the weekends or giving hefty pocketmoney to kids (I agree that, for some people, it is a way to make-up for the time they are not able to give to their families). If you ask me, money can never (and should never) make up for the quality time which we can give to our family. We need to be more proactive to spend time with our family at home, having some good discussions with them, enquiring about their school / college, friends, activities they are involved in. This will not only help us to relieve our own stress levels but also help us to keep ourselves updated about, where are our kids spending most time, what are they thinking about life, career etc.

Trust me friends, our family needs "us" more than anything else. Our company might find a replacement for us, but our family can never. So, even if our motto remains "work comes first", lets also make sure that our family isn't ignored in the same.

In a nutshell, I would say that I have not written here anything that we were not aware about. The only problem is, it was only a "knowledge" so far. Its high time we translate all this knowledge into action, not from today, but from this very moment. Lets take that extra effort to move out of our so- called "comfort zones" and chuck the "virus" of procrastination from our minds. Lets greet our families more cheerfully when we go home today , lets be more proactive in our investment and insurance planning and lets be more disciplined towards exercising.

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

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

This entry was posted on July 16, 2010 at 12:52 pm and is filed under Professionals, Students.

Readers Comments to “Hum Sochte Bahut hai….”

“Like the way you expressed the things.

It makes the blog more attracting and compels the reader to read till the end. Thanks for the knowledge sharing. Keep up the good work.”

- Amit Chandrayan, Indore, July 16, 2010 at 3:43 pm

“Good article. Very true ..different from previous articles but as usual very useful and to the point..Keep writing…”

- Gaurav Bajaj, Pune, July 17, 2010 at 8:53 am

“Very nice article Saurabhji . You have covered every aspect of our life… from a financial planner to a life planner now

It is human behaviour that we push things for future though we know they are benfecial for us… this has certainly awakened me to take action !! Looking forward for more articles !”

- Lalit Agarwal, Chennai, July 17, 2010 at 11:44 am

“ What to say ! Crystal clear, Precise & to-the-Point. This article has grabbed my attention. Even I was postponing such things.

It reminds me of some similar story where the professor uses some glass Jar & pebbles to demonstrate….. But I had almost forgotten. Thanks a Lot Dear !! for this wake up call.

Looking forward to your next blog.”

Prashant Gupta, Mumbai, July 23, 2010 at 3:38 pm

Why is Insurance Mis-Sold in India ?

By professorbajaj

“Come on !! If you are a really good friend of mine, you ought to buy a life insurance policy from me”

Sounds Familiar ?? How many times we keep hearing this argument from a close friend (?) or a relative to buy an insurance policy from him. Ever imagined how much this approach has contributed to the mis-selling of insurance in our country ? You will be surprised to know that India is both uninsured and under-insured largely because of mis-selling.

Uninsured , because till date less than 25% of the population of the country has life insurance.

Under-insured, because the average life risk cover of the insured population still remains below Rs. 1.5 Lakhs which is highly inadequate for the family, if there were an unfortunate death of the earning member.

So what can be the prime reason for the mis-selling of insurance in our country ? Lets try and find out:

1. Lack of awareness and knowledge about insurance

Its not difficult to find a huge chunk of population which is very “Optimistic” and still thinks that insurance is an unnecessary expense.

Then there are others who buy insurance just to “Save Tax” (I really wonder if tomorrow the government allows a tax deduction for throwing money into the river, these people might even consider doing that).

Then there is a third category of people who want to get insured and earn returns on the premium paid.

In all the above cases, the very basic principle of life insurance seems lost. I am not suggesting to be pessimistic, but try imagining only for a couple of minutes, who will shoulder the financial liability of the family if the earning member is not there. So, insurance is a must. And buy insurance with the view of only life risk cover. Trying to mix n match investments with it, ensures your planning to go for a toss.

2. Short term views by the agents fraternity

Now that IRDA remains firms on its stand to pay heavy upfront commissions to the insurance agents, this short term view by the insurance agents might stay for some time. Lets take an example of a typical insurance selling happening:

Mr. Raghav (imaginary character) is an insurance agent who visits Mr. Abhijeet (imaginary character) who is a software professional. Now, Raghav convinces Abhijeet to take life insurance from the point of view of “Tax Saving” and also some investments. Raghav is finally able to sell a traditional endowment type of a plan and bag a commission of 35% for the first year (out of which he has also passed back 20% to Abhijeet). Abhijeet is also happy for the time being, as he has saved tax, insured himself and also got some part of the premium back. So in his calculations, he has got the best deal.

3 years later, Raghav comes back to Abhijeet, telling him that there is a new plan launched in the market which is much better than the plan he had bought earlier. The new plan will give him much better returns (Readers have guessed it right. Its a ULIP that Raghav is now talking about). He recommends that Abhijeet surrenders the old plan and gets into the new one.

Now, the story is, on surrendering the old plan, Abhijeet incurs heavy charges and gets less than 70% of what he had invested (forget about getting any returns on investments). Now, Abhijeet invests into a ULIP for which Mr. Raghav again bags a commission of 30-40%. The real reason to change the policy here was, Raghav was not happy with the small(?) renewal commission coming in from Abhijeet's policy. So he made sure to change Abhijeet's policy after every 3 years so that his upfront commission is secured.

What is worth noting here is, at whose cost did these deals happen? No prizes for guessing, its Abhijeet. His investment plans kept going for a toss and so did his life risk cover. All that he could get was a "Tax Saving" and some (illegal) passback from Raghav.

It is solely the short term view by the agent, wherein he is keeping his interests before those of the client, thereby making short term gains. But such agents also lose clients and business in the long term as they lose trust of the clients.

3. Minimum qualification requirement of the insurance advisor

It is surprising to note that the minimum educational qualification requirement by most insurance companies for a rural sector is 10th passed and urban sector is 12th Passed. Few days back I came across a Panwala and a car driver who were life insurance agents. I have nothing against Panwalas and Car drivers, but then these guys did not have a remote idea even about the tax slabs (forget about 80C or any other intricacies). I was just wondering, if this is the level of dilution of the insurance advisory, then naturally it would create a repulsion towards insurance. Imagine the reaction of a Doctor on getting advise from his driver regarding which insurance he should be buying.

The argument we keep hearing for the same is "We are creating employment for these less educated people". Ok, but at whose cost ? Is it ok to let the investors get cheated so that these people get employment ?

To control mis-selling, the minimum qualification level required to be an insurance advisor should be at least a graduate level. Till the time the regulator does not make such rules, its time we look at the qualification and knowledge of the advisor before we buy a policy.

4. Life Insurance as a part time business

We also come across several people being highly interested in working part-time and thus taking a life insurance agency. Again, I am not against people working part-time, but the question remains is, are they taking it as a serious business or a “time-pass”.

Taking an example, Mrs Archana (imaginary character) is a homemaker and wants to take up a life insurance agency as a hobby(!!). She has some contacts in her society, friends and other relatives. She manages to sell some policies in her closed circle by pushing her relations. But after a couple of years, all her contacts are exhausted and even she is “bored” of this business. She decides to stop the business and start doing some other business from home.

Now imagine, what would be happening to the people who have bought the policy from her. If they have a service issue or a query related to their policy, whom should they contact. Because Mrs. Archana has a single reply, “ I have stopped doing business of life insurance. Please do not bug me on that”.

In most cases, this part-time business model works more like a “Hit and Run” business wherein the agent sells maximum policies to his/ her contacts in 1-2 years and then change the business. The victims are the people who bought policies just to “maintain good relations” with them.

5. Selling on Catchy names

We also have a category of investors who buy insurance because they happen to like the name, than to have look at the product features. Please refer to my blog “What’s there in the name ?” (http://professorbajaj.wordpress.com/2010/06/17/whats-there-in-the-name/)to have more idea about the misleading nomenclatures of the financial products.

To cut it short, the following steps could be taken to prevent mis-selling of insurance:

Till the time mis-selling is difficult to stop, we can ensure that we don’t do a mis-buying of insurance.

Keep updating your knowledge on your insurance needs. Don’t buy for emotional reasons.

Never mix insurance with investments. Go for term plans and take a good amount of life risk cover at a lower cost.

Buy insurance solely for the purpose of insurance and not to “Save Tax”. (The reason to state this explicitly is, if tomorrow the tax incentive is gone, do not give up on insurance premiums).

Check the quality of advice for insurance than get lured by “passbacks”. Do not expect a free lunch. Free lunches might prove to be costly.

Stop the blame game. Do your own homework before buying insurance. As they say “It is easier to protect your feet with slippers than to cover the earth with carpet”.

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

(The views mentioned in the article are personal opinion of the author. The readers are advised to use their own judgement and consult their investment advisor before making any investment decisions.)

This entry was posted on July 2, 2010 at 9:08 am and is filed under Investment Advisors, Professionals.

Readers Comments to "Why is Insurance Mis-Sold in India ?"

"Bhai G…. Namaskaar…. sahi mayne me meri aankhe khol rahe ho aap… words nahi h mere paas aapka dhanywaad dene k liye…. mujhe lutne se bachane k liye many many thanks… jab b india aaunga aapse milna jaroor chahunga…"

- Giriraj Sharma, Rwanda, Africa, July 2, 2010 at 9:22 am

"Its really Great and Applaudable Saurabh Bro

Many Peoples dont know about it, and is Cheated by these Agents and Squeezed as much they can, but You are generating a Good Step towards Opening Peoples' Eyes and making them Conscious about these

Keep Going and Keep it up. Really Nice"

- Niraj Kanoi, Chennai, July 2, 2010 at 11:47 am

" Upto the point and exactly hitting the nail on the head. Too good. Keep Blogging!!!!!"

- Amit Chandrayan, July 7, 2010 at 9:50 am

"Very Well Written Article !!

I liked the "Life Insurance as a part time business" wala point too much.

This indeed is one serious problem that even I have come across.

Your illustrations and examples make it interesting and simpler to understand.

Good Work !!"

- Navnidhi Randhawa, New Delhi, July 8, 2010 at 7:37 pm

What's there in the Name ?

By professorbajaj

"Buss Naam hi Kaafi hai" might be an impressive punch line for our favorite actor or to promote some product, but when it comes to making investment decisions, go by what Shakespear says, "What's there in the name ?"

Although there have been numerous arguments for regulation to be made for the nomenclature of the financial products, so that the common investors are not cheated. But as smart and aware investors, we cannot let the companies take us for a ride, till the time the regulator does not take any decision on the same.

The most misguiding nomenclature is for the ULIP pack. A "Smart Kid Plan" doesn't ensure (or rather certify) your kid to be smart (you don't even need his certificate, do you?) Nor does a "Young Star or Young achiever plan" make your kid a star or an achiever. A "Headstart Plan" does not necessarily give a headstart to the kid, and neither would a "Child dream plan" can assure to fulfill his / her dreams.

The nomenclature for all this plans is to hit at the emotional aspect we have towards our children. The companies and the agents canvass the client targetting their sentiments for their kids and convince them to such an extent that "If you really love your child and want to do something for this, then only this plan can do that".

Agents !! Please give me a break. Just because I love my child, does not give you a liberty to take me for a ride. What you are trying to sell me as a child plan is basically a ULIP (Refer to my article "Look Before ULIP" for more details on ULIPs). By now, I am very well versed with the dark side of ULIPs, thanks to media. I know how to plan for my child. Yes, I understand, that in order to beat inflation, I will need to invest in equities. But, that does not mean, that the ULIPs or the child plans (just because the names suggest so) are the only options available with me. I can very well create a well diversified portfolio by selecting 3-4 good funds and starting an SIP. I will take a term insurance for myself to take care of my insurance needs. This way I will secure my child's future even if there was some unfortunate mishap to take place. By this way, I haven't got any fancy name for my plan but I can make my child smart, star, achiever with my own plan.

When it comes to misleading names, mutual funds come at no exception. The "Balanced Funds" are not really balanced (The word balanced gives a picture of a 50:50 equal proportion of debt and equity to a layman investor).

The "monthly income plans" do not give you assured monthly income. So those who are retired and thinking of MIPs analogous to MIS of post office, this is a wake up call. Although MIPs are debt oriented hybrid funds, targetting capital protection, it can be a good alternative for your fixed deposits. It cannot be the right product to provide you monthly income for your routine expenses, especially when you are retired and dependent on that income.

In case of a health insurance , a "Cashless" facility need not be actually cashless. At times, you might be required to pay to the hospital from your pocket and later get it back, once the hospital receives an authorization from the health insurance company.

The point I am trying to make here is, please do not get carried away by the name. There might be much more to read into the product, than what is apparent by the name. Although it is a generic perception that the name would be a reflector of the nature of the product, the truth might be different. On the contrary, this perception of the investors is used by the companies to name and market their products to attract investors.

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

(The views mentioned in the article are personal opinion of the author. The readers are advised to use their own judgement and consult their investment advisor before making any investment decisions.)

This entry was posted on June 17, 2010 at 6:31 pm and is filed under Investment Advisors, Professionals. You can follow any responses to this entry through the RSS 2.0 feed. You can leave a response, or trackback from your own site. Edit this entry.

Readers Comments to "What's there in the Name ?"

"Nicely written article. I specifically like the portion of 'Child Plans' as it helps me comming out of guilt feeling that I did not purchased a chlid plan for my kid but went for SIP in a good mutual fund.

Its really time someone to check on these misuse of names. I guess if regulatory is not doing much such blogs are needed to educate people. Cheater are most affraid of educated people (note: educated does not necessarily mean literate)."

- Vikram Agrawal, Microsoft, June 22, 2010 at 12:15 pm

"what's thr in reply with words. now it's time to act smart. think twice before making any of the investment"

- Jayesh Goyanka, June 23, 2010 at 5:15 am

"Very well said Sir G….

and thanks for timely giving us a wake up call that don't follow the name or hindi me ek kisi purane ad ki badi achi line yaad aa rahi h ki…

"DIKHAVE PE MAT JAO APNI AKAL LADAO"

line ka sahi arth samjha diya sir g apne many many thanks and yes waiting for next article sir g...."

- Giriraj Sharma, Rwanda, Africa, June 25, 2010 at 1:40 pm

"Again a new Rabbit coming out from the Hat of Professor Bajaj!!!!!

Your blogs are very interesting to read and also educate people. Keep writing so that educated illeterates like us will try to become literate..;-)

Hope your blogs provide other people an idea to share their knowledge too... !!!

Great work.. Keep it up."

- Amit Chandrayan, Indore, July 7, 2010 at 9:55 am

"This article reminds me of ex SEBI chief Mr. Damodaran – "Informed Investment Pays"....

Investor Education is the only way to develop the markets.

Thanks for pointing out the dark side of Insurance sir.. looking for many more like this from you."

- Varun Choudhary, Pune, July 13, 2010 at 5:06 pm

"Nice Article, but Sir, this practice is also prevalent (for ages) in the Pharmaceutical Industry for AGES. LIVOGEN, LIV 52, GASEX , HAZMOLA to name a few, are the brand names given by Pharma Companies to promote their products. The names are similar to the ailments they intend to focus on

- Prof Ravi Chhabra, August 31, 2010 at 3:44 pm

Equity Markets: Is it the Place to be in ?

By professorbajaj

“Hey, did you see the markets ? The Nifty was up 20 points today”, “Sensex is down by 100 points” are not something you might be hearing for the first time. People around us generally keep talking about the equity markets these days. We have one breed of “market experts” around us who are extremely confident of what is going to happen to the markets (or their favourite stocks) in a couple of hours. We also have other breed of “Burnt Fingers” who never want to talk about the equity markets, forget about investing in it. So, who is right ? Is the equity market the place to be in or not ? Lets discuss.

Both the examples quoted above are examples of two extremes. There is a third breed of “undecideds” who want to bask in the glory of equity markets but also don’t want to play “risky stunts” with their hard earned money. They keep seeking opinions from people and when they come across these “market experts” and “Burnt fingers”, they get more confused. All these mindsets are a result of some myths about the equity markets and once you hit the reality, you will have some clear picture of whether or not you should be a part of this market.

Myth 1: Equity Markets is a Gamble. Go only for fixed income products

Reality: This is the doubt in the mind of maximum people. Reason for their doubt is, there are no assured returns. Agreed, but that also gives you some headroom for growth. To make you understand this better, lets take a beautiful case study as below:

Mr. Dev (Name Changed) was in government service and retired in 1996. He received a sum of Rs. 30 lakhs (as the maturity amount of various deductions in his service). He put this entire amount in bank FD for 5 years with a nationalised bank who was offering a rate of 14% p.a. at that time. He received an interest of Rs. 4.2 lakh p.a. or Rs. 35,000 per month and was enjoying his retired life. But things became difficult at the time of maturity of the FD. Mr. Dev went to the bank and asked the banker to renew it at the same rate. The banker smiled and replied that he can renew it but only at the prevailing rate, which happened to be 6.5% p.a. Mr. Dev’s cash inflows suddenly collapsed to Rs. 1.95 lakh p.a. or Rs. 16,250 p.m. To make things worse, inflation during that period had made Mr. Dev’s requirement to around Rs. 42,000 p.m. Now, Mr. Dev was in a total fix. To plug this shortfall of Rs.25,270, he had to now start withdrawing money from his lumpsum capital of Rs. 30 lakhs (which put further pressure on his interest income and further widened the shortfall). As a result, he had used up all his capital within a span of 7 years and had almost no money left thereafter, still having a life expectancy of 5-7 years for himself and 7-10 years for spouse.

The problem with fixed income products in todays market is, they can-not protect you against inflation. I am not suggesting that Mr. Dev should have invested his retirement corpus in the equity market. All I am suggesting is, you will be needing a much higher corpus at your retirement to beat the inflationary effects. If you are young, this is the right time to enter the markets and create wealth for yourself in the long term.

Myth 2: I never land up buying the right stocks

Reality: Quite true in many cases. But then, should that keep you away from the markets? If you do not have the time and expertise to research the right stocks for yourself, take the route of collective investments i.e. mutual funds. The fund managers have the resources and expertise to pick up the right stocks and also what and when to buy and sell. Thus, you can ride the bandwagon and earn returns on your money much higher than your traditional bank FDs.

Myth 3: I should keep buying and selling as and when my stock broker tells me to do so.

Reality: In my opinion, keep away from short term trading and even worse intra-day trading. In short term, the only person making money is your stock broker, while all the risk of losing money lies with you. Equity is an asset class which will create wealth for you in the long run. Never ever try to do a "Hit and Run" business in the stock market. It might work once or twice, but overall you will stand to lose.

Myth 4: The Sensex is at too high levels currently. I will wait till it falls below 10,000 levels and then I will invest.

Reality: As an investor, never try to time the market. It is regular investment at all levels that will help you to create wealth in the long run. I am not saying that you will not create wealth if you invest below 10,000 levels. But then, what if the markets do not fall to those levels? You will be sitting on idle cash being eaten away every day by inflation. Also, if the markets fall below 10,000, someone might "tip" you that it will fall below 7,000 and you again keep waiting, only to realise that the markets bounced back from 9,500 levels and you are again left punching your palms.

The best strategy is to fix up a small amount from your monthly income and invest regularly. Over a period of time, you will reap advantage of both, rupee-cost averaging and power of compounding.

Myth 5: Equity markets are good. So I will buy a ULIP rather than an endowment plan.

Reality: This would be like saying, "The frying pan is too hot, I will rather jump into the oven". You will be exposed to more heat there. The basic idea is, never try to mix investment and insurance with each other (I might be stating this for the Nth time now). When you need insurance, go for a pure term plan, which gives you highest risk cover at the lowest premium. Investing in ULIPs, because equity markets create wealth in the long term, could have been a great idea, if ULIP was the only product available to invest in the market. In my opinion, ULIP can never be a good investment option, whichever criteria you put it in. (For details on ULIPs, please refer to my blog "Look before ULIP")

Myth 6: All my friends are making money in F&O. If I don't do it, they will find me dumb.

Reality: Don't give in to the peer pressure. Futures & Options are "Financial Weapons of Mass Destruction" as per Warren Buffet, the greatest investor in the world. (http://www.fintools.com/docs/Warren%20Buffet%20on%20Derivatives.pdf)

Your basic idea is to create wealth for yourself. Do it steadily through systematic investments. There are no magical investment avenues which will create wealth for you overnight. If your friends want to think of you as dumb, let them. Time will prove who is dumb, when they start losing money in F&O.

Myth 7: I will choose 5 Stocks for myself and trade only in them

Reality: Though this might appear to be giving you some ease of operation (research, tracking, monitoring etc) it will expose you to the concentration risk. Thus, instead of choosing 5 stocks for investing, choose 5 mutual funds for yourself, which will also give you similar ease of operation but will protect you from concentration by giving diversification benefits.

In a nutshell, be an informed investor. Don't be lured away by greed and repelled away by fear. Equity markets can act as a double edged sword. If handled properly, might win you wars; If not, might hurt yourself as well.

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

(The views mentioned in the article are personal opinion of the author. The readers are advised to use their own judgement and consult their investment advisor before making any investment decisions.)

This entry was posted on June 3, 2010 at 2:19 pm and is filed under Investment Advisors, Professionals.

Readers Comments to "Equity Markets: Is it the Place to be in ?"

"gr8 question answer… It will really help people like me who don't know ABCD of this market ups and down.

Already started waiting for next…"

- Giriraj Sharma, Rwanda, Africa, June 5, 2010 at 8:56 am

"Very informative article sir !! You nailed it on its head that it is a systematic process; no investment which would create wealth overnight.

Looking forward to more articles"

- Lalit Agarwal, Chennai, June 10, 2010 at 5:06 am

“Excellent Article Sir !! A total 10/ 10 article removing all the doubts I had about the equity markets.

Eagerly waiting for the next one !!”

- Sameer Arora, Mumbai, June 12, 2010 at 7:37 pm

“Good Article. Just don’t know how much I will agree with last point of direct equity versus mutual fund? May be some insight about when to choose equity and when to choose mutual fund is good point of discussion.

Mutual fund no doubt is instrument of investment for long term. Equity whereas seen as trading but can’t equity also be investment. Get good blue chip stocks and hold them.

Mutual fund diverify & split the risk between many stocks and most important point managed by professionals. Given enough money, can it be compared with Portfilio Management?

Look forward for more such blogs that will educate people. Thanks for sharing your exp, knowledge and prespective.”

- Vikram Agrawal, Microsoft, Hyderabad, June 22, 2010 at 12:10 pm

professorbajaj Says:

June 22, 2010 at 1:33 pm | Reply edit

“Thanks for your valuable comments sir.

Ok, why do we need to do a equity Vs Mutual Fund at all ?? We can very well have a good mix of both in our portfolio.

You should definitely go for holding on to some good blue chip stocks. But for those, who dont know, which are blue chips and how to identify, they can go through mutual funds (than to avoid equity altogether).

Portfolio management is definitely an integral part of mutual funds. But what we are talking about the retail investor who is planning to save smaller sums of money 5k-10k per month to create wealth in the long term. Once he has that wealth, he can definitely look at hiring someone to take care of his portfolio.

Thanks again for your insights. Look forward to more visits and feedback.”

My advice to the "Investment advisors"

By professorbajaj

In all my earlier blogs, I might have sounded like an anti-insurance or anti-agent person. But trust me friends, I fully respect the fact that the "investment agents" or "investment advisors" are as much the citizens of this country and have the right to earn to their potential.

What I am against is the "mis-selling" which is detrimental to the financial industry as a whole. If I say that the investment advisors have a right to earn their bread, I would also say that they have no right to do it by cheating the investor or selling him a product not suiting to his demand.

So what should the advisors be doing then ? My article below might prove to be of some use to you for how you can continue doing a sustainable business without compromising on ethics.

Talking about first things first, the biggest problem is the mindset of both viz., the Indian Investors and the agents. The investors are not happy paying "Fees" and the reason for the same is the "hidden commission" model being followed in this country since decades. The mindset of the investors has become such that they don't like the agent charging them fees. On the contrary, they feel it to be their right to claim a rebate from the agent (even if he sells him a wrong product). The financial industry could grow only with the change in this mindset of the investors.

This does not mean that the advisors fraternity is totally innocent. They themselves are largely responsible for this repulsive mindset of the investors. Attracting investors through rebates, selling them wrong products for own interests are some serious mistakes done by the "Agents" or "Advisors".

Lets all act sensible and only then the financial markets can grow as a whole. Below are a few points you may follow to grow your business:

1. Be your client's man

If you expect the clients to pay you a "Fees" for the services provided by you, first and foremost, become a client's man. Understand his needs, and then provide him advice and services accordingly. Do not advise a client for a product just because it fetches you fat commissions. Also, do not stop or misguide him for a product which is in his interest but does gives you no commissions / low commissions. In simple words, change your mindset to "Client's interest first".

2. Stop being a Product Salesperson

I have observed that many advisors, when they are on their way to the client's place, have already decided on which product they want to "Sell" to the client. Eventually, what happens is, if the client needs are different or the client asks about some other product, they do not have an answer. And thus, they start convincing the client that the product they are suggesting is the best for him. This is not any different than being a salesperson instead of being an advisor.

Rather, have a detailed study of all the products and suggest him what suits him the best.

3. Stop Being too Pushy

The key word here is “too”. My advisor friends would argue saying that if we are not pushy then how will we get business.

My dear friends, fair deals would happen only if there is a need at both the ends. Taking an example, a shepherd feeds the cow so that he can milk it later, but the cow eats because it is hungry and not because it should be able to give milk to the shepherd. Similarly, you reach out to the clients for your business, but the client would invest only when he would have a investible surplus and he thinks you are giving him the right advise. In some cases, he would also like to take a second opinion. So by being too pushy, many a times, you might annoy the client so much that you lose the business from him altogether. (I know these techniques might have work all these years in the month of March, but if you go back and ask those clients, they are still cursing their agents for selling them a wrong product).

4. Provide Periodic updates

It is always a good idea to provide periodic updates to the clients about the current status of his investments. But for doing this, you will have to follow the above three points very very religiously. Coz if you have sold him a product like ULIP, wherein even if you provide him periodic updates, all that he can see is a erosion of his capital (in spite of the markets doing well). In such case, you are more likely to get a closed door on your nose, rather than more business.

Whereas, if you have advised him a right plan with right products, you can confidently approach him with the updates saying, “Sir, we had invested X amount, and in an year’s time it has grown by Y% (whatever the return be)”. The client will not only be happy hearing this, he might also ask about the next opportunities for investment

5. Educate the Clients

Many advisors feel that educating clients about the investments could prove detrimental to their business. But this would happen if you are not working towards enhancing your own knowledge. The idea is to keep enhancing your own knowledge and also educate the investor about recent happenings in the economy and the changes that needs to be taken in his investments. The biggest benefit of this is

a] He will not have unrealistic return expectations from his investments

b] He will be patient in case of markets moving otherwise.

If you do not educate him, the client might get an impression that you have cheated him and you will lose his trust.

6. Respect the knowledge of the clients

There are investors who believe in doing their own research, in addition to the one done by the advisors. There are some who are tech-savvy and believe that they have sufficient time and expertise to pick up the right investment for themselves. Advisors need to have due respect for the same and not expect every investor to give them some business. The good news for the advisors is, there is still a huge population which does not have the time or expertise or both for doing investments on their own. The advisors can cater to this huge market instead of blaming the small chunk who want to do it themselves.

Trust me friends, if you start following these steps and start acting in client's interest, your clients will automatically develop trust in you and will not mind paying you a fees. Expecting them to pay you a fees merely for filling up, pick-up and submission of forms is definitely not rational (my personal opinion).

I welcome your feedback and comments on the above article. Please feel free to contact on saurabh.nidhiinvestments@gmail.com if you have any questions.

(The views mentioned in the article are personal opinion of the author. The readers are advised to use their own judgement and consult their investment advisor before making any investment decisions.)

This entry was posted on April 29, 2010 at 8:23 am and is filed under Investment Advisors, Professionals.

Readers Comments to "My advice to the "Investment advisors""

"Aha at last some one pointing out to agents where they are going wrong. I cursed my Agent for 4 years of my ULIP. Even good advior sometime try to sell high comission product to you as he don't have much hope to get FEEs from investor.

True that inverstors also need to understand that you need to pay for the services of Agents appropriately. In days of entry load, one of my friend used adivce from a good advisor and then went ahead with direct investment. Thats not fair to agent. If you think your agent is fair, giving you good adivce and you are getting benefited pay them appropriately. Thanks Prof Bajaj for another nice article."

- Vikram Agrawal, Microsoft, Hyderabad, April 29, 2010 at 3:57 pm

"can u guide me where and how i can invest in share market/mf/ulip/small investments/long investments as i m making my mind to go for share market for very first time, i m a beginner but from whr to start would u plz guid me prof bajaj, get ur blog from moneylife magazine."

- Manoj Bhalla September 1, 2010 at 8:03 am

* 7 Commandments of Successful Investing in the New Financial Year*

By professorbajaj

New Financial Year is something, not very different from a new calendar year. All of us look back at the year gone by, sigh at the mistakes made and swear not to repeat them in the new year. In India, as our financial year ends in March, and the new year starts with April, its time we make some "Financial resolutions" for the coming year so that we do not repeat old mistakes and do better investing and tax savings.

1. Get rid of the habit of having too many credit cards

Those who are young and have just started to earn, feel highly honoured being offered free credit cards and enjoy earning points on those by spending more. My dear friends, nothing comes free. Your spends through credit cards involve a transaction fee, which is built-in the cost of the product or services you buy. Secondly, you land up spending much more through credit cards than with actual money.

I am not saying that you should stop having a credit card. But use it for emergency purposes like booking a train / flight ticket online where you have to use a card. Also, limit the number of credit cards you possess to two, so that you are not caught in a debt trap. Having multiple cards and spending on all of them, you tend to lose track of the payment dates and would be required to pay heavy finance charges and late fees.

2. Don't save what is left after Spending. Spend what is left after Saving

This is a Warren Buffet principle of saving and investing. Whatever you earn, if you decide to save after spending for the entire month, chances are, you may be left with peanuts. Rather, decide on an amount you would be saving every month so that it automatically control your spends.

An SIP is a great tool for doing so. Pick up some good mutual funds and start an SIP. When the money is invested in the very first week after it is credited to your account, that much saving is already done. You are free to spend the balance money for yourself without bothering about savings now.

Now, how much do you save? A thumb rule is, you should save at least 26% of your annual earnings. If you are not saving this much, it is time you revisit your spends and cut down those unnecessary. This will ensure not only a comfortable retirement planning but also give you some back-up in case of an unfortunate job-loss (as seen in the recent meltdown).

3. Get Adequate Insurance

Cutting down unnecessary expenses nowhere suggests that you cut down on your insurance cover. Both Life and Health insurance are extremely necessary taking into account the well-being of your family. Life Insurance will ensure safety for your family in case of unfortunate death of the earning member. Likewise, health insurance will safeguard your financial planning from going for a toss, in case of an accident or critical illness.

For Life Insurance, choose term insurance which will give you maximum risk cover at the lowest cost. Do not get lured by ULIPs which fail at both fronts i.e. insurance and investments. (Please read my blog “Look before ULIP” for more info on ULIPs)

For health insurance, go for a family floater policy. This gives you good amount of cover at a lower cost. Most of the employers provide the health insurance policy to employees. I would still recommend buying an additional health insurance as it helps the employees when they change jobs or start up on their own.

4. Don’t leave everything for March

I have seen many professionals, procrastinating investments, insurance, tax saving etc. for March. What these people end up with is buying a wrong product (generally ULIP) which is a highly beneficial product, but for the Advisors (as it fetches them fat commissions).

My personal opinion is to keep insurance and investments as two separate avenues to get good life risk cover and get good returns.

Best idea is to start making your investments in April itself. This will give you good time to study the products, and also earn good returns throughout the year. Also, never make mistake of timing the market. Remember, “Its not timing the market, but the time you spend in the market, that will create wealth for you”. Thus, an SIP model helps you make investments in a staggered way and do rupee cost averaging.

Let March be a month for everyone else to make hastened decisions while you smile, looking at them running around and seeking your advice.

5. Look beyond tax Saving

There are many of us, who are earning in excess of Rs. 5 Lakh a year and still stop at saving Rs. 1 lakh. You ask them a reason and they would say, “80C would give tax benefits only for Rs. 1 lakh”. We recently also heard many people demanding that the overall limit of 80C should be increased.

My question is, whom are you saving for ?? For yourself or for the government ?? If you are saving for your own future, why do you want the government to incentivise you for that ??

This is like saying, if tomorrow, the government stops imposing fines for people crossing railway lines, would you start crossing them ? Is it only government's responsibility to safeguard our interests ? Shouldn't we take some responsibility for ourselves ?

The point is, do not stop your savings at Rs. 1.2 Lakh (as per the new budget) just because you get tax saving upto that amount. Make sure that you are saving at least 26% of your annual income and investing it in securing your future.

6. Do the right Asset Allocation

"Divide and Rule" is the name of the game. "Do not put all your eggs in one basket " is something every person on the street will also understand. Its time we retrospect, where have we put all our eggs.

Putting all your savings in the equity market is definitely not a great idea. But then putting all of it in fixed income products in such an inflationary environment is also heading towards disaster. So what should you do then ?

Make an asset allocation depending on your age and risk profile so that you minimise the risk and maximise returns. Seeking professional guidance can definitely help you. But beware, a blind trust on the Investment Advisor is definitely not recommended. Give some time understanding, where and why he is putting your hard earned money. Demand services like periodic updates on your portfolio so that you know which way your money is growing. Reviewing and rebalancing the portfolio is the least you would be expecting from your investment advisor.

7. Be an alert investor

Practicing alertness from day one would be much better than blaming someone after things go wrong. Although we might try n excuse ourselves to be "too busy", we have some basic responsibilities of our own money. Few of them include, keeping a track of the bank account statements, credit card statements, mutual fund account statements, insurance policies, income tax returns etc. A regular review of each would keep us updated about the current position and would prompt us to take a timely action in case of something not being in place. Paying charges such as late payment charges on credit cards or late charges on insurance policies or interest on tax not paid on time, would be a sheer insult to our hard earned money.

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

(The views mentioned in the article are personal opinion of the author. The readers are advised to use their own judgement and consult their investment advisor before making any investment decisions.)

This entry was posted on April 12, 2010 at 11:44 am and is filed under Professionals.

Readers Comments to “7 Commandments of Successful Investing in the New Financial Year”

“Its Aweome, Thanks for so much Ideas, will be Following these”

- Niraj Kanoi, Chennai, April 12, 2010 at 11:54 am

“The article instills confidence and trust. Its simple to comprehend and enticing to follow. Thank you Saurabh.”

- Shobhit Narain Agarwal, Lucknow, April 13, 2010 at 7:18 pm

“Great Saurabh bhai. thse are the very basic thing people should. thanks for you have shared the knowledge with us.”

- Rajeev Agarwal, Manila, Philippines, April 14, 2010 at 4:57 am

“Goog Work Saurabhji. Today people must surely think and invest. Not only invest, but make a right investment at right time !”

- Shweta Agrawal, Bahrain, April 14, 2010 at 5:39 pm

“This is your second article that i am reading on Financial Investments and shows the effort put in and the study done by you. Another classic posting from the Professor!!!! Look forward to many more… !!!”

- Amit Chandrayan, Indore, April 16, 2010 at 10:43 am

“Good article sirjee. I believe in using Credit card as convinience rather than a temp loan is a bette option. Ofcourse you will have to pay convience cost that built in as you explained. Anyway as rightly said you don’t need more than one card for convinience. Your encouragement for beyond 80C and investment throughout the year is remarkable. Its a common mistake that I saw many people does. (Slightly off-topic but same applies to filling IT returns why wait till July 31st).

I think biggest confusion area is Right Asset Allocation. Everytime I hear this term the question comes to mind is how can I know that I have right allocation? Please consider writing a blog on same using some example etc. That will help us to understand it better.

Overall hats off to you on such a mice article. Looking forward for more such educational articles which will guide investors. Often we get tricky advices from agents that is beneficial but to them. Unbiased articles like these are rare. Keep up the good work."

- Vikram Agrawal, Microsoft, Hyderabad, April 19, 2010 at 4:23 pm

"Excellent article. This shows intelligence & in depth knowledge of yours in investments. Great going. Keep it up. All the Best. Regards

- Praveen mukim, Mumbai, April 20, 2010 at 7:33 am

"Very nice article sir…. this is must read for any person who is looking for investment . People miss out on these basic aspects while investing … we spend so much time earning that we lose the trick of investment.

I specially liked the Insurance one ; this is very timely courtesy the spat between the SEBI & IRDA on the ULIP scheme. I had never believed in a ULIP scheme & this article plus the earlier one clearly brings out the peril of ULIP"

- Lalit Agarwal, Chennai, April 26, 2010 at 1:53 pm

"Very insightful and helpful stuff. If all of us make a habit of financial discipline our lives would be much better"

- Shubham Bhardwaj, Mumbai, May 2, 2010 at 7:07 pm

"saurabh sir ur 7commandment r just great i think one should definetly think about investment but people like me suffer due to lack of guidance ,sir its my request to u to plz guide me if possible"

- Prof. Swapnil walde, SDMP Nagpur, May 14, 2010 at 2:24 pm

"Its really an informative article. I like it because its very helpful for me to understand the logic behind the investments. Thanks for sharing."

- Monu Vyas, Pilani, Rajasthan, October 10, 2010 at 7:20 am

Look before ULIP

By professorbajaj

“Good Morning Sir, We have an excellent Child Plan for your Kid” Or “We have an excellent Pension Plan for your retirement”……Basically What they are trying to sell us is a ULIP or a Unit Linked Insurance Plan. ULIP is supposedly the most talked about product in the market. Its time we have a closer look at what’s so good and What’s not so good about a ULIP ?

Heavy Charges

Most of the “Advisors” do not disclose, how much will be the allocation of the premium paid by you. Putting it in simple words, if you pay a premium of Rs. 1 Lakh, then what amount is actually invested in the market. Typically, the charges are named as premium allocation charges, fund management charges, mortality charges, administration charges, Switching Charges, Surrender Charges, Partial Withdrawal Charges, Miscellaneous charges etc. etc. Overall a big chunk of the premium is deducted under various heads as “Charges” and only the remaining is invested in the market. No wonder, your returns are affected negatively. Even if the market does superb, you take a long long time to “Break even”.

Obligations and Restrictions

Once the premium amount is decided, you are forced to pay the same amount every year or else your policy could lapse. Also, if you want to close the policy, you will be required to pay surrender charges. If you want to do partial withdrawal, you need to pay partial withdrawal charges. Basically, you are not in charge of your own money.

Then why do they Pitch it so hard ??

After the removal of entry load from Mutual Funds, ULIP has become the sole bread earner for the “Advisors”. If they convince me to invest in a mutual fund, they have to ask for a seperate fees (which I may or may not be happy paying). Whereas, if they convince me to buy a ULIP, they get fat commission (in the range of 30-40% of the premium amount) from the Insurance Company. Now, even if we may call it an unethical selling, as prudent investors, it is our responsibility to do a “Sense-check” before investing.

If not ULIP, then what ?

The good thing about ULIP could be, being linked to the equity market, it helps you create wealth in the long run. But then, ULIP is not the only option available. You can definitely look at Mutual Funds which will also create wealth by investing the equity market, but the returns turn out to be much better due to lower costs. Also, it provides you with better liquidity and flexibility due to no surrender or partial withdrawal charges.

Does that mean Insurance is not required ?

Are we saying that insurance is not needed. No !! We are definitely not saying that. The problem is, when we try to combine insurance and investments, to get the best of both worlds, we finally get the worst of both worlds. We get a lower risk cover and even lower returns on investments, in spite of paying a higher premium. Rather, choose a term insurance, which works out to be the cheapest form of insurance. For example, for a 30 Year old, a term insurance of Rs. 10 lakh (with a double accident benefit of Rs. 20 lakh) works out to be in the range of Rs. 4000 – Rs. 4,500 (less than Rs. 400 a month).

So, what's the plan ?

If you want to invest say Rs. 1 lakh per annum in ULIP, try this. Take the term insurance mentioned above for Rs. 4000(say) and invest the balance Rs. 96000 in equity mutual funds through SIP (i.e. Rs. 8000 p.m). Now, try comparing your returns in both cases. In effect, you are covered for life risk and also on your way to wealth creation. What's more is you have more freedom of investment and redemption as there are no partial withdrawal charges or surrender charges for the mutual funds. Also, no obligation to pay the same amount every year. You can choose to invest any amount you are comfortable with every year. The argument of being subject to market risks holds true for both MFs and ULIPs. The only drawback with this plan is it will annoy your insurance advisor. But as long as he keeps thinking in his own interest, we have every right to focus on our interests and not his.

Tax Saving

The only issue that remained undiscussed above is probably the tax saving aspect. Many advisors would take advantage of March being the last month to make investments and would ask you to quickly invest in a ULIP before you could do a background check. Lets be beware of such advisors.

Now, how do we save taxes ? PPF forms one of the best avenues for investment. However, if you are young and are looking at greater wealth creation, you may do an SIP of say Rs. 5000 p.m in an ELSS fund. The balance amount can be invested in PPF and the term insurance premium. You will observe that you are moving in a truly wealth creation direction along with tax saving.

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

(The views mentioned in the article are personal opinion of the author. The readers are advised to use their own judgement and consult their investment advisor before making any investment decisions.)

This entry was posted on March 5, 2010 at 11:34 am and is filed under Professionals.

Readers Comments to "Look before ULIP"

"Very Nice Article with all the crisp details of ULIP.

Keep up the good work!!!"

- Amit Chandrayan, Indore, March 10, 2010 at 6:22 am

"Very well written dear. Something I strongly beleive in"

- Swati Jhunjhunwala, Tuticorin, Tamil Nadu, March 11, 2010 at 8:26 am

"Very nicely explained the dark side of ULIPs.

But one brighter side (ofcourse doesn't mean advocating ULIP) is since its a kind of closed ended fund, if you have a good fund manager can outperform other open ended mutual funds even indices.

But, its the charges both declared and hidden that eats up all the advantages of it."

- Vikram Agrawal, Microsoft, Hyderabad, March 18, 2010 at 6:23 am

professorbajaj Says:

March 18, 2010 at 11:12 am | Reply edit

Thanks for your very valuable comments, Sir.

I agree with your point of ULIPs being inferior majorly because of declared and hidden charges. Additionally, it is the way in which it is pitched what makes it worse. Advisors are seen not highlighting these charges due to their own foul interests.

Thank you so much once again for your appreciation and insights.

"Great going!! I expect this to be one of the most talked about site with the maximum eyeballs in the times to come!!"

- Gaurav Chopra, E&Y, New Delhi, April 24, 2010 at 9:14 am

पा जाएगा मधुशाला

By professorbajaj

मदिरालय जाने को घर से चलता है पीनेवला,

'किस पथ से जाऊँ?' असमंजस में है वह भोलाभाला,

अलग-अलग पथ बतलाते सब पर मैं यह बतलाता हूँ -

'राह पकड़ तू एक चला चल, पा जाएगा मधुशाला।' ।

The above is an excellent piece of poetry by the legendary poet Shri Harivanshrai Bachchan. The beauty of the poem is the depth. The closer you move towards it, the deeper is the meaning you realise. What I infer from the poem is,

If you want success in life, choose any path, but keep walking on it. Let success in itself be a driver and addiction for you in life. If you have this drive, you will definitely be successful. What a conviction !!

This entry was posted on March 2, 2010 at 11:26 am and is filed under Students.

Readers Comments to "पा जाएगा मधुशाला"

"What an Amazing thought !!

Thanks for sharing this beautiful poem. Also appreciate your analysis on the same.

Though it was not apparent on the first go, I could find your analysis quite relevant after reading it again."

- Sneha Alka, Pune, July 21, 2010 at 6:50 pm

ELSS : The growing hot favorite for 80C

By professorbajaj

As March approaches, we start running around to make investments and take advantage of the Sec 80C. Eventually, we save taxes but miss out on the best investment opportunity that was available. Why not make best use of time by evaluating the investment avenues now and also start making investments ? This will not only ensure tax benefits but higher returns on our investments.

ELSS is the the growing favourite avenue for 80 C investments considering the following parameters

1. Liquidity – Shortest lock in of 3 years as compared to 15 Years in PPF, 5 Years in FD (80 C FDs), Even longer in life insurance policies (depending on term)

2. ROI – Being a mutual fund, we can expect higher returns as compared to traditional avenues. Also, no allocation charges as in case of ULIPs, means our entire money is invested.

3. No Commitment – Once invested in an ELSS, you may choose some other fund or scheme next year (as against life insurance, once invested, same commitment every year)

4. Tax free returns – The dividend and capital gains earned are completely tax free (as against the interest earned on FDs).

The best part is, keeping invested in ELSS for a long term (say 15-20 Years) can not only save taxes but would prove to be a wealth creator. For details, please feel free to contact us at saurabh.nidhiinvestments@gmail.com

Disclaimer : Mutual Fund Investments are subject to market risk. Readers are requested to use their own judgement and consult their financial advisor before making investment decisions.

This entry was posted on February 23, 2010 at 6:13 pm and is filed under Uncategorized.

Readers Comments to "ELSS : The growing hot favorite for 80C"

"Yes, this may be true this year, when the new tax code is applied, it may not help. Capital gain will be taxable."

- Jitesh Ghushe, Nagpur, February 24, 2010 at 4:49 am

professorbajaj Says:

February 24, 2010 at 5:20 pm | Reply edit

Dear Jitesh,

Thanks for your valuable comments.

However, if you compare across asset classes, the capital gain would be applicable to other classes including life insurance, PPF and FDs.

So, all in all ELSS would still stand out as a better investment option. Of course, personal preferences could differ.

But those young could definitely look at this from the point of view of wealth creation in the long term.

MIPs : The Best Alternative to traditional FDs

By professorbajaj

Gone are the days when bank fixed deposits were the only avenues to park your hard earned savings. Today you have a plethora of investment avenues available in the market. You just need to pick up the right one to suit your investment style and risk profile.

MIPs (Monthly Income Plans) are the best alternatives to the traditional FDs. The best rate for a one year FD that you could get in the market (With Nationalised Banks) is max 7-7.5%, whereas you have a plenty of MIPs which are giving returns in excess of 9-10% in the last 5 years. Whats more is the MIP returns do not attract any tax at the hands of the investor. However, your FD interest might attract a tax of upto 30% (depending on what slab does your income fall into).

Basically it is the composition of the MIP portfolios which helps us getting better returns still keeping risk in check. A typical MIP would have a debt proportion of 80% whereas the equity portion to the extent of 20%. The high proportion of debt ensures capital protection and some portion of equity opens opportunities for higher returns.

Having a look at the table below gives a fair idea about how few MIPs have performed over last five years. Although the returns cannot be guaranteed, the market exposure provides some headroom for higher returns. Also, the tax-free nature of investments is an added advantage why MIPs can be flavor of the season.

Scheme Name	NAV as on 29th Dec 09	Last six months Returns	Last Twelve months Returns	Last Three Years Returns	Last Five Years Returns
Reliance MIP	19.95	11.18%	22.58%	12.88%	13.73%
HDFC MIP LT Plan	20.71	9.58%	31.59%	12.27%	13.28%
HSBC MIP	18.2	9.27%	19.45%	11.33%	11.27%
Canara Robeco MIP	26.86	4.55%	28.46%	11.20%	13.99%
Principal MIP Plus	17.85	7.26%	21.70%	12.05%	10.87%
DBS Chola MIP	18.66	5.27%	12.88%	12.00%	10.09%
ICICI Prudential Income Multiplier Fund	17.89	5.55%	23.95%	7.65%	10.71%

Disclaimer : Mutual Funds Investment are subject to Market Risk. Readers are advised to consult their financial advisor and use their own judgement before making investment decisions.

This entry was posted on December 30, 2009 at 1:34 pm and is filed under Professionals.

Readers Comments to "MIPs : The Best Alternative to traditional FDs"

"Hmm, this looks like a very good option for tax saving. I am considering it very seriously for directing my savings. Thank you Mr .Bajaj"

- Saurabh Shrikant, Accenture, Bangalore, December 30, 2009 at 5:50 pm

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 7 States of India (Including Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu, Rajasthan, Uttarakhand and NCR)

He is actively involved in investor education through his blog www.professorbajaj.wordpress.com which has crossed the 3000 mark in terms of number of visits in the last one year. 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.

Prof. Bajaj has a flair for teaching and has served as a lecturer in Dr. N.P.Hirani Institute of Polytechnic, Pusad for 4 months. During his tenure, he organised various development programmes for students of the institute. He also conducted exam on "Basic Computer Knowledge" in capacity of exam co-ordinator.

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 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 750+ participants from over 30 organizations across various fields of soft skills.