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NIDHI YEARBOOK VOL IV

COMPILATION OF ARTICLES BY PROFESSOR BAJAJ PUBLISHED ON

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Dear Investor,

Nidhi Investments celebrated its fourth anniversary on 14th October 2013 and entered into 5th Year of Operations. With grace of God and the blessings of all well-wishers like you, we grew our clientele in 12 States of India (including Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu, Rajasthan, Gujarat, Madhya Pradesh, Uttarakhand, West Bengal, Goa, Uttar Pradesh and Delhi NCR) and 5 countries overseas (including U.K, California, UAE, Singapore and Africa) in the fourth year. God willing, we will soon have clientele in all parts of the country and also plan to further expand globally. We hope you are liking our website www.nidhiinvestments.com

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

It gives me immense pleasure to present you "Nidhi Yearbook Vol IV" which is a compilation of my articles published on the renowned global portal www.wordpress.com . These articles have been read and appreciated by readers all over the world (from 62 Countries). You may access these articles by logging on to www.professorbajaj.wordpress.com . These articles are basically aimed at investor education and awareness. Many of these articles have also been published by renowned websites like CAClubindia.com, MBAClubindia.com, Lawyersclubindia.com and TotalCA.com. Some articles have also been published by ALUMINOUS, the Monthly Magazine of NMIMS, Mumbai.

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

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

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

Regards

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

Chief Investment Planner

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The Reality about Realty !!

Posted on October 27, 2013

"Trust me Sir, real estate will always give you best returns. The prices cannot go down and you will be double your money in 3 years. I think you should book this flat." said Kunjan Srivastav, a seasoned real estate broker to his potential client Vaibhav Deshpande, a 33 year old IT Professional.

Vaibhav seemed to be convinced with Kunjan's logic and told him that he will get back to him. During tea break, he discussed it with his colleague Niraj Desai.

Vaibhav : Niraj, I think Kunjan is right. I am looking to invest for say 3 years. What's wrong if I can double it in 3 years ?

Niraj : How much money you are willing to invest ?

Vaibhav : Say around Rs. 15 Lakhs.

Niraj : Where do you find a flat for Rs. 15 Lakhs ?

Vaibhav : No, actually the flat cost is Rs. 75 Lakhs. I will use Rs. 15 Lakhs for downpayment and balance Rs. 60 Lakhs will be taken as a loan.

Niraj : Loan ?? You are taking a loan to invest your money? That's pretty strange!!

Vaibhav : But I will repay the loan from the profits earned.

Niraj : Profit !! Ok, let me share a real life story with you. Do you remember our ex-colleague Rakesh Sawant?

Vaibhav : Yes, I do. Whats the thing with him?

Niraj : Rakesh had done something similar. He had purchased a flat of Rs. 66 Lakhs in 2008. He recently sold it for Rs. 97 Lakhs.

Vaibhav : See, I told you. He made excellent returns.

Niraj: Please hold on before you listen to the entire case. He didn't have entire 66 Lakhs with him. He just had Rs. 10 Lakhs, so he sought a loan of Rs. 56 Lakhs. With the interest rates at that time, he had to service an EMI of almost Rs. 61,660 p.m.

Now, lets do some calculations.

He paid Rs. 61,660 X 60 EMI = Rs. 36.99 Lakhs + 10 Lakhs Downpayment = Rs. 47 Lakhs (rounded off)

When he received Rs. 97 Lakhs from the buyer, his loan outstanding was almost Rs. 51.38 Lakhs. This is because in the initial years, his EMI had a higher component of interest and very small component of principle repayment. Thus, he was left with Rs. 45.62 Lakhs in his hand.

So he paid Rs. 47 Lakhs and received Rs. 45.62 Lakhs after 5 years.

Now, if you see, he has a net loss of Rs. 1.38 Lakh in this investment. Also, he had to pay a Capital Gain tax of Rs. 3.1 Lakhs. So the total loss was Rs. 4.48 Lakhs.

Vaibhav : What ?? Loss of Rs. 4.48 Lakhs in a property investment ?? That's unbelievable.

Niraj : Yes, that's because you understood the entire calculation. Otherwise people will flaunt the gain of Rs. 31 Lakhs in 5 years.

Vaibhav : What about the tax benefit he would have got for the interest payment and principle repayment ?

Niraj : Good question. Lets understand that as well. When he booked the flat, in the first year, his interest component was around Rs. 6,60,000, Whereas his Principle repayment was Rs. 68,400.

Out of Rs. 6.6 Lakhs interest, he got a tax break on only Rs. 1.5 Lakhs u/s 24(b).

For the principle repayment, his PF deduction anyways added upto Rs. 48,000 and he had a term plan with a premium of Rs. 10,000 p.a. So technically he got a deduction of only Rs. 42,000 from the principal repayment.

In the total 5 years, he has paid an interest of Rs. 32.37 Lakhs whereas he has got a tax deduction on only Rs. 7.5 Lakhs.

Coming to principal repayment, he has repaid Rs. 4.62 Lakhs. But he has been able to get a tax break on only Rs. 1.7 Lakhs.

Even if we assume a tax relief of 20%, he got a total tax deduction only of Rs. 1.84 Lakhs in 5 years. But that still does not compensate for his loss of Rs. 4.48 Lakhs.

Vaibhav: I am totally astonished by this case. I never looked at these factors which could affect my returns. One last question, why did he sell it off cheap then? He should have sold it at a higher rate.

Niraj : Again a very good question. He didn't sell it cheap actually. The buyer had to pay almost Rs. 1.03 Crores for the property. And Rakesh had a real tough time to find a buyer. He wanted to sell it at around Rs. 1.12 Crores, but couldn't find a buyer.

The buyer paid Rs. 97 Lakhs to Rakesh and balance Rs. 6 Lakhs in stamp duty, registration and other charges associated with the property. So even if the outgo was Rs. 1.03 Crores for the buyer, Rakesh got only Rs. 97 Lakhs, which entailed him a loss as explained above.

Vaibhav: And I thought one can never make a loss in property as prices never come down.

Niraj : That's another myth. Since real estate is an opaque market, people stick to their prices. Doesn't mean there is a buyer available at that price. It is like saying, some builders come with offers, that "Come and book the flat today. The prices will be increased by 15% from next month."

Now, any sane person will understand, if the builder is increasing the price from next month, and he is confident of people buying at that rate too, then why is he showing desperation to sell it today?? It is just a gimmick to attract people to buy today. He is facing a big problem of illiquidity. His funding cost has increased to almost 30% p.a. Thus, if he does not reduce the price and has to hold on to the property for one year, he has already lost 30%. Instead, it makes sense for him to reduce the prices by 20% today and make a gain of 10%.

But somehow, they want people to remain in the myth, that property prices can never come down so that the buying continues. If they start reducing price once, they think that people will wait even further for price reduction and sales would still not happen.

Vaibhav : Oh my God !! So do I read that one should never invest in real estate?

Niraj : I am not saying that. But I would disagree with the argument of Real Estate being the risk-free investment with highest returns. If that was the case, everyone would stop working and just keep trading in real estate to earn money.

I would suggest following points to be kept in mind while investing in real estate.

1. Real Estate investment, like any other investment, comes with its own set of risks.

2. The biggest risk in real estate is of illiquidity. Suppose you have a real estate of Rs. 1 Crore and you want to sell it urgently, it will be very difficult for you to convert it into cash immediately.

3. Non-Divisibility is another substantial risk of Real estate. Suppose you have a 2 BHK flat of Rs. 75 Lakhs, and you are in need of Rs. 25 Lakhs, you cannot sell 1/3rd of it. Another option is mortgage it, but it will come at an interest cost. Moreover, if the property is already taken on loan, then you can't even mortgage further.

4. If you have surplus funds to invest in real estate, you may do so. But if you are borrowing to invest in real estate, you need to do your calculations right. A visible profit of Rs. 31 lakhs could actually be a loss of Rs. 4.48 lakhs as seen in the above case.

5. Diversification will always remain the mantra of investment. You should diversify across asset classes with real estate being only one of them, not the only investment.

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

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

Readers Comments:

"Gud one saurabh.

Reading your blogs are always helpful. Your blogs are like the constitution of India for us 🙂, that too in brief."

- Adarsh Rao, Dell Computers, Bangalore

"This article is good and informative, I have bought a flat , will discuss with saurabh on have to get profit still we have got many components which adds up to loss."

- Shashidhar Ganarappu, CGI Infosystems, Hyderabad.

"Good Article… Nicely elaborated. Can't agree more… One thing to note is. if you do your basics right its not a bad investment strategy as well. But as author suggested, dont put all eggs in one basket.. Have diversified portfolio."

- Ramdas, Power Finance Corporation, Mumbai.

Should you invest in Tax-Free Bonds ??

Posted on September 24, 2013

"Ohh Man !! I did my tax saving investments 2 months back only. Otherwise I would have invested in these tax-free bonds. But now I can't invest in them." said Mahesh Kuntal, a 34 year old executive, working with a leading pharma company. He was having a casual discussion in tea-time with his colleague Kapil.

Kapil : What does tax saving investments have to do with this ?

Mahesh : We can only invest Rs. 1 Lakh in tax-free right ??

Kapil (smiling) : I think this is the most common problems with most of us. We call ourselves educated but we hardly have financial literacy. Let me clear few things here :

1. Tax Saving Investments and Tax-free investments are entirely different from each other.

2. In tax saving investment, you get a deduction on the amount invested. Lets say, if you invest Rs. 1 Lakh in any of PF, PPF, ELSS, Insurance Premium, NSC, Tax Saving Bank FD etc, you would get a tax deduction upto Rs. 1 Lakh u/s 80C. But that does not mean that the returns would also be tax free. For example, the interest earned on Tax Saving Bank FD and NSC are taxable.

3. In Tax Free Investment, you don't get a deduction on the investment made. However, the returns generated are tax free. i.e. they are not clubbed with your taxable income.

4. There is a limit of Rs. 1 Lakh for investment in tax saving products. However, there is no limit on investments in tax-free products.

Mahesh: I am understanding to some extent. But I have few more queries. If I don't get a tax deduction, does it make sense to invest in a tax-free investment ?

Kapil : Well, it will depend on your tax slab. Lets say, you are in a 10% tax slab, you would get a 9.25% interest rate in a Bank FD (Pre-tax). The post-tax returns would be around 8.3%. Thus, it would be better to invest in a tax-free bond giving a yield higher than 8.3%. Currently you are getting around 8.5-8.6% on tax free bonds.

Likewise if you are in a 20% tax slab, then even if a Bank FD pays you 9.5% (pre-tax), your post tax returns will be 7.54% only. Thus, any tax free bond giving you returns higher than that would be beneficial for you.

And in case you are in a 30% tax slab, even a bank FD paying you 10.5-11% returns (pre-tax), your post tax returns will be 7.6% only. Again, a tax free bond will score over it.

Only if you are in a NIL tax slab, you may go for a bank FD or a taxable interest instrument as tax-free bond wont be much beneficial for you.

Mahesh : O Wow !! Never thought it that ways !! So now I am in 20% tax slab, and tax free bonds are giving yields closer to 8.6% these days. So they would definitely be a better choice than Bank FD. But I have one more query. How do these tax-free bonds compare with PPF ?

Kapil : Good Question !! Since you are a Football Fan, I will explain you this way. PPF loses the match with Tax-free bonds by 1-4.

Mahesh: Sounds interesting !! Please elaborate.

Kapil : Sure. PPF scores over Tax free bonds in only one aspect i.e. investments made in PPF would qualify under Sec 80C and investments made in tax-free bonds wont qualify.

However, Tax – Free Bonds score over PPF in 4 parameters :

1. **No Limit on investment** : Suppose you have Rs. 10 Lakhs to invest. You cant invest them in PPF. But you can invest them in tax-free Bonds.

2. **Better Liquidity** : Since the tax-free bonds are listed, you can liquidate them anytime. Whereas for PPF, you have lot of restrictions for liquidity.

3. **Opportunity of Capital Gains** : If in future, there is a fall in interest rates (which is quite likely), you have an opportunity of earning capital gains from tax-free bonds. Lets say there is a fall of 1% in interest rates in the next one year, then you can expect a capital gain of 13-14% in a tax free bond. This capital gain would be in addition to the tax-free interest offered. This means you have an opportunity to earn a return of 21-22% from a debt instrument through tax free bonds.

4. **Fixed returns** : As we know that PPF interest rates are linked to 10 Year G Sec yield, there is a chance that we may get less returns from PPF in future. Lets say if the Gsec Yield falls, then in future you might get only 6.5-7% interest on PPF. However, in case of tax free bonds, the interest being paid will be fixed i.e. if you buy a tax-free bond paying 8.6%, it will keep paying you 8.6% for the next 15 years (tenure of the bond). Also, On the contrary, fall in 10 year G Sec yield will earn us better returns in Tax-Free Bonds in the form of capital gains explained above.

Mahesh (happily): So all in all, tax free bonds score over several investment avenues. Especially people who are having taxable income. And in my case, I am already done with my tax saving investments. So this would in effect work like a tax saving investment for me, as I do not need to pay tax on the interest earned. Thank you so much for sharing all this info, Kapil.

I will see that I break my FDs which are earning 8-9% taxable and invest in tax free bonds to earn 8-9% tax free. Even if I move Rs. 5 Lakhs from my taxable FDs to Tax Free Bonds, I will be able to save Rs. 5,300 every year for the next 15 years i.e. saving of Rs. 79,500 in the next 15 years. Plus, if I want to sell these bonds, I can make capital gains too. Thanks again !!

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

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

Readers Comments:

"Thats sounding like just my story (I being Mahesh and Saurabh being Kapil). Thanks sirjee.

Good educating article."

- Vikram Agrawal, Google India, Hyderabad.

"Very timely given the tax free instruments lined up for subscription! I did not understand the 3rd point you mentioned on Capital gains – usually, if the yield goes low, the bond value price increases, isn't it ?"

- Lalit Agrawal, Cognizant Technologies, Chennai

Professor Bajaj Replied: "Thanks for your valuable insights Lalitji. You are right. When the yield goes low, bond value increases. It means, if you invest Rs. 100 today, tomorrow you might be able to sell the bond at 112-113. This Rs. 12 will be your capital gain in addition to the interest rate that you get from the bond. Hope this is helpful."

"Thanks for an invaluable Post!!"

- Suren Lalvani, NTPC Ltd, Bhopal

Financial Planning for Beginners !!

Posted on June 9, 2013

June is the month, when many campus recruits start with their first job. Sameer Dahane was one of them. While he was excited of a new role, he was equally eager to get his salary so that he can splurge it.

On a casual tea-time discussion with Kapil, his senior, he shared his thoughts on how he plans to buy variety of stuff including an expensive smartphone, an enviable Tab, a luxury watch to flaunt around and so on.

"What are your thoughts on savings ?" Asked Kapil.

Sameer : Yes I have a savings account.

Kapil: Great. And what amount you plan to save and invest ? Or what % of your salary.

Sameer: I am just 25. Do I have to bother about all these things right now ? Shouldn't I be enjoying life ?

Kapil : No denial that one should enjoy life. But enjoying doesn't mean irresponsible spending on stuff that is not necessary. You would soon have a family to support.

Sameer : Yes, that's right !! So I was thinking that I would start saving and investing after I start a family.

Kapil : Well, just for your knowledge, it is easier to save when you don't have to support a family as your expenses are lesser. After you get married, you would be tempted to spend a lot to have a good time with your partner i.e. outings, gifts etc. Let's say, this happens for first two years. Later on, if you plan a child, then you would have expenses related to child care.

Sameer : You are right !! Never thought on those lines. So do you I think 25 years is a good age to start saving and investing.

Kapil : I would say, it is the best age. You have time so much on your side. Let's say that you plan to retire at an age of 58. Since you have 33 years for the same, even a saving of Rs. 10,000 p.m. can grow upto Rs. 4.38 Crores at your retirement age. And if you delay this by even 3 years, your retirement wealth drops to 3.08 Crores. We can say that you will be richer by almost Rs. 1.3

Crores than your colleague Sidharth who is starting at an age of 28.

In fact, you may just have a look at the table below and see the great difference in retirement wealth as you delay your financial planning.

Investment Rs. 10,000 p.m. till the age of 58				
Your Age	25	30	35	40
Time for retirement	33	28	23	18
Investment amount p.m.	10,000	10,000	10,000	10,00
Total Amount invested	39,60,000	33,60,000	27,60,000	21,60,00
Retirement wealth estimated @ 12% p.a.	4,37,16,248	2,43,45,569	1,33,54,126	71,17,28
Rounded Off	**4.37 Crores**	**2.43 Crores**	**1.33 Crores**	**71.17 Lak**

Sameer : This is wonderful !! It sounds like magic !!

Kapil : In fact, this is a wonder !! Einstein the great had called it the 8th Wonder i.e. the Power of compounding.

Sameer : But now the question is, how do I manage to save Rs. 10,000 p.m. I would hardly be able to save anything from my salary after my expenses.

Kapil : For that, you need to change the equation a bit. You are currently doing

Salary – Expenses = Savings

You need to change it to

Salary – Savings = Expenses

Sameer : Sounds nice !! But how do I do that ?

Kapil : Set apart an amount decided for saving and invest it as soon as your salary is credited. And then try and manage your expenses within the balance amount. Human nature is such, we tend to exploit the resources available. If resources are less, we tend to adjust within them. You may follow a few tips as below:

1. Try and minimize use of credit card. Use of credit card is one habit that encourages spending.

2. Make a budget for your expenses. This may sound like a tough job but do it for 2-3 months and

you will have a fair idea of where the money is going. You may not need to do it after the initial few months. Now curtail useless expenses. For example, going to an expensive restaurant 3-4 times in a week. Cut it down to once or twice a month.

3. Save your decided amount first. Put it in an investment account. Take this money out of the salary in the beginning of the month so that you don't touch it.

4. Stop splurging on sale and discount. You often buy things you never need.

5. Don't pile up old stuff. If there is an old gadget you are willing to replace, try selling the old one along with buying the new one. This will lower your cost by some extent and also help you get rid of cluttering your house. However, Don't get fooled by the exchange offers. You hardly get any value for your old one there.

6. Don't succumb to peer pressure to buy every product that is launched in the market. Many youngsters just buy stuff to flaunt. It might earn you some false brownie points today, but you will be a loser in the long run.

Sameer: Thanks Kapil for awakening me at the right time. I will stop splurging and start behaving responsibly so that I secure my future.

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

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

Readers Comments:

"Simple and really a good article to understand and begin your financial planning."

- Amit Chandrayan, Dell Computers, NOIDA

"Great Formula "Salary – Savings = Expenses"

I think i read it somewhere but now I will follow this regularly. thanks for knowledge sharing"

- Shubhneet Kaur, Nestle India, Mumbai

Beware !! Mis-selling Season Ahead !!

Posted on December 26, 2012

After coming back from his vacation, Sidhesh Tulange, a 33 year old Software consultant, logged into his office computer to make the first statement, “Oh No !! I forgot to submit this before going to vacation.” The HR department has reminded him for submission of his tax saving proofs and declarations by 31st Dec. “I should not delay this further. Let me close this by today itself”.

Some minutes later, he received a call from a telemarketer. Sidhesh was usually reluctant towards attending marketing calls, but today he spoke to them nicely.

The telemarketer said, “Sir, are you done with your tax saving investments for this year?”

“Not yet”, said Sidhesh.

“That’s great. Our company has launched a very good product specially for people like you (As if the caller had all the history of Sidhesh). This will give you insurance, investments and tax savings too.” Said the telemarketer.

“Sounds Good. What documents would you need from me ? (The desperation of Sidhesh is worth noting. He is not even asking any details of the plan, as he is too worried about the proof submission).

“Few basic documents like your ……(blah-blah-blah) and a cheque of Rs. 50,000.” (The telemarketer didn’t bother to ask how much Sidhesh is willing to invest for the purpose of tax saving).

“No problem. I have all of them with me. Can you send someone to pick-up the same today itself?” Said Sidhesh.

“With pleasure Sir.” The telemarketer was jumping with joy. She could imagine her bonus package getting swollen with deal closed.

Sidhesh handed over the cheque of Rs. 50,000 and signed the documents without having any idea of what he is doing. He got the receipt, submitted it to the HR and thought that the “pain” has gone for once.

Actually, the pain started after that. When he later added his PF deductions, they were adding up to Rs. 48,000. Also, he was paying an EMI of Rs. 30,000 towards his home loan, thereby paying Rs. 3,60,000 p.a. This had a principle component of Rs. 75,000 in it. Thus, his total investment amount for 80C was already Rs. 1,23,000. However, since Rs. 1 Lakh is permissible for deduction u/s 80C, there was no need for him to buy the unknown product from the telemarketer. Thus, he failed to save tax from this investment.

Sidhesh was trying to console himself by thinking that at least he has a life cover now. But then he came to know that he could have got a life risk cover of Rs. 75 lakhs at a premium of Rs. 5,000-6,000 p.a. Whereas he was paying a premium of Rs. 50,000 for a cover of just Rs. 5 Lakhs. Thus, he failed to buy a good life cover from this investment.

His last argument to himself was this amount would save him some money for his retirement. Wherein he came to know that this investment in next 25 years would not accumulate more than Rs. 25 Lakhs for his retirement whereas he could have invested it wisely to accumulate Rs. 80-90 Lakhs for his retirement.

Sidhesh realised that this mistake has happened just because of his lethargic attitude throughout the year and then deciding in haste when it came to tax saving proof submission.

He learnt that:

1. Mis-selling happens because of lack of due diligence from the investors.

2. We are bound to make mistakes when we leave things for the last minute. Thus, plan in advance and execute in time.

3. If you are paying a home loan, get a break-up of principle and interest from the bank, so that you know how much benefit can be claimed u/s 80C and u/s 24(b).

4. Calculate your PF deduction (Employee contribution) and accordingly work out your requirement to save for 80C.

5. Prefer one time investments like ELSS over recurring investments like endowment plans, ULIPs or money-back plans.

6. Buy a term plan for a life cover. Even if you do not need it for saving tax, you need it to secure

your dependents in case of an unfortunate event.

7. Seek professional guidance than rely on fly-by-night agents or telecallers.

Mis-sellers are on prowl and You could be the next Sidhesh !! Beware !!

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

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

Readers Comments:

"It's very useful information most of us who are from non-finance background faced this problem once in life. Thanks Saurabh to share this."

- Rahul Dahake, Wipro Ltd, Pune

"Very good article……"

- Anand Saraf, Ford Motors, Chennai.

Use the Current Market Rally to exit Bad Apples !!

Posted on December 13, 2012

The recent run-up in the equity markets has suddenly spread all surprises and smiles to the investor community. Although it would look too tempting to start investing in this market, lets take a step back and first lets clear off all that we were holding back in our portfolio as bad apples so that we can minimize our losses (and if lucky, we can make some small profits too).

1. ULIPs

I think this would be leading the pack. Simple reason being, 1st Aug 2009 marked the start of "No Entry-load" regime for investments in Mutual Funds. But commission hungry agents turned it into a "No-Entry" regime for Mutual Funds. They stopped selling mutual funds and suddenly turned to heavy selling (read mis-selling) of ULIPs from Aug 2009 to Aug 2010.

If you are one of the victims who was mis-sold a policy in this period, it is very likely that you are cursing the agent / tele-caller till today for the damage done to you. But now, your policy would have completed 3 years of lock-in period. Also, with the current surge in the market, you are most likely to recover your investment amount.

There is a possibility of some "Insurance-experts" advising you that the initial period of heavy charges is over and you should continue. But I would disagree with that. This is because, the charges in such policies from 4th year onwards are lower as "compared" to first 3 years. But they are still higher when you compare them to low cost peers. Thus, it is better to exit them and move on to low cost transparent products.

2. NFOs

Some investors have a myth that one should invest in NFOs as you get units at an NAV of Rs. 10. Whereas if you invest in an existing established fund, you have to invest at the prevailing NAV. Thus, the NFO appeared like a "value deal".

Totally wrong notion, I would say !! Just because the NAV is Rs. 10 does not make it cheap or value buy. It is still going to invest in companies which have rallied. On the contrary, you don't really have a track record to see its performance. Many investors are stuck in NFOs of various mutual fund schemes like Reliance Natural Resources Fund, HSBC Unique Opportunities fund, SBI Infrastructure Fund etc. which attracted investor money due to market buoyancy; But after that, investors are holding on to them even to recover their investment amount. Now these funds have just reached NAV close to their NFO price. So after a careful study, whether the fund fits in your portfolio or not, you may choose to recover your investment amount.

3. Illiquid Stocks

The sudden fall in equity markets in 2008 left many investors with holding stocks which went delisted. These were companies with poor corporate governance which did not find it worth to pay the listing fees to be able to get traded on the exchange. Thus, the investors had no other option than to hold on to illiquid stocks. The recent rally has seen many of those stocks reappear on the exchanges. This rally can be used to get rid of such illiquid stocks as this opportunity may not last too long.

The above might give an impression that one should stay away from equity markets to prevent losses. But actually the point is, our selection of wrong products cannot be the excuse for labelling the entire equity markets to be bad. It is like finding pearls in the ocean. Since you have found some crabs that bit you, doesn't mean the ocean does not have pearls at all. All you need is hardwork, research and disciplined approach. A professional guidance can definitely act as a cherry on the cake.

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

Readers Comments:

"Good one. Am going to surrender my ULIPs soon."

- Amit Chandrayan, Dell Computers, NOIDA

"Nice article as always…Can ULIP bought in 2007 be surrendered without any surrender fees?"

- Gaurav Bajaj, Sunguard Systems, Pune

Professor Bajaj Replied: "Surrender fees drastically drops after completion of 3 years !! From 80% surrender charge to 3% surrender charge in some cases !!

Although 3% is still too high a surrender charge, it is better to bite the bullet as leaving your money with the insurance company will create a dent much higher than 3%.

In your case, since the policy has completed more than 5 years, the surrender charges would (hopefully) be zero.

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

Time-Time ki Baat Hai – Part 2

Posted on September 28, 2012

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

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

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

Niraj: That's great !! Congratulations

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

Niraj: Do you think you should do so ??

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

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

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

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

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

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

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

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

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

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

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

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

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

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A perfect scenario gives you better idea. As it is very difficult to take a decision on structuring our saving and that too retirement savings. Very well explained. Everyone should have financial planing."

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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 12 States of India (Including Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu, Rajasthan, Gujarat, M.P., Uttarakhand, Goa, West Bengal and NCR) and 5 Countries overseas.

He is actively involved in investor education through his blog www.professorbajaj.wordpress.com which has readership in over 62 countries. He has written various articles like "Things you didn't know about PPF", "7 Commandments of Successful Investing", "Look Before ULIP", "What's there in the name" etc. uncovering the various myths prevalent in the layman investors mind.

He sits on the expert panel of CA Club India, MBA Club India and Lawyers Club India as an Investment Expert. He has been awarded the title of "Best Article Writer" from CA Club India in Jan 2012 and was selected among "Top 5 Technical Writers" from all over India in Feb 2013.

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.

Till date, he has trained more than 2400 participants from over 160 organizations across various fields of soft skills.

He has been associated with MSBTE (Maharashtra State Board of Technical Education) to conduct Soft skills training workshop for the faculties of Polytechnic Colleges in Entire Maharashtra (Mumbai Region, Pune Region, Aurangabad Region and Nagpur Region) since last 4 years.

He has also been associated with ICAI (Institute of Chartered Accountants of India) for training CA Students on various topics related to Communications skills, Group Discussions etc.

He was recently invited by Fr. Agnel Polytechnic College, Vashi for a motivational workshop for faculties.

Apart from these, he has conducted “Capacity Building Soft Skills workshop for Faculties” at ITI Gunj, ITI Pusad, ITI Digras and ITI Umarkhed. This was the first ever soft skills workshop for faculties in the history of ITI’s in Vidarbha. He was also invited by Shivaji Education Society to conduct similar Soft skills workshops for the faculties and office staff of Shivaji Junior College Pusad, Shivaji High School Pusad, Shivaji Vidyalaya Belora and Shivaji Vidyalaya Bhojla.

He has 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”.