NIDHI INVESTMENTS

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NIDHI YEARBOOK

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Dear Investor,

Nidhi Investments celebrated its second anniversary on 14th October 2011. With grace of God and the blessings of all well-wishers like you, we grew our clientele in 8 States of India (including Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu, Rajasthan, Uttar Pradesh, Haryana and Uttarakhand) and 3 countries overseas (including U.K, California and Africa) in the second year itself. God willing, we will soon have clientele in all parts of the country and also plan to further expand globally. This year, we also launched our website www.nidhiinvestments.com .

It gives me immense pleasure to present you "Nidhi Yearbook Vol II" 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 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)*

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Why Isn't My Money Growing?

By professorbajaj

"This is ridiculous!! I have been saving and investing since last 10 years now. Still the growth I can see in my money is not even peanuts!!" said Anurag Srivastav, a 37 year old Senior Executive working with a renowned FMCG Company. "Everyone keeps telling me that one should follow some principles of saving and investing, which I have followed so religiously over the last 10 Years. But what's the result?"

"What Happened Anurag?" asked his colleague Kapil. "You look so depressed"

"Depressed ?? That's an understatement Kapil. I am agitated, disappointed and devastated." Said Anurag.

"Oh My God !! Now that's something worrisome. Please tell me what happened." Asked Kapil.

"Ever since I started working, almost 10 years back, people used to tell me, that I should be saving and investing money. Also, few super-minds also told me to diversify my investments. As per them, this would create wealth for me." Said Anurag.

"That's absolutely right. So why are you disappointed then?" asked Kapil

"That's right?? I have been saving and investing around Rs. 60,000 per year from last 10 years. And guess what, my so-called Wealth accumulated till date is just Rs. 7.75 Lakhs." Said Anurag.

"Well, I agree with your disappointment now. This is actually no growth at all. But where did you invest, that you got such insignificant growth? Didn't you diversify your portfolio ?" Asked Kapil.

"I have a completely diversified portfolio Kapil. I am investing Rs. 5000 p.m. Out of this, Rs. 1000 goes into an Endowment plan, Rs. 1000 goes into a Money-back plan, Rs. 1000 is invested in a Post-office RD, Rs. 1000 is invested in a bank RD and lastly Rs. 1000 goes into NSC (National Savings Certificate). Even I understand that one should not put all his savings to a single avenue. Thus, I had diversified my portfolio completely. But no results !!"

Kapil Smiled. "Do you really think your portfolio is diversified?"

"Yes, haven't I invested in all different asset classes?" asked Anurag.

"Absolutely not!! Ok, tell me first, what are the different asset classes which you know?" asked Kapil.

"Yes, asset classes are like NSC, PPF, Insurance Policies, Govt Bonds, Mutual Funds etc." Said Anurag.

"First of all, let me tell you, that NONE of the products you have mentioned is an asset class. They are tools to invest in different asset classes. Basically the main asset classes are Equity, Debt, Precious Metals, Real Estate and Commodities. Then there are some alternative asset classes like Art etc. NSC, PPF, Mutual Funds etc. are the tools to invest in these asset classes." Said Kapil.

"Oh is it ? Then what about my portfolio? Which asset classes I have invested actually?" asked Anurag.

"Your portfolio is a totally debt-oriented portfolio. All your investments are finally being invested in debt-securities. You have no exposure to any other asset class as of now." Said Kapil.

"I just thought I will invest money in safe and guaranteed return products" said Anurag.

"That's apparent from your portfolio. But you can yourself see the flip-side of such conservative thinking. Ok, tell me something, what happens when you drive your car or bike with the brakes fully or partially applied all the time ?" asked Kapil.

"Multiple problems would occur. One is I will not be able to drive freely. The speed will be irritatingly slow, I will not reach my destination on time and also the brake apparatus will need to be replaced quite often." Said Anurag.

"That's right. And does that ensure enhanced safety ?" asked Kapil.

"Not really. I just need to have working brakes in my car /bike which I should be able to apply when I want. That should be good enough for the safety sake. Also, I should drive with a reasonable speed, so as to avoid any accidents." Said Anurag.

"There you are!! This is the same principle one needs to follow with investing. One needs to have accelerating components like equity, gold and real estate in their portfolio. Having only debt products in the portfolio don't really ensure safety, on the contrary they expose you to the inflation risk. In debt, your portfolio grows by 5-6% wherein the inflation is eating it at 8-9% every year. Now, when you say equity, do not get into F&O or intra-day kind of trading, this could have flip-side like rash driving. But not having exposure to equity at all is going to kill your money." Said Kapil.

"But suppose I invest money in equity, and suddenly the market falls, then won't I lose my money." Asked Anurag.

"Correct. And that is the reason why you should not invest at one go in the markets. You should invest the same way, which you are doing currently. Invest some amount every month, so that you are only positively affected by the movements of the market. "Said Kapil.

"But advisors generally advise to invest in these products only e.g. Endowment, Money back, NSC , Post office RD etc." said Anurag.

"Then you need to find out if they are really 'Advisors'. How much fees do you pay them for their advice?" asked Kapil.

"I don't pay any fees to them. Why should I pay a fee?" asked Anurag.

"See, you don't want to pay them a fee but want them to give you an unbiased advice. This is when they will only advise you products wherein they earn more, not you." Said Kapil.

"So what do you suggest I should be doing?" asked Anurag.

"First of all, update yourself about the importance of asset allocation and the need for various assets in your portfolio. Second, seek a good advisor who can give you unbiased advice. Third, pay him a fee for his advice, so that he is not inclined to give you biased advice. Lastly, review your portfolio at least once a year and consult your advisor if any changes need to be done in the same." Said Kapil.

"But isn't advisor fees an additional cost for me, When I can get advice for free?" asked Anurag.

"Free advice would always prove to be more costly to you. Best example is your current portfolio. You have saved on fees all these years, but the strangled growth is proving to be much costlier than the saved fees. It's similar to directly taking medicines to save doctor's fees to realise that the wrong medicines have done so much damage to the body that the cost to treat it will be much higher than the doctor's fees saved." Said Kapil.

"You have a point, Kapil. I will not shy away from other asset classes now and seek professional help so that my money starts growing. Thanks for your inputs." Said Anurag.

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

Reader Comments to "Why isn't My Money Growing?"

"Somehow you managed to peep into my portfolio !! Lolzzz

Very Nice article professor. I am having a similarly diversified portfolio which now I know isn't diversified. For a change, I have some ULIPs too (thanks to some well-wisher agent friends) to add some equity. But from your earlier articles, I know that even they are a disaster.

The only solution left is, not try to save the advisor fees now and get the right advice than have such a "Jumbled up" portfolio."

- Karan Mittal, Mumbai, Sep 30 2011

"After reading your every article it feels like I know this situation either with me or with someone close. I think that's the beauty of your articles that it can be related directly. It doesn't have those flavours of 'not applicable to me' like other so called advisors' articles like "How to become Crorepati in 5yrs".

You give a very good sense of different aspects of investments for a common layman. It would be great if you can follow-up with little more details after you introduce the concept in later posts or share pointers to some good resources where we can read more about these and educate ourselves. For example, you introduced/cleared my concept of asset classes, but now where can I read more about asset classes and risk associated with them etc.

Generally people say "Char Chand laga diye" but you are setting a record of one "Chand" after another."

- Vikram Agrawal, Hyderabad, Sep 30 2011

Buying Online Term Plan? Few Tips to Follow…

By professorbajaj

“Nothing doing !! Now no agent can fool me saying that endowment plans or ULIPs are good. I have understood that only term plan is the best form of risk cover. I am going to buy a term plan online.” Said Niraj, a 29 year old IT professional, to his friend Ashutosh.

“That’s right !! Even I have come to know that term plans are the best. But don’t fall in the trap of buying them online. They are all offered by private insurers. One of my friends told me that one should buy insurance only from LIC as it is backed by the government.” Said Ashutosh.

“Ok. Let me guess something. Your friend is either an employee of LIC or an agent of the same. Am I right ?” asked Niraj.

“Yes, he is an LIC agent.” Said Ashutosh.

“There you are. First thing, if it’s an LIC agent, he has to pitch LIC over others. So his argument could be totally biased in his own interest than ours. If you compare the premiums, LIC’s term plan is amongst the costliest plans. Why should we go for a costlier plan when we have cheaper options available?” Said Niraj.

“No, he said that, private insurers are charging less premium because they won’t settle the claim later. Or else, how can they afford to cover your life at such low costs?” Said Ashutosh.

“I don’t agree to that. If you look at claim history, there have been cases where even LIC has repudiated the claims, and most generally, even private insurers have settled the claims. There are some other factors why the online term plans are cheaper. They are:

1. Low Cost: Since these products are sold online, they save lot of cost in terms of agent’s commission and branch administration expenses, due to which they can afford to offer a low cost product to the customers.

2. **Claim History:** Every insurer has its own calculations of risk and claim history, based on which they arrive at the premium amount. Competition also plays a small role in this calculation.

3. **Higher comfort with disclosures:** According to law, the life insured is supposed to fill details in his application form on his own. But most generally, it is seen that, the customer just wants to sign the form and the agents fill out the details. At times, the agents assume a lot of things and fill out details without verifying from the customer. This is also one of the major reasons of claim rejection, that the customer had not disclosed some material facts to the insurer at the time of buying the policy.

Whereas, in case of an online term plan, the customer has to fill out all the details on himself and thus the company believes that they are getting the right info to assess the risk.

These are the major factors helping the insurers to offer a low cost term plan." Said Niraj.

"Good to know these facts. Now please also tell me, if I want to buy an online term plan, what all things I should keep in mind?" asked Ashutosh.

"They are as below:

- First thing is to compute the right amount of life risk cover for yourself.
- Having done that, second is to find out, the premium for the same from various insurers.
- Shortlist the top 3 (offering the lowest premium).
- Next, look at the existence and presence of these 3 insurers. Also, out of the 3, you may compare the claim settlement ratio, track record etc. This is just to re-ensure that the one charging lowest is not just doing it for the sake of competition.
- Once you have finalised the plan, go online to buy the plan.
- Fill out all the details with utmost care. Disclose all the information asked in the application form." Said Niraj.

"But if I disclose all facts, there might be a chance that I have to pay a higher premium?" asked Ashutosh.

"Yes. So what is better? To disclose all facts and pay a higher premium today so that the family gets the claim comfortably later?? Or to hide facts, pay a lower premium today and the family getting no claim because of hidden information ?" asked Niraj.

"Of course, it is better to disclose all facts, pay a higher premium and get claim settled. If the family is not getting the claims, then the whole purpose of buying the risk cover is defeated." Said Ashutosh. "Ok, one last question; There are some people who are not too tech savvy. How can they avail these online term plans?"

"Good question Ashutosh. Such people can approach an advisor to buy an online term plan on their behalf. Also, they should agree to pay a separate fee to the advisor for this service so that he doesn't start pushing his own insurance products. If we keep asking for a free service, we will continue getting biased advice." Said Niraj.

"Great to know all this. Even I will buy an online term plan for myself and secure my family in case of an unforeseen event." Said Ashutosh.

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)

Reader Comments:

"I had a bitter experience with online policy. I made payment etc. and never received policy documents. When tried to call them, I was told my cheque is not clear yet. Funny thing was I made payment by credit card, but customer care executive even gave my cheque number. Since then I prefer to give some good agent chance for his commission but buy offline (of course policy of my choice not his).

I am not at all suggesting that should not buy online, just giving an area you should lookout while buying online.

It's a good article and totally agree with points of how to choose a good policy, very well explained. But frankly, why emphasis online even when through agent till you insist on policy of your choice?

- Vikram Agrawal , September 16, 2011

Professorbajaj Says:

Thanks for the valuable insights Sir !!

Yes, at times there could be issues related to the systems of online transactions. In fact, till the time our online systems become too robust, we need to be ultra-careful while transacting online – Be it insurance or any other transactions. Thus, in such cases, it could actually better to go through an agent to buy a term plan.

But as you rightly said, one should first do his homework to find the right policy for him before approaching the agent, so that he does not succeed in selling (read mis-selling) you a policy of his choice.

Thanks again for your visit and feedback. Your comments always add glory to the article page. Looking forward to more in future.

Investing in Gold – Which Way to Go ?

By professorbajaj

“Chuck all investment avenues !! The best investment is Gold !!” Said Vinay Deshpande, a 35 year old telecom executive to his colleague, Kapil Sharma. “I am going to redeem all my money and buy some Gold Jewellery.”

“I won’t be surprised if this love for jewellery came from your wife. But am surprised to hear this from you.” Smiled Kapil.

“I am not buying gold jewellery to flaunt. I am buying it as an investment.” Explained Vinay.

“Well, in that case, please be mindful of a few things. If you are buying Gold as an investment, never buy it in form of jewellery. The reason being, if you buy a jewellery (say necklace) for Rs. 1 Lakh, the actual gold content in it might not be more than of Rs. 70,000. So even if gold gives you returns as high as 30% in 12-15 months, you will only be reaching your investment amount. Also, whenever you want to redeem your gold, there will be some “gold loss” which also gets deducted from your redemption amount.” Said Kapil.

“Ohh !! Good you told me this” said Vinay. “I think, I will ask the jeweller to give me gold coins instead.”

“Gold Coins would be definitely a better option than Gold jewellery. However, buying it from a local jeweller might again come with the concerns of purity. I remember a friend of mine, bought a gold coin from the jeweller. The jeweller charged him a price of 24 Karat Gold, however, the coin was 18 Karats only.” Said Kapil.

“How much importance do these karats have actually ?” asked Vinay.

“Well, that is the measure of purity of Gold. More the purity, higher the value and vice versa. And the price which you track of Gold, is of 24 Karat Gold. So if you are buying a 18 Karat Gold, you should be paying (and later getting) a lower value. Additionally, one has to pay VAT (Value Added Tax) when buying gold coins, which would also impact your returns.” Explained Kapil.

“Ohh !! Buying gold in physical form has too many problems. Coz am also worried about the storage of physical gold. If I keep it at home, it might get stolen. If I keep it in the bank, I have to incur locker charges etc. I guess E-Gold will be a better option.” Said Vinay.

“In that case, I have another threat waiting for you. Having physical gold or E-Gold will both attract Wealth Tax too when the market value crosses Rs. 30 Lakhs (combined with other non-earning assets). So pretty much likely that sooner or later you would be required to pay Wealth Tax on your physical gold or E-Gold.” Said Kapil.

"Ohh no !! So many hassles for investing in Gold !! Should I stop thinking about investing in Gold?" asked Vinay.

"Well, not really !! Thankfully we have so many options available to invest in Gold. Only thing is, every option comes with its own merits and demerits. For example, you may go for Gold ETFs and Gold Saving Funds." Said Kapil.

"What are these ? And what is the difference between the two?" asked Vinay.

"By investing in Gold ETFs, you are buying gold in demat form and through the exchange, wherein you need to pay a brokerage for buying and selling. And if you don't want to do that, you also have an option of investing in Gold Savings Fund, who would buy and sell Gold ETFs on your behalf." Said Kapil.

"How is it different from investing in actual gold?" asked Vinay.

"Not very different actually. The price of Gold ETF and Gold savings fund will move similar to gold prices, as the underlying asset is gold. However, you are free from the hassles of checking the purity, worrying about theft and wealth tax. So this could be one of the better options of investing in Gold." Said Kapil.

"So basically, if I want to enjoy the benefits of Gold investments, but keep myself away from the troubles of the same, Gold ETFs and Gold Savings Funds are the way to go for me. Thanks Kapil for your valuable advice."

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

Reader Comments

"No better way to explain the common man about investments, especially gold … great article!!"

- Prof. Neha Paharia, Mumbai, September 13, 2011

"Excellent.. Good work Saurabhji….thanks for ur advice.. it is a great help..!!"

- Karishma Kedia, Mumbai, September 14, 2011

Stuck with a wrong Policy ?? Get over it !!

By professorbajaj

"Where were you all these days? Why didn't you come when I was making all these mistakes ??" asked Dr. Rajesh Sharma, a 32 year old surgeon, sitting on a sofa in his drawing room. Mrs. Ragini Sharma, his wife, came rushing out to see, whom is Dr. Sharma talking to ? To her great surprise, Dr. Sharma was talking to the T.V.!! "If you had told me these things earlier, I would not have made such mistakes!!" Dr. Sharma was complaining to the Television.

"Are you all right, Rajesh??" asked Ragini. "Do you know that you are talking to the television?"

"No, I am not all right at all. Every day I am reading and watching views that one should never mix investments and insurance. The advisors on T.V. keep telling that term plan is the best for insurance and SIP is the best for investments. Why didn't these guys tell me all this 3 years back when I wanted to buy a new policy?" Said the worried Dr. Sharma.

"So what's the big deal even if they tell it to you now?"asked Ragini.

"I have already bought an endowment policy 3 years back which was a combination of investments and insurance. The agent somehow convinced me to buy this endowment plan which will give me insurance, investments and tax saving. But now I have come to know that he just did this to earn good commissions. This plan is a total waste for me." Said Dr. Sharma.

"So now that you know, what is really good for us, why don't you close this plan and start a new plan?" asked Ragini.

"It's not so simple. If I stop this plan, I will lose out the premium paid so far and also the life cover would cease." Said Dr. Sharma.

"Well, in that case, let's work on some numbers." Said Ragini. " How much premium are you paying for this endowment plan?"

"Around Rs. 1,00,000 annually. I am getting a life risk cover of Rs. 25 Lakhs and on maturity I will be getting an amount of around Rs. 47-Rs.49 Lakhs after 25 years." Said Dr. Sharma. "But the guy on the T.V. says that with an annual income of Rs. 10 Lakhs, I should have a life risk cover of Rs. 1 Crore. Also, with a current expenditure of Rs. 40,000 p.m. , and assuming a long term inflation of 5.5% p.a., I would need a monthly flow of Rs. 1.5 Lakhs to live with the same living standards. This would require a retirement corpus of around Rs. 2-2.25 Crores. This cannot be achieved with the endowment plan I am paying premium for." Said Dr. Sharma.

"Ok, Coming back to my original question, if you stop this plan today, what will happen?" asked Ragini.

"My Policy will lapse and the life risk cover would stop" said Dr. Sharma.

"And suppose you take a fresh term plan of Rs. 1 Crore, what will be the premium for the same?" asked Ragini.

"Not too sure, but should be in the range of Rs. 15,000-Rs. 16,000 p.a." said Dr. Sharma.

"Ok and if you invest the balance Rs. 84,000-Rs. 85,000 systematically in mutual funds, what amount could you after 25 years ?"

"Near about Rs. 1.19 Crores." Said Dr. Sharma.

"Then why do even bother whether your existing policy lapses or not ? Just forget that you had purchased any policy and that you were paying premium for the same. Start afresh and you will find that your goals are achieved without you noticing the loss of existing policy." Said Ragini.

"Good thought Dear. But what about my existing policy? What should I do with the same?" asked Dr. Sharma.

"We have a couple of options. **First option, surrender this policy and obtain the surrender value**." Said Ragini.

"But Surrender value will not be more than 50%-60% of what I have paid so far. I will be incurring a loss. The money which I paid towards the premium is my hard earned money." Said Dr. Sharma.

"You are right" smiled Ragini. "But you didn't do that same hard work while buying a policy. You bought it in a hastened manner. When you make a mistake, there is a penalty associated with it. But should that prevent you from taking a corrective action when you realise it? Just to give you a medical example, suppose you come to know that your doctor is giving you a wrong treatment, would you still continue taking it just because you have already paid the doctor ? The best solution is to get over it, say a good-bye to the wrong doctor and move on to the right treatment."

"Ok, let us assume that I decide to surrender the plan and book a loss. Now what ?" asked Dr. Sharma.

"This surrender value can be used to buy a single premium term plan. Suppose you get a surrender value of Rs. 1.67 Lakhs from this policy, you may buy a single premium term plan with this amount to get a cover of Rs. 75 Lakhs. And then you can buy a second term plan of Rs. 25 Lakhs which will only require an annual premium of Rs. 4000-Rs.5000 p.a.

This way, we will have an amount of Rs. 96,000 to be invested annually which will give us a retirement amount of Rs. 1.36 Crores." Said Ragini.

"Wow !! Sounds great !! And what is the other option ?" asked excited Dr. Sharma.

"**Second option is to convert the policy into a paid up policy**. This way, the cover would cease, but whatever premium you have paid so far, and the nominal bonus accrued on the same, will be paid to you on maturity. This amount will be so small that it will be meaningless, but for those who think that surrendering entails booking a loss, may go for this option." Said Ragini.

"That's great Ragini. So I still have an option to correct my mistake?" asked Dr. Sharma.

"We always have that option Rajesh. It's just that we need to change the way we look at things. Whenever we realise that may-be we have taken a wrong decision, we start defending our decision than correcting it. Our ego does not allow us to book a loss. And due to this, rather than taking a corrective action, we continue making that mistake and when it becomes big, we only have regrets." Said Ragini.

"You are absolutely right, Ragini. Even if we have made a mistake, we have an option to get over it. We just need to learn to overcome our ego, keep an open mind and take corrective action on the same." Said Dr. Sharma.

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

Reader Comments:

"This is one article relating to perhaps each one of us. Many of us have bought some kind of a wrong policy out of impulse and are now regretting it. This article helps a lot to come out of it !!

I wanted to ask, what can I do for a policy for which I have paid only one premium ? How much will I get back ?"

- Sameer Arora, Mumbai, August 28, 2011

professorbajaj Says:

"Thanks for the compliments Sir. About your query, you are lucky to realise early that may be you are into a wrong policy. So please do not bother surrendering it. You won't get anything.

At the most, you can get it converted to a paid-up or single premium status, so that you don't feel the pinch of losing money."

"Good article to read and directly relate it with the wrong policy you have bought just by the illusions portrayed by the agent.

Everyone makes such mistake sooner or later but yes the early its realised, the better it is."

- Amit Chandrayan, CSC, Indore, August 28, 2011

A Stitch in Time….

By professorbajaj

"Hi Niraj, How are you doing today." Said Mr. Shrikant Desai, a 45 year old businessman to his nephew Niraj, a 29 year old IT Professional.

"Hey Uncle, Good to see you", Said Niraj. "We are meeting after a pretty long time".

"Well, honestly speaking, I have specifically come to seek your help." Said uncle Shrikant. "I have come to know that you are investing in a plan which would fetch you more than Rs. 3 crores at your retirement. And the 'premium' for the same is also pretty less. I just wanted to invest in the same plan."

"That's nice" smiled Niraj. "Well, a few things first. It is not an 'insurance policy', so there is no premium in it. It is called an SIP wherein I have to invest Rs. 10,000 p.m. and I will get a retirement amount of around Rs. 3 Crores after 30 years assuming returns of 12% p.a. "

"Oh Wow !! So I also want to invest in this plan. I can easily afford an investment of Rs. 10,000 p.m." said the happy uncle.

"But you don't want to retire at the age of 75, do you ?" Asked Niraj.

"Of Course not !!! If you are planning to retire at 59, why should I retire at 75? I will also retire at the age of 60" asked Uncle Shrikant.

"Well, in that case, you only have 15 years to invest uncle. So you won't be able to get Rs. 3 Crores with an SIP of Rs. 10,000 p.m." said Niraj.

"But you just said, that in this plan, if one invests Rs. 10,000 p.m., he gets Rs. 3 Crores at retirement." Uncle Shrikant was surprised.

"I never said that. I said, I will get Rs. 3 Crores at retirement with this investment. That's because I have 30 years to invest, whereas you have only 15" Explained Niraj.

"Ohh !! That's not a big issue. I will double the investment to make up for the time. I can even afford to invest Rs. 20,000 p.m. Then toh I can get Rs. 3 Crores at retirement na. " said uncle Shrikant proudly.

"I am sorry to say this, but you won't uncle" said Niraj. "The time factor cannot be made up just by doubling your investment. Even if you do an SIP of Rs. 20,000 p.m. you will get a retirement amount of around Rs. 95 Lakhs."

"Then how much would I need to invest to get Rs. 3 Crores on retirement?" Asked Uncle Shrikant.

"In my opinion, you would need to invest Rs. 65000 p.m. to accumulate a retirement wealth of Rs. 3 Crores." Said Niraj after doing some calculations.

"That's not fair !! If I am investing for half the number of years than what you are, I am compensating by doubling the investment amount. Both of us should get the same results. It is simple mathematics. Why my investment amount is more than 6 times for just half the time ??" uncle Shrikant was disappointed.

"That's the magic of compounding uncle. Once you let the time slip from your hands, you might have a pay a much bigger price to make it up. If you had started investing 15 years back, even you could have accumulated Rs. 3 Crores with a Rs. 10,000 SIP." Smiled Niraj

"You are so right Niraj. I really regret not realising this when I was your age. But I will make it a point to tell my son to start investing at an early age so that he does not have to invest a heavy amount when he reaches my age." Said Uncle Shrikant.

"How old is your son, uncle?" Asked Niraj.

"He is 25 Years old and started working 6 months back." Said uncle Shrikant Proudly.

"Well, in that case, he can achieve a retirement wealth of Rs. 3 Crores with a small SIP of just Rs. 6000 p.m." Said Niraj after doing calculations.

Uncle Shrikant stood from his chair to hear this. "Just Rs. 6000 p.m. ?? That's like less than 1/10th of what I need to invest. Now I am truly astonished. So that means, just because I didn't plan and invest at the age of 25, I now have to multiply that amount more than 10 times."

"That's the magic of compounding uncle. And that is why, someone has rightly said 'A Stitch in Time, Saves Nine.' If one does not want to shell out a nine-fold or ten-fold amount later, all he has to do is start planning and investing at an early age." Said Niraj.

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

Reader Comments:

"Simple Language and Practical Example !! I have been reading your articles since some time now. Must appreciate the way you make things easy for a person like me who is not from finance background. Keep up the good work !!"

- Piyush Sharma, UAE, August 19, 2011

"Good article. Plz let me know abt the different plans available for SIP where i can get 3 crs return on retirement."

- Chandresh Soni, Ahmedabad, August 20, 2011

"Aha now I can point this article to all those who question me why I am saving some small amount for my Daughter since she born. They always says itni bhi kya jaldi hai, see this shows a clear diff.

Good article sirjee. Wish more people start thinking in your line."

- Vikram Agrawal, Hyderabad, August 27, 2011

Banker or Cheater ??

By professorbajaj

“Welcome Mr. Mehta, What can do I for you ?” said Jenny, a relationship manager working with a leading private sector bank, to the bank customer Mr. Mehta, who himself is a tax consultant.

“I just wanted to deposit these cheques to my account” said Mr. Mehta.

“That will be done Sir. And I would also like to tell you something about a very good tax saving product which will give you insurance as well as good returns.” Said Jenny.

“Is it another ULIP you are talking about Jenny?” asked Mr. Mehta.

“Sir, this is a very good product specially designed for people like you.” Was Jenny’s confused reply to a straight question.

“ Yes, but is it a ULIP?” Mr. Mehta asked firmly this time.

“Yes Sir”. Jenny had no alternative than to confess this time. “But you need to pay the premium only for 5 years”

“Ok. But do you know that as per the draft DTC, the contribution made towards ULIP might not qualify for tax saving. So in effect, it would be mandatory for me to pay the premium for this ULIP for 5 years and invest separately for saving tax.” Asked Mr. Mehta.

“No Sir, when you are buying a ULIP now, the Company is entering into a contract with you that it will give you tax benefit for 5 years. So, DTC or no-DTC, you will continue getting a tax deduction on the premium paid towards this ULIP.” Said Jenny.

“Are you Sure?” Mr. Mehta was astonished. “Is it a Company that decides whether you get a tax deduction or the Government decides it?”

“The Company” Jenny said in a low and hesitant tone.

Mr. Mehta stared at her with anger and surprise, when Deepa, a colleague of Jenny, came to her rescue, saying, “Sir, you are right, it is the government that gives a tax deduction and not the company.”

“Yes, and thus, I would like to wait till the time there is clarity on this one, and only then I would commit myself to such a product wherein I need to compulsorily pay for next 5 years. Had it been a one-time invest product, like an ELSS, I would have definitely invested in it.” Said Mr. Mehta.

Jenny was little disappointed. But she didn’t give up so easily.

“Mr. Mehta, you also have an HUF account with us. Don’t you?” She asked.

“I do. So?” said Mr. Mehta.

"You might be aware that the tax saving limit u/s 80C is Rs. 2 Lakhs for HUF accounts. So you can make some tax saving investments from that account." Said Jenny.

"What??" Mr. Mehta was really angry by now. "Ms. Jenny, just for your information, I am myself a tax consultant, and would like to update you that the tax saving limit for HUFs is the same as individuals, which is Rs. 1 Lakh u/s 80C and Rs. 20,000 u/s 80CCF."

"Ohh is it?? But I remember 'SOMEONE' telling me that the tax saving limit for an HUF is Rs. 2 Lakhs" Jenny was shaken by now.

"SOMEONE ??? And who is that SOMEONE ?? Ma'am, you are a responsible officer in a reputed bank. People from non-finance background trust your words like anything, and you have no other business than to mis-guide people. Thankfully, I am a tax consultant myself, or else you would have successfully cheated me. Are you a Banker or a Cheater?" said the fuming Mr. Mehta.

Jenny had a simple escape route. She just had to apologize and say that she will recheck these things. But on his way back from the bank, Mr. Mehta was thinking, "Times have now come that even your banker might not be shy of cheating you. Do your homework before trusting his words blindly."

So beware of all such "Jennys" when you visit your bank next time.

(The views mentioned in the article are personal opinion of the author. The characters used in the article are real and names are changed for protection of identity.)

Readers' Comments:

"A close to heart Article !! I could actually imagine the entire scene happening in front of me. Every time I visit the bank, something of this sort happens and I end up investing in something they sell, thinking that how can my banker lie ?? Need to be careful from now. Thanks to Prof Bajaj."

-Chandrakant Desai, Mumbai, July 28, 2011

"Nothing else can describe the true nature of so called bank's 'Relationship Manager' as described in this article. Surprisingly, especially in private banks, first line customer facing 'executives' don't have knowledge of banking, laws even policies of their own banks.

Every time someone from bank calls and say I am your new relationship manager and want to meet you. First few times gave them time and all they did was trying to sell 'Insurance / Investment' (read ULIP) and have to time to understand my investment needs. I stopped entertaining them.

Life is not long enough to make all mistakes, either you learn by experience or reading Professor's blog."

- Vikram Agrawal, Hyderabad, July 29, 2011

Exemption from Income Tax Return Filing : A Mirage ?

By professorbajaj

"Phew !! Thank God (and thanks to Pranav Babu) I don't have to file ITR this year. It is such a painful process", Said Ajay Dixit, a 27 year old BPO Executive to his friend Kapil.

"And how did you arrive at this conclusion, that you don't need to file a return?" asked Kapil.

"Aren't you aware of the notification that came on June 24th, that all those having income below Rs. 5 Lakhs need not file their Income Tax Return?" said Ajay.

"I'm aware of that", smiled Kapil, "But I guess you are not aware that this exemption also requires a few more conditions to be fulfilled as mentioned below:

1. Total Income after allowable deductions is below Rs. 5 Lakhs.

2. Income is ONLY from salary and savings bank interest.

3. Salary is from ONE employer.

4. Savings bank interest is below Rs. 10,000.

5. Tax due on savings bank interest has been paid and included in Form 16."

"But I am fulfilling most of these conditions Kapil." Said Ajay.

"That's good to know. However, the unfortunate part is, you can avail of the exemption, ONLY when you fulfil ALL of the above conditions, and not most of them." Said Kapil. "Most generally, people with an income range of Rs. 2-5 Lakhs would have various other sources of income like FDs, Bonds, Mutual Funds etc. If you have income from any of these, you have to file ITR. Also, let us assume for 2 minutes that you have only savings account interest, which is below Rs. 10,000. But still have you mentioned this income to your employer prior to 31st March 2011, so that he deducts your tax accordingly and mentions it in the Form 16?"

"No ways. How would I do that before 31st March 2011, when I came to know on 24th June 2011, that I have to do something of this sort ?" Ajay was disappointed.

"There you are !! This isn't a problem just with you but most of the people who "thought" they need not file a return. So this exemption appears to me more like a mirage. As you approach closer to it, you will find that it doesn't really exist." Said Kapil.

"Ohh No !! That means I will have to file an ITR", Ajay was totally disappointed by now.

"Well, you will have to. But then why do you view filing of ITR as a compliance? It is in your benefit to file an ITR" said Kapil.

"Ok, tell me. How is it in my benefit to file an ITR?" asked Ajay.

"There are several benefits of filing an ITR such as:

Availing any kind of loan like home, personal or education;

Visa and immigration processing;

Income proof / net worth certification;

Refund claims (in case of excess taxes paid); and

Applying for a higher insurance cover."

Said Kapil, "So do not view it as a compliance and do not feel sad that you are not getting an exemption from filing an ITR. File it happily as it is going to benefit yourself in the long run."

"Thanks for that nice piece of information, Buddy" acknowledged Ajay.

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

Reader Comments

"Dear Sir, I have a salary income of Rs. 3.11 Lakhs p.a. Apart from this I have few other income like FD interest etc. From what I understand is, I will have to file ITR. My question is, what is the procedure to file ITR ?"

- Srikanth Raghu, Pune, July 16, 2011

professorbajaj Says:

"Dear Mr. Raghu,

I hope you are clear that you will need to file an ITR and it is in your benefit to file the same.

Coming to your question of how to file an ITR, there are several ways available. You may go for e-filing, or download the form and fill it up manually or you may also seek professional assistance for the same.

For further details, you may mail me at saurabh@nidhiinvestments.com

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

5 Mistakes to Avoid while making investments !!

By professorbajaj

"Oh My God !! All these years I did too many mistakes while making investments which I am realising when I compiling my IT return." Said Prithviraj, a 33 year old IT professional to his friend Niraj.

"What Mistakes you made Prithvi?" asked Niraj.

1. Investment in a ULIP

"First mistake I did was investment in ULIPs, pre and post 1st Sep 2010. Prior to 1st Sep 10, an agent told me that ULIPs will become unattractive from 1st Sep, and thus, the right time to invest in ULIPs is now. I got convinced and invested in it. Later, the same agent came with a new ULIP stating that ULIPs have become much better now and thus I should buy one more ULIP from him.

Later on I realised that both the ULIPs were totally uncalled for and were a perfect recipe to drain my hard earned money to the agent's greedy pockets." Said Prithviraj.

Lesson: ULIPs / Endowment Plans / Money Back Plans are all combining insurance and investments together. If you want a good life risk cover, take term plan. If you want your money to grow, do SIP. Never mix insurance and investments.

2. Taking too little risk

"Second mistake was to keep most of the money in idle avenues like savings account, bank FD, endowment plans etc. for a long time.

These avenues gave me poor returns, whereas inflation kept eating my money by 8-9% every year."

Lesson: When you are planning a long term goal, equity would come very handy to beat inflation. Keeping a very high proportion of debt in your portfolio will strangle its growth and make it sluggish.

3. Not saving / investing beyond Rs. 1.20 Lakhs

" Third mistake was to invest solely with the purpose of tax saving. This not only restricted my choice of funds, but also restrained me from saving and investing more. I am earning close to 7-8 Lakhs per year. Having said that, my annual savings should be around Rs.2-2.25 Lakhs which may be invested in asset classes not qualifying for tax saving, but still giving good returns in the long term."

Lesson: While saving and investing, have a larger focus on what amount you would need on retirement, than what amount is mandated by government to save tax. Ultimately, you will be doing this in your own interest. The government need not incentivise you for everything you do in your own interest.

4. Investing at a wrong time

"Fourth mistake was to invest lump sum amount every year, just before 31st March ended. This usually resulted in investing at a higher market level and could never get the advantage of rupee-cost-averaging. Also, to make this money available, the savings were lying idle in the savings account for the entire year.

Lesson: The magic of investing lies in investing regularly in small amounts than occasionally in larger amounts. The rupee-cost-averaging helps to bring down the overall purchase price, thereby growing the wealth in long term.

5. Investing without Goal Planning

"Fifth and most important mistake I did was investing without having goals and without any plans. The entire focus was on, 'there is some idle cash with me, let me pay the premiums so that I save tax and balance can be invested in some IPOs, NFOs etc. to make quick money.'

Dint realise that unless there is a plan in place, one cannot reach the desired destination if he just keeps on walking. One should know, where he wants to go, how he can reach there and then start walking towards it."

Lesson: Rather than investing in some "Fancy-named Plans", plan your investments. Know what you are investing for: For a Child's education / Marriage, Your retirement , buying of assets etc. Once you have a goal, you will also know the time frame to reach that goal. This will be of great help while deciding the strategy to invest.

"Thanks for sharing your mistakes Prithvi. Life is too short to learn from our own mistakes. At least I will not repeat them. I will:

1. Keep Insurance and Investments separate.
2. Take adequate risk depending on my risk profile.
3. Not restrict my savings and investment to the Rs. 1.20 Lakhs limit by government.
4. Invest at regular intervals through SIP / STP than try to time the market.
5. Work out my goals and plan out my investments." Said Niraj.

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

Reader Comments:

"Awaiting for your article since Long !!

Really Nice article encapsulating the most generic mistakes done by all. I think I was doing all of them at some point of time or other. Now I won't !!"

- Navnidhi Randhawa, Chandigarh, July 13, 2011

"Very Nice Article Professor Bajaj.

I did opposite of Mistake # 2 to beat the Mistake # 3 to join mistake # 4. And ended up taking too much of Risk. This has again turned fatal. Courtesy :- My Agent. Now I have learnt a lesson a wrong way. Once i get out of the Lock period , shall only Invest after Consulting you Professor."

- Yogesh Deshmukh, Bangalore, July 13, 2011

Where there is No Risk ??

By professorbajaj

"The Markets are getting riskier every day. I am really confused where to invest my money. I want to invest my money where there is no risk." Said Anurag, 31 year old Dentist, to his friend Niraj.

Niraj Smiled, "Before answering that, I would just like to share a small story with you. Here it goes:

'A Philosopher was lying under the tree with his feet towards west. One Priest passing by stopped at him and commented, "Dear Friend, you are committing a sin by keeping your feet towards a direction where there is God."

The Philosopher answered, "Am Sorry Dear Sir, I am pretty unaware of all these things. Why don't you turn my feet to the direction where there is no God?" The Priest left unanswered.'

"Nice Story Niraj. I totally agree with the Philosopher, but I am yet to get my answer." Asked curious Anurag.

Niraj Said, "This story not only gives a sense of the omnipresence of God, but also gives me a laugh when someone is too worried about "Market Risks" and wants to park his money, where there is no risk.

The fact is, there cannot exist an avenue where there is no risk. If you are worried about market risks, you would generally keep away from shares, MFs etc. and go for fixed income type of products, you still have some risks. What all could be these risks? Let's have a look:

Fixed Income/ "Guaranteed Return" Products: It is not uncommon to see people getting lured by high "guaranteed return" products offered by NBFCs, Real Estate Companies, Co-operative Banks etc. What they tend to believe is that the return being promised to them is not linked to the market movements and thus, they are unaffected by the market risk.

The question is, "What about Credit Risk? What about the credibility of the person who is making this lucrative offer to you?" There have been numerous cases, wherein an NBFC has issued Bonds with a "Fixed" interest rate of 14-15% p.a. and then got vanished. So for all those, who are worried about "Return on Capital", it is a sincere advise to also think about "Return OF Capital". The 15% return will be of no use when someone disappears with your principle.

"You are right!!" Agreed Anurag, "But how about real estate? I have seldom seen real estate prices going down!!"

Niraj said, "Again, real estate comes with its own risks, explained below:

Real Estate: Undoubtedly, real estate had been a hot favourite and strong tool for wealth creation throughout. But does that mean, there is no risk associated with real estate? Let's have a look at few examples to understand the risks associated with real estate.

Example 1: My neighbour, Mr. Dayal, age 76, retired, had purchased a 5-Acre land during his working life in 1984 for his retirement. He retired in 1995 and thought that he will sell the land and park the proceeds in a bank FD so that he can live his retired life with the interest income. The good part was, the land had appreciated by almost 4 times during this tenure and looked like a perfect investment for retirement. However, there was a twist in the tail.

When Mr. Dayal visited his land along with the prospective buyers, he was shocked to see a few slums "established" on his land. He spoke to the slum dwellers and told them that the land belongs to him. However, the dwellers grossly refused to vacate the land as they "Didn't have any other place to live!!"

Mr. Dayal then approached the court and fought the case for nearly 10 years. In 2005, the court awarded a judgment in favour of Mr. Dayal and ordered that the land be vacated. By this time Mr. Dayal had already turned 70 years old. He again went to the slum dwellers along with the court order. By this time, the slums had almost doubled in his land. Also, the older one and now converted into pucca houses. Mr. Dayal told the slum dwellers that the court judgment is in his favour and now they should vacate the land. The slum dwellers approached a local politician who again filed a petition in the court obtaining a stay order.

Now, the current situation is that, the land has a market value more than 7-times its purchase price. So, it has been a true wealth creator for Mr. Dayal. But the question is, whether he can sell the land. Due to illegal occupation, buyers are not willing to buy a disputed property."

"Oh My God!! That's really sad and indeed a great risk associated with land investments. But how about investment in flat?" asked Anurag.

Niraj smiled, "Nice thought, but don't expect it to come without risk. Let's discuss example 2:

Example 2: My friend Dinesh booked a flat with a builder. After making the entire payment, when he went to take possession of the flat, he was shocked to know that the same flat has been sold to four different buyers. All four had the sale deed signed by the builder and the builder had vanished.

So, even an investment in a flat/shop won't come risk-free.

Apart from these, there are few limitations such as lack of liquidity, lack of divisibility and lack of transparent price discovery in real estate investments."

Signs of worry had now started showing on Anurag's face. He said, "I think noble metals like Gold and Silver are the only risk-free investment options left with me now."

"**Gold:** Well, Gold and Silver are definitely a great investment option. But I still have a problem with the word 'Risk-free'. How will you invest in Gold and Silver ?" asked Niraj.

"Simple, I will buy some gold jewellery from the nearby jeweller." Said Anurag.

"Now, here starts the first problem. Buying GOLD in the form of jewellery, you first lose out a big chunk in the name of making charges. For example, if you buy a jewellery of Rs. 25,000 the actual gold you will get will be of around Rs.15,000-16,000. Balance will go as making charges (which you will not be able to recover when you plan to redeem the investments). So even when gold appreciates by say 25% from the current level, your "asset" will actually be of Rs. 20,000 (20% lower than the original investment of Rs. 25,000).

Secondly, if you plan to buy it in the form of coins/ bars etc., you still run a risk of authenticity of the purity of the Gold you are buying.

Lastly, let's assume that you are fortunate to get authentic Gold / Silver, you still run a risk of theft, if you are holding the same with you in physical form." Explained Niraj.

"Now I am thoroughly confused. I think I would rather keep all my money with me and not invest it anywhere. I think that is the only way of keeping it 'Risk-free'." Sighed Anurag.

Niraj Smiled, "In that case, I have some bad news for you. Even if you keep your money in cash, you still run some risks."

"What are you saying?? How could there be some risk in cash holding?" Anurag was surprised.

"**Savings Account:** Well a couple of them. First risk is the risk of theft. If you hold on to your cash at your place, you run a risk of it being stolen. Secondly, if you keep that cash in your savings account, the giant of inflation will continue eating it. The cash in your savings account will grow at an interest rate of 3.5% (taxable) while the inflation will reduce it by 7-8% every year. Suppose, you have Rs. 100 in your savings account today with which you can buy an object worth Rs. 100. Next Year, your money will grow to Rs. 103.50 whereas the object would then cost Rs. 107-108. So you are losing on the purchasing power of your money by parking it in the savings account. Thus, holding on to cash might not be risk-free."

"Now I am exhausted. Why don't you directly tell me, where should I invest rather than telling me risks in each asset class?" Asked disappointed Anurag.

"No, I am not suggesting you where to invest. I am just trying to tell you, that there does not exist, any asset class, which is totally risk-free. Also, there is NO asset class which is superior to all others in all aspects. Every asset class comes with its own merits and its own set of risks. So the best way would be:

1. Have a diversified portfolio i.e. have investment across various asset classes than putting all your eggs in one basket.
2. When investing in fixed income products, give due importance to the creditworthiness of the institution where you are investing your money. Don't just get lured by the word "Guaranteed Returns".
3. While investing in real estate, ensure that the property is in your reach and you keep visiting it periodically so that there is no illegal encroachment on the same. Also, do your due diligence while buying a property. Hiring a professional lawyer might be of help.
4. While investing in Gold, prefer the route of Paper Gold / Gold ETF / Gold Mutual Fund than physical gold so as to avoid making charges, authenticity and risk of theft.
5. Do not think that market risk is the only risk your investment has. Equity investments prove to be one of the best wealth creators in the long run. Market risks nullify itself when you have a time-frame of more than 15 years. SIP could be a great tool to avoid the risk of bad timing.
6. Sitting on cash or lower return avenues (e.g. savings account / endowment policies) would just deteriorate your wealth as they won't be able to beat inflation.
7. Invest for long term for wealth creation. But also keep sufficient options, in case you require money in the short term to fund the emergencies / contingencies.

"Now I have understood. Risk is everywhere. We just need to learn to protect our feet with slippers and not expect the earth be covered with carpet." Said Anurag with a relieved smile.

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

Reader Comments:

" Blog coming after a long time.. Worth Reading. I always wait for your blogs because they provide a good insight in a very simple way. Thanks for sharing your views and knowledge sharing."

- Amit Chandrayan, Indore, April 21, 2011

"Bro !!! I'm waiting for a book on this… Would be a gr8 success….

Superb & simple explanation, in a way a common person would understand !!!!"

- Pratik Agrawal, Nagpur, August 3, 2011

How much “Convenience Tax” You are paying ?

By professorbajaj

“Convenience Tax ?? When was this tax imposed ?? Government has no other business than to impose new taxes every day ??” might be a normal reaction after reading the title. Well, the good news is, this tax is not really levied by the Government. Rather, it is a self-imposed tax by the citizens like us who are too “Convenience Seeking” and thus have to pay this tax because of their own short-sightedness. Let’s have a look in detail:

1. Investing for tax saving u/s 80C

Although most of us know and agree that ELSS is the best avenue for tax savings and investment growth, most of us are driven away with the new regulations that have come in; “KYC Mandatory”, “No Third Party Cheques” etc. etc. to name a few. All these make us think that ELSS investment is too complicated and too much of a headache. Let me go the convenient way of taking an insurance-cum-investment plan.

Convenience: Insurance-cum-investment plans still come with lot of convenience. The agent is available at any hour of the day *(thanks to the hefty commissions)*, no KYC hassles *(at least less than ELSS)* and the premium can also be paid in cash. Occasionally, a hard bargain could also fetch some passback. What could be better than this one ?

Tax: All these “insurance-cum-investment” plans come with huge hidden costs which defeat you on all fronts i.e. insurance as well as investments. Even if you find them convenient in the short term, they might deprive you of a substantial amount when you need it the most (death claim, retirement etc.).

Remedy: Though it might appear a little painful, it is advisable to go for ELSS even if it requires more regulations. Remember, the regulations are in your interest. If you find a Security Check to be a hassle, may be you are inviting intrusion.

2. Taking Life Risk Cover

Term plan or the pure life risk cover is itself a bitter bite for most of us as there are no “returns” from it. Moreover, people are seen reluctant to go for higher risk cover as it might involve a compulsory “medical test”.

Convenience: Either take a low life risk cover wherein a medical test is not needed. Or else go for a higher risk cover and sign the declarations given by the company. Much convenient than to go for a medical test. After all, who has the time to go through all this ??

Tax: Taking a low risk cover is almost like having no cover. Similarly, if you sign too many declarations with the insurance company, they basically put the ball in your court. Today, it might hand over the policy document to you conveniently, but in future your family might have to undergo a lot of painful procedures if the need of claim arises.

Remedy: Assess the right amount of risk cover you need and go for a medical test for the policy. This way you have put the ball in insurance company's court. They might offer you the policy at somewhat higher premium (if your health report is below par), but at least there won't be trouble at the time of claim. Now it's up to you to decide, whether you want a policy document in your hand or you want the claim settlement to be smoother.

3. Getting the Life / Health insurance forms filled up by the agent.

We might feel like a king when the agent tells us that he will fill up the Life / Health insurance form on your behalf. But have we ever been careful of what actually he is filling up?

Convenience: The Life / Health Insurance forms are lengthy and are full of mind-boggling questions. It is lot convenient when the agent fills it up for me.

Tax: The agent might say a generic "Yes" to all the questions which expect a Yes and a generic "No" to all the questions which expect a No. He might not have taken into account the reality, and a not-so-factual data is submitted as information provided by you and in case some information is found to be incorrect, it is you and your family who suffers.

Remedy: Insist on filling up the form yourself. If you need help, the agent might help you to fill it up. Also, better to disclose all the facts so that the chances of claim repudiation are minimised.

There is an old saying "No Pains No Gains". May be what we are trying to suggest here is similar. The above remedies might sound a little more painful in the short term; But in the long run, they will prove to be the best strategies.

Already we are burdened with so many taxes. Let's not allow this "Convenience Tax" to get on our nerves.

(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.)

Reader Comments

"Good article. People should be made aware of price they are paying for convenience. Then, of course, they free to pay that price if they wish not to take that worthy effort. I am lucky to have friends like Saurabh who guided me at right time and I saved the tax."

- Vikram Agrawal , Hyderabad, February 14, 2011

"bhai g… abke to iyaan ko title de diya jee bethgo… ki lyo ab yo b deno padsi…. pan padhne k baad pato chalyo ki yo to main sada hi de riyo ho… so bahot bahot dhaywaad aankhya kholne k liye…"

- Giriraj Sharma, Rwanda, Africa, February 11, 2011

Are We Acting Responsibly ??

By professorbajaj

"What is this ?? Onion prices are shooting from the roof !! Food Inflation is going crazy !! Is the Government Sleeping ??" Said Naveen Kumar, a 34 year old salaried individual to his friend Karan Gupta.

Karan Smiled, "Are you really worried about the inflation?" he asked Naveen.

"Of Course !! Who won't be ??" Said Naveen. "If I were the Prime Minister, I would take this up as the most important problem and taken appropriate steps to solve it."

"That's so very thoughtful of you" Said Karan, "But you know what ? You can even do something without being the prime minister so that the inflation could be eased out to some extent."

"Oh really !! But that isn't really my job, is it ?" Asked Naveen.

"This is the problem with us, Naveen. All that we can do is blame others for things going wrong. We never bother to ask ourselves, 'Are we acting responsibly?' For all the problems, we think that someone else is responsible, and someone else should do something about it. Why not we ?" Karan was angry this time.

"Calm down Karan. I didn't mean to hurt you. But we can't really do anything dude. Can we?" Said Naveen.

"Well we certainly can. First thing we need to do is stop wastage of food. It is still not uncommon to see people wasting loads and loads of food in weddings and social events. On one hand we say that food prices are soaring and on the other we don't mind throwing it away in social functions.

When I ask the guests why are they doing it, they say, "Doesn't matter to me, I am not paying for it."

When I ask the Host, why so much food is being wasted, he says, "It is the Guests, who are wasting food. I can't say anything to them. Anyways, the caterer is going to charge me for per plate. So I am not actually paying for the wastage."

When I ask the Caterer about the wastage, he says, "We can't do anything if the guests waste food. All we can do is, add it to our cost and charge the host accordingly. We have to buy additional material to complement the waste."

So in effect, what I can see is, all the caterers buy a much higher quantity than required anticipating wastage. Thus, the overall demand is unnecessarily being increased because we are not assuming our responsibility. This additional demand contributes to further increase in price rise which, in effect, will have an impact on everyone including ourselves.

Let's make a resolution that next time we visit a wedding or social function, we do not waste food at all (or waste it to the minimal at least). This is something we can do while being the guest (the role which we have more frequently than being a host)." Said Karan.

"That sounds like a really good observation and idea Karan. I will immediately start implementing it. Is there anything else we can do?" Naveen seemed convinced.

"Yes Certainly !! There is a lot we can do than just to blame. It is also very common to see people visiting malls, multiplexes etc. and paying 4-5 times of the usual cost for the food items. A simple enough example would be a Samosa which costs around Rs. 5 generally would be sold at Rs. 20- Rs. 25 in the malls, multiplexes etc. and people are seen happily paying for it. The economics for this works like this: Since the Mall and Multiplex guys know they can sell you at such exorbitant prices, they don't mind paying high costs while buying the raw materials (e.g. vegetables etc.). This increase in expectation by the vegetable vendors prevents them from selling those vegetables to retails buyers at lower prices.

In effect, we pay 400% higher cost in the malls, multiplexes , clubs etc. and are still happy whereas we keep cribbing the pay double the cost when buying the vegetables from the neighbourhood vendor. Let's stop throwing money to the wrong hands and then see the difference. " Said Karan.

"Do You mean to say that we should stop going out and eating out ?" Asked Naveen.

"Well , if we can't STOP it, we can definitely make every attempt to REDUCE it. That too in our own interest. If we don't , the ultimate losers will be ourselves only." Said Karan.

"Why doesn't the Government start subsidising the food items?" Asked Naveen.

"They might do so. But whom will it impact finally. Ultimately it will be paid from the taxes collected from you and me. So this way or the other, it will be paid from our pockets only." Said Karan.

"So what is the solution for all this?" Asked Naveen.

"Well, the solution might not be so simple. But as they say, 'Let's not blame the darkness, Lets light a Candle Instead.' Let us try our bit to minimise wastage and keep the demand in check. If everyone starts thinking and acting responsible, we can definitely solve this problem to a very great extent, if not completely." Said Karan.

When are we starting to act responsibly ??

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

Readers' Comments

"Dear Saurabh , is it fair to relate with caterers only, what abt the chain supply and complex system around us . that was really thoughtful discussion , but will it going to work , starting from me n u????

- Abhijit Wagh, Mumbai, January 13, 2011

professorbajaj Says:

Dear Abhijit,

The biggest journeys of the world start with a single step. The biggest problem is, we don't want to do anything except blaming others. Let's start from me and you and keep spreading the word. The change is brought by people. I am sure you would agree that food should not be wasted. If we can follow at least that, then it can make a big difference. You might be surprised to know that in weddings and social events, more than 40% of the food prepared gets wasted. And with the growing population, number of weddings and social events is also growing. You can imagine the quantum of food that is wasted. Won't you agree that if this food isn't wasted then it would be available to fulfil the demand of so many people and thereby might contribute to ease inflation ? Just a thought !!

"Point noted sirji…and will be taken care of…its true…. as always … "one man can make the difference"

- Pankaj Joshi, Bhubaneshwar, January 13, 2011

ULIPs and Traditional Plans are the best products for ………

By professorbajaj

"Ohh !! Did I log on to a wrong page?? I always thought this space talked about the drawbacks of ULIPs and Traditional Plans (Endowment, Money Back etc.) by explaining their failure to address insurance as well as investments. So how come they became best all of a sudden??" these might be the thoughts coming to the readers' minds who have been visiting this space for quite some time now.

However, some people keep asking me that "if ULIPs and Traditional Plans were so bad, then they would not have existed in the market for so long. There might be 'some' people for sure, for whom they are good."

I said, "Ok, let me do some study and find out, which could be those people for whom ULIPs and Traditional Plans could be good". Below, I have tried to identify a few groups those who can be benefitted a lot from these. Please see if you belong to any of the below groups. If yes, then ULIPs and Traditional Plans are the "Flavour of the Season" for you.

1. Insurance Companies

If you are an insurance company (whether promoter or employee), then you have to make sure that you always keep talking good about ULIPs and Traditional Plans. Because these are the products in which your company can deduct high amount of charges and earn a lot. Only from these earnings your fat salaries, lavish offices, fat bonuses and foreign trips can be funded. Just selling term plans might be beneficial for the clients, but not you. So make sure to keep endorsing ULIPs and Traditional Plans, whenever you are talking to people.

Whether to buy it for yourself ?? Well, not really !! You are already a part of the financial industry. So you would be pretty aware that an SIP + Term Plan Combination would work wonders for you. Let the ULIPs and Traditional plans be for others, not you.

2. Incompetent "Advisors"

Are you worried about your shrinking revenues because of "No Entry Load" in Mutual Funds? Do Clients give you tough times when you ask for a fees ? Not to Worry !! ULIPs and Traditional Plans hai na !!

These Will take care of your remunerations by giving you fat commissions. Also, make sure that you force the client to buy it in the first go so that, even if he wants to change his mind later, he is stuck so badly, that he cannot exit the plan. So you become a successful "Advisor" and your revenues swell up.

Whether to buy it for yourself ?? Well, you will have to !! This is coz companies might give you targets in terms of premium amount or number of lives covered. When you will not be able to fulfil the target from external clients, you will have to put some "business" either in your name or your family members' name. Meanwhile, don't shy away from mis-selling, coz that's the sole mantra to sell all these plans. Telling the truth about these products might hamper your business.

3. 'Looking-For-Free-Advice' Investors

Do you feel that investment advisors are incompetent and crooked guys and do not deserve a fees? Are you looking for some free advice + some passback on your investments / premium payments? Welcome to the world of ULIPs and Traditional Plans !!

Here they won't demand any "explicit" fees from you. On the contrary, some might give you a pass-back of the commission they get. What a great deal !! isn't it ??

Charges ?? Ohh Come On !! Why bother about the charges the insurance companies would deduct from your investment amount ? That is anyways not being told to you. At least you did not have to pay any fees.

Low Insurance Cover ?? Its ok !! At least the premium paid is coming back to you (Maybe at a much later time, when its value would be nothing) But it is coming back to you. Anyways, nothing is going to happen to you. Why let the money go "waste" by buying a term plan?

Low maturity amount ?? Doesn't really matter !! The amount appears big enough today. What might be its significance after 20 years? Why worry about it today? We have lot of time to think about it "later".

Congratulations !! You just went through the list of groups for whom ULIPs and Traditional Plans could be the best. You may just think and decide if you belong to any of the groups above.

If not, then you need to think about some better plans than these. Think about it !!

(In the above article, the author has made use of sarcasm to explain a few concepts. The readers are advised to use their own judgement and consult their investment advisor before making any investment decisions.)

Readers' Comments:

"Sir Jee….. Sach me Dara diya yaar aapne….. aisi khatarnaak Head line mat diya karo Bhai G…

But any way….. wo kahte h seedhi baat logo ko samajh me nahi aati to tana maar k samjhana hi achha h….Jai Ho. Sir…."

- Giriraj Sharma, Rwanda, Africa, December 21, 2010

professorbajaj Says:

Thanks Giriraj Bhai. Actually many people had started asking this question to me, "Koi toh hoga jiske liye ye plans achhe honge", So I thought I would just list them down.

Who's Stealing my Money ??

By professorbajaj

"Today I have accumulated enough money to buy a new bicycle for myself" , said Rahul, a 13 year old kid, who was saving money from last 3 years in his piggy bank. He was quite impressed with his father's philosophy of saving money to fund your requirements. "Dad, please take this money and buy me a new bicycle with this" urged Rahul with glittering eyes.

"This money isn't enough to buy your bicycle, Son" Said his father, Suresh.

"But Dad, I had checked the price of the bicycle. It was Rs. 1800. And thus I was saving Rs. 50 every month since last 3 years, so that I accumulate Rs. 600 every year and Rs. 1800 at the end of 3 years" Said Rahul.

"The money is Rs. 300 Short of what is required to buy the bicycle" Said Father Suresh.

"No Dad, that's not possible. It was properly locked in my piggy bank. Who can steal it from there ??" Rahul was confused.

"Rahul, the one who has stolen your money is '**Inflation**'" Said Father Suresh.

"Who is this inflation, Dad? Why is he stealing my money ?"

"Son, inflation means the rise in prices. Your piggy bank money still counts Rs. 1800. But the price of bicycle has gone up in these 3 years to Rs. 2,100. This is how the inflation has reduced the value of your money by Rs. 300 in 3 years. Or you can say, that it has "Stole" Rs. 300 from your savings." Explained father Suresh.

"How can I protect my money from getting stolen by inflation Dad? I thought it was absolutely safe in the piggy bank" asked worried Rahul.

"The biggest risk we can take about our savings is, not investing it, Son. We think that our money is absolutely safe in our Lockers and Savings Accounts. But without even we coming to know about it, the giant called inflation eats it up. We are now talking about only 3 years. Ok, can you take a guess what would a bicycle might be costing when I was your age ?" asked father Suresh.

"I Can't be sure Dad. But somewhere around Rs. 1000-1200." guessed Rahul.

"Well, the right answer is Rs. 465." Smiled father Suresh.

"Oh My God !! Are you Serious Dad? That was a steal. You could have bought it with only two months savings na?" asked the super-thrilled Rahul.

"No Son. I did not used to get a pocket-money of Rs. 250 p.m. like you. My Pocket-money at that time was Rs. 50 a month. Out of which I used to save Rs. 35 every month for my bicycle. And rather than keeping it idle, I would invest it in a small savings scheme which gave me a return of around 10% p.a. at that time. This ways, I was able to accumulate an amount of Rs. 465 in a span of less than 13 months." Explained father Suresh.

"That was really thoughtful of you Dad. I have learnt two lessons from this

1. I will increase my saving proportion from the present 20% to at least 50% as I do not have any responsibilities currently.
2. I will invest the money smartly to generate a return higher than the inflation rate so that the "**Inflation Giant**" doesn't steal my money" said Rahul.

Rahul has learnt his lesson. When are we planning to learn?

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

Readers' Comments:

" Simple and Lucid Article !! It hits the importance of savings and investments, right on its head !!

Just too Good !! Keep Writing."

- Anmol Gulati, Mumbai, December 7, 2010

"Sir Jee….. A Simple, Sober but indeed a great way to wake up people like me…. I salute you sir…..

mujhe lagta h ye article mere liye hi likha h aapne….. is article se first lesson to mujhe hi mila h ki increase the saving and invest smartly….."

- Giriraj Sharma, Rwanda, Africa, December 9, 2010

“Dematting” of MF Units : Should you go for it ??

By professorbajaj

“Life has become so easy after the share trading has started in demat form” , Said Romesh Acharya, a 32 year old marketing professional, working with a leading FMCG Company. “I am wondering if I should also demat the mutual fund units lying with me ??” he asked his colleague Kapil Sharma, who is a well-informed investor and usually guides Romesh to take all these decisions.

“What is the meaning of dematting of Shares, Romesh ?”, Asked Kapil.

“Earlier when I used to trade in market, I used to deal with physical share certificates. I had to physically count and check the number of shares. Also, there was a risk of Share certificates being fake, or they also had a risk of theft from my own custody. Now, since I have dematerialised them, I don’t have to worry about counting the quantity and also checking the authenticity. I am also free from the risk of the physical certificates getting misplaced or theft from my place. Thus, in totality, it is a very peaceful deal.” Said Romesh.

“I completely agree with you on this. Now just think for two minutes, do you have any such risk with your mutual fund units.

1. You have a statement coming from the registrar of the fund house indicating the number of units you hold. So you don’t really sit and count the number of units you have (which you were doing with physical shares and found troublesome).
2. The Statements can be directly requested from the fund house or its website, so there is no scope of a fake statement having a false figure of units. So in mutual fund units, you don’t even have a risk of unauthenticated units being dumped to you.
3. Finally, even if you happen to misplace the mutual fund account statement, which mentions the number of units held by you, there is no worry. You will again receive a fresh statement in the next quarter which will have all the details. Alternatively you can also request a statement immediately to know your holdings.

So if you look at all these points, you will observe that the benefits which could be available to you in demat, are already available to you for your mutual fund units.” Explained Kapil.

“Ok, I agree with you on all the above points. But Still I have one question. Would there be any disadvantage if I demat my mutual fund units ?” Asked Romesh.

“Now that’s an interesting question”, smiled Kapil, “ The moment you demat your mutual fund units, you forego your right to redeem them directly. You need to compulsorily sell them on an exchange, which would involve transaction costs even while selling; whereas, there is no such cost when you are redeeming your mutual fund units. Also, you need to find a buyer for your mutual fund units on the exchange. Although this might not be a great problem for maximum cases, there might be some occurrences where you do not find a buyer and the units behave like an illiquid assets (which destroys the purpose of investing in mutual funds, as we invest in them as they are one of the most liquid form of assets)."

"So what you are saying is, there are only disadvantages of dematting mutual fund units and there is no advantage of doing so ??", asked Romesh.

"Well, I am not saying that. So far I just said that you would not get any additional benefits by dematting them, which you were getting in case of shares. So the answer to your question is yes, there are some advantages of dematting of MF units. If you are not a long term investor in mutual funds, and want to trade them like shares, then dematting them is the right strategy for you. You can buy and sell them frequently and make some short term profits and this would be difficult if the units are not in demat form." Explained Kapil.

"No Buddy, I am at least that much an informed investor, that I should be a long term investor in mutual funds, in fact overall equity markets, to create wealth for myself. So I would rather not demat my mutual fund units which would rather increase my cost than give me any benefits. Thanks for all this useful information".

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

Readers' Comments

"Very Informative sir !! Was thinking about moving my MF investment into the demat form but after reading this have changed my mind. Thanks."

- Lalit Agarwal, Amsterdam, December 23, 2010

"Yes now all my doubts about whether should I Xfer my MFs to DEMAT is solved. MF are for long term and using it for short term trading will defeat the purpose. Nice article sirjee."

- Vikram Agrawal, Hyderabad, November 29, 2010

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 8 States of India (Including Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu, Rajasthan, Uttarakhand, U.P and Haryana) and 3 Countries overseas.

He is an investment expert and a part of the expert panel of CAClubindia.com and MBAClubindia.com

He is actively involved in investor education through his blog www.professorbajaj.wordpress.com which has crossed the 5000 mark in terms of number of visits in the last two years. 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-coordinator.

He was ranked 8^{th} 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 900+ participants from over 80 organizations across various fields of soft skills.