

Financial Planning? Focus Within.



Our responses to investment options often tend to swing between extremes. We buy equity because we think we can make big money; or we do not because we think it is speculative. We buy insurance because we can save tax; or we do not because we dislike discussing risks. We love bank deposits because we think they are safe; or we do not consider them because we think returns may be low.

Every investment option can be viewed from completely contrasting perspectives because of personal preferences. But our investments need purpose, more than just preference. Providing for our retirement, funding the educational needs of children or having our own home are real-life goals that need funding. A well laid out strategy ensures that our needs are well funded by our savings and investment choices.

Financial planning is the formal approach to ensure adequate funding of our needs. We make our choices on the basis of the best options to reach those goals. Financial planning involves the following steps:

1 Evaluation of our financial position



We may be spending more than we can possibly save. When we look formally at what we earn, how we spend, and what we save, we will be able to see whether we are doing our best in this area.

2 Definition of financial goals



We may have dreams for our children, but could be oblivious to our retirement needs. Putting down our needs in money terms helps us understand what savings and investment targets should be. Goals anchor our financial plans.

3 Asset allocation



If we need our funds to grow into a substantial sum before we retire, we need to consider equity. But if we dislike the risks of equity, we have no choice but to save so much more, to reach the same goal. Asset allocation is our investment plan to achieve our goals.

4 Review and monitoring



Our incomes alter; our needs change; our preferences get re-shaped – and our financial plans need to factor these dynamics.

SMS CONTEST

Question

Deciding how we combine various investment choices is known as _____.

Answer

- A. financial planning
- B. goal setting
- C. asset allocation

To answer, SMS DISHA A, B or C to 53030 and win a 2N 3D holiday.* Contest open for the day of publication.

*Terms and conditions apply. Visit www.dishatc.org for details and winners.

We need to see periodically how we are doing and what needs to change in our investment strategy.

To plan our finances is to be in charge of how our money will work for us. If we are able to formalize what we need our money to do for us, we can choose better. To understand that investment choices are driven internally by us, and not externally by the state of the stock markets, is an important first step.

Centre for Investment Education and Learning

We welcome your questions, suggestions and feedback on this column. Please use the 'Email Us' link at www.icicibank.com or send as an SMS to 53030. Please include your full name, address and phone number. Your comments may be edited for clarity and space.

DID YOU KNOW?

The amount of money required for a future financial need can be found out by using the expected inflation rate to compound today's money into a future value.

FAQs

How should one measure a financial goal?

A financial goal should be measured for both the time and money required. For example, if we plan an overseas holiday two years from now, and decide we will need Rs. 6 lac to make it happen, we have defined a short-term financial goal.

Why does asset allocation depend on the goal, and not the market?

Consider, for example, a need like funding your child's education. You estimate a need of say Rs. 20 lac, eight years from now. This may mean saving regularly from now on. If you choose a low-risk and therefore low-return investment avenue, you will obviously need to save more. On the other hand, considering the time-horizon, if we choose equity we may achieve the same goal by saving less per month. Our choices depend on the time we have, the money we need and the money we can save.

SMART
BANKING

Set your
financial goals.



The sooner you start saving
and investing, the more time
your money gets to grow.

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