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The World of INVESTMENT

It is a month of Appraisals!
Is it an Opportunity for Investment appraisals too?

We are at the beginning of the Financial Year, it's that time of the year where most of the companies have employee appraisal programmes. A time where all the employees expect their profile and pay checks to rise. It's very common to come across the words like Salary Hike, Job Promotion, New Projects, and so on for employees. So Business owners again it is the review of the performance in the last year and setting a better target for a better performance this year for better Gross as well as Net Income of the company.

In short, I see people around me talking about bringing more money home than the previous year!

Oh, that's again a good thing to think about maximising your skills and efficiency and bring home more money year-after-year.

Of course, earning more money year-after-year is an achievement. But story does not end there, in fact, story just begins from there.

This month's issue highlights factors about how bringing more money home is not "The" ultimate achievement, the achievement is accomplished by putting the extra income to the right use and not just splurge.

Warren Buffet says, First one should invest and then think about expenses to which I completely agree. The formula goes Expenses should be the outcome of income minus savings. Expenses should be planned only after planning all the savings and that's how one will be able to accomplish financial goals.

So with an increase in income, one should not only share the good news with family and friends about the financial income success but also go back and review personal balance sheet. One should review his investments, loans (if any) and life goals. If it is possible to waive off certain loans before the loan term, then one should ideally do that with an increased income. In case of no outstanding loans or any other liability, one may and should definitely increase the quantum of investments in direct proportion to the rise in income or even more if possible.

Remember, plan for your tomorrow because that's where you are going to spend rest of your life.

Warm regards,

NANaik

NIKHIL ASHOK NAIK
Editor

RBI Rate Cut – Reasons and Implications

Mr.Raghuram Rajan, the Governor of RBI, and one of the most noted economists of today's times, was at it again earlier this month when he cut key interest rate by 0.25% and introduced a host of measures to smoothen liquidity supply. Mr.Rajan went with the majority view of the external members of his monetary policy committee that suggested a repo rate cut at the April review thus reducing it to a more than 5 year low.

Though controlling inflation is the central bank's priority, any move to improve business conditions for industrialists, who, despite data depicting India as one of the world's fastest growing economies, remain hesitant to invest; is welcome. Adding to the weak investment scenario is the problem of stressed balance sheets of public sector banks due to huge NPA's. Also the world trade remains subdued due to the falling import demand from emerging market economies resulting in weak growth. Further on, the government in its budget stuck to the path of fiscal consolidation by targeting fiscal deficit at 3.5% of GDP for the current fiscal. In order to overcome the above problems facing the Indian economy and achieve this target set by the government, it was widely expected that RBI would cut interest rates.

In accordance to that, Mr.Rajan and his team brought the following changes –

- Reduction in repo rate to 6.50%, which was possible due to retail inflation remaining well within RBI's projected trajectory.
- Reducing the minimum daily maintenance of the CRR from 95 per cent of the average daily required reserves for a reporting fortnight on all days of the fortnight to 90 per cent.
- Narrow the policy rate corridor from +/-100 basis points (bps) to +/- 50 bps by reducing the MSF rate by 75 basis points and increasing the reverse repo rate by 25 basis points.

The rate cut is like to have a positive impact on Interest-rate-sensitive sectors like banks, auto, capital goods, consumer durables, and real estate. On the personal front, home loans and other borrowing's are set to get cheaper by at least half a percentage point in the coming months thus bringing a smile to the faces of existing and potential home loan.

Interest rate cuts by RBI are generally expected to transcend into low interest rate on bank loans, thus bringing down the cost of capital and encouraging borrowing of funds by companies and individuals. Further, this not only fuels demand but also spurs private investment which eventually results in overall growth. Also, the easing of liquidity requirements will provide an incentive for banks to lend more and increasing the liquidity in the markets. Together with the introduction of Marginal Cost of Funds based Lending Rate (MCLR) from April 1, it is expected that policy transmission will be much more effective.

A reduction in the base rate and the newly introduced MCLR will make loans cheaper for consumers. With less incentive to save due to the sharp fall in deposit rates and more reasons to spend, consumer spending is expected to grow. This, in turn, should help the economic output of the country.

With global economic activity remaining subdued and domestic disinflation becoming entrenched amid low capacity utilization, such measures by RBI are necessary to revive growth. The Indian Met Department recently announced an above normal monsoon for 2016 that has created a favourable environment for moderation in food prices which means that food inflation is likely to stay benign. The industry craves for more rate cuts to boost investment and RBI is expected to go for a minimum of another 50 bps rate cut in the current financial year as there is room for further easing in monetary conditions.

Though the global factors are at play, domestically, the April monetary policy is a step in the right direction. However, many such steps will be required to be taken by the RBI and the government to overcome the slowdown in the economy.

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WHAT TO DO WITH YOUR MONEY

" What to do with your bonus money? "

Congrats for the something extra you got with your paycheck this year!
A lot of contemplation goes about how one is putting his bonus money to good use. For starters, remember that idle cash never makes you money. Nor is a simple fixed deposit going to fetch you something significant.
Using your bonus to enhance personal experiences is one way of looking at it. But in actuality, it is more pragmatic to plan the expenditure of those surplus funds lying in your cue.

Buying Property

In the Indian scenario, investing in real estate is almost a prerequisite. There are multitudes of home loan options available in the market, but one still has to expend about 20% as part of the promoter contribution. Looking at the skyrocketing property prices in today's time, the charges involved in investing in real estate are rather colossal. Accumulating your bonus money and adding them to your savings will assist you with acquiring that right property you are looking out for.

SIPs

Understanding the volatility of the market, Systematic Investment Plans (SIPs) are the best investment option to mitigate risk and ensure significant returns. Starting an SIP in equities can promise great returns over a long period of time. Considering great return potential in the equity market coupled with high risk, it is quite apparent that an SIP cannot go wrong here.

Liquid Fund + SWP

Another good option is to first invest your bonus in a Liquid Fund or Ultra-Short Debt Fund. Then, start a Systematic Transfer Plan to a mix of Equity and Debt Funds that are suitable for your financial goals and portfolios. This way, you can earn higher returns from the Funds and alsc attain your goals. Whatever money is left in your Liquid Fund every month can also double as a ready-to-use Emergency Fund.

Minimizing Debt

If loans are pending with impending EMIs, your bonus can help pay a significant portion off. A prepayment can reduce the loan tenure, and that does help evade the burden. If the interest rate on your debt is high, help lose that promptly. That said, it may be a good idea to not pay off your home loan. This is because the housing loan rates are cheaper than credit card and other loans. Plus, it comes with its own tax benefits.

Insurance

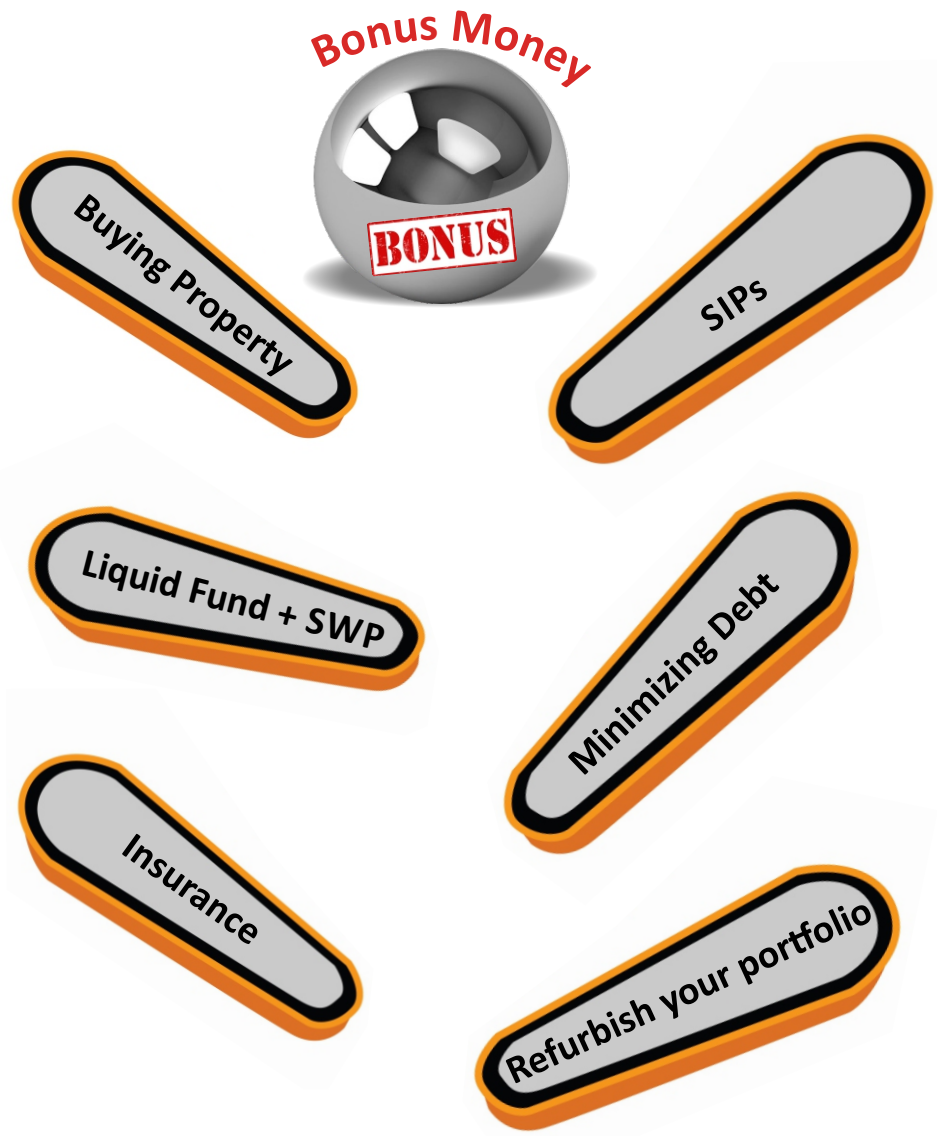
Uncertainty cannot be calculated or predicted. The right amount of insurance cover will cater to your family needs in the event of an unforeseen factor. With the surplus funds in hand, it is a great idea to review your insurance cover and add further to it, if it is inadequate currently.
Enhance insurance cover: The right amount of insurance cover that will cater to the needs of your family in the time of need is a fluctuating figure depending on various uncontrollable external factors. The cover amount must be periodically reviewed to make it meaningful in terms of the security it accords. Whenever you get a bonus, it is best to review your family's insurance cover and buy more cover in case you feel the existing one is inadequate.

Refurbish your portfolio

With time, your objectives, earnings, and losses are bound to change. With respect to that, your investment portfolio does require periodic adjustment. The best way to rebalance a portfolio is to add more money into it and diversify it.

Bottom line

Splurging can never be a good idea. Understanding that this holds a significant sum of money, investing it short-term cannot bring in anything substantial. Your bonus is taxed just as much as your regular income. Hastiness would not pay off.



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Ways of increasing Income

"When I was young I thought that money was the most important thing in life; now that I am old I know that it is."
– Unknown

Though there other ideologies also exist stating money is not everything but money is required to meet the basic necessities of life and there are no means to escape it. People earn to live a good life and improve their standard of living and that is what keeps all of us going on. Everyday a person goes to work with a hope to make a better future for self and for his family. But yes not all earned income is disposable income. We pay tax on the income we earn which is subject to our income and the tax slab rates decided by the government. But yes, people with higher income generally do not get to enjoy the total income that they have earned.

As Albert Einstein has quoted, "The hardest thing to understand in the world is the income tax." Government is trying its best to minimize tax evasion activities by tax payers. In given scenario, the only way to increase the disposable income is to either upgrade ones skills or increase the area of work.

If one feels that after all the expenses arising out of lifestyle and taxes, there is very little to save for future, then one should either cut down on the expenses or find out ways of increasing the income.

Well, today we have made ourselves so much accustomed to the luxuries around us, that the luxuries have become our necessities and nobody would want to compromise on that. So the next best solution is to find out ways to increase the disposable income. We can have a look at the possible ways to increase the income:

Upgrade your skills

One may take up some further studies course which will help him get a degree and simultaneously upgrade work skills which will help him at work. One may choose to attend certain workshops which will focus at increasing work efficiency. These things will definitely put weight age on the resume and on work performance as well.
With an added degree to one's profile, one may expect a promotion or salary hike at work. This may also help in getting a second job, in case the existing workplace is less complacent.

Start a business

Starting up a business is a big and courageous call. There is a direct correlation between risk and returns. Starting up a business is considered risky as your income is dependent on the trend of your business. But it's equally rewarding. It demands your time and efforts way more to what one would think of putting as an employee. The difference is that you will see more of the income from your labour because taxation for business owners is a small pinch when compared to the blow that taxes give to employees. Some of your business write-offs can even be claimed against other income sources, but you have to follow the rules carefully.

Investing income

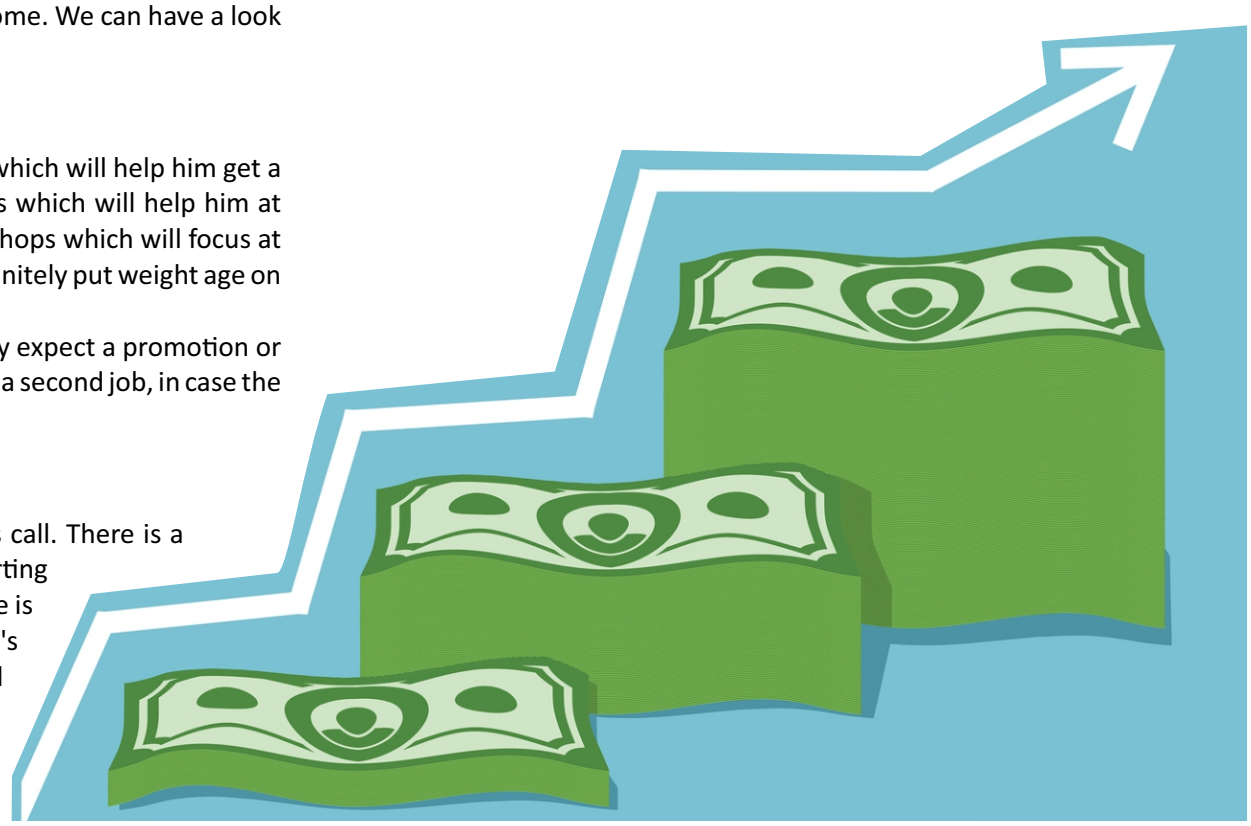
Investing the earnings in reliable and suitable financial assets based on the financial advisors guidance and financial goals of the investor. While one is earning, one may plan to invest for future keeping in mind certain goals like marriage, child education, child's marriage, buying a house, going on a vacation(s), retirement and so on and so forth which requires money. So the wise thing is when one is earning he should start accumulating for the financial goals bit by bit as well.

Spend less

Tightening your budget will automatically bring down your expenses and result in surplus money that you may invest. One should sit back and analyse the expenses that one is incurring on day to day basis and which are avoidable. If there is an alternative available to the current expenses and which may result in saving money, then one should consider that.

Bottom line

Out of all the above mentioned ways of increasing the income the easiest is spending less. One can definitely tighten the budget with immediate effect and can keep a check on unnecessary expenses.
As they say, being in control of your finances is a great stress reliever.



How Liquid Funds trump Bank Deposits for High tax payers

Bank accounts are great, but Liquid Funds can be a better option, especially so for high-net worth individuals like you.

Liquid Funds are very similar to Bank Deposits in that they can be redeemed in short notice and hold less risk from a volatility and capital perspective. There are two options that are available to you if you are looking at investing in liquid mutual funds.

Going for the growth option

Under this option, you will be charged for the number of days you are holding the fund, and more specifically, this depends on the tax slab you belong to.

If you book gains within 3 years, you will be charged as per your income tax rate of 30%. This is similar to bank deposits. The real advantage lies in for you opt for the dividend option.

Going for the dividend option

In this case, the mutual fund company itself is charged with the Dividend Distribution tax at a predetermined rate of 28.325%.

Let us take an example here. You, belonging to the 30% tax bracket, have invested Rs 5 lakh in Liquid Funds and a savings account. Let us consider a rate of return standing at 8% and 6% respectively. Assuming that you opted for the growth option, your tax rate stands at about 31% approximately. Ultimately, what percolates to you post deducting tax is over and above Rs 27,000. However, with the savings bank account, you are left with close to Rs 20,000.

Higher returns

It's not just about the tax-friendly status of Liquid Funds. On average, such Funds have given higher returns over bank deposits. This is because bank deposit rates are fixed while the returns for Liquid Funds fluctuate to capture the market interest rates. Depending on sentiment and other timely factors, interest rates often climb over the 4-6% offered by bank deposits. Fund managers are thus capable of taking advantage of these rates to give higher returns.

Playing the devil's advocate

There's another perspective of looking at this. You enter into a 180-day fixed deposit with an interest rate 8%, but post one month the bank revises the rate to 6% for all the future customers. Fortunately, you will still be entitled to receive an interest at 8%. With a Liquid Fund, however, things do not work the same way. The interest rate in the second month might not be the same as the first. Despite that, if you are looking for better post-tax returns, a Liquid Fund is the one to be opted.

Bottom line

Considering you are a high tax payer and belong to the last bracket, the rate at which your bank deposits are taxed does not pay you significantly. On the other hand, a Liquid Fund ensures a certain amount of taxation while taking your tax payment and interest rate into consideration. Understanding tax treatment differs in the case of a bank deposit and a Liquid Fund, it is still important to understand what percolates to you post the tax deduction.

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