Different Goals of Life Cycle:

Saving is crucial aspect in one’s life. We need to save for our future goals starting from Child Education, Marriage and last but not the least Retirement. According to Legendary investor Warren Buffett “ income minus savings should be expenses. At least one third of the income should go to saving.

Child Education :

One of the dreams of every parent is to put their child into the best carrier. But the best thing ends here. The cost associated from Pre KG to higher education has gone up manifold. Inflation will also make things worse. If cost of completing an engineering course today is Rs.5 lakhs, it would rise to Rs.25 lakhs in 20 years only due to inflation being other things remain constant. Hence one should plan for steady cash flow from the child’s age of 17 to 25 to finish the higher education.

Marriage :

Again this is one of the important dreams. Entire family want this to be a memorable event which they can cherish forever. But again the scale and cost involved is so high and if one has not planned it early, it would be difficult to meet the large expenses.

Retirement :

Though this not the dream, it is a reality. At retirement, income would stop and expenses keep increasing. It is a double edged sword. With the longevity in life cycle and cost of medical expenses, one should plan for his retirement early.

Critical factors in savings :

Though saving is necessary, it should be properly channelized to beat inflation. Deposits would give you safety, but would not cover inflation. Hence the savings should be allocated to equity mutual funds through Systematic Investment Plan.

Again early saving is most important. There is a saying that “compounding is the eighth wonder of the World”. Small savings at the early age would beat large saving at later days. Rs.5000/- SIP from 35 years would beat Rs.10000/- SIP from 50 years. Also in our life cycle, if one gets married at 30, he has to plan for child education around 48 years, marriage around 55 years and by that time he would retire at 58. Hence early saving is necessary to meet the steady cash out flow in the later years.

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ASSET ALLOCATION

Asset Allocation is the most important factor one should consider before investing. Though there is a thumb rule 100 minus age should be allocated to equity, it may not suit in real life. One's goal or commitment should decide the asset allocation. If a person with the age 35 years has got a sister to get married, he should not put his savings into equity funds. Again a retired person should not restrict his investment into equity only based on his age. If he has allocated sufficient amount to regular cash flows, the remaining amount can be allocated to equity/equity funds irrespective of the thumb rule.

Short term goals (less than three years) should never be planned in equity/equity funds and in the same sense long term goal should be allocated to equity/equity funds to generate wealth.

Assuming that one has enough medical insurance cover, his six months expenses can go to liquid funds and the rest can be planned in fixed instruments or equity/equity funds depending on his commitment.

While allocating money to fixed instruments including debt funds, priority should be given to safety and liquidity over return.

Gold though strictly not a productive asset can be considered for a small portion to have an edge over uncertainty.

Real estate though it is favourite choice need not be considered for investment except for living purposes with favourable tax benefits. Though scores very high in tangibility, this asset class is associated with non-transparency, unprofessionalism and legal issues between buyer and seller or between owner and tenant, illiquidity, etc.

Long Term investments can be considered in diversified equity funds either thru SIP or lumpsum investments. While retired persons can consider dividend option, young ones can consider either dividend reinvestment or growth to accumulate wealth.

Also once the portfolio of equity funds is constructed, one can remain invested with periodical reviews. Long term wealth is created only by staying invested in equity funds thru different cycles.

The following facts prove this case :

Scheme	Inception Date	AUM in Crs	Amount invested	Value as on 31.03.15	Return CAGR %
Birla SL Tax Relief 96	Mar'96	2054	10000	1042051	26.44
HDFC Taxsaver	Mar'96	5263	10000	1004396	27.44
Franklin India Bluechip	Dec'93	6203	10000	852916	23.16
Reliance Growth	Oct'95	5842	10000	802199	25.24

These funds have given average compounded return of around 23 to 27 for almost 20 years. These funds have went thru Harshad Mehta scam in 1994, IPO scam in 1996, South Asian Currency crisis in

1998, dotcom boom and bust in 2000, Ketan parekh scam in 2001, terrorist attack on US twin towers in Sep'01, Lehman Bankruptcy in 2008 and subsequent paralysis in the World economy.

Again once proper asset allocation is done and the balance is invested in equity funds for long term wealth creation, one need not panic over the short term volatility. For example in the above case, all the events have created enough noices and panic in the Indian and world market. But if you look at SENSEX/NIFTY chart, these are all only dots in the graph over a period of time.

Disciplined Asset Allocation and Patience are key strategies of long term wealth creation.

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