Bridge the gap between dreams and reality

Financial planning

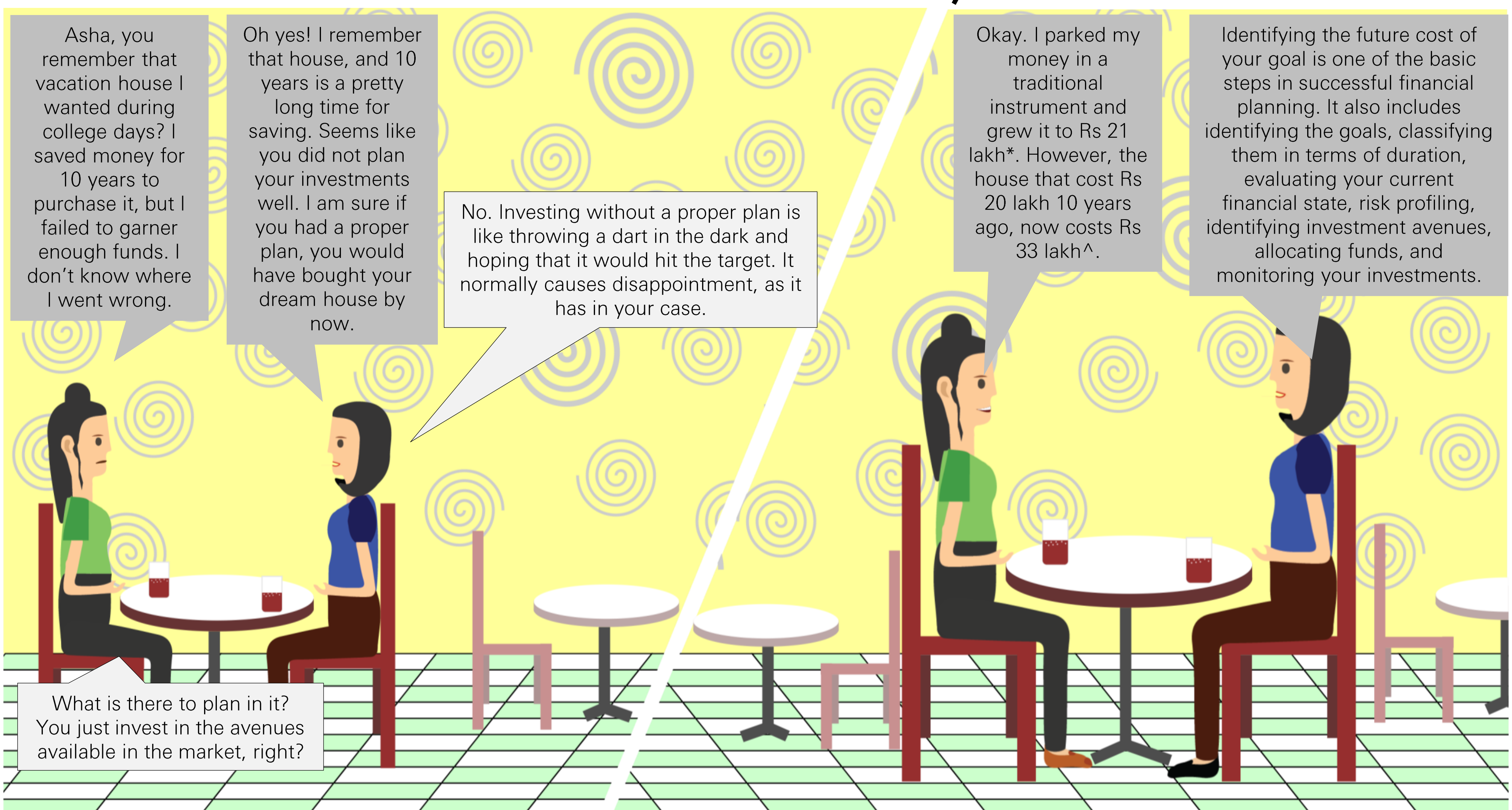
HSBC
Asset Management

Azadi Ka Amrit Mahotsav

February 2022

Financial planning: failing to plan is planning to fail

Nisha and Asha meet after 10 years and the topic of finance comes up



Past performance may or may not sustain and does not guarantee future performance.

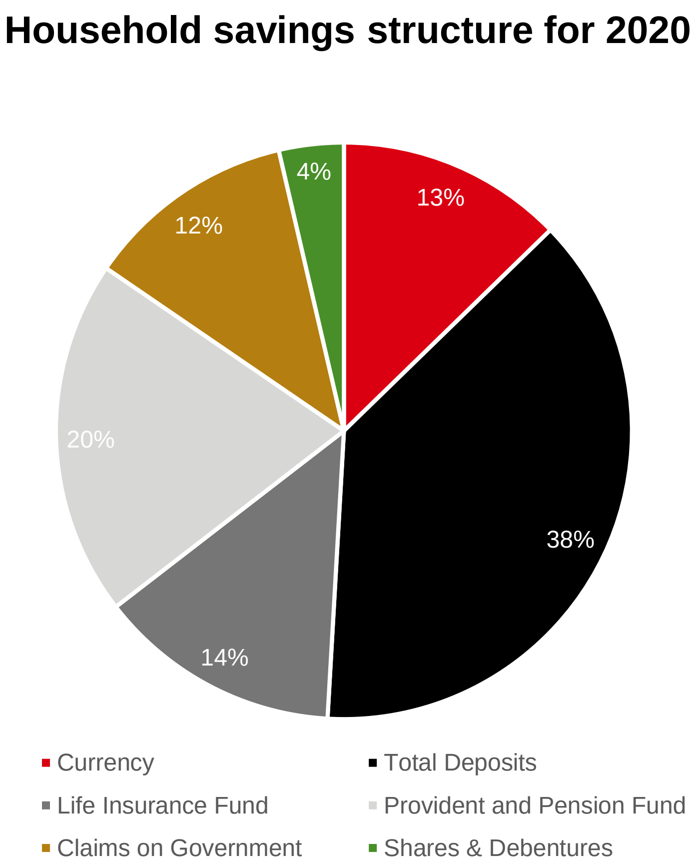
For illustration purposes only, Source – CRISIL

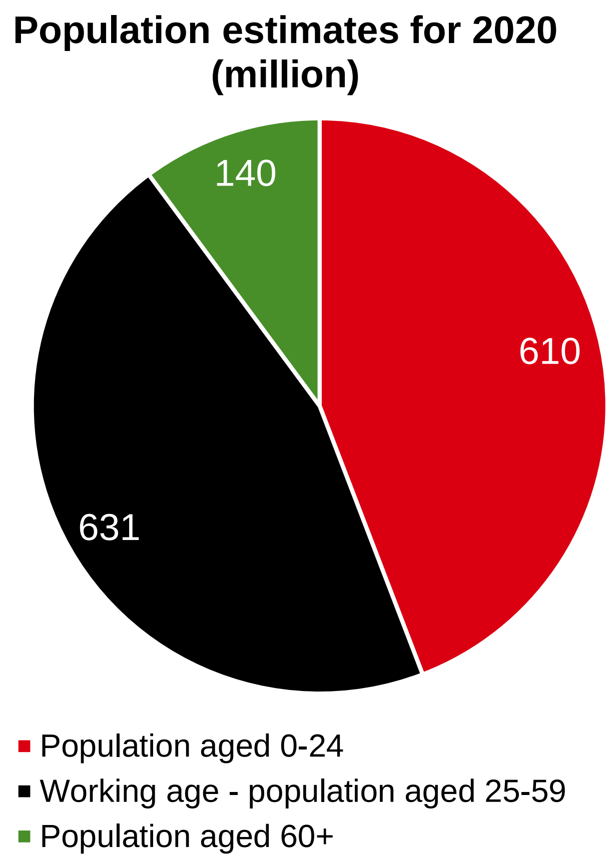
^Assuming rise in price at 5% per annum, which is the average CPI-IW inflation rate between 1993 and December 2021.

*Rs 12,000 per month grown at 7.4%, which is the average 1-year FD index returns between October 1999 and December 2021.

Traditional approach: investments sans a proper plan

- The chart below shows that despite having a large young population, the financial investment pattern of Indian households is skewed towards fixed income

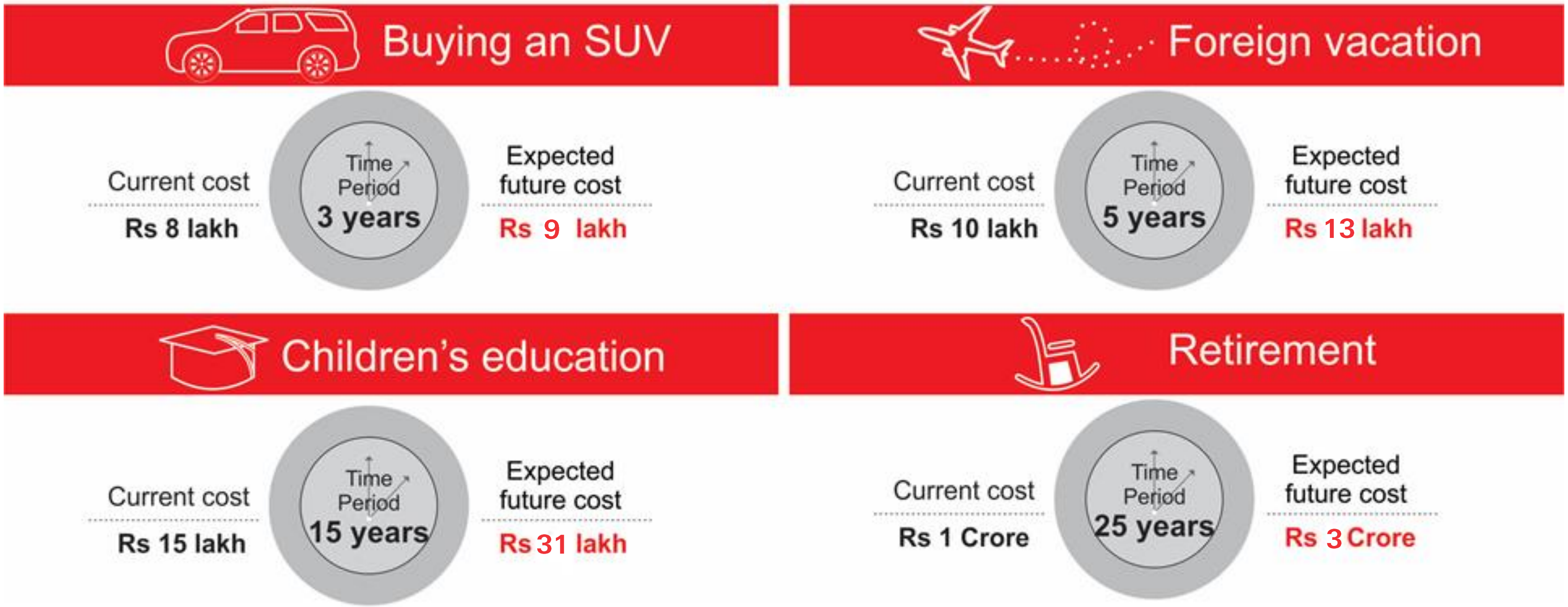




Source – RBI, United Nations, CRISIL

Are you prepared to achieve goals on time?

- Like Nisha, we all have dreams. But our dreams may not convert into reality if we do not quantify them into financial goals
- Every goal requires proper financial planning, which considers various factors such as the future cost of the goal (which Nisha ignored)
- Below are hypothetical illustrations of various priority and lifestyle goals along with their costs and time horizon

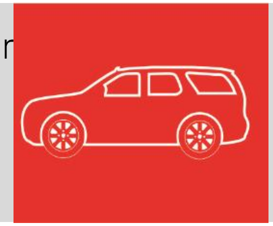


Source – CRISIL, Note - Assuming a rise in price of 5% per annum, which is the average CPI-IW inflation rate between 1993 and December 2021

Common mistakes in goal planning

Not factoring in inflation is a grave mistake, but there are other blunders as well

Failure to think of the goal as a future cost: Investor wants to buy an SUV 3 years from now. He believes his salary will rise enough during the period to be able to finance the car.



Resolution: He must estimate the cost of the SUV in 3 years and calculate whether his savings will be enough. If not, he must invest for this goal.

Not picking the right asset class: A young investor has just begun his career and wants to kick-start retirement planning early. For this, he begins investing his savings in fixed deposits (FDs).

Resolution: As the investor is young and capable at this stage of his career to bear a higher risk, he should invest in equity and switch to other safer asset classes later in his career.

Delaying goal planning: Investor wants to build corpus for her children's higher education 15 years from now, which would cost ~Rs 30 lakh. She feels she can begin planning for this a little later.

Resolution: Investor should not delay. Assuming that savings can be deployed in an investment that provides 15% annual growth, a person who begins investing today needs to save Rs 4,488 per month compared with Rs 10,901 per month 5 years later.

The above calculations and potential appreciation of investments are given for illustration purposes only. The illustrative appreciation in investments given above are based on the historical performance of 15% annualised returns of S&P BSE SENSEX, i.e. average of daily annualised 15 years' rolling returns of S&P BSE SENSEX as on December 31, 2021 and since June 30, 1979 (Source: CRISIL).

Source – CRISIL, Note – Past performance may or may not sustain in the future and it does not guarantee or assure future returns.

Behind every successful goal is an investment plan

- Traditional approach of investing focuses only on return expectations, and uses returns to meet goals as and when they surface

- In contrast, goal-based planning is a holistic approach that maps investors' goals to their investments in sync with their risk profile, time horizon, inflation, and personal factors such as income, expenses, age and other financial responsibilities

- The biggest benefit of goal-based investing is that it allows investors to bucket their money according to a purpose or goal

- It increases investors' commitment to goals and helps them measure the progress towards meeting goals

Did you know?

The global financial crisis of 2008 brought goal-based investing into the limelight, as steep portfolio losses experienced during this period made investors realise how poor investment performance could set back the attainment of financial goals by considerably long periods

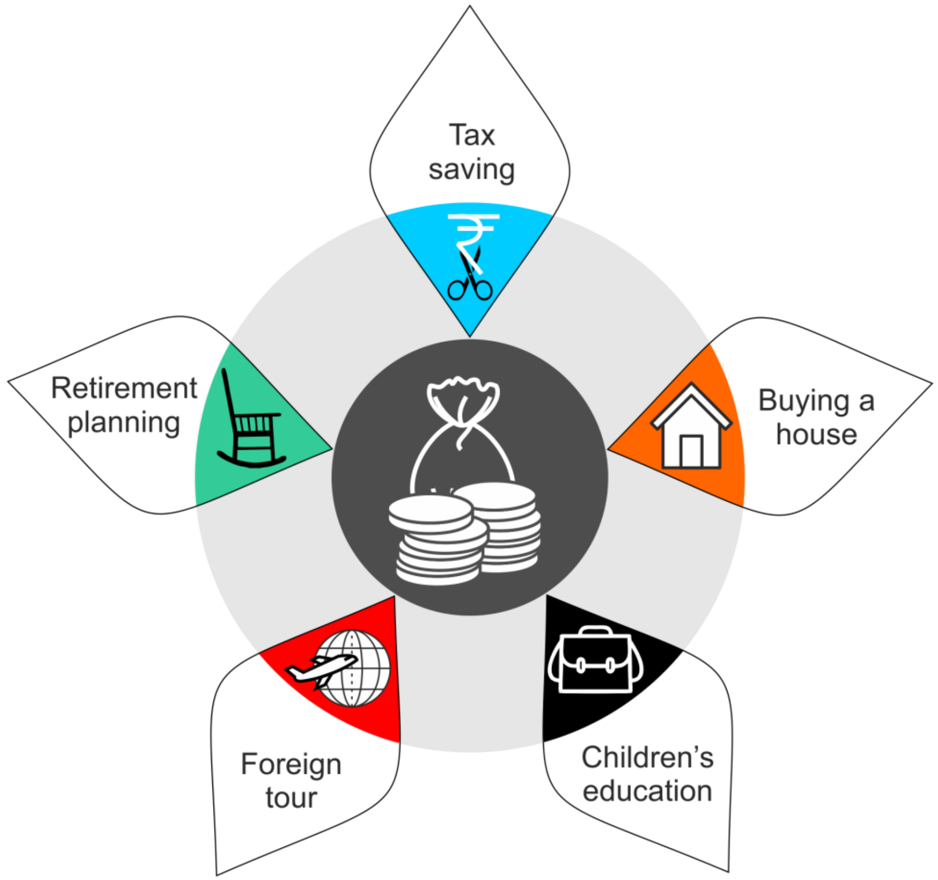
Source - CRISIL

Six steps to goal attainment

For representation purposes only, Source – CRISIL

Goal planning: identify and segregate

- Make a list of all the goals that you want to achieve, such as:

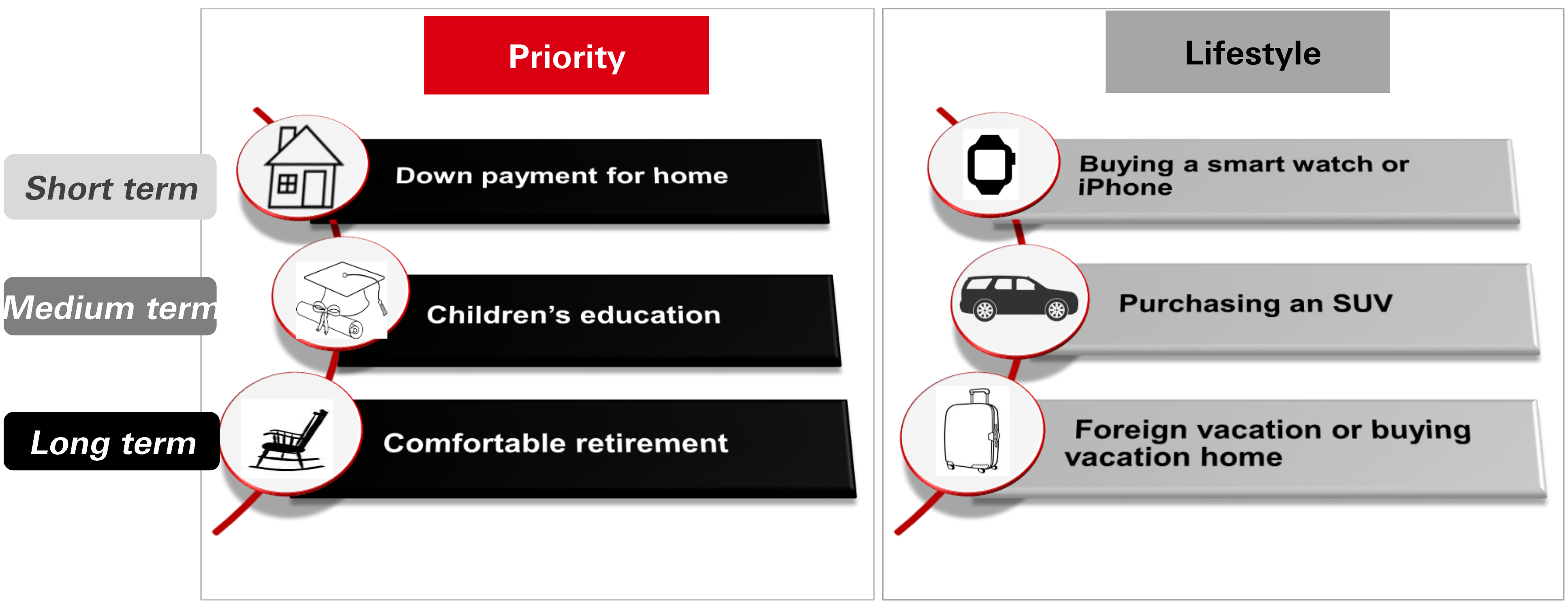


- Segregate goals into **priority** and **aspirational** – the former get precedence over the latter, as these are essential

For representation purposes only, Source – CRISIL

Goal planning: classify as per duration

- After prioritising, align the goals with the expected time horizon as per the life stage
- Broadly, goals can be divided into – short, medium and long term
- For instance, goals can be mapped across life stages in this way:



For representation purposes only, Source – CRISIL

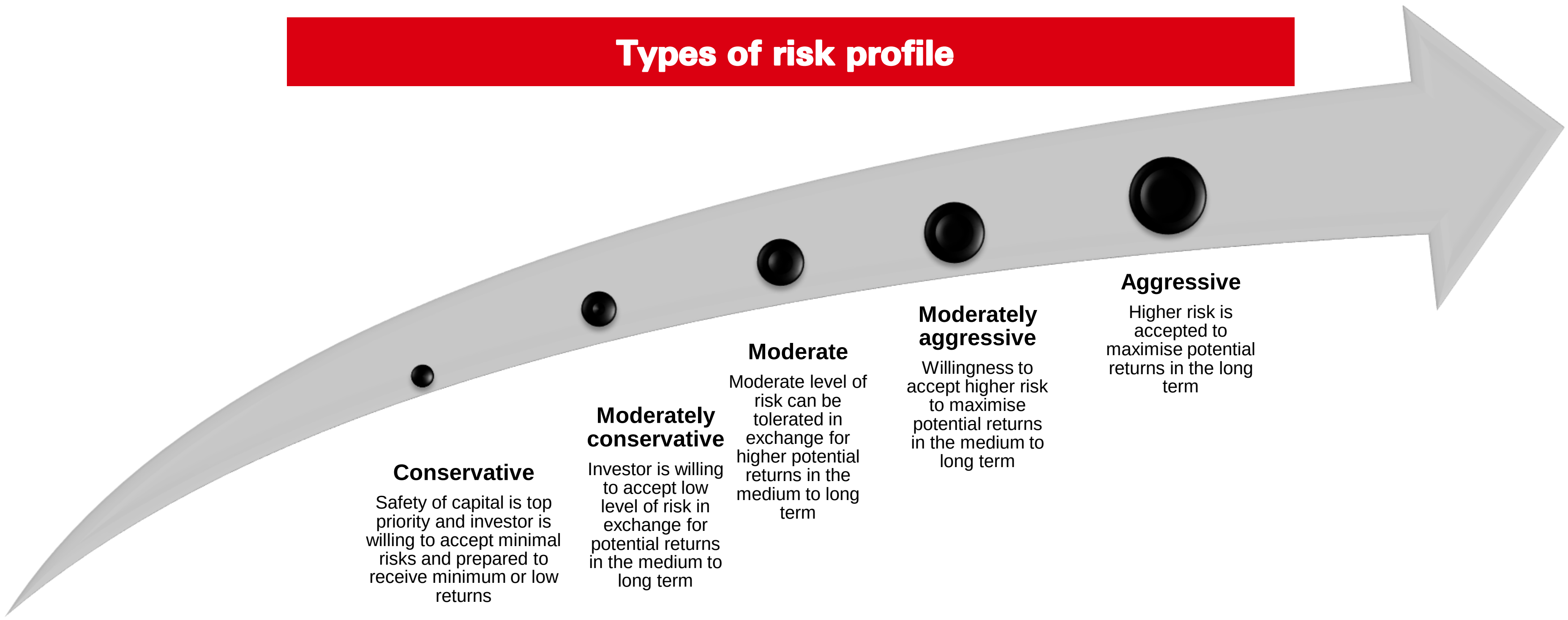
Goal planning: do the maths

- Make a cash flow statement to understand your income, expenses and savings
- Find out the amount needed to achieve each goal after factoring in inflation
- This will help you work out the realistic time span for achieving each goal

Source – CRISIL

Goal planning: gauge your risk appetite

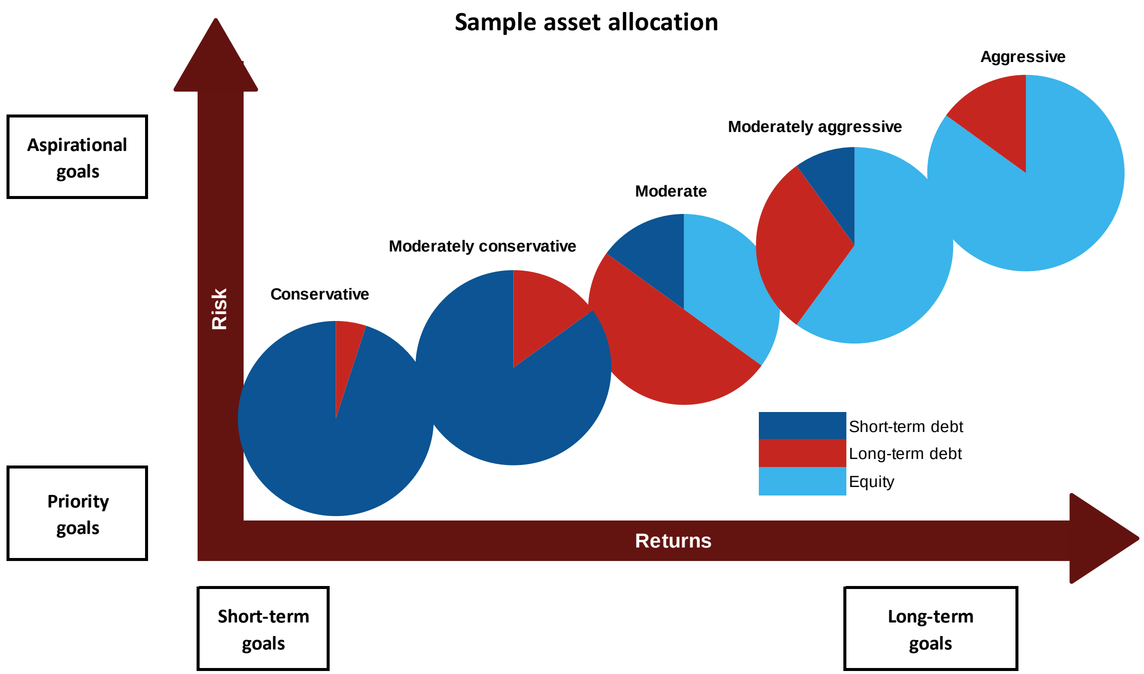
- Risk profiling caters to investors probing their risk appetite keeping in mind parameters such as age, income, expenses, financial responsibilities, liquidity needs, and time horizon
- A formal questionnaire-based approach is often the best way to conduct risk profiling. Investors have to answer questions that probe their willingness and ability to take risks



For representation purposes only, Source – CRISIL

Goal planning: go for diversified asset allocation

- Once the risk appetite is assessed, the investor should look at putting his/her money in different asset classes (equity, debt and cash) to enjoy the benefits of diversified asset allocation
- Generally, priority short-term goals may have a conservative portfolio, which primarily includes bank FDs/RDs and short-term debt funds such as liquid and ultra-short duration funds
- For priority long-term goals, a moderately aggressive equity-based portfolio should be preferred, while for long-term non-essential goals one can opt for a more aggressive portfolio



(or representation purposes only, it may differ on a case-to-case basis, Source – CRISIL

Goal planning: revisit and reassess

- Revisit your investments on a semi-annual (six months) or annual basis
- It is crucial, as the financial markets are dynamic and the portfolio needs to be modified in sync with changes in the underlying asset class
- Reassessment will help you weed out the underperformers and realign investments in line with the asset allocation and risk-return profile

Source – CRISIL

Goal-based investing: what Nisha should have done

Step 1	Goal identification	To buy a vacation house
Step 2	Estimating the time horizon	10 years
Step 3	Evaluate the current financial state and future value of goals	Factor in the price rise
Step 4	Measure the risk-taking ability through risk profiling	Take higher risk based on long time horizon and lifestyle goal
Step 5	Identify investment avenues and allocate disposable income to different asset classes	Invest in equities, such as an equity fund
Step 6	Monitor investments, rebalance portfolio and stay abreast of market trends	**In 10 years, her equity fund investment could garner Rs 40 lakh*, thereby comfortably achieving the goal**

The above calculations and potential appreciation of investments are given for illustration purposes only. The illustrative appreciation in investments given above are based on the historical performance of 15% annualised returns of S&P BSE SENSEX, i.e. average of daily annualised 15 years' rolling returns of S&P BSE SENSEX as on December 31, 2021 and since June 30, 1979 (Source: CRISIL).

Source – CRISIL, Note – Past performance may or may not sustain in the future and it does not guarantee or assure any future returns.

Goal-based investing: what Nisha should have done

Step 1	Goal identification	Buying a vacation home
Step 2	Estimating the time horizon	To own the house after 10 years
Step 3	Evaluate the current financial state and future value of goals	Consider the rise in house price In future, which would be Rs 33 lakh
Step 4	Measure the risk-taking ability through risk profiling	Considering longer time horizon and a lifestyle goal, she can take higher risk
Step 5	Identify investment avenues and allocate disposable income to different asset classes	She should invest in equity. Buying an equity mutual fund would be a good option
Step 6	Monitor investments, rebalance portfolio and stay abreast of market trends	In 10 years, her equity fund investment could garner Rs 40 lakh*, thereby comfortably achieving the goal

The above calculations and potential appreciation of investments are given for illustration purposes only. The illustrative appreciation in investments given above are based on the historical performance of 15% annualised returns of S&P BSE SENSEX, i.e. average of daily annualised 15 years' rolling returns of S&P BSE SENSEX as on December 31, 2021 and since June 30, 1979 (Source: CRISIL).

Source – CRISIL, Note – Past performance may or may not sustain in the future and it does not guarantee or assure any future returns.

Mutual funds are a good play for all goals

- Mutual funds are an ideal option to achieve goals, as they invest across the spectrum and are professionally managed, lighter on the wallet, liquid and tax-efficient. Choice of a mutual fund should be aligned to investors' risk profile, returns expectations and investment horizon

Investment category	Fund type	Expected returns	Expected risk	Indicative investment horizon	Achievable goals
Equity-oriented funds	Large cap equity funds Large and midcap equity funds Flexi-cap/multi-cap funds Midcap/small cap equity funds Index funds (passively managed) Focused/value/contra/dividend yield funds Thematic/sectoral equity funds, international funds	High	Very High	7 years and beyond	Very long-term goals
Hybrid funds	Aggressive hybrid funds	Moderate	Moderate	5 years and beyond	Medium to long-term goals
	Conservative hybrid funds	Moderate	Moderate	3 years and beyond	
	Dynamic asset allocation funds	Moderate	Moderate	3 years and beyond	
	Multi-asset allocation funds	Moderate	Moderate	3 years and beyond	
	Equity savings funds	Low	Low	More than 1 year	Specific goals (tax savings, jewellery, etc.)
	Arbitrage funds	Low	Low	More than 1 year	
Debt-oriented funds	Fixed maturity plans	Low	Low	30 days to 5 years	Short-, medium- or long-term goals
	Gilt funds	Moderate	Moderate	3 years and beyond	
	Long-duration funds	Moderate	Moderate	7 years and beyond	
	Medium duration funds	Moderate	Moderate	3 years to 4 years	
	Medium- to long-duration funds	Moderate	Moderate	4 years to 7 years	
	Credit risk funds	Moderate	High	3 years to 4 years	
	Low duration funds	Moderate	Low	Around 6 to 12 months	
	Dynamic bond, corporate bond, banking & PSU debt funds	Moderate	Low	Around 6 to 12 months	
	Short-duration funds	Moderate	Low	1 year to 3 years	
	Floater and ultra short duration funds	Low	Very Low	Around 3 to 6 months	
	Liquid funds	Very Low	Very Low	Less than 90 days	
	Money market, liquid and overnight funds	Very Low	Very Low	1 day to 1 year	
Others	Exchange-traded funds (ETFs; including gold) Fund of funds, solution-oriented funds	Moderate	Moderate	5 years	Specific goals (tax savings, jewellery, etc.)
	Arbitrage funds	Low	Low	More than 1 year	
	Equity-linked saving scheme (ELSS)	High	High	Lock-in period of 3 years	

Source – CRISIL,, For representation purposes only,

Mutual fund investments are subject to market risks, read all scheme-related documents carefully. Please read the disclaimer at the end of the presentation before investing.

Achieve your goals SIP by SIP

Benefits

- Reduces average price per unit paid through rupee cost averaging
- Makes market timing irrelevant
- Enhances investments as income grows
- Provides compounding benefits
- Instils investment discipline

One SIP at a time

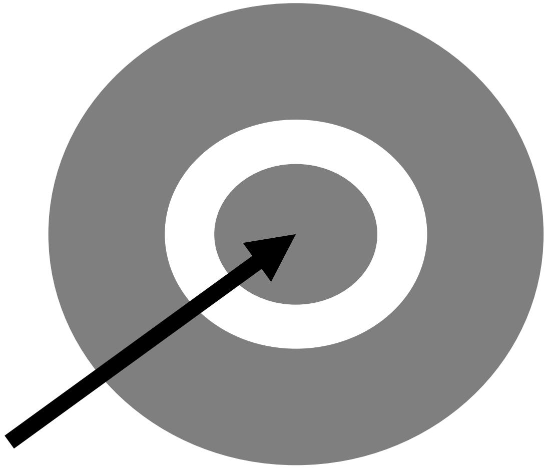
Goal	Target amount	Time Period	Monthly SIP amount required
Retirement	Retirement kitty of Rs 5 crore	30 years	Rs 7,222
Children's wedding	Children's wedding costing Rs 80 lakh	25 years	Rs 2,466
Vacation home	Vacation home costing Rs 75 lakh	20 years	Rs 5,009

The above calculations and potential appreciation of investments are given for illustration purposes only. The illustrative appreciation in SIP investments given above are based on the historical performance of 15% annualised returns of S&P BSE SENSEX i.e. average of daily annualised 15 years' rolling returns of S&P BSE SENSEX as at December 2021 and since June 1979 (Source: CRISIL).

Source – CRISIL,, Note – Past performance may or may not sustain in the future and it does not guarantee or assure future returns.

Goal-based investing

- We all have dreams. To turn these into reality, we need to adopt investment planning
- Often, we are oblivious of our risk profile, our goals, the future cost of goals, etc.
- We need holistic and focused goal-based planning
- It allows us to allocate money according to a purpose or goal
- Don’t forgot the six steps of goal-based planning
  - Identify your goals
  - Classify these in terms of duration
  - Evaluate the current financial state and future cost of goals
  - Measure the risk-taking ability through risk profiling
  - Identify investment avenues and allocate disposable income to different asset classes
  - Monitor the investments
- Mutual funds offer a variety of products suitable for all goals
- SIP in mutual funds is a good and disciplined way to meet goals



Source – CRISIL

Disclaimer

This document has been prepared by HSBC Asset Management (India) Private Limited (HSBC) for information purposes only with an intent to provide market overview and should not be construed as an offer or solicitation of an offer for purchase of any of the funds of HSBC Mutual Fund. All information contained in this document (including that sourced from third parties), is obtained from sources, which HSBC/ third party, believes to be reliable but which it has not been independently verified by HSBC/ the third party. Further, HSBC/ the third party makes no guarantee, representation or warranty and accepts no responsibility or liability as to the accuracy or completeness of such information. The information and opinions contained within the document are based upon publicly available information and rates of taxation applicable at the time of publication, which are subject to change from time to time. Expressions of opinion are those of HSBC only and are subject to change without any prior intimation or notice. It does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may have been discussed or recommended in this report and should understand that the views regarding future prospects may or may not be realized. Neither this document nor the units of HSBC Mutual Fund have been registered in any jurisdiction. The distribution of this document in certain jurisdictions may be restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions. .

This document is intended only for those who access it from within India and approved for distribution in Indian jurisdiction only. Distribution of this document to anyone (including investors, prospective investors or distributors) who are located outside India or foreign nationals residing in India, is strictly prohibited. Neither this document nor the units of HSBC Mutual Fund have been registered under Securities law/Regulations in any foreign jurisdiction. The distribution of this document in certain jurisdictions may be unlawful or restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions. If any person chooses to access this document from a jurisdiction other than India, then such person do so at his/her own risk and HSBC and its group companies will not be liable for any breach of local law or regulation that such person commits as a result of doing so.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

HSBC Asset Management (India) Private Limited, 9-11 Floors, NESCO IT Park, Building no. 3, Western Express Highway, Goregaon (East), Mumbai – 400 063, India.
Email: hsbcmf@camsonline.com | Website: www.assetmanagement.hsbc.co.in