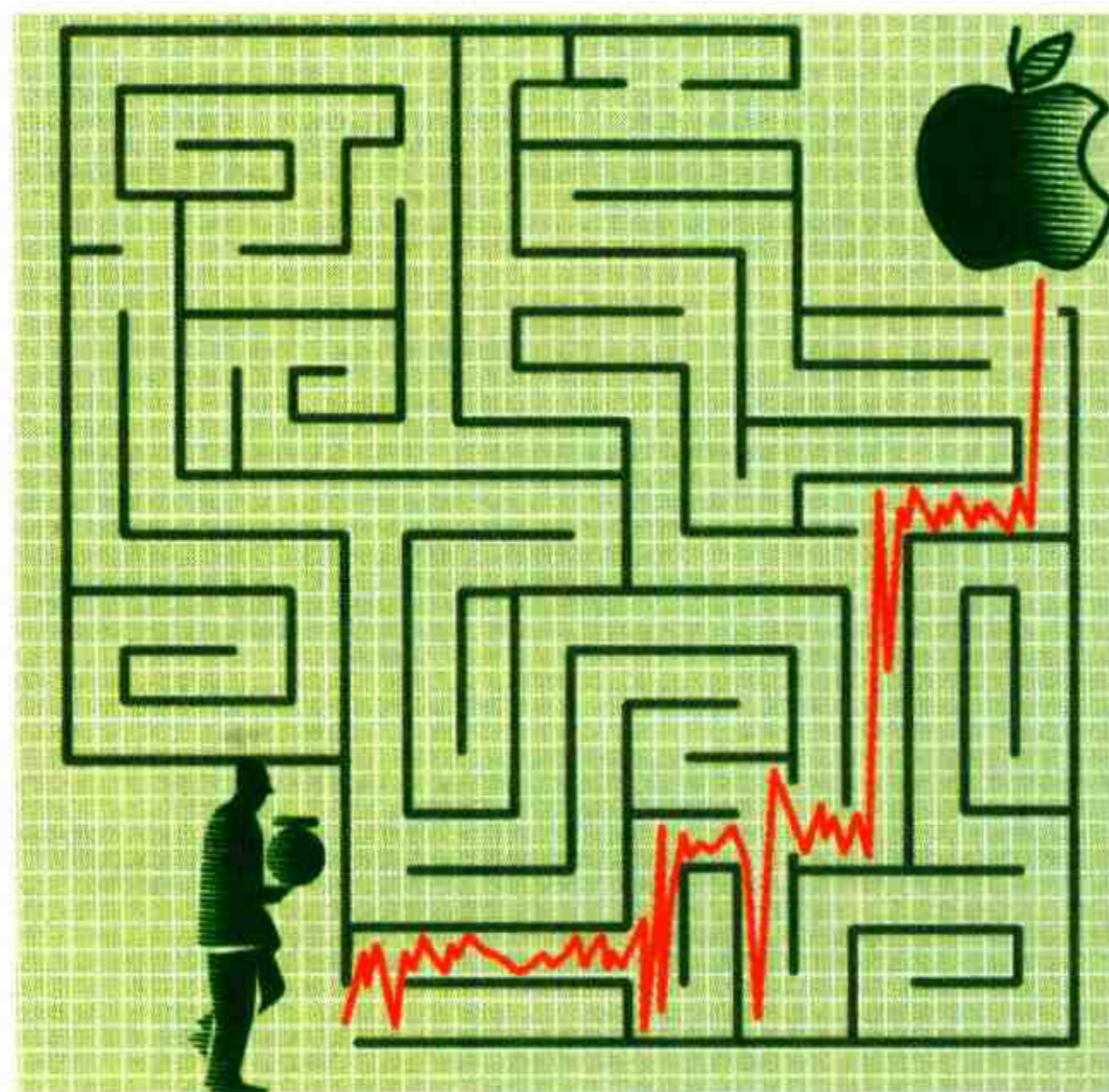




Planning For A Better Future

The success of long-term investing lies in not just taking the right decision, but also avoiding the wrong ones

SAVING for child's future is an important decision for parents and grandparents. The earlier one starts, the better. Planning for a child's financial future can lead to lifelong benefits for a family. One can save and build an investment kitty over time and see it grow to secure a child's future against unforeseen adversities. At the same time, there is wisdom in teaching children how investing works from a young age. This can lay a strong foundation for financial education and awareness.



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While investing money for a lifecycle objective as important as securing your child's future, there are a few crucial, but simple decisions parents must make. Given the long horizon for which money is invested, your choices have to be informed, as well as considered. Mutual funds are an efficient vehicle that enable this decision making process for the retail investors.

While planning is an obvious prerequisite, the success of long-term investing lies in not just taking the right decision, but also avoiding the wrong ones. Some of the key aspects to note are as follows.

Investing in complex or specialised funds to achieve tactical objectives can dilute your focus from the ultimate goal. Investors should refrain from being taken in by fads and investing trends. This means, that parents should invest only in well-defined diversified products and stay away from complex funds and sector funds that may be cyclical in nature. This is not to say that specialised funds are bad, but they need a different level of engagement. Mutual fund companies have developed schemes called child care plans that are designed to cater to such a need.

Choosing the right fund house is as critical as the right product. While investing in a child-oriented scheme, it is also important to seek help from a financial advisor to identify from among the best mutual fund companies and, within that, the most suitable scheme that suits you best. Given the significance of the objective of planning for a

child's future and the usually long time horizon, choosing from among the established managers is a must. Investors should only invest in fund houses with a strong pedigree, good track record and consistent performance.

Starting late can prove to be expensive. Every year delayed, is an opportunity lost. Longer time horizon for investment is therefore the biggest gift that can be given to a child as it adds to the wealth-creation potential through the mighty power of compounding.

Instead of investing all your funds into the one-magic product, investors should try to maintain a balance. An ideal asset allocation mix should be defined based on the investment plan. Or alternatively, rely on an appropriate hybrid product. Child care plans are generally hybrid products, suited to meet various lifecycle goals. In a scenario where the time horizon is long, for instance, to fund your child's higher education 10-12 years from now, investors should consider a fund with higher equity allocation. In case of a shorter time horizon closer to the investment, you need to be more sure of what your money can bring you. Here, 75-100 per cent is invested in debt instruments, while 0-25 per cent in equity.

One should periodically review investments to keep an eye on performance with the help from an advisor. Excessive rebalancing can defeat the purpose of the exercise. Given the constant news flow on equity markets, it is easy for parents to get carried away by emotions of fear and greed and take investment decisions. Last, but not the least, one must stick to the investment horizon. If you reach the goals earlier than expected, you must move to capital preservation. Parents have a responsibility of securing the future of their child. Financial planning, with prudence, is the single approach to set the stage for a fulfilled life with financial security for your children. □