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Readers' Corner

FINANCIAL PLANNING

KARTIK JHAVERI

I have a 16-year old son. I don't give him pocket money. He asks money whenever he needs. I ask him the purpose and pay him accordingly. The amount varies widely each month. Do you think I should pay him pocket money to teach financial discipline?

Yes. By giving pocket money to children we teach them a very important life skill — basic financial management. The sooner they learn about income minus expenses equals savings and savings transform into investments which in turn transforms into life choices, the better they will be able to live their life. Providing a fixed amount helps children in making budgets, evaluating options and making wise decisions. A popular way to give children pocket money is in return for doing certain tasks. This helps understand that money needs to be earned and something earned well needs to be taken care of. Next step could be to make sure that a small portion of the amount is conserved out of the pocket money that inculcates the habit of investment.

I am 26 and don't have a housing loan. For my tax-savings investment, I am putting ₹ 5,000 in an equity-linked savings scheme (ELSS) via systematic investment plan (SIP). Where can I invest rest of the ₹ 90,000 for Section 80C deduction? I also pay a premium of ₹22,000 for my parents' health insurance.

The premium paid for health insurance is deducted under Section 80D up to ₹25,000 for self, spouse and dependent children. If parents are above the age of 60, a deduction is available up to the extent of ₹30,000.

As such other options are public provident fund (PPF) account, term deposits of five years, life insurance. But why you would want to do anything other than ELSS? It is the best tax-saving investment that you could do. Instead of doing SIP of ₹5000, initiate an SIP of ₹12,500 and this will also help you to create great to welcome over time. To give you an idea of the power of this strategy; ₹150,000 invested into ELSS for 25 years will gather over ₹40 million vs about ₹10 million in PPF which is the next best thing after ELSS.

I want to invest in virtual currencies. I want to start small, understand it and then take a call whether I should increase my investments. Can you share your view on virtual currencies as an investment avenue? I will invest only that amount of money that I am willing to lose completely. Is this the right approach?

As a general rule, you may consider doing a highly speculative activity, even akin to gambling with only so much portion of your wealth that would not make any material impact on you if you were to lose it. In terms of a specific number, this could be about 0.5-1 per cent of your overall wealth. Virtual currencies do not have the support or backing of any government or private agency who would act like a market maker at all times and guarantee trade between counter-parties. In simpler words, there is no one to protect and safeguard your financial interest if anything goes wrong.

The current market valuations worry me. I can't stomach a 25-30 per cent erosion in my mutual fund investments. But correction in stock market looks inevitable. Please suggest me at what stage should I book profit and how?

No one is in position to correctly forecast the behaviour of stock markets. Markets can continue to remain irrational for a long time. Continue holding your position indefinitely and sell your portfolio only when a financial goal is going to mature. Another good idea would be to implement an asset allocation strategy so that you were able to book profits and control your exposure to equities regularly. A popular indicator of booking profits is the trailing price-to-earnings ratio, which you may consider using. But all is said and done remember the greatest wealth will be created for those who hold the longest.

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