WHAT'S YOUR INVESTMENTS KMPH

Research shows that staying on course is more important than staying ahead and is key to finishing out strong in the stock market

Madhu Menon
CEO Founder, OxyzenFin Private Limited

Have you ever started driving your car aimlessly without a destination in mind? Discontinued a much awaited holiday just because there were few emergency stoppages, traffic jam or flat tyres. In either of the cases, the answer will be a No! Furthermore, while driving, you drive at a speed you are comfortable at, keep away from unnecessary overtakes and most importantly maintain or adjust speed according to the road and traffic condition. Even if someone overtakes, you keep calm because you know the speed to be maintained to reach the desired destination comfortably. Along the way, you keep track of Kmph (Kilo meter per hour). This is one metric which will guide you towards staying on course and aids you in reaching the destination on time.

Calculating Your Kmph

When it comes to investments, Kmph is the speed or rate of return which has to be maintained to attain all your financial goals. Knowing this will ensure that you stay focused, invested and disciplined towards achieving various financial goals. The first step in this journey starts with knowing your risk profile - Conservative, moderate or aggressive.

Next is to quantify financial goals based on present and future value, prioritise them and allocate investment instruments as per the timeline of the goals. To find the future value of a goal, one must know its present value, time required to reach the goal, required rate of return and finally factor in inflation. On an aggregate basis, one must ensure that the portfolio is adequately diversified such that there is no untoward risk taken to achieve any goal.

Two Examples to demonstrate KM/Hour's effectiveness.

I. Assumptions: Retirement Age 60 Years, Expected Inflation 6%, Life Expectancy 80 Years. Expected return pre-retirement 10% & 12% Respectively, Post Retirement Returns 7%

If you notice the Expected pre-retirement return achieved is 10% & 12%. The Monthly Required SIP value From around 23,000 becomes Rs. 48,000, Confirmatory to the fact; Selection of vehicle (various investment avenues) are equally important when you are driving to your Destination (Goals).

RETIREMENT CALCULATOR

Expected Monthly Expenses When you Retire at 60 years would be
₹3,20,714/-
& Estimated amount required as Retirement
₹7,05,05,788/-
Total savings at the time of retirement will be ₹4,90,94,431
Shortfall in savings ₹3,45,44,616
To achieve this goal, you need to do

SIP	Lumpsum
₹47,714	₹51,34,837

Current Age	40
Retirement Age	60
Current Monthly Expenses (₹)	1,00,000
Expected Inflation (%)	6.00
Current Savings Per Month (₹)	25,000
Existing Corpus (₹)	25,00,000
Expected Pre Retirment Return (%)	10.0
Expected Post Retirement Return (%)	7.00
Life Expectancy	80

Disclaimer: This tool does not make any guarantees or warranties whatsoever expressed or implied regarding the completeness accuracy, adequacy, fullness, reliability, functionality, and/or the reliability of the information

Here, the client has to maintain a 10% or 12% Kmph. It is the Kmph which will decide how soon your goal will be achieved or vice versa.

Now, let us consider another example. 40 years old and wants to retire in another 20 years. His current monthly expense is at Rs. 1.5Lacs. But the highlight is he already has an accumulated savings of Rs. 25 lacs and has another Rs. 75,000 to spare every month. During his working years, his savings will grow along with his monthly investments. Notice at a set Km/hr of 12.5, The set goal is achieved unless there's a change in expense pattern or Rate of Return, Now The Km/hr !

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Investment Avenues

Every financial goal has a timeline attached to it. Basis the timeline, the investment avenue can be decided on as per one's risk profile. For short term goals, one can use a mix of debt and conservative hybrid funds while for a medium to long term goal, one can use a mix of equity and hybrid mutual funds. Given that inflation remains high, everyday expenses is bound is increase exponentially. By investing solely in traditional investment options available, one be setting up for disappointment as the corpus generated is bound to fall short of the requirement. Remember with the help of a financial advisor's guidance, every goal is achievable no matter what your risk profile is or how much you have already saved or not.

RETIREMENT CALCULATOR

Expected Monthly Expenses When you Retire at 60 years would be
₹3,20,714/-
& Estimated amount required as Retirement
₹7,05,05,788/-
Total savings at the time of retirement will be ₹4,90,94,431
Shortfall in savings ₹2,14,11,357
To achieve this goal, you need to do

SIP	Lumpsum
₹23,277	₹22,19,646

Current Age	40
Retirement Age	60
Current Monthly Expenses (₹)	1,00,000
Expected Inflation (%)	6.00
Current Savings Per Month (₹)	25,000
Existing Corpus (₹)	25,00,000
Expected Pre Retirment Return (%)	10.0
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RETIREMENT CALCULATOR

Expected Monthly Expenses When you Retire at 60 years would be
₹4,81,070/-
& Estimated amount required as Retirement
₹10,57,58,682
Total savings at the time of retirement will be ₹10,65,76,702

Congratulations
Your current savings is enough to sustain your post-retirement expenses. Should there be a change in expense pattern or Rate of Return, please do recalculate.

Current Age	40
Retirement Age	60
Current Monthly Expenses (₹)	1,00,000
Expected Inflation (%)	6.00
Current Savings Per Month (₹)	25,000
Existing Corpus (₹)	25,00,000
Expected Pre Retirment Return (%)	10.0
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You can use different investment plans with different investment objectives to reach your goals. The irony is most of us would spend inordinate amount of time planning a weekend dinner or vacation such that the outcome is as per one's expectation but barely do with do the same with our financial planning.

The views are personal and are not part of the Outlook Money editorial Feature