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October 2024 Issue

NEWSLETTER

- 76% Students Passed CFP Specialist Certification in Sept'24
- 100% passing rate in Risk and Estate Planning Specialist Certification

Upcoming Events

- Celebrating World Financial Planning Day on 9th Oct 2024

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Chief Mentor's Desk

Vani Bajaj
Chief Mentor

Dear ICOFPIANS,

It gives me immense joy to share with you the re-launched edition of ICOFP's monthly newsletter. When we pioneered the CFP certification in India back in 2002, financial planning became more than a profession for us—it became part of our identity. Our mission, "to become the preferred choice for both students and the Financial Services Industry, while delivering world-class education to create top-tier professionals," has only grown more relevant as the Indian financial sector continues to evolve.

With over 75 years of collective faculty experience, ICOFP's academic team brings together a unique blend of classroom expertise and hands-on industry insights. We remain committed to shaping future financial leaders through a learning experience that combines theory with real-world application.

I would like to share two key trends shaping our field today: the rise of AI in Financial Planning & Advisory, and the increasing debt load of Indian households. We see AI as an exciting opportunity—it can make financial advice more accessible, especially for first-time investors who may not be ready to engage a full-time financial planner. That said, for seasoned investors, AI can enhance but never fully replace the personalized insights and expertise that a human advisor offers.

On the debt front, household savings have dipped to 18.4% of GDP in FY23, down from 20% between FY2013-22. Similarly, net financial savings (Gross Financial Savings less Financial Liabilities) have fallen, reflecting a surge in retail loan growth, spurred by both consumption and investment needs. As financial liabilities grow, the role of financial planners becomes even more crucial in guiding individuals towards sound debt management and financial wellness.

This inaugural edition is a collaborative effort, with valuable contributions from some of our distinguished alumni. I extend my heartfelt thanks to all those who helped make it happen. Remember, today's planning is tomorrow's prosperity—plan smart, live brighter!

Cheers to the Women Power of ICOFP!

ICOFP sweeps the FPSB India Awards 2024, bagging not one, not two, but THREE awards! Our Dean, Ms. Madhu Sinha, CFP® was crowned 'Educator of the Year.' Adding to the glory, our star alumni, Ms. Renu Maheshwari, CFP® and Ms. Dilshad Billimoria, CFP®, shined bright as they both clinched the title of 'CFP® Professional of the Year (Woman).' Their success reflects the high standards of expertise and professionalism we cultivate at ICOFP.

Six Steps to Financial Nirvana: Because Money Doesn't Grow on Trees!

-By Muskan Mehta, CFP Level 4 Pass-out, Research Assistant at ICOFP

The 6-step financial planning process is not just a guideline; it's the compass that leads to a client's financial success. Much like baking a cake, if you skip a step, you might end up with a soggy bottom instead of a masterpiece. Let's explore these essential steps with a hypothetical client to illustrate the process. Let's explore how these steps play out in a real-life scenario.

1 Establish and Develop the Client Relationship

When a potential client walks into your office, they often carry a mix of hope, confusion, and financial stress. This is your moment to build rapport and establish trust. Start by clearly explaining your services and the financial planning process, setting expectations for what's ahead. Using Appreciative Enquiry to understand your client's personal goals is crucial. Whether they're saving for their child's education or planning for a family wedding, these insights shape your approach. Think of it as laying the groundwork for a partnership, where both parties are on the same page. Building this connection fosters collaboration and helps establish an open dialogue for the financial journey ahead.

2 Gather the Client's Information

Now, it's time to don your detective hat and gather all the relevant financial data. This isn't just about numbers—though they matter a lot—but also about understanding your client's values and risk tolerance. You'll collect information like their income (let's say INR 15 lakh per annum), debt (like a INR 30 lakh home loan), and investments in mutual funds. But beyond the hard data, it's equally important to assess their risk appetite. Are they a cautious saver who prefers stability, or are they willing to take risks in pursuit of higher returns? As Life gives choices, similarly in Financial decisions financial planners help clients make informed choices for Life Planning. These details will be the cornerstone of the customized financial plan.

3 Analyze and Assess the Client's Financial Status

Here's where the real magic happens: the numbers start to tell a story. By analyzing the client's financial landscape, you can identify whether they're on track to achieve their goals or if adjustments are needed. Let's say you discover that, despite their steady income, their savings won't cover their child's future education costs. Their high-interest home loan is also draining their monthly cash flow. Or maybe the investment portfolio is too aggressive for their risk tolerance. Spotting these red flags allows you to refine your strategy. It's like realizing the cake recipe calls for baking powder instead of baking soda—small changes can make a big difference.

4 Develop and Present Financial Planning Recommendations

With your analysis in hand, it's time to craft a customized financial plan. This is where your expertise shines as you transform the data into actionable insights. For instance, you might recommend refinancing their home loan to secure a lower interest rate, increasing SIP (Systematic Investment Plan) contributions to save for their child's education, and increasing risk cover for term insurance. If their risk tolerance leans toward the conservative side, you could suggest diversifying their portfolio to include a balanced mix of equity and debt investments. Presenting these recommendations clearly, with financial projections, helps the client see how these strategies can align with their long-term objectives.

5 Implement the Financial Planning Recommendations

This is where the action happens—implementing the financial plan. Think of yourself as a musician, guiding your client through each step to ensure the final outcome is a perfect symphony. Whether it's updating SIP contributions, refinancing a home loan, or arranging the right insurance coverage, every move is a crucial note in the bigger composition. This stage brings the plan to life, instilling confidence in your client's financial journey.

6 Review and Monitor the Client's Situation

Financial planning isn't a "set it and forget it" endeavor—it's an ongoing process that requires attention and adjustments. Regular reviews are key to ensuring the plan stays on track. For example, scheduling a annual review of long-term goals while semi-annual reviews for short-term goals is critical and allows you to assess the client's progress. If market fluctuations have impacted their investments, you might recommend rebalancing their portfolio. Or, if their financial situation has changed, it's essential to update the plan accordingly. These reviews are like routine check-ups, ensuring the client's financial health remains strong.

By following the six steps of financial planning, you're not just crunching numbers—you're creating a financial GPS that guides clients to their dreams. Whether saving for a wedding or planning retirement, this process keeps their finances on solid ground. It's all about steering them toward the big picture, one step at a time.

The Learning Ledger

Fill Your Buckets, Not Your Worries: The Fun Side of Asset Allocation

-By Vibu Venkat, Senior Program Manager – Finance at ICOFP, ICOFP Alumni

There is a reason our wish list is called a Bucket List. Buckets can perform some real magics to our Asset allocation exercise, to ensure our Wealth corpus outlives us. In simple terms, asset allocation can be described as

"Ensuring that, despite market volatility, portfolio functions effectively."

Even though it seems easy enough, it's quite hard to do. Let's explore in detail how we may develop an effective portfolio.

It is a common misconception that there is a single formula for asset allocation. A person's risk profile is never the same as another's. Let us now address the elements that influence the allocation of assets.

1. Years to Retirement: For those on salaries, this is relevant. For self-employed individuals, it refers to the duration of time for which they would continue to receive a consistent cash flow, that is independent of the wealth portfolio.

There are two main reasons we are interested in wealth growth.

a) For objectives that we want to accomplish such as, getting married, buying a house, or going to college. Generally, these can be classified as Financial Goals which have specific purpose.

b) The other is generally building wealth. Creating wealth may be used for retirement or to plan for the next generation's succession. Retirement corpus, Estate Planning are the kinds.

Asset allocation is always a function of the amount of time available.

2. Total net worth, which needs to include assets outside of your investment portfolio. This will increase your appetite for risk in an indirect way.

After carefully analyzing and answering the above questions for yourself, let's get into the different asset classes available for us to plan Asset Allocation.

Class A: Any goal or requirement required after five-seven years - Equity Based Funds

Class B: Any goal or requirement in span of 3–5 years-

Balanced/Multi Asset Funds

Class C: Short Term. Capital protection is primary aim, not appreciation – Debt/Liquid Funds

In this case, the allocation is being driven by the requirement time horizon.

Let's understand this better through a strategy associated with Traffic Lights & Buckets

Class A: Red Bucket

Class B: Yellow Bucket

Class C: Green Bucket

While we begin the accumulation, we tend to have a maximum allocation to Class A and proportionately less in B and C.

Let's discuss two classical scenarios of Market!

Bull Market

Every fund in which we have invested is performing well. This means the level of water in the Red Bucket (Equities) is increasing to its brim. This is where we must shift some water from red to yellow (Balanced). By repeating this exercise, we aim to ensure there's no loss of profits and both buckets are at optimal levels. We shall repeat the same when the yellow bucket begins to cross its threshold and shifts to green.

Let's remember that our eventual target is the green bucket being full, which simply means we have achieved our targets.

Bear Market

This means values in both red & yellow tends to come down. We need to ideally refill so that the original asset allocation is restored.

Generally, we don't do that due to a variety of factors. This is where consistent monthly investing through SIPs comes handy. It helps us participate markets at every level in regular intervals. Trying to time the market is futile, but we are making sure to allocate money at all levels of the market. In the long run, it will prove very beneficial.

Within Class A, we have a lot of Flavors of equity. For any size of investment, mutual funds are relatively the best class of investment based on multiple factors. There are other classes like AIF, and PMS for high-ticket-size investors. They come with Exit loads and lock-in conditions.

Class B funds are the Funds that deploy into more than one asset class beyond Equities. It could be Gold, Debt, Real Estate & so on. They tend to be less volatile than pure Equity Funds.

Class C funds have the primary aim to protect the money value of the Capital. Capital is preserved, against inflation and taxation to retain its value. Fixed income securities & Debt Mutual Funds come under this category.

Profit protection is essential to manage the allocation to each of the asset classes during different cycles of the Market.

Read & Succeed

"Let's Talk Legacy"

-By Monika Halan, Author and Speaker, ICOFP Alumni

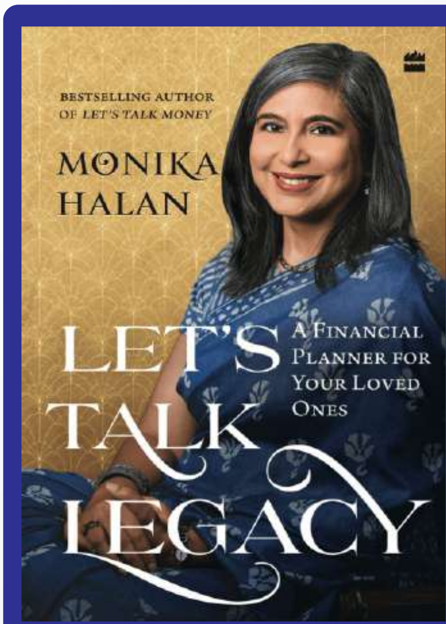
Monika Halan, one of India's most respected authorities on personal finance, delivers a remarkable and essential resource with Let's Talk Legacy: A Financial Planner for Your Loved Ones. This work goes far beyond conventional financial guides, offering a deeply pragmatic approach to organizing and securing one's financial affairs. Halan deftly addresses the often chaotic aftermath of losing the family member who manages the household finances, shining a light on an issue that few prepare for adequately.

Let's Talk Legacy is designed not merely as a book but as an indispensable financial workbook, systematically guiding readers through key aspects such as banking, investments, insurance, real estate, loans, taxation, and wills. Its meticulously crafted format ensures that critical details are documented in one place, providing families with a clear, structured roadmap during times of distress.

The strength of Halan's work lies in its practicality and foresight. The book acknowledges the confusion and emotional turmoil that follows a death in the family, offering a clear solution to prevent the frantic search for passwords, account numbers, and legal documents. In doing so, it transforms estate planning into an act of profound care and responsibility, safeguarding loved ones from unnecessary stress.

What elevates this book is its accessibility and thoughtful design. Halan simplifies complex financial concepts, ensuring that readers from all walks of life can easily engage with and benefit from the content. This is more than a financial manual—it is a blueprint for creating and preserving a legacy.

In a world of uncertainty, Let's Talk Legacy is a vital tool. It does not belong on a bookshelf, but rather in a safe, where it can serve as the most valuable source of information one can leave behind. This book is an essential read for anyone committed to financial security and legacy planning.



Bookmark it now – Join us next month for another epic book review

Wealth Wizards' Challenge

- Ready for a brain workout?
Here are a few financial riddles to tickle your mind!

"I'm a financial rule that keeps investors aligned, Balancing risk when the market's unkind.
Famous for the mix of stocks and bonds I weave, A diversified approach you'll achieve. What am I?"

"I'm a cognitive bias that's tricky to see,
Investors cling to me when in misery.
Ignoring new information that might sway,
I make them stick to old ways. What am I?"

"I'm a risk that's not easy to fight,
When prices rise and money loses might.
I erode the value of returns over time,
So protecting against me is always prime. What am I?"

"I'm the kind of bond that pays no rate,
Yet I'm sold at a discount; investors await.
My value grows until maturity's date,
What am I when the interest accumulates late?"

"I am an emotional trap investors often face,
Chasing rising prices, I make them race.
Fear of missing out is my game,
And many have lost due to my claim. What am I?"
"I measure how much an investment can swing,
Capturing risk when markets do their thing.
A crucial factor in modern portfolio creation,
But I don't guarantee any valuation. What am I?"

"I'm the risk you take when rates go high,
Bond prices fall, and you sigh.
Fixed income investments face my test,
Hedging against me is often best. What am I?"

Think you've cracked them? Hold on to your guesses until next month's issue for the answers!

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