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# Setting Financial Goals

*Translating dreams & desires into specific targets*



Girish Aswani, CFP™

*When do our dreams and aspirations become definite goals? Are accomplishing our dreams easy? Probably not, since we have to put in a lot of effort to achieve them. In fact, majority of the people are unable to follow their dreams and aspirations and give a specific shape to them. The reason for this is that they make only half-hearted attempts to translate them into reality and too often, they do not know what they should do to make their dreams a reality.*

**M**any times when my clients come across the word “goals”, they often take it as “dreams” or “aspirations” which they want to achieve. It is, in a way, correct because after all people work hard and put in their best efforts to achieve something, which is not usual in life, which is not possessed by anyone else, something unique or something special. It could be a holiday to an offbeat destination, gaining an accomplishment, buying a coveted car, attaining an academic or professional degree, getting a dream home or office, pursuing what one likes best, setting up an enterprise and so on.

Let us take the example of

Mr. Batra, one of my clients, who was an accountant in a broking firm and who successfully translated his dreams into real goals and achieved them. While working with him, he enlightened me about the methods and techniques he followed and what he did differently from others.

## 1. Identifying the Difference Between Dreams and Goals

The dictionary defines a dream as a series of thoughts, images and sensations occurring in a person's mind during sleep. Often it seems like too big an aspiration for people to put any effort into it. For example, for a person who is earning Rs.2 lakh a year and having no other

sources of income, owing an Aston Martin would be like a dream. Even if that person were to win a lottery and get enough money to afford a car like that, he would probably put the money to some other use such as buying a house or using it for his family's immediate living needs. The dream still remains an out-of-reach aspiration. The jump from dream to an imaginable goal is still to be bridged. Therefore, it is important to identify the difference between dream and a goal. Dreams are usually wishes that seem out of reach whereas goals are well planned and reachable.

## 2. Quantifying the Goal

Quantifying Goals play a significant role in achieving them; but the now question arises how to quantify the goal as the monetary compensation keeps changing over time. There are techniques to quantify a goal, which are very simple. You need to remember two important things:

- (i) Never quantify the goal in present day value terms; instead consider today's value as the base
- (ii) Always stick to the timeline by when you want the goal to be realized; never advance or postpone the deadline

Let's assume a person wants to buy a car, which is priced at Rs.8 lakh today. Now if you start saving for Rs.8 lakh and contribute accordingly you will never be able to buy that car! The solution is to consider the price change of the goal in the past. In this case, look at the price changes of the car in past three to five years. If you find the price change is at the rate of

8% , factor in this price change in the goal value. So, if you want to buy a car in the next five years, the formula will be  $\text{Rs.8 lakh} \times (1.08^5)$  which is roughly Rs.11,75,000. If the contribution is done as per the calculated amount, the probability of realizing the goal will be higher. It might happen that you may reach your targeted fund value in a lesser time frame than you had budgeted for. But, never overshoot the deadline and do not be tempted into taking a car loan if there is a shortfall. Sticking to your time horizon is important when working towards your goals.

## 3. Working Towards the Goal

It is important that the goal should be slightly beyond the present capacity, as this technique will push one to work more as well as explore other opportunities to reach them. Mr. Batra, while trying to achieve his goal, found that he would have to work for extra hours. So he identified an opportunity to teach accounts to school and college students after his working hours. This way he was able to generate additional income for himself to contribute towards his goals.

## 4. Developing a Strategic Plan

Execution plays a very important role in reaching your goal for which you need to put a strategic plan in place. It is not only important that how well you plan but how strategically you execute your plan. If the strategic planning has not been executed properly, then a person will end up doing firefighting or crisis management almost every

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time. Therefore, it is important to plan and execute strategically. For that, you need to be on the lookout for opportunities and grab them when they arise. People make the mistake of waiting for them and probably not recognizing the opportunities, and, by the time they do so, the opportunities are already exhausted. Here are five simple strategies that can actually bring additional wealth stream to a household income.

### 5. Channelizing Savings

Inculcate the habit of channelizing savings which means whenever you have any savings, that you believe is not required for immediate consumption transfer the savings to a liquid fund or a fixed deposit. If the savings are lower wait for it to accumulate and then transfer. This brings wealth creation through savings.

### 6. Reinvesting Returns

Every investment comes with a risk attached to it and it is a good practice to keep a watch on investments and the market segment where investments have been made. While it may not be possible to time the market, measuring risk bearing capacity is always possible. Once the targeted returns are met, book profits and transfer the returns component to a safer instrument where the risk is comparatively lower. This will help build wealth in a safe instrument where the probability of capital erosion is very low.

### 7. Safety over Greed

Mr. Batra was a balanced type

of investor, and was neither too aggressive nor too conservative in his investment approach. He always placed safety of his capital on a higher priority over higher returns. While this may seem like a conservative approach, the amount of time and effort required to regenerate eroded capital due to greed for high returns is not worth taking a risk, especially while working on a tight budget. Therefore, while it is a good idea to take some risk in the quest for returns when it comes to capital preservation it is better to take a conservative approach. This means reinvesting additional returns at a higher risk and capital and interest component at a lower risk.

### 8. Invest in Liquid Funds or Fixed Deposits

Almost all investors want high income and lower expenses. If additional or a second income can be generated with very little effort, then that is the icing on the cake. Usually the answer lies in finding part-time jobs. That is however not the only solution. Mr. Batra was practicing strategies, which produced good results. He started saving 20% of his income and investing the same in liquid funds, which were generating safer returns of around 9% a year.

### 9. Reinvesting Rental Income

If an individual owns a property that is put out to rent, the rental income is normally used to meet living expenses. A better way of utilizing the rental income would be to reinvest it for the purpose of building wealth.

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Thanks for reading the above article,  
Request you to share your valuable feedback on: [girish.aswani@gmail.com](mailto:girish.aswani@gmail.com)  
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