OUTLOOK

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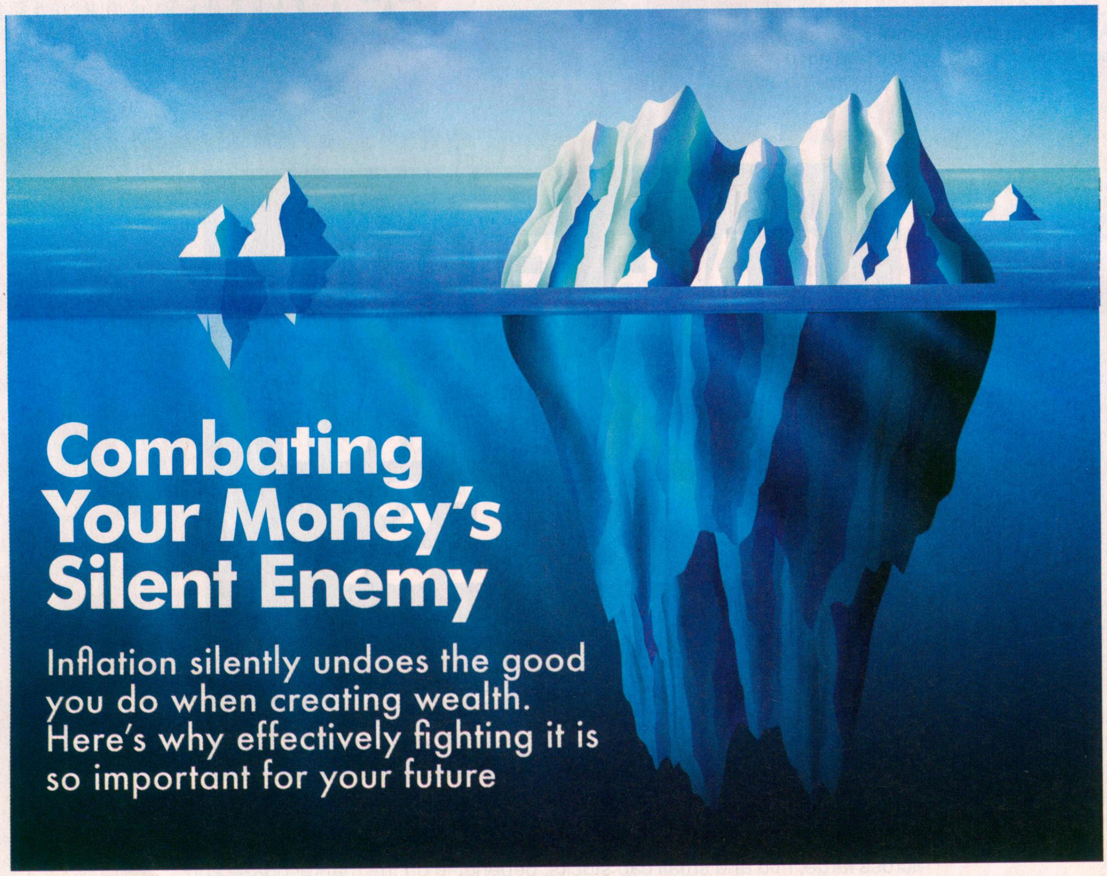
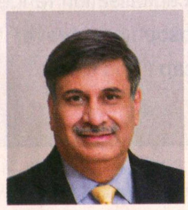


Combating Your Money's Silent Enemy

Inflation silently undoes the good you do when creating wealth. Here's why effectively fighting it is so important for your future

UDAYAN RAY

Is inflation an integral part of every Indian's life? For as long as we can remember, we would have heard somebody or the other in our circle of family and friends complain about inflation. The average annual consumer inflation rate in India for the decade of 2008-17 has been 7.9 per cent. This high inflation reality is unlikely to change with potent inflation-driving factors such as international oil prices and various supply shortfalls unlikely to change any time soon. This is why experts urge investors to devise an approach to counter inflation. "With high annual inflation, it is assured that you are likely to get poorer by 8-10 per cent every year," says Kalpen Parekh, president, DSP BlackRock Mutual Fund. Unfortunately, most people don't realise the corrosive impact of inflation on the purchasing power of money. "People don't think in real terms but in nominal terms. For example, if inflation is 10 per cent and interest rate is 7 per cent, then after one year in real terms, your wealth is down 3 per cent. But most people will think their wealth is up 7 per cent. Ignoring inflation and calculating returns in nominal terms rather than real terms is the most common mistake which people



Ashish Vohra
ED & CEO,
Reliance Nippon
Life Insurance

"You need to make a financial plan not to just to cover inflation but also factors such your risk appetite and financial goals" make," says Nilesh Shah, managing director, Kotak Mahindra Asset Management Company

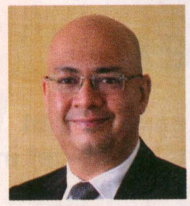
Shah aptly sums up the impact of inflation on personal finances: "Inflation is a silent killer. Inflation like termite keeps on biting your wealth silently. If you can't beat inflation then your wealth de-grows over a period of time. It is like having ice in your hand on a summer day. The summer heat will melt the ice into water in no time." The question then is what are the basic steps that can be taken to combat inflation? Here are a few steps you could take.

Factor in the impact of inflation

Make sure that you get a sense of the impact inflation on your major goals. While higher education costs are expected to grow much faster than general inflation, as was the case in the last decade, other requirements such as regular retirement income will be spread over time i.e. retired life. Remember, even at 5 per cent inflation rate, the regular income at the time of retirement, after 15 years, will be able purchase almost half of what it did initially.

Create a financial plan

While you need to have a gameplan to counter inflation, it will need to be part of your overall gameplan. "You need to make a financial plan not to just cover inflation. You need to keep in mind factors such your risk appetite and financial goals. For this, you need a basket of investments that will provide protection, liquidity, regular income and high growth," says Ashish Vohra, ED & CEO, Reliance Nippon Life Insurance. "People end up spending more time on examining a financial product rather than make a financial plan. This approach works for holiday packages, not for securing one's financial future," he adds. While easy to liquidate investments like liquid funds can take care of your imminent needs, regular income can come from investments like debt funds while growth can come from equity oriented investments like equity funds and unit linked insurance plans (ULIP).



Puneet Nanda
Joint Managing Director, ICICI Prudential Life Insurance

"To provide for the family and give them financial security, it is imperative that individuals select financial savings products that have the propensity to provide inflation beating returns and create long term wealth"

Combat Gameplan

- Account for the impact of inflation on major goals such as children's higher education and your retirement
- Create a financial plan that covers your short term and long term needs
- Select a mix of investments that provide liquidity, protection, lower risk returns and high growth
- To combat inflation, consider investments like equity and equity funds that typically grow faster than inflation and debt funds where inflation effectively enhances capital gains
- Review the progress of the investment mix vis-a-vis your financial goals and the impact of inflation on them

Ensure growth investments

"To combat inflation, I need to make rising prices my friend," says Parekh. He argues that since there are some companies who have the power of passing on the rising prices to consumers, it is investments in equities that help investors beat inflation and help continue with their wealth creation unhindered.

For individual investors without knowledge of equity markets or the time to make such investments, equity investments can happen through equity funds or through ULIPs. "To provide for the family and give them financial security, it is imperative that individuals select financial savings products that have the propensity to provide inflation beating returns and create long term wealth," says Puneet Nanda, Joint Managing Director, ICICI Prudential Life Insurance.

Periodically review your progress

You need to periodically review the progress of your investments towards your different financial goals. You could do this every six months or annually, either by yourself or taking the help of a financial advisor.

Clearly, inflation is the biggest enemy for your accumulated wealth. It is also a very important reason why you need to create ample wealth for the future. A regular and diligent investor can never afford the exorbitant embarrassment of falling short at the time of need.

The author is a personal finance expert and a founder of FundooMoney Media, an e-learning company