Chapter : 2

THE CONTOURS OF PERSONAL FINANCIAL PLANNING

CHAPTER 2

THE CONTOURS OF PERSONAL FINANCIAL PLANNING

2.1 An Overview

Personal Financial Planning (PFP) as mentioned in the previous chapter is an intricate process. Some light was thrown earlier on the enormity and complexity of this activity. But, no individual should be deterred from engaging in this highly beneficial exercise. In fact, the condition of an individual who plans his finances in a haphazard fashion has been compared by Gitman and Joehnk[1] to the situation of a drifting ship in the vast expanse of an ocean. One can venture to add that many people are in reality guilty of such directionless efforts in their personal finances. It is important to find one's bearings and then head in the right direction, instead of a meandering approach to financial decisions.

Hallman and Rosenbloom define PFP as "the development and implementation of total coordinated plans for the achievement of one's overall financial objectives."[2] Two key elements of this definition are noteworthy: that the plans are dovetailed so as to attain a variety of financial objectives rather than arriving at decisions as though each requirement or problem is disparate in nature. Thus the preparation of coordinated plans becomes possible only when all the different needs have been identified and expressed in terms of objectives. Clearly, these needs would differ from one person to the next, depending on an individual's circumstances (age, financial position, etc.), attitudes and other considerations. However, for most people, the following areas are relevant:

1. Requirement of insurance against premature death, disability, loss of property or financial burdens/setbacks from unemployment, medical bills, or indemnity losses.

2. Capital accumulation for

    a. Contingency needs

    b. Future commitments such as children's education, daughter's marriage etc.

    c. General investment fund.

3. Providing for retirement income

4. Reducing tax outflows during one's lifetime and at death

5. Estate Planning and Property Management

2.2 Insurance

Each of the above areas calls for a considerable level of knowledge and skills. For instance, the field of insurance has grown so significantly that special courses are offered in college programmes in the area of finance. Further, apart from different types of policies, the number of schemes and products that are on offer keeps on increasing, year after year.

The most widespread and perhaps, universal requirement is for life insurance. Through a contractual arrangement, a person secures protection against the risk of financial loss due to premature death. Other forms of insurance which are slowly gaining ground in India are health insurance and property and liability insurance. Among the reasons cited in favour of life insurance are the following:

1. Full protection (to the extent of the sum assured) against the risk of premature death.

2. It encourages thrift. The facility of periodic instalment of the premium imposes no major burden on individuals.

3. A loan can be obtained on the strength of a policy.

4. The payment of premium qualifies for tax rebate, subject to certain restrictions.

5. It affords flexibility in planning because of the multiplicity of choices.

Certain positive features that accompany an insurance policy are worth mentioning:

1. Premiums may be paid in monthly, quarterly, half-yearly or yearly instalments except in the case of single premiums.

2. A grace period is attached to the payment dates.

3. Revival of a lapsed policy is possible.

4. Loans of substantial amounts (depending on the Surrender Value) may be availed of against policies.

5. The extension of concessions in the payment of premiums for policyholders affected by natural calamities such as droughts, cyclones and floods.

6. The facility of nomination/assignment.

The Life Insurance Corporation offers a wide variety of insurance plans and schemes to choose from. Those offered to individuals are grouped as under:[3]

1. Basic Life Insurance Plans

   a. Whole Life Assurance Plan

      This is a low cost insurance plan in which premiums are payable throughout life and the sum assured is payable on death of the insured.

   b. Endowment Assurance Plan

      Here, the sum assured is payable on the maturity date or on death of the insured, if prior to the maturity date.

2. Term Assurance Plans

There are different policies with varying terms, including Bima Sandesh and Bima Kiran.

3. Children's Plans

This includes a host of different policies including Jeevan Kishore and Jeevan Sukanya.

4. Pension Plans

These provide for either immediate or deferred pension for life.

5. Special Plans

These have been tailored to suit individual requirements and include the Convertible Whole Life Policy (rising premiums as incomes grow), Jeevan Chhaya (for children), Fixed Term (Marriage) Endowment/ Educational Annuity, etc.

6. Jeevan Sarita

This is a joint life last survival Annuity-cum-Assurance plan for husband and wife.

In addition to the above, there are various group schemes such as the Group Term Insurance Scheme, Group Gratuity Scheme and others. The LIC Mutual Fund has also been prolific and has started open-ended and closed-ended schemes Among the noteworthy ones is Dhanaraksha which is a savings scheme with accident cover, which is very similar to ULIP of UTI.

Under Section 88 of the Income-tax Act, rebate is available to the extent of 20% of the aggregate amount paid towards:

1. Premium to effect or to keep in force an insurance policy on the life of the assessee or on the life of the spouse or any child (whether minor or major) of the assessee, irrespective of the status of the child.

2. Premiums to effect or to keep in force a contract for a deferred annuity on the life of the assessee or on the life of the spouse or any child (whether minor or major) of the assessee provided that such a contract does not contain a provision for the exercise by the assured of an option to receive a cash payment in lieu of the payment of the annuity.

3. Contribution for participation in the Dhanaraksha Scheme.

4. Payment towards Jeevan Dhara and Jeevan Akshay Schemes.

5. Annuity Plan of LIC, as notified by the Central Government.

Insofar as other forms of insurance applicable to property and indemnity losses are concerned, the demand is not universal. Moreover, the tax shield may not be obtainable. Hence, in this study, these forms of insurance have been de-emphasized. In the case of health insurance, however, a deduction is allowed for any medical insurance premium (under MEDICLAIM)[4] paid by cheque out of an assessee's taxable income upto a maximum of Rs.6,000/-. This deduction is permissible for:

1. In the case of an individual, insurance on the health of the assessee or spouse or dependent parents or dependent children.

2. In the case of an H.U.F. – insurance on the health of any member of the family.

2.3 Capital Accumulation

The urge for financial security is manifested in the accumulation of capital that individuals pursue. A sizeable fund is a source of great reassurance – – whether in emergencies, or for normal but major expenditures such as a marriage in the family or on the eve of retirement. Therefore what people strive to do is generate a surplus of income over expenses which is then invested in one way or the other – – bank deposit, fixed deposit with a company, mutual fund units, shares, debentures, or even real estate, with the objective of realizing higher prices in future. Capital grows in other ways too – – gifts, inheritances or reinvestment of financial income (dividends or interest). The faster this pool grows, the sooner the quest for financial security gets over. What is implied in that rational individuals will try to maximize the after-tax rate of return on funds invested, subject to the constraints of risk and other idiosyncracies. There are numerous ways in which people may pursue capital accumulation given the plethora of investment outlets such as shares, debentures, convertibles, etc. Each of these outlets or vehicles represents a unique mix of return, risk, liquidity and other dimensions. The criteria for deciding on investments include:

1. Security of capital invested
2. Liquidity
3. Yield
4. Tax benefit

The conservative investors would place security and liquidity above all else whereas those speculatively inclined would go for yield and liquidity. But, as Hallman and Rosenbloom[5] point out, security of capital must include preservation of purchasing power and not just risk of capital loss. Further, in addition to volatility, a lack of liquidity and absence of sound fundamentals (intrinsic value) aggravate risk. This points to the existence of different sources of risk, the major ones being the following:

1. Business Risk

This refers to the probability of a firm failing to earn sufficiently in order to meet its outflows of interest and dividends. The business failure may be due to depressed economic or industry conditions or even due to management actions.

2. Financial Risk

This risk arises from and is directly related to the level of debt financing of a firm. The larger the borrowing, the greater the likelihood of default in meeting debt obligations.

3. Market Risk

It refers to the chance of loss due to wide fluctuations in the securities market. Such risk may stem from major economic, political or social events or even from investors' reactions to rumours pervading the market. This source of risk can adversely affect even good stocks.

4. Interest Rate Risk

Fluctuations in the rate of interest cause the prices of debt securities to move in an inverse direction. Interest rate risk refers to the chance of capital loss due to rate changes. Such risk is more pronounced in the case of high– grade (low coupon) securities.

5. Inflation Risk

Rising prices cause an crosion in the purchasing power of a constant amount of financial income. The growing realization about the dampening effect of inflation on income has led individuals to appropriately design or re-order their portfolios in favour of 'inflation–proof ' vehicles or hedges against inflation.

Any investment vehicle intrinsically bears some or all of the above sources of risk, though in differing degrees. Hence, this calls for seeking diversification in one's portfolio. An attempt is made below to show in a simplified form the level of different sources of risk attached to different instruments.

EXHIBIT 2.1

RISK CHARACTERISTICS OF INVESTMENT VEHICLES

Source of risk / Investment Vehicle	Business risk	Financial risk	Market risk	Inflation risk	Interest rate risk
Savings deposit (banks)	-	-	-	High	-
Fixed deposit (banks)	-	-	-	High	-
Fixed deposits (companies)	High	High	-	High	-
Money Market Securities	Low	Low	Low	Medium	Medium
Debentures (NCDs)	Medium	High	Medium	High	High
Equity Shares High	High	High	Low	Medium	

The above is a generalized matrix since it does not attempt to distinguish, for example, between low-risk shares and speculative ones, or for that matter between high-grade and low-grade bonds or fixed deposits with companies. Clearly, there is a wide spectrum of investment vehicles available to individuals ranging from the short-term (e.g., 30-day fixed deposit) to the long term (e.g., equity shares). So, diversification both within a type of vehicle and according to maturity is easily achievable.

Yet another source of risk that impairs liquidity is marketability risk This refers to the danger of not being able to readily dispose off a financial asset when desired. In such a 'thin' market, price realization is likely to be poor. Therefore, the twin hazards of delayed sale and lower price realization have to be guarded against. So, it may be necessary to sacrifice some yield in order to secure marketability.

2.3.1 A REVIEW OF INVESTMENT VEHICLES

At this point, a brief round-up of the different investment vehicles or routes to capital accumulation may be in order.

2.3.1.1 Bank Deposits. Of the three types of deposits, a current account fetches no interest and hence has no relevance to the issue at hand. The savings account is more in the nature of a parking facility for funds maintained for monthly expenses or contingencies. It yields no real return. But the fixed or time deposits have some appeal, although they bear reinvestment risk. In fact, the RBI's endeavour to allow banks flexibility in interest rate determination may provide some succour to the inflation hit investors. From July 1996, for fixed deposits beyond one year's maturity, banks are permitted to decide on the rate they will pay. Investors can, therefore, look forward to earning a real return of 3% per annum or more from deposits with banks Additionally, there are some other favourable aspects such as:

1. Safety due to control by the RBI and guarantee extended by the Deposit Insurance and Credit Guarantee Corporation.
2. A choice of maturity ranging from a minimum of 30 days to 2 years
3. Premature encashment is possible, albeit with a penalty.
4. The facility of a loan against one's deposit.
5. The benefit of tax deduction on interest earned under Section 80L of the IT Act.

2.3.1.2 Post Office Deposits. Disregarding the savings account for the same reason as with banks, there are three types of schemes with variations in maturity, interest rate and its compounding, ceiling for accumulation, etc The particulars are shown in Exhibit 2.2 below:

EXHIBIT 2.2

POST OFFICE SAVINGS SCHEMES[6]

Scheme	Term (Yrs.)	Int. rate	Ceiling (Rs.)
Monthly Income Scheme	6	13% + Maturity bonus	204,000/-
Recurring Deposit	5	12.5% (quarterly compounding)	None
Time Deposit	1 to 5 years	10.5 to 12.5%	None

Other features of the above schemes include a minimum deposit amount, minimum contribution and facility of premature withdrawal. In terms of yield, these schemes have a slight edge over bank deposits. Also, in the case of savings accounts, cheque facility is available and there is no restriction on the number of withdrawals. However, there may be obstacles in issuing these cheques freely. In contrast, banks have traditionally been the repository of public savings and also offer allied services such as giving loans, making remittances and selling foreign exchange. Further, the use of bank cheques by individuals for various payments is a widely accepted practice. Yet another aspect is that banks routinely meet all demands made for cash withdrawals by depositors. More recently, the issuance of credit cards is yet another facility. At post offices, however, there are instances of holders of maturing NSCs being asked to return the following day for lack of adequate cash. For these various reasons, people particularly in urban and semi-urban areas may justifiably flock to banks when it comes to making deposits -- whether saving, fixed or recurring. The density of bank branches and the convenience of transferring deposit accounts from one place to another are also factors in their favour.

2.3.1.3 <u>Company Deposits.</u> Capital accumulation is also possible by investing in time deposits with companies, which too are subject to reinvestment risk. These entities may be manufacturing or finance companies and their activity of deposit mobilization is regulated by the Company Law Board and RBI respectively.

EXHIBIT 2.3

SALIENT FEATURES OF COMPANY DEPOSITS

Type / Feature	Manufacturing	Finance
Maturity (years)	1 to 3	1 to 5
Amount (ceiling on mobilization)	35% of net worth	10 times the net worth
Interest rate	Maximum 14% (Variations in frequency of compounding)	Maximum 14% (Variations in frequency of compounding)
Security	None	None
Tax benefit	None	None

Typically, brokers woo investors with monetary incentives that are paid out of the commission and reimbursement of expenses by companies on whose behalf deposits are solicited. Companies also offer other "sweeteners" such as free accident insurance and scholarships to the wards of depositors. A positive development in recent years has been the introduction of credit rating to various investment vehicles including fixed deposits with companies. This is a substantial tool for investors who have till some years back, been largely guided by advice from brokers and friends, or have gone by name-recognition of the company or promoters. Clearly, as the number of companies and business groups increased, such arbitrary approaches could not have helped.

2.3.1.4 Money Market securities. These are instruments whose maturities are of less than 365 days. The securities enable a borrower or a lender to suitably adjust their short-term liquidity positions. For instance, a bank which is temporarily in need of funds could issue Certificate of Deposit (CD) of an appropriate duration. Similarly, big lenders with temporary surpluses have a choice of money market securities to invest in. Although these securities, by virtue of their large denominations and minimum required outlays are outside the reach of most individuals, it may be illustrative to list them, to bring out their variety and maturity.

EXHIBIT 2.4

MONEY MARKET INSTRUMENTS

SECURITY	TERM (DAYS)	ISSUER
Call & Notice Money	1 and up to 14	Banks
Repos	14	RBI & Banks
Inter Bank Term Money	15 to 364	Banks
Bill of Exchange	90	Corporates
Treasury Bill	91 and 364	Central Govt
Inter Bank Participation Certificate	91 to 180	Banks
Certificate of Deposit (CD)	90 to 364	Banks
Commercial Paper	90 to 364	Blue-chip corporates
Inter Corporate Deposits	90	Corporates

As indicated above, whereas so far it has been the banks and financial institutions who have been investors, the entry of Money Market Mutual Funds (MMMFs) may radically alter this situation. The relaxation in the norms for promoting MMMFs, announced in late 1995 and mid 1996 will facilitate their emergence, and so provide a medium to individuals to acquire money market assets.

2.3.1.5 Debt Securities. This category includes the following:

1. Non-convertible debentures (NCD)

2. Convertible debentures (CD), whether partly (PCD) or fully (FCD)

3. Public Sector Undertaking (PSU) bonds

4. Government Securities (gilts)

5. Others such as Floating Rate Bonds (FRB) and Deep Discount Bonds (DDB)

6. Savings Certificates

1. NCD

A debenture is a long-term debt instrument having a maturity of usually seven years. During its life, the investor receives the promised interest i.e., coupon at regular intervals, typically every six months. The fixation of the coupon rate is left to the judgement of the company and its merchant bankers. They take into consideration, the risk perception of investors and their corresponding expectations. While the freedom to decide on the coupon rate is a definite improvement over the earlier regime of stipulated coupons, there remains the distinct probability of mispricing the asset or, in other words, arriving at a coupon rate which is in excess of what investors at large would settle for. Therefore, the recent introduction of 'Book Building' pursuant to the recommendations of the Malegam Committee in 1995, is a heartening development. Briefly explained, under this process, the Placement Portion which forms one part of the issue (the other is the Public Portion), is offered to the members of a syndicate of underwriters on a firm basis. ICICI Ltd., has been the first company to try out this novel method (which is familiar, overseas) for its bonds in 1996 Incidentally, this method is also permissible for equity issues, subject to the floor amount decreed by SEBI.

Generally, debentures are secured by a charge on immovable property which may be land or buildings. Further, companies issuing debentures of a maturity exceeding 18 months are required to establish a sinking fund termed the Debenture Redemption Reserve. This fund facilitates an orderly retirement of the securities. In 1996, which witnessed interest rates at a high plateau, a call feature was attached to some debenture/bond issues. With this proviso, the issuer retains the right to retire the securities prematurely when yields decline and refinance at a lower cost. An example is the IDBI Bonds issue in February-March 1996. Hence, investors ought to read the fine print very carefully. There can also be a put option, that is, an early redemption feature for investors who may want premature liquidation. Another positive aspect for investors is that credit rating has been made compulsory for debentures whose maturity exceeds 18 months.

An area of legitimate concern for investors in debentures has been the poor state of the secondary market. In an era when equity shares fetched supernormal returns, debentures were traded at substantial discounts, i.e., high yields. However, with the inauguration of the OTCEI and the NSE, the latter with its wholesale and retail debt markets, this problem will slowly disappear.

2. Convertible Securities

These instruments which may be either an FCD or a PCD get converted into equity shares at a pre-determined price. The attraction with these securities is the upside potential they have as their price will move in tandem with the underlying stock. Further, SEBI has issued guidelines to the effect that the conversion price and timing shall be pre-determined and that the conversion will be optional if it take place between 18 to 36 months after the date of allotment. Other interesting developments concerning debentures in general include:

a. Issue of warrants as a "sweetener" with some debenture flotations.

b. The offer of buy-back facility to investors.

3. PSU Bonds

These are bonds issued by public sector companies e.g., railways and power sector units and are of two types:

a. tax-free, where the interest income is exempt from income tax.

b. taxable bonds.

The other features of these bonds are in conformance with the relevant guidelines that include the following:

a. The minimum maturity of taxable bonds is 5 years and for tax-free, it is 7 years.

b. FRBs and DDBs are permitted.

c. New issues are required to be listed on a stock exchange.

PSU Bonds[7] are bullet redemption bonds, and some issues bear call and put options. Besides, the payment of coupons is semi-annual. These securities are generally privately placed with banks or large investors; the public issues are to be compulsorily rated. On certain occasions, the yield offered by these bonds has been very attractive. More particularly, the tax-free bonds would just be the investment vehicle that wealthy investors would be searching for. To ascertain the taxable equivalent yield for placing tax-free bonds on an equal footing with taxable bonds, the tax-free yield is divided by (1-t) where t represents the applicable marginal tax rate. This facilitates a ready comparison and helps wealthy investors in determining the desirable option.

4. Gilts

These are long-term debt securities of varying maturities extending upto 10 years which are issued by Central and State Governments as well as municipal corporations, electricity boards, certain financial institutions and other bodies. The term gilts is derived from 'gilt-edged' which signifies zero default risk. However, these securities are vulnerable to inflation and interest rate risks. Till 1992, the instruments were issued at a fixed coupon rate which was an uncompetitive rate. This low rate was meant to economize on interest costs to the Government sector. So, the mechanism of the SLR was used to mobilize funds from the banking system. Thus, individuals have not figured as investors in this sector, in any meaningful way.

From June 1992, the government (through the RBI) commenced issue of Central Government gilts through auction. Further advancements include the issue of zero-coupon bonds in January 1994 and Floating Rate Bonds in September 1995. Even so, it remains a moot point as to whether investors are going to be drawn to gilts in a big way. Indirectly, however, there may be some interest on account of MMMFs which are permitted to invest in gilts.

5. Other bonds

The FRB is no longer a novelty for Indian investors. There have been a number of FRB issues including the very recent IDBI's EASY EXIT Bond. An FRB is a debt security whose coupon rate varies over the life of the asset, depending on changes in the specified benchmark of prevailing market interest rates. There may be fixed upper and lower boundaries for the coupon rate.

These bonds are designed for investors who are concerned about interest rate and inflation risks. When interest rates in general rise, the rates on FRBs also increase at fixed intervals. Hence, their prices remain relatively steady, instead of undergoing a decline as would happen with fixed-rate bonds. However, the other side of the coin is that when yields fall, the downward adjustment in the coupon rate precludes any capital gain from accruing to the holder. Still, the increase in the periodic income due to upward adjustment in the coupon is a source of great comfort to FRB investors.

In India, the first such instrument was issued by the State Bank of India in December 1993. The bonds carry a floating rate of interest at 3% over the bank's maximum term deposit rate, with a minimum coupon of 12% per annum. The coupon rate will be adjusted at regular intervals of six months on January 1 and July 1, throughout the tenure of the instrument.

IDBI has displayed even greater flexibility about the coupon rate on its EASY EXIT Bond. The rate will be the higher of the following two:

1. 1.5% above the interest rate on 10-year Central Government Bonds, or
2. 2.5% p.a. above the 3-year fixed deposit rate offered by the State Bank of India.

While the choices of FRBs are growing, the decision-making skills do call for some expertise in interest rate forecasting. The first decision point is whether an investor should seek a fixed-rate NCD or an FRB. The answer depends on the expectation concerning future interest rate movement. The yield curve may be of some help in this regard.

Expectation of rising yields would support the choice of an FRB. If, however, yields are likely to go down, then a fixed-rate NCD is preferable. In case, the choice falls on an FRB, the second decision is selecting the most appropriate FRB. Here again, considerable savvy is required since the benchmarks are different and there may be upper and lower limits. While one FRB issue may be linked to a certain fixed deposit rate, another may be based on the 364-day Treasury Bill yield. One can venture to say that in general, the Government (via the RBI) would be very anxious to economize on borrowing costs, and hence the endeavour would be to keep yields on Treasury Bills and gilts under strict check. On the other hand, the RBI, it may be assumed, would be anxious to compensate depositors for any decline in real income and to prevent disintermediation. Also, the Central Bank would not be in a hurry to effect downward adjustments in deposit rates, when the interest rates, in general, decline. On this logic, the benchmarks of fixed deposit rates may be deemed preferable.

The DDB is a member of the group of bonds called Original Issue Discount (OID) bonds. The term reflects the fact that these securities on account of their low or zero coupons are issued at prices which are substantially below par, so that their yields are competitive. With DDBs, which are zero-coupon securities, the bonds are bought at a price well below par, and on maturity, the investor collects the par value. Such securities have been issued by SIDBI and IDBI. One intriguing aspect is the tax treatment of the difference between the purchase price and the maturity amount. The mystery has to be cleared by an unambiguous decision of the Central Board of Direct Taxes (CBDT). Interestingly, IDBI has mentioned in its brochure that it has been advised that such a surplus will be in the nature of a capital gain

However, it is also followed by a qualification that the CBDT may rule adversely later. Recent developments, which are discussed in Chapter 3, have helped in clarifying this issue further.

6. Savings Certificates

This group consists of financial assets issued under the small savings scheme, other than the tax shelters. These are Indira Vikas Patra (IVP) and Kisan Vikas Patra (KVP).

EXHIBIT 2.5

ESSENTIAL FEATURES OF SAVINGS CERTIFICATES[8]

Certificate / Feature	IVP	KVP
Denomination	Rs.500/1,000/5,000	Rs.1,000/5,000/10,000
Term	5 $^1/_2$ years	5 $^1/_2$ years
Maturity proceeds	Double of initial investment	Double of initial investment
Rate of interest (%)	13.43	13.43
Tax benefits	None	None

The above securities would be of interest to people who are in the non-taxable slab. Considering their relative safety, the yield of 13.43% compounded per annum compares very favourably with bank deposits. Moreover, IVPs are transferable by delivery, and KVPs can be prematurely encashed. In that sense, there is an element of liquidity, as well.

2.3.1.6 Preference Shares. These securities bear a stated dividend and have a priority of claim over equity shares in the matter of dividend and assets, in the event of liquidation of the company. Thus, they display features of debentures in that the periodic income is specified, but unlike debentures, it is not obligatory. As for the other features, the position is :

(a) They do not ordinarily bear voting rights

(b) There are different types of preferences shares such as CUMULATIVE, NON-CUMULATIVE and CONVERTIBLE. Overseas, there have been other varieties issued such as the Participating Preferred and the Adjustable-rate Preferred.

In India, preference share issues have been very rare. Their fixed dividend holds no great appeal, especially against equity shares, which have exerted a magnetic force on investors since the early 1980s. Further, preference shares bear the risk of capital loss due to increases in yields. The amendment by the Government to the Companies Act in 1988 has constricted the freedom with regard to these securities. One stipulation is that the maturity of a preference share should not exceed 10 years. As a result of the foregoing drawbacks, preference share issues have been few and far between. In fact, it is only the rare issue of Cumulative Convertible Preference Shares (CCP) which has served as a reminder of the existence of preference shares. However, following the Union Budget 1997 which effected a change in the tax provisions with respect to dividends, the number of preference share issues may increase.

2.3.1.7 Equity Shares. These are the key investment vehicles in the quest for capital accumulation. An equity shareholder is in the position of a residual owner because his claim on earnings (i.e., dividends) and assets in the event of liquidation follows all others. Correspondingly, the prospect of earning an attractive return, particularly from capital gain is very high. However, there are many instances in which the lure of the lucre has caused novices to plunge into all types of equity investments, only to find later that their portfolios have suffered considerable capital losses. Evidently, it highlights the need to have some basic knowledge about shares and also about the different approaches to investing. These are summarized in the following paragraphs.

Equity shares are bought and sold on expectations. These expectations of a price rise may stem from technical or fundamental factors. The former owes its origin to the 'Castle-in-the-Air theory' or the 'Greater-Fool theory' which highlight the flights of fancy that grips people and promotes speculation. Investors dream of huge fortunes that they hope to create from share price appreciation. Over a period of time, this has formally evolved into Technical Analysis (TA). TA uses a dazzling array of tools and charts to study historical price and volume data in order to forecast short-term movements in stock prices, for the benefit of investors. Thus, a technician looks backward at statistical data such as the volume of stock exchange transactions and the level of share prices. His recommendations are with regard to the timing of purchases or sales of select shares, derived mainly from charting. This activity yields chart patterns which rests on the premise that trends in stock prices (which are captured on charts) tend to repeat themselves. So, in a sense, hindsight serves as foreknowledge. While the logic underlying technical analysis is unpalatable, the evidence on its utility is unclear. It appears that some recent studies have upheld the utility of TA[9] in the U.S. Considering that the markets in India are still quite inefficient e.g., dissemination of public information is not instantaneous, and the widespread belief about insider trading persisting, it is difficult to dismiss TA as an undependable approach.

In stark contrast, Fundamental Analysis is forward-looking and is concerned with identifying mispriced securities. It is centered on the idea of an 'intrinsic value' of a share which is based upon the cash flows from expected dividends and sale proceeds at the end of the holding period. What these forecasts entail is a study of the fundamental factors concerning any stock -- the quality and competence of the company's management, the number and type of products, the spread of its market, the nature of competition and so on. All this must eventually culminate in some numbers: the expected earnings per share (EPS) and the likely Price-earnings (P/E) ratio or 'multiplier'. However, estimation of the P/E by itself requires forecasts of the dividend-payout ratio, the growth rate in terms of magnitude and duration, and the capitalization factor. Obviously, a tall order for any individual investor ! In the U.S., there are finance professionals specializing as Security Analysts and working with brokerage houses, institutional investors, etc. But, even with all the skills and technology at their command, the exercise does involve a fair degree of crystal ball gazing, or rather subjective forecasts of the growth rate, its duration and the expected P/E ratio.

The third approach is to build a portfolio so that diversification reduces risk without affecting return. This is sought to be achieved by identifying "efficient" portfolios according to the Markowitz Model. However, this path-breaking contribution from a Nobel Laureate has its weaknesses. Even with a small universe of securities, the number of calculations that are entailed are so many as to render the method impracticable.

The Graham-and-Dodd approach to investing, which is a variant of value investing, is commendable for its high degree of objectivity. Unlike fundamental analysis where two experienced analysts can come up with differing values of the intrinsic worth of a stock, such is not the case with Graham's method. However, the method which rests on the concept of Net Current Asset Value (NCAV) can work only when the stock markets are in a very depressed condition. This is because NCAV is found by subtracting current liabilities and long-term debt from the amount of current assets, and this difference is expressed on a per share basis for comparison with the market price. Apart from depressed stock prices, it is also necessary for current assets to exceed all the liabilities mentioned above, so that the method yields some underpriced securities. However, this is also going to be a rare occurrence.

Therefore, when it comes down to identifying one of the foregoing methods of stock selection, the logic of fundamental analysis is intuitively appealing. In a general sense, an investor ought to go by the essence of the theory, which is very well expressed by the investment expert Philip Fisher "You can make a lot of money by investing in an outstanding enterprise and holding it for years and years as it becomes bigger and better. Almost certainly the market price of your share will rise to reflect its higher intrinsic worth."[10] What this suggests is a selection of stocks of companies characterized by a dedicated management, good product lines, financial soundness and a track record of having posted increasing earnings and dividends. One dimension of investing in shares is that of identifying good i.e., mispriced securities. The other one is timing the buy/sell decision.

A remark ascribed to the legendary investor, Bernard Baruch shows a way out: Fundamental Analysis helps to point the gun; Technical Analysis helps to squeeze the trigger.

Thus, having identified the intrinsically sound shares, investors could employ tools of technicians to decide the timing of their action. The Dow Theory, for example, may help in establishing as to whether a new primary trend (a secular upward or downward movement) has started. A piece of advice provided by a leading commodities trader of yesteryears, Stanley Kroll is most educative: "Wait until a major trend is clearly established. and then do your buying or selling during periods of correction against the trend."[11] Another interesting indicator, that has come to the fore, is dividend yields. A high level of dividend yields is a very bullish sign and a low level of dividend yields is a very bearish sign.

There are some interesting tips provided by experts on the matter of market timing.

T. Rowe Price: The best time to buy is when growth stocks especially those one is interested in, are out of fashion.[12]

John Templeton: The best bargains will be in stocks that are completely neglected, that other investors are not even studying.[13]

Coupled with the importance of market timing, one can provide additional safeguards in terms of price ceilings which automatically rule out awry timings.

1. Rowe Price, for instance, would note the high and low P/E ratios during the last few market cycles and then establish the target multiplier for the desired growth at 33% over the lowest P/E that was touched during the period.

2. Have a limit of 0.8 of the P/E of a market index as the P/E for a stock being considered for purchase. This system is credited to a New York investment manager, David Dreman[14].

3. Kenneth Fisher[15] (author of a book titled "Super Stocks" and an investment manager) has come up with a "Price-Sales Ratio" (PSR)[16] as a filter for uncovering good buys. It seeks to pinpoint companies with a low market capitalization in relation to annual sales. That is,

$$PSR = \frac{\text{Market Capitalization}}{\text{Sales}}$$

The decision rule is : Buy shares of a small company with a growth-oriented management, only if its PSR ≤ 0.75 Avoid a big producer in a smokestack industry if its PSR > 0.4.

Apart from the above mentioned safeguards, there is the simple rule of thumb according to which the P/E (i.e. determining the purchase price) should not exceed the growth rate of the enterprise. With such checks in place, an investor is unlikely to end up paying a high and unjustified price on stocks acquired.

Yet another dimension of stocks that investors need to be familiar with is the nature of the vehicle. This is based upon an answer to the question: Which is the predominant source of return from any stock and what will be the risk-reward proposition ? Hence, on the basis of the performance of a stock under various conditions, it would be appropriately classified as under·

1. Blue Chip

   This term was borrowed from the roulette table to indicate the costliest merchandise available.

   These are shares of the strongest and most stable companies which boast of a long track record of earnings and dividends. These companies are endowed with a competent management team and they offer quality products and/or services which are well received in the market. In India, shares of Hindustan Lever Ltd. and Ponds India can be counted among blue chips.

2. Growth Stocks

   These are shares of companies which are experiencing above average growth rates. They supply products/services that satisfy a rising level of demand and are positioned to expand market size and/or market share. Therefore, some of such companies may skimp in dividends so as to conserve resources to fuel growth. Such companies are sought after for "double play" whereby increasing earnings and an upward adjustment in the multiplier bring enormous gains to the investors

Companies in India that could be counted among growth stocks are Titan Industries, S&S Industries and KEC International.

3. Income Stocks

These are shares that pay a high level of dividend out of a stable stream of earnings and hence their appeal. These companies are characterized by low growth which allows surpluses to be used towards generous dividends. In India, Colgate may be classified as an income stock.

4. Cyclical Stocks

Such shares tend to move up or down with the peaks and troughs in economic activity. The basic industrial goods sector that includes steel, rubber and automobilies exhibits such behaviour, and accordingly, their shares are characterized by high betas. The candidates for inclusion in this class are IPCL and Essar Gujarat.

5. Defensive Stocks

These are shares that are countercyclical and so, serve as a cushion for one's portfolio during periods of recession. In the West, shares of gold mining companies and some utilities have exhibited such a trait at times. Extending this logic to India, one would expect shares of Bombay Suburban Electric Supply and pharmaceuticals like Ipca Labs and E.Merck to be good defensive scrips.

6. Speculative Shares

A speculative share is one whose appreciation is contingent upon some new discovery (oil strike or gold deposits) or the development of a new product (e.g., a wonder drug). Since there is little assurance about the stability of earnings, the price swings of such shares can be considerable and therefore, investors ought to able to stomach substantial losses. Hindustan Oil Exploration may be cited as an illustration of a speculative share.

The traditional approach among investors would be to identify that class of stocks which is most suited to fulfilling their portfolio objectives. subject to the constraints specified. However, on a more practical plane, Peter Lynch[17] has come up with an interesting categorization of shares:

1. Slow growers
2. Stalwarts
3. Fast growers
4. Cyclical
5. Asset plays
6. Turnarounds

The above classification is a very practically useful way to look at different stocks, although there is some similarity to the previously mentioned categories. For instance, slow growers are akin to income stocks, stalwarts to blue chips etc. But the asset plays and turnarounds are interestingly different, although there is a temptation to label them "speculative." Nevertheless, he has offered some interesting insights:

1. Companies don't stay in the same category forever.

2. A fast-growing company doesn't necessarily have to belong to a fast-growing industry. As an example, he mentions that beer is a slow-growing industry but Anheuser-Busch has been a fast grower by increasing its market share. Similarly, Marriott has prospered in the slow-growing hotel business.

3. Turnaround stocks make up lost ground very quickly.

4. A strategy based on general maxims such as "Sell when you double your money" or "Sell after two years", is wholly avoidable. These maxims cannot work in the same fashion for all or most stocks. An elaboration of these issues is contained in a later chapter.

5. Local knowledge is of great advantage in identifying an asset play. An investor may be able to locate a company in the region where he resides by virtue of proximity. Since the book value indicates asset values at historical prices, a perusal of the balance sheet by expert analysts (based at distant places) would not reveal the hidden value of assets. However, even to a layman residing in Baroda, the potential of Ambalal Sarabhai Enterprises as an asset play is obvious.

William Sharpe and others[18] have offered an interesting way to classify stocks. According to them, common stocks can be classified into growth stocks and value stocks, with the help of two financial measures:

1. The book-value to market-value ratio (BV/MV).

2. The earnings to price ratio (E/P).

The BV/MV ratio has the book value of stockholders' equity in the numerator and the market capitalization in the denominator. According to them, low values of this ratio characterize growth stocks and relatively high values characterize value stocks.

As for the E/P ratio which is the reciprocal of the multiplier, low values characterized growth stocks and high values characterized value stocks.

A critical area of decision-making with respect to common stocks is about selling one's holdings. It is even more difficult than deciding when to buy. A number of reasons may cause an investor to sell, such as the following:

1. The need for funds to meet an expenditure elsewhere. The lesson here

is that only surplus funds ought to be invested in stocks. Pulling out suddenly may result in a considerable loss, because the stocks may have been purchased on long-term fundamental considerations.

2. To commit funds to a more attractive investment opportunity.

3. A stock has not performed according to expectations. In this case, the simple test is: Would the investor buy the stock if it was not in his portfolio ? A 'no' answer points to a sale decision for the particular stock.

Tax considerations may also impel an investor to sell -- either to register a capital loss or to book capital gains in a year when his income from other sources is not on the higher side.

The above instances are largely non-discretionary where circumstances operate in favour of a sale decision. The more agonizing decision is the one when a stock continues to do well. The possible responses to such a situation are :

1. Emulate Philip Fisher's stance: If the job has been correctly done, when a common stock is purchased, the time to sell it is -- almost never ![19]

   However, two exceptions are conceded : (a) That there was a mistake in the original appraisal or (b) if the company ceases to qualify under the same appraisal method. Fisher also acknowledges a third exception, cited above, when a more attractive new opportunity emerges. Interestingly, he considers it a silly thing to sell out just because a stock has gone up.

2. Rowe Price[20] has offered some interesting tips. He says it is important to discern if a company's growth run is flagging. In this context, he cautions investors against some pitfalls:

a. To watch out for a decline in the return on invested capital. This may signal the onset of maturity in a company.

b. Business recessions may be only a temporary setback in the growth phase of a company.

c. Some industries (e.g., real estate) have their own business cycles which are distinct from macroeconomic fluctuations.

But even for stocks which are good long-term buys and which display a secular upward trend, an alternative approach during the period of growth could to adopt a trading strategy to coincide with the peaks and troughs of every stock market cycle. That is, even long-term holdings could be liquidated as a cycle peaks, and then reacquired later at a trough i.e., the beginning of a new cycle. This strategy, however, has an important tax dimension. The point is best illustrated by Warren Buffet.[21] Suppose a $1 investment doubles in price each year. If the investment is sold at the end of the first year, there would be a net gain of 66¢ assuming a tax rate of 34 per cent. If the investment continues to double each year and the process of selling, paying taxes and reinvesting the proceeds continues in the same fashion every year, one would accumulate $25,200 in 20 years after paying taxes of $13,000. If, however, one had purchased a $1 investment that doubled each year and was not sold at the end of twenty years, one would accumulate $692,000 after paying taxes of approximately $356,500. It is Buffet's conviction that tax-paying investors realize an excessively greater sum from a single investment that compounds internally at a given rate than from a series of investments compounding at the same rate. In this manner, periodic capital gains that would be lost to taxes are conserved and help to cumulate a far bigger sum in future.[22]

The argument of leakage in the form of taxes clinches the matter in favour of holding shares over a long haul and desisting from trading to book capital gains.

Yet another key issue relating to equity share is the size of one's portfolios. Research findings as well as the consensus of portfolio managers are convergent in favour of a small portfolio. Research done by John Evans for his doctoral dissertation at the University of Washington, U.S.A. has produced interesting results[23]. Beyond 10 securities in a portfolio, the benefit of risk reduction is minor when the portfolio size is increased. Further, in a paper published in the Journal of Finance in December 1968, Evans and Archer[24] showed that naive diversification upto 15 different securities reduces total risk to the level of systematic risk. In fact, upto eight securities initially, the elimination of unsystematic risk is quite dramatic. Beyond eight and upto 15 securities, this beneficial impact slows down. Therefore, it does not make sense to have a large (and unwieldy) portfolio of over 20 securities, since apart from the above rationale, large-sized portfolios pose the following additional problems:

1. The difficulty of sound portfolio management. As Francis[25] points out, if a portfolio contains dozens of different securities, the owner cannot hope to stay abreast with the status of all of them simultaneously.

2. The likelihood of acquiring lacklustre performers. As more securities get added to a portfolio, the chances of selecting poor performers increase.

3. Increasing search costs. The expenses incurred on research, seeking information and allied activities mount as the portfolio expands.

4. High transaction costs. Trading in smaller quantities of shares will cause the brokerage to be higher as compared to less frequent trading in larger quantities.

Even the practitioners favour a small portfolio. A very naughty remark that epitomizes the approach of Warren Buffet makes the point: "If you have a harem of forty women, you never get to know any of them very well".[26] In fact, J. M. Keynes had recognized this point a long time ago. In 1934, he wrote : "As time goes on, I get more and more convinced that the right method in investment is to put fairly large sums into enterprises which one thinks one knows something about, and in the management of which one thoroughly believes. It's a mistake to think that one limits one's risk by spreading too much between enterprises about which one knows little and has no reason for special confidence.... One's knowledge and experience are definitely limited and there are seldom more than two or three enterprises at any given time in which I personally feel myself to put full confidence."[26]

There is support from Peter Lynch on this matter: "There's no use diversifying into unknown companies just for the sake of diversity. A foolish diversity is the hobgoblin of small investors".[27] In fact, there is a school of thought which is against any diversification. Gerald Loeb, author of 'The Battle for Investment Survival' believes in "putting all your eggs into one basket and keeping a sharp eye on the basket".[28] This strategy contains a higher risk-return dimension than an adequately diversified portfolio. Hence such a radical strategy may not be palatable to the typical investor who is likely to be conservative and conscious about preservation of capital. For those investors who like this concentration philosophy, but are unwilling to try it out themselves, a choice is now available in India: Sectoral or Specialty Funds, that focus on specially identified growth areas. Examples of such funds are ICICI Power and Canexpo. These are discussed along with other types of funds in the following section.

2.3.1.8 Mutual Funds (MFs). Yet another vehicle that may serve the objective of capital accumulation is the mutual fund. These are entities that pool the savings of individuals and invest them in a variety of different securities such as equity shares, debentures, etc. In India, till about 10 years ago, UTI's Units 1964 Scheme was the sole fund. However, thereafter i.e., from 1987, with the growth of the capital markets coupled with the growing investor population, the time seemed propitious for the entry of MFs from the public and private sectors. Accordingly, as per a SEBI study (Mutual Funds 2000 Report, April 1996) there are now 96 schemes of different types offered by various funds numbering 27 of both the open-ended and closed-ended variety. These include schemes of the UTI. The assets of all the schemes are placed at Rs.80,590 crore. The same study has brought out many other interesting aspects about MFs in India. These are:

1. From 1987 onwards, the resources mobilized by funds grew at a furious pace. In 1988-89, the resources stood at over Rs.13,450 crore, whereas at the end of December 1995, this figure stands at Rs.80,590 crore.

2. Of the last figure mentioned above, public sector MFs account for Rs.77,367 crore i.e., 96%. UTI has the lion's share of this at Rs.66,700 crore or 83% of the aggregate sum.

3. The composition of the schemes is as under:

Type	Number
Income	60
Balanced	28
Growth	56
ELSS (Tax-saving)	52
	196

4. The investor profile shows the dominance of individuals, followed by corporates, trusts and others, in that order.

5. MFs have displayed improvization by offering reinvestment options, withdrawal plans and switch facilities within the same family of funds. They are also improving communication and responding faster to grievances, aiming at more frequent disclosures of the Net Asset Value (NAV) and keeping investors adequately informed through newsletters

6. The market performance of closed-end funds has been lacklustre. In this sense, it is no different from international funds which are also referred to in the report. In December 1995, 81% of the schemes in India were trading at a discount ranging between 0 and 30%. Perhaps, the prospect of "guaranteed mediocrity"[29] that makes investors diffident about closed-end funds. The question has been succintly dealt with by Sharpe and others[30] in their book. They have pointed out the "puzzles" in the pricing of closed-end fund shares. One of these is that the "shares sell at a premium of roughly 10% of their NAV when initially sold and then fall to a discount of about 10% of NAV soon thereafter. The second intriguing feature is that the discount fluctuates considerably over time This discrepancy or discount vis-a-vis the NAV introduces an additional source of risk to the original investor. At the same time, it is an attractive incentive for a prospective investor who can look forward to recouping this discount and benefitting from increases in the NAV over a period of time (provided of course, that the fund management is adept and the market recognizes this). Another possibility is that when a fund's share is trading at a discount, the MF may undertake repurchases causing the NAV to increase. For example, if the NAV were Rs.16 per share when the market price is Rs.12, the fund managers could sell Rs.16 worth of securities held in the fund's portfolio and use the

proceeds to repurchase the fund's units or share at Rs.12. The NAV will, as a consequence of such operations increase depending on the quantum of repurchases (which depends on the price at which repurchase takes place). In fact, one does not have to bank on such repurchase operations to earn a benefit from a fund. In instances where funds are trading at a substantial discount, a simple buy-and-hold strategy may confer a handsome return to the investor by way of dividend and capital gains assuming that by the time of redemption, the NAV has not declined significantly.

At this juncture a brief review of the different types of MFs would be in order.

1. Income Fund

   The primary objective of this type of fund is to earn periodic income by way of interest and dividends. Accordingly, the fund's portfolio would consist of high-yielding debentures/bonds, equity shares and preference shares. Any capital gain that accrues is incidental and only in certain periods would it amount to a significant portion of the total earnings of the fund.

2. Growth Fund

   These funds aim at achieving capital appreciation for their shareholders. Their portfolios, therefore, comprise growth stocks which are equity shares that are expected to register supernormal growth in earnings and dividends. These shares are in the nature of long-term investment vehicles aiding capital accumulation rather than yielding any significant current income to the holder.

3. Balanced Fund

The aim of a balanced fund is to earn both current income and capital gains. It seeks to combine the benefits of an income fund and a growth fund. Hence, its portfolio consists of fixed-income securities, high-yielding common stocks and growth stocks. A balanced fund cannot produce the level of income that a pure income fund could, nor can it provide the capital growth that a pure growth fund would. Hence, its returns and risks are comparatively modest and such a fund would appeal to the conservative investors.

4. Specialty Funds

These are typically growth funds which seek to achieve their objective by concentrating their investments in one or a few industries or within a specified geographical region. The idea is to capitalize upon the strong growth expected from the selected industries or in the identified geographical area. Besides the above types, there are others such as Bond Funds, Performance (Go-go) Funds, Hedge Funds and Dual Funds. In India, the funds that have been floated include the following types together with a specific illustration for each case.

1. Income Fund : Swarna Pushpa
2. Growth Fund : Cangrowth
3. Balanced Fund : GIC Balanced Fund
4. Specialty Fund : ICICI Power

Certain strategies have been suggested for investors with respect to mutual fund units. These include :

1. The Lichello Model[31]
2. Cost Averaging

1. The Lichello Model is essentially a 'Constant Dollar Plan' in which there is profit-taking at certain intervals on the fund units which have appreciated; the surplus so realized is transferred to an interest-earning bank account. When the units decline in value the investment flows out of the bank account and into the mutual fund. Like other formula plans, the model obviates the timing decisions by demanding perseverance and discipline.

2. The Cost Averaging routine too solves the problem of timing buy/sell decisions and expects discipline and commitment from investors.

Under this plan, a fixed amount of money is invested at regular intervals in a chosen mutual fund unit. Consequently, it is automatically ensured that more units are bought at lower prices, and fewer at higher prices. So, when an investor stays with a plan through an entire market cycle ending at a peak, he reaps the benefit of capital gains, especially on the larger number of low-cost units. Thus, the investor emerges a winner. The peculiarities with a cost averaging plan are :

a. It does not reveal which unit to buy.

b. It does not signal as to when to sell.

c. Its simplicity is marred by the fact that since odd lots (leave alone fractional shares !) are hard to purchase, some adjustment would frequently be necessary in the amounts being invested.

Therefore, a considerable degree of skill and responsibility is still expected of the investor. In general, the following ought to be kept in mind

a. Volatile and growth fund shares will give better results, especially when the investor starts a plan at the low end of the market cycle.

b. Money meant for a contingency fund should not be put into a cost averaging plan. Premature withdrawal in an emergency may cause a substantial loss.

c. It is important to be patient and to stay with the plan through the long haul.

Clearly, the selection of the mutual fund is vital to the success of the plan. This points to the question of evaluating different funds to arrive at the right decision. Although mutual funds inform investors that past performance is no pointer to future results, there is no better basis to assess a fund's ability to attain the required rate of return at an acceptable level of risk. Therefore, keeping the following points in mind, an investor may use the preferred measure of return:

a. Merely examining the NAV changes does not convey the full picture since risk is not taken into consideration.

b. The time span ought to be long enough to cover a stock market cycle.

A simple approach would be to select an appropriate benchmark portfolio, and then compare the return on a fund with that on the portfolio As has been suggested by Sharpe and others[32], the benchmark portfolio may be so selected that it reflects the objectives of the client and is also perceived to have a level of risk that is similar to that of the fund. The benchmark portfolio could be a market index or a risk-free asset. The fund's 'ex post alpha' is the difference obtained by subtracting the average return on the benchmark portfolio from the average return of the fund.

The other risk-adjusted measures are the 'reward-to-volatility ratio' and the 'reward-to-variability ratio'. They are also known as the "Treynor ratio' and the 'Sharpe ratio' respectively.

The Treynor ratio[33] divides average excess return by the Beta (i.e., systematic risk) of the fund while the Sharpe ratio divides a fund's average excess return by its standard deviation (i.e., total risk).

Unfortunately, however, there are some substantive points of criticism about these measures. These include the arguments that a market portfolio has to be identified, many years' data are needed for evaluation, and a poser about the validity of the CAPM itself. At a practical level too, individuals would find it a daunting task to perform the required calculations. What is necessary are readily available reports on mutual funds' performance such as those of Lipper, Wiesenberger and Morningstar. Yet another measure (not risk-adjusted) could be the holding period yield which captures the benefits of dividend and NAV changes. The peculiarity with this method is that when computed for a period that exceeds a year, it automatically assumes reinvestment of the interim inflows. It has other weaknesses too, such as, its neglect of the time value of money.

2.3.1.9 Real Assets. Real Assets are tangible material things such as land, buildings, cars and others. In fact, there are two broad classes of assets:

1. Real Estate
2. Tangible personal property like gold, antiques and art.

   1. Real Estate (RE) may include owner-occupied house, land or income-generating property. This class possesses some peculiar attributes[34] such as the following:

      a. Its location is fixed.
      b. It is durable in nature, that is, it has a relatively long economic life.
      c. RE units are not usually divisible, and the amounts involved are mostly quite large.

d. The RE market is characterized by a lower degree of efficiency because of :

   (1) the smaller number of buyers (as price is a barrier).

   (2) there is no national market or forum (unlike for financial securities) which affects liquidity.

e. The lack of information and legal hassles such as land ceiling laws and tenancy laws.

f. RE property may require active management.

Notwithstanding the above, there are some good reasons for venturing into RE. These are as follows :-

a. RE appears to be a good hedge against inflation. An example is provided by Yasaswy[35] in his book on personal investing. In Banjara Hills, Hyderabad, the cost of land was Rs.25 per square yard in 1973. By 1994, it had risen to Rs.3,000 per square yard. This stupendous 120-fold rise works out to a compound annual rate of growth of yearly 26%, which clearly outpaces inflation. Similar instances can be seen in many other places. One needs to be selective though. In cities such as Bangalore, the rate of increase may be faster than elsewhere. For a long time, Bombay had exhibited this trend but recently, in 1995, the RE market suffered a crash.

b. A second justification is that the RE market and the securities market do not move together. In fact, RE together with gold may be areas that money flows into when the equity market is in a downward trend. Therefore, by including real estate in one's portfolio, the benefit of diversification accrues.

c. An investment in RE carries tax benefits. For a self-occupied house, purchased with a housing loan, a maximum deduction of Rs.10,000 by way of interest and rebate on Rs.10,000 against instalments towards a housing loan. In the case of properties let out, various deductions are available such as for repairs and collection charges, insurance premium etc.

d. An ownership interest in real estate even through a housing loan leads to a progressive increase in one's equity or share in the property which normally would appreciate over time. Hence, capital gains would accrue. In contrast, a tenant shells out rent and gains nothing.

e. Yasaswy cites "emotional satisfaction" of owning a house and being relieved from the tensions of dealing with landlords.

Fortunately, for the present generation, investing in a house has become easier owing to the ready availability of housing finance. Loans are available from different sources such as one's employers, state housing boards, co-operative housing societies, housing finance companies, banks and even private property developers.

Agricultural land is also a popular device notably for shielding taxable income which may be arising from another source. A more recent trend among wealthy individuals has been to acquire sprawling plots of land for developing them into farmhouses.

An interesting financial security that RE activity has thrown up in India very recently is the Real Estate Receipt (RER). An RER[36] is a receipt issued by a real estate developer to investors against the amount invested towards the property being developed. The investor is promised a minimum interest and principal at maturity, which would coincide with the completion of the project. The receipts are secured by the RE property, and in case of default, the investor will have a claim on the property. In India, RERs were first introduced by Lokhandwala Builders in Mumbai, but were not a resounding success. It has had a re-birth through new promoters, Excel Realtors Limited. There are some naturally peculiar features of the RER :

a. Since an RER is backed by RE property, on which the investor has a contingent claim, each unit of RER must equal an independent property.

e.g., a flat. Hence, an RER will be of a large denomination. For example, Excel's is of Rs.10 lakh, with an underlying residential flat.

b. The security is not in a completed stage when it is offered at the time of issuance.

Interestingly, Excel's RER also bears the following features :

a. The facility of premature encashment.
b. Guaranteed repayment and return of 24 per cent per annum by Kotak Mahindra.
c. Marketability, i.e., the option of selling the receipt to an interested investor.
d. A call option by which the developer can buy back the units at a small premium, thus preempting the benefits that the investor would have reaped.

The above developments may usher in an era of real estate funds, akin to mutual funds, which will fund RE projects. These funds will become an additional avenue of investment for individuals.

2. Tangible personal property

a. Gold and Silver

Internationally, investment in gold can be in different forms[37] – – coins, gold accumulation plans, gold metal accounts and gold certificates. Gold bars and ingots require extraordinarily huge investments and hence are outside the ambit of ordinary individuals.

Gold coins can be either in 1 ounce coins or fractions thereof. The market price of a 1 oz coin comprises the market value of the gold content and a premium for the minting and distribution. The biggest advantage is that they are easily stored or transported and also provide anonymity.

Under gold accumulation plans, the gold remains with a bank while the investor earns interest on the value of his gold. The interest is generally higher than the normal rate on bank deposits. The entire accumulated sum is convertible to gold at any point of time. The scheme entails a fixed amount of money to be invested every month by the investor. Thus, the benefit of 'Cost Averaging' automatically comes into play. More gold is acquired when the price is low and less when the price is high. For the plan to succeed, the investor must remain committed to it for a long period.

With gold metal accounts and gold certificates, investors need not bother themselves with physical possession and storage. An account or a certificate represents a certain minimum quantity (typically 30 oz) and there are additional charges for commission, storage and insurance.

Prasanna Chandra[38] has summarised the reasons why gold and silver have appeal to investors. He lists the following :

(1) Historically, they're good hedges against inflation. It was mentioned in the previous chapter that between 1940 to 1995, gold rose at a compound growth rate of 9.47% per annum thus outpacing wholesale prices by nearly 2%.

(2) They are highly liquid and carry low trading charges.

(3) They are a good store of value, are durable, offer anonymity, can be easily subdivided, can be easily authenticated and are homogeneous

There are certain disadvantages such as :

(1) There is no current income.

(2) They do not offer any tax advantage.

The evidence from the bullion market in India positively supports long-term investment in gold :

(1) The price has been steadily rising over the years. For example, the price per 10 grams in January 1982 was Rs.1,740 whereas by March 1994, it was Rs.4,601.[39]

(2) The demand for gold has remained strong and there is a market for coins. This demand is both direct and derived (for jewellery making).

(3) There is, it appears, greater price stability than earlier, because of the involvement of corporations such as MMTC.

(4) Gold bond schemes of the Union Government give individuals a chance to convert their holdings into interest-earning assets, i.e., gold bonds, which can also serve as collateral for bank loans.

As for silver, Chandra has dealt with briefly the following points.

(1) It has several industrial uses.

(2) Since no major discovery of mines has taken place, the demand-supply gap will work in its favour.

b. Precious Stones

These include diamonds, rubies, emeralds, sapphires and pearls. Chandra points out that for certain reasons, they are not suitable for most investors. These are:

(1) Poor liquidity
(2) Subjectivity in valuation
(3) Require large sums of money to invest
(4) They yield no regular return

c. Art Objects and Antiques

These are yet to gain popularity as investment vehicles although there is nascent interest in painting by Indian artists. The promotion of such works by famed international auctioneers e.g. Sotheby's and others points to a rising trend in future.

The preceding pages bear an appraisal of the undermentioned investment vehicles which serve the objective of capital accumulation. (Futures and Options have not been included since these are still alien to India).

1. Bank Deposits
2. Post Office Deposits
3. Company Deposits
4. Money Market Instruments
5. Debt Securities
6. Preference Shares
7. Equity Shares
8. Mutual Funds
9. Real Assets

From the above vehicles, the more popular ones can be briefly represented with the help of a matrix, as shown below :

EXHIBIT 2.6

ATTRIBUTES OF DIFFERENT INVESTMENT AVENUES

Asset	Special Features	Return	Risk	Important Dimensions
Bank Deposits	- High safety - Choice of maturity - Premature encashment/loan facility impart some liquidity	- A positive real return is more likely on longer maturity FDs (Rates freed on FDs of over 1 year)	Low default risk but significant inflation risk.	Tax benefit of deduction under Sec 80L is available on interest earned
Company deposits	- A very wide choice of companies - Unsecured & hence circumspection is necessary - Investor earns incentive besides an attractive return	- Higher than on bank deposits, commensurate with higher risk - The ceiling on interest on NBFC deposits freed in 1996	- Bear default risk & inflation risk. - No liquidity but loan facility may be available	- No tax benefit - Credit rating is a useful tool - Backed by good service in many companies - Frequency of compounding interest raises return

Continued

EXHIBIT 2.6 (Continued)

Debt securities	- Assortment includes debentures, gilts, PSU bonds and savings certificates - The holder is in the position of a lender & hence has a priority of claim vis-a-vis other financial securities.	- Commensurate with the degree of risk & tax benefits if any - Typically fixed except with CDs & FRBs & hence often not a good inflation hedge. - High interest rate risk	- Default risk varies considerably. It is low on PSU bonds & high quality debentures - Liquidity is a formidable problem with debentures, i.e. marketability risk, but the situation will improve in the near future	-Tax benefit is available only in selected PSU bonds - Credit rating comes in handy - High-yielding debentures when held to maturity may yield handsome returns - Are gaining in popularity due to high interest rates and the dull stock markets
Equity shares	- Denotes residual ownership & hence bears the last claim on earnings and assets. - Shareholding likely to increase in the normal course through rights & bonus shares. - Carries a voting right	- Variable return that comes from dividends and price appreciation - A high degree of uncertainty remains about the timing & magnitude of dividends & capital gains - Selective stocks are a good inflation hedge	- Bear the highest risk, e.g., business risk, financial risk & market risk. - Marketability risk may be very high for several stocks - Highly prone to bad delivery, transfer delays, etc.	- The most favoured vehicle for rapid capital accumulation - Valuation is a knotty problem - The widest choice among all vehicles - The portfolio composition can be tailored to suit the investor's profile - Tax benefits under Sec. 80L on dividends - Favourable treatment of long term capital gains
Mutual Funds	- Indirect ownership instrument - A choice of MF units is available to suit one's needs e.g growth income, tax-saving, niche area, etc	- Modest except for, perhaps, growth & specialty funds. By definition, diversification rules out extraordinary gains - Since the units tend to trade at a discount to NAV, a long holding period may be necessary to reap some benefit - Bonus issues of units may boost return	- Diversification rules out extraordinary losses. But it also makes MFs prone to market risk	- A useful outlet for conservative investors - Tax benefit, especially on dividends - There are other attractions such as reivestment options, withdrawal plans & switch facilities
Real Assets	- Tangible property which may be movable or immovable - Source of income is price appreciation - No institutionalized market places - Except for gold; the minimum investment outlay is likely to be large - Real estate investment requires a different analytical acumen	- Can be considered as a hedge against inflation - Due to gold price volatility & the absence of a vigorous market in art objects, etc there is uncertainty regarding capital gains & its timing	- Though not a volatile market losses could be very huge, especially in real estate where the downside risk is enormous - Gold, jewellery, art objects have to be preserved & safeguarded against theft Thus, it imposes an additional cost - Marketability risk exists.	- The choice of investments in real assets is widening - A house is among the first investments that an individual ought to consider, because besides affordability, location is a critical dimension, & once foregone, is difficult to secure - Legal hassles abound in real estate transactions

2.4 Providing for Retirement Income

This task is as important, if not more, as the others viz. insurance planning or capital accumulation. The worst situation is to find one self at the threshold of retirement without an adequate retirement corpus. This can happen when people procrastinate on the matter in the younger age. Griffeth makes this point in a stunning manner. He writes : "When should I start saving for retirement? How about today?"[40] Planning for retirement is imperative or else it could, as Gitman says, "often result in a lower standard of living and quality of life...."[41] in that stage of life. Hence, it is necessary to implement plans that will ensure an adequate retirement income. Moreover, as Gitman points out, "becoming wealthy does not negate the need to develop plans. In that circumstance, you still need to think about asset preservation and liquidity."[42]

A nettlesome issue is the lack of adequate information on future phenomena and events. There is uncertainty about future income, family size, inflation, expenses, the amount of pension or provident fund proceeds, and even the age for commencement of retirement. Nevertheless, it is necessary to draw up clear retirement goals from which specific plans are derived. Gitman has suggested that considering the future uncertainties, particularly the personal budget and economic changes, long-term forecasting is a dicey proposition and hence "a good strategy is to plan for retirement in a series of short runs."[43] He further recommends that the retirement income objectives could be set as a percent of one's present take-home pay. Based on this projection, an investment schedule can be prepared. Subsequently, this plan could be revised every three to five years. Also, it would be proper to understand and evaluate investment vehicles for retirement such as pension plans, annuities, etc. While a framework for designing a retirement plan is presented in Chapter 4, a brief coverage of some specific products is given below.

Typically, an individual provides for retirement in one or a combination of the following ways:

1. Provident Fund
2. Employer's Pension Plan
3. Tax-deductible vehicles, viz., PPF and Jeevan Dhara/Jeevan Akshay which are discussed in the next chapter
4. Specific plans/products such as :
   a. UTI's Retirement Benefit Plan
   b. LIC's Jeevan Suraksha

The salient features of the last named plans[44] are described below.

a. UTI's Retirement Benefit Plan

This is akin to a mutual fund scheme that yields an income distribution when the individual attains the age of superannuation.

Any resident individual between the ages of 18 and 60 years can become a member of the scheme. The units of the scheme are issued to the investors at the prevailing NAV plus a charge of 5%. The minimum required investment overall is Rs.10,000. This may be invested either in lumpsum or in instalments up to the age of 52. But, the minimum instalment has to be Rs.500 and the maximum number of investments in a year is four.

The investors falling in the age group of 52 to 60 years will be required to make a minimum investment of Rs.10,000 at a time. There is no maximum limit on the investment one can make. The scheme remains open throughout the year except during the period of book closure.

The amount mobilized is distributed between equity and fixed-income securities in the ratio of 40:60. The income for any year is announced at the beginning of the year. This is at the discretion of the UTI depending upon the performance of the scheme and its future outlook. For those who have enrolled in the scheme by the age of 52, the monthly income distrbution begins at the age of 58. For those who enroll after attaining 52, there is a minimum lock-in-period of five years.

Withdrawal is permitted only upon the members reaching the age of 70. Under exceptional cases, UTI may undertake premature repurchases. At withdrawal, UTI will recover an administrative charge of 10%. Also, in the event of the death of a member, his/her nominee or legal representative may liquidate the holdings with UTI.

Importantly, investments in the scheme qualify for tax rebate @ 20 per cent under Section 88 of the IT Act with a limit of Rs.60,000.

The other scheme is a brand new one. LIC's Jeevan Suraksha (JS) was introduced as recently as August 1996. JS is a pension-cum-insurance scheme that provides a fixed return to the investor upon superannuation. The salient features of the scheme are :-

1. It is open to any individual between the ages of 30 and 60 years.
2. The minimum investment is Rs.150 per month.
3. Instalments may paid on a monthly, quarterly, half-yearly or annual basis.
4. The term of the policy can vary from 5 to 35 years.
5. Pension is payable between 55-70 years depending on the age at entry and the term.
6. The scheme offers two basic choices – – with insurance and without insurance. The former provides insurance cover during the deferment period (i.e., when the members are paying their instalments). If the

member happens to die during this period, his/her spouse will be entitled to a minimum 50% of the pension that the member would have received, from the date till his/her death. If there is no spouse, then the nominee will get the lumpsum or certain annuity if the policyholder had opted for such an option.

7. Within the above two choices, there are five options each. They are:

   a. to seek pension for life
   b. assured pension for five years and life thereafter
   c. assured pension for 10 years and life thereafter
   d. assured pension for 15 years and life thereafter
   e. Joint life or last survivor option.

The member may opt to commute (encash) 25 per cent of the notional capital (amount accumulated at the end of the deferment period). This amount is fully exempted from tax. But what is of particular interest is that the investments in JS upto a maximum of Rs.10,000 are deductible from the payer's income under Section 80 CCC1 of the IT Act.

The following exhibit highlights the contrasting features of the two schemes.

EXHIBIT 2.7

A COMPARISON OF RETIREMENT PLANS

UTI Plan	LIC Plan
1. Corpus remains intact and is returned to the member.	1. No return of capital
2. No insurance element.	2. Insurance cover available during deferment period, if sought.
3. Income may fluctuate depending on portfolio performance.	3. Assurance of a fixed income
4. Tax benefits (rebate) under Section 88.	4. Tax benefit (deduction from income under Sec. 80 CCC1.
5. A clear-cut scheme without options.	5. Variations of the plan are possible.

As indicated earlier, there is a variety of choices or paths for retirement income planning. While two of such options have been examined in the preceding paragraphs, the others have been deferred, more logically perhaps, to the next chapter which looks at tax-shielding investments, incomes and strategies.

2.5 Reducing Tax Outflows During One's Lifetime and At Death

To put matters in perspective, "... income tax planning itself remains an integral part of the personal financial planning process"[45] as stated by Hallman and Rosenbloom. And so, individuals must devote a fair amount of time and attention to discovering or devising ways in which income could be shielded from taxes to the extent possible. In other words, the idea is to maximize after-tax income. It calls for an unceasing effort, year after year, as the tax structure keeps undergoing changes. These changes can be in the nature of :

1. Lowering of individual tax rates and a reduction in the number of slabs.
2. Simplification of the tax codes whereby, among other things, the tax-shelters are brought together so as to yield comparable benefits under a single section of the IT Act.
3. Changes in the mode of computing and taxing long-term gains.
4. The removal or reduction of some previously available deductions.
5. The introduction of new tax shelters with varying features.

The above are some of the ways in which the tax structure undergoes changes. What remains unaffected is the need for tax planning, or rather, income tax planning from the perspective of this dissertation. As pointed out by Hallman and Rosenbloom, "the basic principles of such planning remain essentially the same".

The income-tax saving techniques employable year after year involve the following objectives :-

1. Reducing or avoiding taxes altogether
2. Deferring taxes
3. Shielding current income to maximize capital accumulation
4. Influencing the form in which income is received so as to reduce taxes

The next chapter includes a review along the above lines of the various rebates, deductions and exemptions available to tax-payers which also forms the basis for structuring the questionairre of this research work.

2.6 Estate Planning and Property Management

This aspect involves the development and implementation of plans to ensure that an individual's accumulated wealth is largely preserved and later properly distributed upon his/her death to the heirs and beneficiaries. Gitman has defined estate planning as a "goal satisfaction-oriented activity that uses tax minimization tools and techniques to provide the greatest financial security possible for an individual and his or her heirs or beneficiaries."[46] Hallman and Rosenbloom define it as "arranging for the transfer of a person's property from one generation to the next, so as to achieve, in as far as possible, the person's objective for his or her family and perhaps, others."[47] Further, they add "...tax minimization often is an important motivator for estate planning."

The task of estate planning can be outlined in terms of specific objectives, along the lines spelt out by Hallman and Rosenbloom.[48]

1. Identifying the heirs and other intended beneficiaries, and deciding upon the share of each person.

2. Providing an adequate income stream for dependents as well as a corpus to draw from in a contingency.

3. Ensuring that the estate transfer costs (taxes and expenses of administration) that will be incurred are minimal.

Apart from the abovementioned, there could be more intricate objectives such deciding how the property is to be administered, the timing of transfers, etc. There are a number of methods for meeting these objectives, for which an understanding of the relevant laws is essential. These laws include The Transfer of Property Act, 1882 that covers voluntary transfers by living persons and The Indian Succession Act, 1925 dealing with testamentary disposition of property.

It may be noted that the term 'estate' encompasses different kinds of property which could be classified as either (a) Real Property and (b) Personal Property.

Real property or real estate refers to land and permanent attachments thereto. Personal property can include physical objects such as a car or jewellery, and financial assets such as shares, debentures and bank accounts. Therefore, although it was indicated in the previous paragraph that elaborate estate planning entails a knowledge of relevant statutes, individuals could always adopt some simple precautions in the nature of :

1. Joint ownership of property with right of survivorship
2. Availing of nomination facilities

Matters can be further simplified by drawing up a will. A reading of the relevant sections (Sections 57 to 101) of the Indian Succession Act would reveal that preparing a will is not so complex a task, as a layman might imagine it to be !

What has been covered in this chapter helps to define the contours or areas of concern in personal financial planning. The operational or practical aspects of managing personal finances are dealt with in Chapter 4. Meanwhile, the next chapter examines the various tax-saving devices available to individuals.

END-NOTES

[1] Gitman, Lawrence J., and Michael D. Joehnk, *Fundamentals of Investing*, 2nd ed., (New York : Harper & Row, 1984), p. 185.

[2] Hallman Victor G., and Jerry S. Rosenbloom, *Personal Financial Planning*, 4th ed., (New York : McGraw-Hill, 1987), p. 3.

[3] The 1996 diary of the Life Insurance Corporation of India provides an overview of life insurance.

[4] Nabhi's (Ed.), *Income Tax*, 22nd revised ed., (New Delhi : Nabhi Publications, 1995), p. 44.

[5] Hallman and Rosenbloom, op. cit., pp. 153-154.

[6] Yasaswy, N. J., *Personal Investment and Tax Planning Yearbook*, 5th ed., (New Delhi : Vision Books, 1994), p. 165.

[7] *The Emerging Asian Bond Market* - a background paper on India prepared by ICICI Securities and Finance Company Ltd., India, June 1995, p. 18.

[8] Chandra, Prasanna, *The Investment Game : How to Win*, 6th ed., (New Delhi : Tata McGraw-Hill, 1995), pp. 104-105.

[9] Sharpe, William F., Gordon J. Alexander and Jeffery V. Bailey, *Investments*, 5th ed., (New Delhi : Prentice-Hall of India, 1995), p. 844.

[10] Train, John (Ed.), *The Money Masters*, (New York : Harper & Row, 1980), p. 66.

[11] ibid., p. 119

[12] ibid., p. 150

[13] ibid., p. 163

[14] Bryant, William C., "Ways to Find Hidden Values," *U.S. News & Word Report*, October 22, 1984, p. 76.

[15] ibid.

[16] Barbee Jr., William C, Sandip Mukherji and Gary A. Raines, "Do Sales-Price and Debt-Equity Explain Stock Returns Better than Book-Market and Firm Size ?," *Financial Analysts Journal*, (March-April, 1996), pp. 56-60. This recent study seems to support Kenneth Fisher's approach. They found that the Sales-Price Ratio (i.e., Annual Sales per share ÷ Common Stock Price) consistently had "significant explanatory power for stock returns" during the period 1979-91. Interestingly, however, they have questioned the usefulness of the Book-Market Value and Price-Earnings ratios in explaining stock returns.

[17] Lynch, Peter, with John Rothchild, *One Up on Wall Street*, (New York : Penguin, 1990), pp. 100-118.

[18] Sharpe, et al., op. cit., p. 538.

[19] Train, op. cit., p. 78.

[20] ibid., p. 151

[21] Sridhar, S., "Warren Buffet : The World's Greatest Investor", *Chartered Financial Analyst*, Hyderabad, May 1995, p. 26.

[22] Weinstein, Steven B., "Once again, don't believe everything you hear," *Financial Executive*, (March-April 1995), pp. 56-57. The article talks of several studies which "show that heavily traded portfolios, which accelerate the realization of capital gains, significantly underperform lower-turnover portfolios, on an after-tax basis."

[23] Hagin, Robert L., *The Dow Jones-Irwin Guide to Modern Portfolio Theory*, (Homewood: Dow Jones-Irwin, 1979), p. 132.

[24] Francis, Jack Clark, *Investments : Analysis and Management*, 3rd ed., (New York : McGraw Hill, 1980), p. 479.

[25] ibid., p. 482

[26] Bakshi, Sanjay, "Too good, too wonderful !", *Chartered Financial Analyst*, Hyderabad, May 1995, p. 48.

[27] Lynch, op. cit., p. 242

[28] Fischer, Donald E., and Ronald J. Jordan, *Security Analysis and Portfolio Management*, 5th ed., (New Delhi : Prentice-Hall of India, 1995), p. 638.

[29] Malkiel, Burton G., *A Random Walk Down Wall Street*, 2nd college ed., (New York : W. W. Norton & Co., 1981), p. 306. The expression refers to index-fund investing, but is apt for other sluggish funds as well.

[30] Sharpe, et al., op. cit., pp. 813-814.

[31] Pattabhi Ram, V., "Fund Investing : The Lichello Model," *Chartered Financial Analyst*, Hyderabad, June 1996, pp. 46-48.

[32] Sharpe, et al., op. cit., pp. 921-928.

[33] ibid., p. 934.

[34] Fischer and Jordan, op. cit., pp. 578-579.

[35] Yasaswy, op. cit., p. 224.

[36] Satish Kumar, M., "Real Estate Receipts : New Kid in the town," *Chartered Financial Analyst*, Hyderabad, August 1996, p. 67.

[37] Handa, Rajiv, "Gold : All that glitters is ..." *Chartered Financial Analyst*, Hyderabad, April 1996, pp. 22-23.

[38] Chandra, Prasanna, op. cit., p. 153.

[39] Prabhakaran, Malathy, "Do Equities Act as a Hedge against Inflation ?," *Economic and Political Weekly*, XXIV, No. 8 (February 25, 1989), pp. M-24 to M-26. This study reveals that between 1971-72 and 1985-86, gold and silver prices rose by 18.6% and 15.2% respectively, annually. It must be remembered though, that jewellers tend to buy ornaments at a discount.

[40] Griffeth, Bill, *10 Steps to Financial Prosperity*, 1st Indian ed., (New Delhi : S. Chand & Co., 1995), p. 108.

[41] Gitman, Lawrence J., *Personal Finance*, 2nd ed., (Hinsdale : The Dryden Press, 1981), p. 494.

[42] ibid.

[43] ibid., p. 495.

[44] Sindhwani, Sanjay, "Plan now to retire peacefully," *The Economic Times (Investor's Guide)*, September 9-15, 1996, p. 1.

[45] Hallman and Rosenbloom, op. cit., p. 243.

[46] Gitman, op. cit., p. 532.

[47] Hallman and Rosenbloom, op. cit., p. 323.

[48] ibid, pp. 323-324.