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Mutual fund SIPs can be for long-term and short-term goals

For long-term needs like child education and retirement, you can create a combination of large-cap, multi-cap, mid-cap and even hybrid equity funds

Surya Bhatia

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I am 37 and earn ` 12 lakh per annum. I have a pure-term insurance of ` 50 lakh from LIC and health insurance of ` 10 lakh from National Insurance. I also have a home loan of ` 15 lakh and car loan of ` 2.4 lakh. Every year I invest ` 75,000 in Edelweiss Tokio's (top 200 and large cap) unit-linked investment plan (Ulip). I and my wife invest ` 1.5 lakh each in Public Provident Fund (PPF). I have invested ` 26 lakh in various post-office savings schemes including National Savings Certificate (NSC), Kisan Vikas Patra (KVP) and monthly income scheme (MIS) . I also have a recurring deposit (RD) of ` 5,000 per month in a post office account. Kindly suggest, what else I can do for my 11-month-old son's future.

—Satyajit Dutta

Any portfolio construction has two main components—insurance and investment. The main purpose of insurance is to ensure that the investments run smoothly, i.e., in case of death the insured person's family can maintain financial well-being as well as protect the investments for future financial goals.

Ideally, the insurance cover should be enough to provide for your financial goals post loans and liabilities. As a thumb rule, 6-8 times your annual income is a good goal for the sum assured. In your case, you have term insurance. But considering the net of loans, the sum assured is not adequate. You can consider increasing the term insurance accordingly. You have adequate health insurance cover, but make sure that your child is covered in the plan. The insurances need to be reviewed periodically to stay in line with goals.

In investments, it appears you that you are a conservative investor. Your portfolio is mostly debt, comprising PPF and post office investments like KVP, NSC, MIS and RD. The equity flavour is only from the one Ulip. The key to any investments is to beat inflation over the long term.

This becomes even more important for young investors who have many milestones to achieve, and outperforming inflation becomes critical. You should take a risk profile test to understand your risk appetite, and based on that increase your equity exposure. While that may expose you to more risk, it also delivers superior inflation-adjusted returns if equities are held for a long time.

You can classify your financial goals as short term and long term. Short-term goals can be assigned to debt securities such as bank RD, NSC and KVP; which are due for maturity.

You can also consider monthly investments in mutual funds via a systematic investment plan (SIP). This can be done for short-term as well as long-term goals.

For short-term needs consider ultra short-term and short-term debt funds. For long-term needs like child education and retirement, you can create a combination of large-cap, multi-cap, mid-cap and even hybrid equity funds. The performance of these funds needs to be monitored regularly.

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