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Anil Rego

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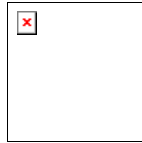
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ARTICLES

Source: IRIS (08 December 2008)

Tax saving: Your first step towards wealth creation



Author: Anil Rego

Tax planning often takes a back seat and crops into your mind only as the time to submit your proofs nears. Well, it's time one gave it a serious thought, since most companies ask for proofs submission around Jan - Feb of the FY.

Many of us want to 'Get it right' this time round, last year, with the markets looking northwards equity linked savings scheme (ELSS) were an easy choice. With the market tanking below 2 year lows, the investor is unsure what to do!

The 'Art of Averaging'

For those of you who are disillusioned about where to invest this year round, what you need to understand it equity investments are to be conducted during market lows. If you have invested in market highs, then do not lose out the opportunity of investing when the markets are lying low. This will help average out the investment one did at a market high will be recovered much earlier due to the lower purchase price this year.

It is impossible to time the market precisely. This is substantiated by empirical evidence. 'Time in the market' is more important than 'Timing the market'. A long term investor is likely to see good returns. An even better way of going about the investments is to invest through a systematic investment plan (SIP) on a monthly basis. This is likely to further reduce risk significantly. In fact, even after a huge market fall, there are many SIPs delivering 20-30% compounded returns over a 10 year basis.

Tax Saving Investments - Not so taxing

By doing your section 80C investment alone, you can save a maximum of Rs 33,990 of taxes, this in turn will increase your take home. This can also make the monthly investments a lot more affordable.

Over and above the returns that the investment delivers, the tax benefit helps significantly enhance one's returns. Today there are a whole range of risk-return options one can choose from, within tax savings investment options. A judicious choice of tax saving investments can help in wealth creation.

Diversification

It is also pertinent to have a proper asset allocation; hence, one is required to ensure that there is no excessive exposure towards any one particular avenue. Many of us are either too conservative or too aggressive. A mix of investments will help deliver a combination of good, stable, long-term returns. It is important to do that because many times, past returns may not be indicative of the future returns. E.g. Debt returns had fallen to an all time low. However as markets fell, their returns went up significantly due to a liquidity crisis. Similarly, when past returns were very good in equities, someone who invested at this time would have seen significant losses. Avoid the mistake of investing in just one avenue - both in bull and bear markets.

Creating Wealth - Disciplined Investing

Here's an example of the actual returns of a few mutual funds over the last

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10 years. If you had invested Rs 10,000 per month for the last 10 years, you would have ended up investing Rs 1.2 million in this period. A ten year SIP ending Oct. 10, 2008 would have delivered the following returns:

Fund	Monthly Invt. (Rs)	Value (Rs)	Returns (%)
Franklin India Bluechip Fund Gr	10,000	39,64,219	22.7%
Birla Sun Life Equity Fund	10,000	37,95,460	21.9%
Reliance Growth Fund	10,000	63,03,866	31.3%
Reliance Vision Fund	10,000	50,73,132	27.3%

Source : IRIS; Fund Value as of October 31, 2008

These returns are even after a significant market fall. SIPs can also be done with the ELSS funds and can help secure this long term wealth creation.

Set yourself an objective. E.g. to build Rs 10 million in about 10 years. Evaluate the amount you need to set aside. Go ahead - Save Taxes and create wealth, all it takes is prudently drawing up an investment plan and a disciplined approach! You can achieve both tax savings and wealth creation.

Anil Rego is the founder and CEO of Right Horizons, an Investment Advisory and Wealth Management Company. Right Horizons has successfully practiced a de-risked model with a Contrarian approach.

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