

ASPECTS

Financial Planning for Families



Asset markets in general, and equity markets in particular can be volatile with sizeable swings in either direction. These swings are likely driven by sentiment, earnings, economic activity and a host of other factors.

Investors in markets are consequently affected by changes in the prices of their assets. Large increases in prices likely make them more upbeat and feel wealthier whereas large decreases make them downbeat. In many cases, changes in sentiment can also lead to impulse decisions or decisions with a near term focus.

A financial plan takes into account your financial objectives, income, expenses and net assets and provides an investment path that can help you realise those objectives



There is probably little perfect insurance against market moves and the euphoria or gloom that they inspire.

However, sound financial planning, which takes into account one's income, expenses, asset/liability mix and life objectives, and forecasts future financial outcomes can be a potent way to help one stay focussed on larger life objectives while affording protection from sudden changes in outlook and suboptimal decisions.

Arguably, financial plans have several other dimensions which become more or less important depending on one's wealth and income status. No two families or life situations are probably exactly alike, but for the sake of simplicity, let's look at the role of financial planning for 3 groups:

Middle class, middle income (MCMI) families:

A typical Indian family in this group would likely have a husband, wife, 2-3 children, one or both grandparents to the children and with one or

both parents working. Now let's consider 2 MCMI families with a similar income profile but dissimilar financial habits. Family 1, has a "spur of the moment" attitude towards discretionary expenses, savings and investments. They may make large one-off purchases, and residual savings and investment decisions based on what they hear or see on TV or as per off the cuff discussions with friends. Family 2 on the other hand, takes an active interest in tracking and understanding their expenses and savings, and they invest in a disciplined fashion per a financial plan they prepared with a proficient financial advisor.

In our personal experience, Family 2 is relatively better served by a sound financial plan and disciplined investments in that they not only understand how their investment choices help them achieve their life goals but also largely avoid the stress associated with selecting suboptimal investments which can really eat into their wealth.

Disciplined investments
can help achieve life goals
and reduce the stress
associated with
suboptimal investments

High Income Affluent (HIA) families: These households are likely to have sizeable disposable incomes, and may not have the time or expertise required to self invest effectively. In such situations, financial planning can go a long way in identifying diversified investment classes and in selecting suitable investments within a given asset class. The difference between a well

crafted and executed upon financial plan v/s a laissez-faire approach can be substantial and well worth the investment in getting a plan done.

High Networth individuals (HNI's) & Wealthy families: For HNI and wealthy families, financial planning or more appropriately wealth planning could include an expanded set of strategies from investment selection and diversification to estate planning, intergenerational wealth transfer, living wills, and several others that may be somewhat unique to their situation.

Clearly, forecasting financial outcomes into the future is inherently subject to risks, financial advice can come in many shapes and forms, and the skills of an advisor or financial plan author can affect the outcome. In some situations good advisors might have designed good plans, but unexpected movements in asset markets or unexpected changes in life situations could lead to end results different from what was expected at the outset.

However, a well designed financial plan and a disciplined savings and investment habit should likely aid better financial decisions and a happier life.

Company Profile

Northplains Capital Partners LLP is an advisory and research firm providing financial planning for individuals and families and business advice for small and medium companies.

Nitin Sood

Chartered Financial Analyst, CFA

RIA, Investment Advisor registered with Securities & Exchange Board of India

nitin.sood@northplainscapitalpartners.com

780 731 9569 (M); 177 2626764

Ramesh Chander Sud

9218501001 (M)

3rd Floor, Ramesh Nivas

Stokes Place

Shimla 171002, INDIA

www.northplainscapitalpartners.com

Sources

Images: “Fruits Lot on Black surface”: Karolina Badzmierowska on www.unsplash.com

“Road with falling leaves in between of trees”: John Mccan on www.unsplash.com