

# THREE CORNERSTONES OF WEALTH MANAGEMENT

Protect, accumulate, distribute - stick to the order. Otherwise, the entire process will become futile

GAURAV MASHRUWALA

**W**e are all human capital as we are involved in occupation and generation of income - individuals earn salary, professionals earn fees and businessmen earn profit. Next, we have financial and real capital. These could be our investments in fixed deposits, equities, real estate and other investment avenues. Returns from such investments are generated whether we work or not.

Income so generated needs to be channelised towards our responsibilities and dreams. Our responsibilities could be buying a house, educating our children and getting them married and fending for our retired life. Dreams are varied. Financial planning is about channelising our income towards our financial goals - responsibilities and dreams.

When we think of it, each family has a unique set of human capital, financial and real capital, responsibilities and dreams. There can never be two families with identical human capital, financial capital, responsibilities and dreams. To that extent, each financial plan is also unique.

While each financial plan is unique on broader parameters they focus on three aspects of wealth - wealth protection, accumulation and distribution. When it comes to creating and maintaining wealth, the order should be wealth protection, wealth accumulation and wealth distribution. If the order is changed, the entire process becomes futile.

Foundation for any wealth creation and maintenance is wealth protection. In our life, we will come across several perils and hence it is important to have a strategy to ensure minimal wealth erosion in tough times.

**Wealth creation / protection:** Create contingency reserve for events where no formal insurance is available. Like, job loss, shifting places due to catastrophes and so on. For such perils, there is no formal insurance available and hence there is a need to create a contingency fund.

Next, purchase enough insurance to cover expenses related to illness or hospitalisation and disability. Death of an earning member of the house can disturb financial health of the family and hence life insurance is important. Ensure there is enough insurance to protect properties like house, car, jewellery and other contents.

Sanjeev Mehra was a small businessman. He never believed in health insurance. According to him, his family had

simple habits and took good care of themselves. Once on his way back from a vacation, Mehra's car met with an accident. His wife had to be hospitalised. It took 45 days for her to recover. And the total cost of hospitalisation and medication was ` 8 lakh. As far as wealth protection strategy is concerned, it is "better to be safe than sorry."

**Wealth accumulation:** We all save money because we have lots of responsibilities as well as dreams in life.

When accumulating wealth, we must align our investments with our responsibilities and dreams. If we are saving for financial goals which are about two - three years away, we must choose debt-based products like fixed deposits and bonds. Debt-based instruments usually do not give returns more than inflation. Hence, if we invest all our long-term money in debt-based instruments, we will erode our

wealth to inflation. For long-term goals invest in equity markets. In the short-term, equity markets can be volatile and you could loose money.

Debojit Basu had been working in insurance industry for 30 years. He always ensured his family had adequate cover to protect against various perils. But, he never saved for anything other than insurance. At the time of retirement, Basu did not have enough money. He had wealth protection but did not accumulate wealth and hence when needed (at the time of wealth distribution) there wasn't enough. Fortunately, Basu landed an insurance agent's job after retirement. He now saves regularly.

**Wealth distribution:** Our accumulated wealth is required (distribution) during retirement. On retirement, we have to de-

pend on returns from wealth already accumulated in lieu of regular income. If returns are insufficient, then the wealth can get eroded partly.

Lastly, after our death our wealth needs to be distributed to our near and dear ones. Suppose we have had good wealth protection and accumulation strategies but not planned well for our retirement then we will struggle in the last phase. Also if there is no proper 'will' then it may happen that our family will remain dissatisfied.

The writer is a certified financial planner



ILLUSTRATION: PRASHANT BANE