

STAY INVESTED – STAY SECURED WITH LONGTERM INVESTMENT PLANS

Dr. SUHASINI PALLE

Associate Professor

CSI Institute of PG Studies, Secunderabad

E-Mail: suhasini_630@yahoo.com

ABSTRACT

True financial independence comes not with money, but with knowledge and investment in long term investment plans. A long term investment plan is one that secures investors family and from any uncertainties and provides a stalk of financial support at times. Learning the right way to deal with money at every stage - whether earning, protecting, budgeting, saving, spending, leveraging, investing or insuring it, will create sustainable long-term wealth creation. Basically, all the long term plans are to be considered as savings plans. Perhaps, most of the long term investment plans are such that they assure financial freedom during elderly days of the life. Having an alignment between ones financial goals and their investment plan would only ensure a continuous and steady income at a later time and make best out of the present outflows and also the investor should periodically keep reviewing and refining portfolio allocation with changing financial goals. All the long term plans are crafted to meet the specific set of needs of its clients - be it an investment for higher studies, children marriage, building home or compensating medical issues at a later part of life. This paper focuses on such long term plans which would safeguard the investors' future either by assisting at uncertainties or by providing a flow of income.

Keywords: Financial independence, Long term investment plans, Sustainable long-term wealth creation

INTRODUCTION

Generally when an investment is done for a period of more than 5-6 years or even more than 10-15 years, it is called as long term investment. Basically all the long term investment plans are intended to secure your future and becomes handy at any lateral part of life. Though there is good number of short term investment plans which can also be handy, long term investments are on their merit due to their ability to create more returns over short term investments. Here such long term investment options in India are described by which one can smartly diversify their investment portfolio & grow their money further. Having an alignment between ones financial goals and their investment plan would only ensure a continuous and steady income at a later time and make best out of the present outflows and also the investor should periodically keep reviewing and refining portfolio allocation with changing financial goals. To diversify the investment portfolio risk is to distributed in various stocks, mutual funds, bonds & debentures and other different instruments. Investor should never invest more than 10% in any of the investment plan of the portfolio and can remain protected if any of the above options collapse.

2. Characteristics of Long term Investments

The best long term investments all share similar characteristics. They

- Require less management than their short term counterparts.
- Provide long-term growth.
- Are low risk
- Have a history of long-term performance.

3. What the investor wants

- Good returns on investment

- Reasonable level of risk
- Favorable tax treatment
- Ease of investing, withdrawal

2. Long Term Investment Plans in India

When someone starts saving money for his/her child's education expenses, marriage etc. that come under long term investment. One can choose from a wide range of such investment products as per risk bearing capacity. Being a long term investor one has its own cons, as these types of investments need huge commitment & patience. Before opting for the long term investment options one should always set aside certain amount for some urgent crisis which may bring any type of financial obstacle.

- **PPF (Public Provident Fund) Account:** Public Provident Fund or PPF is one of the best and secure long term investment options in India which is totally tax free. PPF account opened in any bank or post office is one of the best long term investment products. Under this, the money will be locked for a period of 15 years and earn compound interest. In addition, one can also extend the PPF account in extension of 5 years block. But less liquidity is a bigth negative for PPF account. Partial withdrawal of the investment can be done at the end of 6th year. However, there is an option of taking loan on the balance of PPF account.
- **Mutual Fund Investment:** A mutual fund is a collection of financial instruments put together into a single fund by a manager. A mutual fund that is governed by a manager with a proven track record of success is likely to perform well over the long term. Again, one of the keys here is diversification. Mutual Fund investments are generally preferred by people who want to invest in equities and bonds with a balance of risk & return. In recent years, investing in stock market via Mutual fund has gained huge popularity. Many people are getting educated and want to taste the equity market and for that purpose mutual funds are the best options to enter into the market. One can invest in mutual fund for longer time by systematic investment plan (SIP) and get much better return compared to other investment products. SIP helps to build a portfolio over a longer time horizon with small investments at regular intervals which reduces the risk of instability in the market.
- **Direct Equity or Share Purchase:** Even though investing in direct stock is risky, but if one can invest for a long term for more than 15 years, higher return is expected. Two ways to invest in equities:
 - Through primary market (applying for shares that are offered to the public)
 - Through secondary market (buying shares that are listed on the stock exchanges)

However, frequent trades are recommendable as the investor in the market for the long run. As an investment option, investing in equity shares is considered to bring a high level of risk associated with it.

- **Real Estate Investment:** Real estate is a booming industry in India. It has huge prospects in all the major sectors like housing, commercial, manufacturing, hospitality, retail etc. As an individual investor, buying a flat or a plot could be the best decision for investment portfolio. Real Estate is termed as the "money making industry" in the country. Real estate investments in India guarantee a return of 30% to 100% annually. But to avail that benefit, one has to do a

proper research and then buy some property in such places where prices could go up to some significant level in next 5-10 years horizon.

- **Gold Investment:** Gold is favored by many as a long term investment, partly because it has been used a measure of wealth for almost as long as humans have been bothering to measure it. Gold tends to appreciate slowly over time, making it a poor bet for the short-term investor, and a wise one for someone in it for the long haul. Although most advisors recommend only putting a small portion of your portfolio in gold, it is still one of the best long term investments. One can invest in gold anytime in any format like Gold deposit scheme, Gold ETF, Gold Bar, Gold Mutual Fund etc. In long term of more than 10-15 years, the return will be definitely good. In case of the Gold Deposit Scheme the investor can deposit / invest minimum of 200 gm gold in exchange for gold bonds. The bond will hold a tariff free interest rate of 3% – 4% with a lock in period of 3 to 7 years. Gold bonds are not entitled to any kind of capital gains or tax and wealth tariff. According to the investor's preference, the insured amount can be accrued back in terms of cash or gold.
- **Post Office Savings Schemes (POSS):** Post Office Savings Schemes are popular for their higher return. The monthly income plan of POSS is mostly suitable for retired individuals or people with regular income needs. Being a govt. savings scheme, it has very low risk. Also there is no TDS in a POSS. Post Office offers various schemes such as National Savings Certificates (NSC), National Savings Scheme (NSS), Kisan Vikas Patra and Monthly Income Scheme. Among them, NSC for 10 years is a good post office investment option with a guaranteed return amount.
- **Company Fixed Deposits:** Company FDs are preferred over bank FDs for their higher interest rates. Corporate FDs are instruments used by companies to borrow money from small investors. You need to select the investment period carefully as the money cannot be withdrawn before maturity. Unlike bank FDs, the corporate fixed deposit schemes are not covered under any insurance benefit. These instruments are not governed by the Reserve Bank of India. Therefore, Company FDs are mostly suitable for those long term investors who can bear some amount of risk.
- **Initial Public Offerings (IPOs):** IPOs are often presented as “Once in a Lifetime” opportunities as they happen only once for every company. IPOs are very attractive, if launched by a reputed company. IPOs are little different from the average stocks as they have many unique risks associated with them. The uncertainties associated with IPOs are mainly because of the lack of available information. Generally most companies want long-term investors who will hold their stock. In such a case one can put some money for a longer period of time and get benefited.
- **Unit linked insurance plans or ULIPs:** ULIPs invest in equities and debt markets. The ups and downs are captured by the net asset value (NAV). Although ULIPs are not recommended product due to the various charges, but if one is investing for a long period of time then ULIP's can also give a decent return of 7-8% on investments. Besides that, one can also get income tax exemption on investment as well i.e., the net yield will be much higher. ULIPs offer tax benefits under Section 80C. Maximum Rs 1.5 lakhs of deduction can be claimed under this plan and also the redemption proceeds are tax-free under Section 10(D).
- **Bonds:** Bonds are an excellent long term investment because they tend to be much less volatile than stocks on average. Bonds with a 10 year or higher maturity date are also likely to provide a

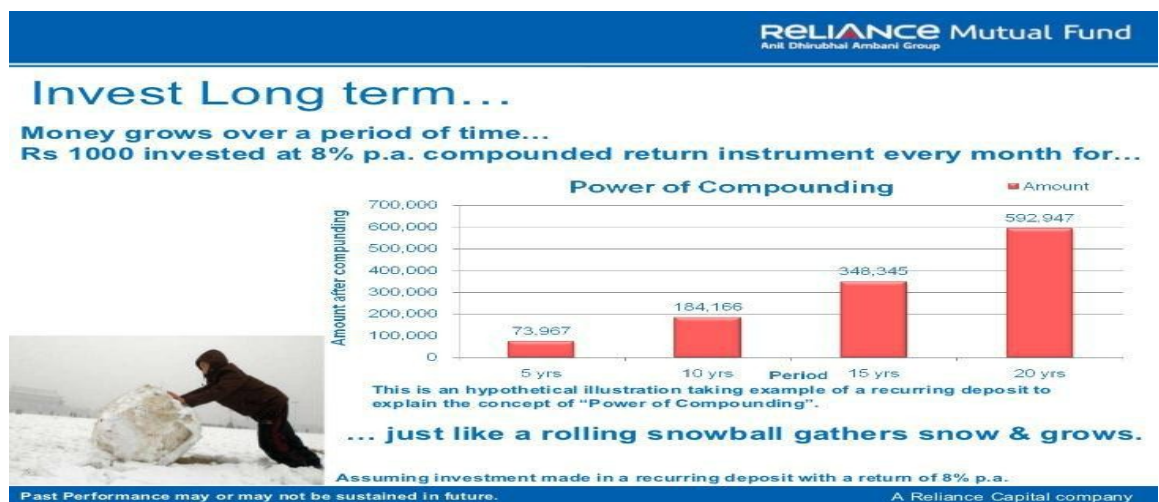
better yield than those set to come due earlier. Investing in bonds could be a good option if the investor is not comfortable with mutual fund or direct equity market investments. There are many good bonds which actually give a decent return in long term. Investor can opt for government 10 year bond which is currently giving an interest rate of 7.70%. As the govt. sets the interest rates on bonds based on the inflation, investor may also go for Inflation Indexed bonds.

3. Reasons to stay invested in long term plans

A lot of investors make the mistake of abandoning their financial plans at the first sign of bad news. Instead, one would do well to take a macro perspective and realize that over the years, bull markets have lasted longer than bear markets. It is also interesting to note that on most occasions, the upward rallies have easily made up for short-term declines.

- **Sense of Discipline:** Staying in line of financial plan inculcates a sense of discipline towards long-term goals. Regular investing is probably one of the most critical aspects for wealth-creation.
- **Benefits from Compounding:** The mathematical reason for staying invested was well articulated by Albert Einstein, who said, "Compound interest is the eighth wonder of the world. He, who understands it, earns it ... he who doesn't ... pay it." Give your money the time to grow. Let it work as hard as you do. As an exemplification to this statement here the fund performance and growth projections by Reliance Mutual Fund is being presented

Figure I: Growth projections by Reliance Mutual Fund



- **Benefits from a Full Market Cycle:** Understanding the markets is easy but timing them isn't. The markets tend to follow a cycle of ups and downs and bulls and bears. Take an opportunity to buy low and sell high because in the long-term, the good schemes will always deliver positive results.
- **Leverage Long-Term Strategies:** Staying invested for a longer duration will give the investor the opportunity to benefit from the long-term strategy.
- **Tax Benefits:** Long-term capital gains arising on the transfer of units of an 'equity oriented' mutual fund is exempt from income tax. Moreover, investments in Equity Linked Saving Schemes from mutual fund houses are exempt u/s 80/C of the IT Act.

4. Mutual Fund route to Long-Term Investments

Selective thinking is a common, dangerous illusion that blocks the flow of all relevant information required for making the right financial decision. Investors should not look for the ways to get rich quickly, instead work on a systematic plan to protect, preserve and grow wealth. Sustenance and long-term wealth accumulation is a boring, mechanical process called Asset allocation. The broader asset group of equities, bonds, commodities etc will lead the investor to the gateway of long-term wealth creation and sustenance.

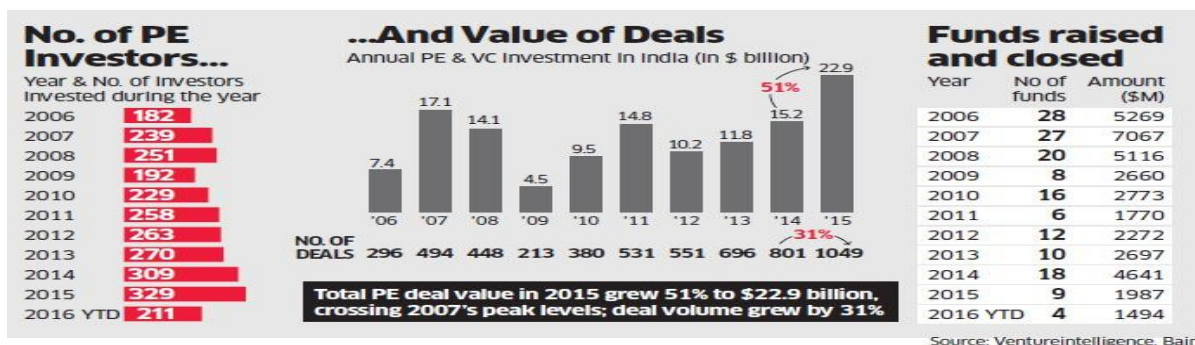
Dynamically managed mutual fund is one of the best investment vehicles for retail investors looking to gain from long-term investments. An Asset Management Company offers various schemes that pursue different objectives. These schemes are actively managed by experienced fund managers who follow a well-defined investment style and proven processes. Systematic Investment Plan is the best mode of long-term investment for a retail investor. An SIP allows the investor to make the most of a bearish market as one can gain from rupee cost averaging.

It is all about the Mindset-Staying invested and periodically reviewing your financial plan has proven to be one of the surest ways of creating long-term wealth. When investing in uncertain times, following the basics is the best way forward. When the outlook is pessimistic, it is natural to be worried about the ones hard-earned money. Wharton professor Jeremy Siegel once said, "Volatility scares enough people out of the market to generate superior returns for those who stay in!" Many will ignore that advice. However, the fact about the market is that it is impossible to predict when a bull market will begin. If you stay invested, you never miss the party and usually reap good returns. It is better than missing out by waiting on the sidelines.

5. Long Term Investment Trends in India

India being one of the fast growing economies across the world, thrust for long term investments is also on raise. In the wave of quest for long term investments the contribution by Indian individual and institutional investors are also taking their turns. While the institutional investments are of considerable amounts since the beginning, the individual investors also moving forward to follow the suit of IIs(Institutional Investors). There are wide number of long term capital instruments which would allow both Individual and Institutional investors to enter the capital markets, the most prominent and growing channel of investment is through private equity investments. The private equity investments are topping the list of prioritized instruments due to their high risk and return paradigms. The growing awareness of the public on equity investments and their economies of scale are the reason behind an increase in the amount of private equity investments over last decade. Perhaps, it is the investor's novel thinking that also benefiting the bucket of individual equity investments in India. The figures below would depict the overall volume of Private Equity Deal in India since 2006.

Figure II: Overall volume of Private Equity deal in India since 2006



This is an exemplification of how the Indian long capital markets are responding to the corresponding requirements of Indian as well as global markets. The funds raised and the number of deals that took place during 2006-2016 equity alone would show up the future prospectus of the India as a hub for more number of long term investments. The Year to date (YTD) funds raised through equity are also increasing year by year, following the suit the year 2016 will also add up to the PE basket of India. Though there are certain lows during the decade every time India rebounded with its irrevocable confidence levels. Apart from the returns perspective, the long term investments also protect the investors from certain tax liabilities and reduce the tax burden for both institutional and individual investors. As a whole, the Indian long term investments would provide required returns at minimum possible risk by protecting investor's interests.

CONCLUSION

Knowledge about Behavior Finance, Crowd Psychology, and Socio-economic factors will help an individual become a better investor as well as a better human being. Major losses to investors can come from purchase of low-quality securities at times of favorable business conditions. Equities might be volatile in the short-term but provide higher returns with much less risk over the long-term. Though past performance of any product is not always a guarantee for their future performance it is advised to buy any investment product which has a good track record over last few years and which charges low management fees. The behavior of Indian financial markets towards growth trajectories and its progressive responsiveness to global markets raised confidence in Indian investors and also attracting many foreign individual and institutional investors towards India. With this paradigm of growth and projections of growth we can definitely say India would become an hub of investments sooner or later. The projections of International associations also depict India as an attractive investment.

REFERENCES

- *Long-Term Relationships Governed by Short-Term Contracts* - Vincent P. Crawford *the American Economic Review* Vol. 78, No. 3 (Jun., 1988), pp. 485-499
- *Management of Indian Economy* - V.S. Mahakam – 1989
- *The Start-up of You: Adapt to the Future, Invest in Yourself, and Transform your career* - Ben Casnocha, Reid Hoffman – 2012
- *The Smartest Investment Book You'll Ever Read: The Simple, Stress-free Way ...* By Daniel R. Solin
- *Investment plans and stock returns*- OA Lamont - *The Journal of Finance*, 2000
- *Investment plans and realizations*- R Eisner - *The American Economic Review*, 1962
- *The impact of uncertainty on investment plans*- P Butzen, C Fuss, P Vermeulen - *National Bank of Belgium working* 2002
- *Wealth management: Private banking, investment decisions, and structured financial products*- DN Chorafas – 2011
- <http://www.advisoryhq.com/articles/top-10-best-long-term-investments-detailed-overview/>
- <http://www.simpleinterest.in/10-best-long-term-investment-options-in-india/>
- http://economictimes.indiatimes.com/articleshow/53808375.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst
- <http://www.fool.com/investing/general/2015/10/23/9-advantages-of-long-term-investing.aspx>
- <http://www.calcxml.com/do/article?id=-6630033&cat=saving>
- http://www.business-standard.com/article/pf/5-rules-to-help-you-invest-for-the-long-term-114042900463_1.html
- <http://www.investorguide.com/article/11631/three-long-term-investment-choices-for-beginners-igu/>
- <https://in.finance.yahoo.com/news/5-best-long-term-investment-085950325.html>
- <http://economictimes.indiatimes.com/wealth/invest/here-are-equity-mutual-funds-ideal-for-long-term-financial-investment-goals/articleshow/53808375.cms>
- <http://economictimes.indiatimes.com/industry/banking/finance/private-equity-worst-over-for-industry-but-old-worries-remain/articleshow/52739089.cms>