Business Standard 12.04.2021

Invested in equities during last year's fall? Book profit now

Try to make up for lower savings last year by curbing expenses, not by taking higher-risk bets

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The start of the new financial year is an excellent time to review your portfolio. Any tweaking you do should be based on market performance over the past year, expectations from the coming year, and change of rules that could affect your investments.

Did you save enough?

Begin by checking whether you managed to save at the rate you had targeted. "Ideally, you should try to save 50 per cent of your post-tax income," says Avinash Luthria, a Sebi-registered investment advisor and founder, Fiduciaries. If that is difficult, aim for 30 per cent.

To assess whether you are saving enough for retirement, use this rule of thumb. "At 60, you should have a corpus equal to 30 years of annual expense," says Luthria. If your current expense is ₹10 lakh a year, aim for ₹3 crore by 60. By 40, you should have saved 10 times your annual expense; by age 50, 20 times, and so on.

If your income got disrupted last year, you may have saved less than your target rate or even dipped into your corpus. Try to make up if your income is back on track. "Do so by spending less and investing more, and not by undertaking higher-risk investments," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisers.

MAKE A STRONG START TO NEW FINANCIAL YEAR

- Decide whether you will opt for the old or the new tax regime
- Begin Section 80C investments if you plan to stick to the old tax regime
- Make PPF contribution early so that you enjoy its tax-free return for the entire year
- Begin investing in ELSS via SIP to benefit from rupee-cost averaging
- Submit Form 15G or 15H to avoid TDS deduction if you are eligible

Synchronise asset allocation

Due to market movements, your portfolio's asset allocation may have deviated from the predecided level. The equity market had corrected steeply in end of March 2020 and then rallied sharply in the ensuing months. So, the category average return over the past year for various equity segments appears very high: large-cap funds have yielded 59 per cent; mid-cap funds, 81 per cent; and small-cap funds, around 100 per cent.

Your actions now should hinge upon how you reacted in April-May 2020. "If you had invested in equities when the markets were down, you may be considerably overweight currently and may need to trim exposure," says Dhawan.

Gold had peaked in August 2020. If you had trimmed your position in the yellow metal then, you may be underweight and may need to add slightly to your position.

To realign an overweight position, either sell a portion of the outperforming asset class or buy more of the underperforming asset class. The latter method is more tax-efficient, but you need additional capital for it.

If you are close to a goal, shift from equities to debt.

Check fund performance

Look at a fund's 10-year performance. If it is significantly below its category average return, stop investing more into it and put it on your watchlist. Monitor its performance for three-four quarters. If the underperformance continues, exit it. Minimise cost by ensuring you pay tax on long-term capital gain.

Is your emergency corpus adequate?

Last April-May, many people had lost their jobs and the equity market had also fallen sharply. Withdrawing money from your equity portfolio would have been disastrous. That is why you need an emergency corpus invested in liquid funds or in a savings-cum-fixed (sweep) deposit account.

A double-income family should have an emergency corpus equal to three months of household expenses, including EMIs; a single-income family, six months; a gig worker, six months; and a business owner, 12 months.

Ensure adequate coverage

Above, we said that if your current expense is ₹10 lakh a year, you should aim for a retirement corpus of ₹3 crore by 60. Suppose you are 40 and have a corpus of ₹1 crore. Then you should have life insurance worth ₹2 crore to cover the shortfall. Alternatively, buy life insurance equal to 15-20 times your annual salary and reduce it as you move closer to retirement. "As age increases, the number of years of work life that a person can lose due to untimely death reduces," says Indraneel Chatterjee, co-founder and principal officer, Renewbuy.com.

If you got married, had a child, or took a home loan during the previous financial year, you may need to enhance your life cover. But if you managed to reduce your liabilities, you may reduce your cover.

Reviewing one's health cover is crucial. "A well-to-do person living in a large city must have a base cover of ₹10 lakh and a top-up cover of ₹90 lakh. A middle-income person living in the top 25 cities beyond the metros should buy at least a ₹5-7.5 lakh cover," says Chatterjee.

Tax matters

If you have not submitted Form 15G/15H, do so right away. "Individuals submit these declaration forms to tax deductors (like banks) for non-deduction of TDS if their total income is below the basic exemption limit," says Suresh Surana, founder, RSM India. Form 15G is for resident individuals below 60 and Form 15H is for senior citizens.

Finally, decide whether you will go with the old or the new tax regime. "Inform your employer to avoid unnecessary TDS deduction from your salary," says Surana.