DEPARTMENT OF COMMERCE AND FINANCIAL STUDIES
BHARATHIDASAN UNIVERSITY, TIRUCHIRAPPALLI – 620024
MBA (Financial Management)

Course Code: FMEC5/21

Course Name: Financial Planning and Wealth Management

Course Teacher: Dr. T. Unnamalai

Email ID: drtunnamalai@bdu.ac.in

Scheme of Presentation
Unit IV

- Personal Financial planning
- Need for financial advisory services
- Scope of financial advisory services
- Business model for financial planning
- Assets, liabilities and net worth, preparation of budget
- Financial planning delivery process
- Asset classes
- Portfolio construction
- Practical asset allocation
- Rebalancing Strategies
- Need for portfolio monitoring
- Re-balancing.

Financial Planning

- Setting goals: Consider your short- and long-term goals, such as saving for education or retirement
- Assessing your current situation: Take a comprehensive look at your finances, including your savings, investments, and debt
- Creating a budget: Create a budget to help you manage your finances
- Managing debt: Consider how to manage your debt
- Saving and investing: Consider how to save and invest to help you reach your goals
- Protecting your assets: Consider how to protect your assets through insurance and estate planning
- Managing taxes: Consider how to effectively manage your taxes
- Planning for retirement: Consider how to plan for retirement


What is Financial Planning?
Sources of Funds (Financial resources i.e. FR)
+
Utilization of Funds (Financial techniques i.e. FT)
=
Financial Planning (i.e. FP)

Process of Financial Planning

Objectives of Financial Planning

- **Preparing a budget**
- **Determine current financial position**
- **Setting up financial goal**
- **Setting up financial plans**
- **Review financial plans**

Reasons for Financial Planning

- It helps you to set up your financial goals, such as buying a house, car, savings for children, etc, and work toward specific financial goals.
- It helps you create a budget that enables you to cut unnecessary expenses, reduce debts, and increase disposable income.
- It encourages regular saving and investment, through which you can accumulate a good corpus in future by investing regularly.
- At retirement, you require a regular flow of income. With you can build a good retirement corpus, through which you can have regular income to fund your daily expenses.
- It helps you to minimise your tax liabilities by allocating your money to various tax-saving investments.

Financial Planning Vs Wealth Management		
Basis	Financial Planning	Wealth Management
Objective	Managing income and expenses to achieve financial goals and ensure financial security.	To manage existing investment to earn maximum return.
Scope	It includes managing monthly expenses, tax saving, tax planning, retirement planning, etc.	It includes making new investments, asset allocation, portfolio balancing, etc.
Type of management	Passive management, as you make your financial plan for the long term and work on it. Does not require frequent monitoring.	Active management, as you have to monitor and manage your investments regularly.
Financial decisions	Taken on the basis of financial goals, income, expenses, risk tolerance, etc.	Taken on the basis of an existing investment portfolio.


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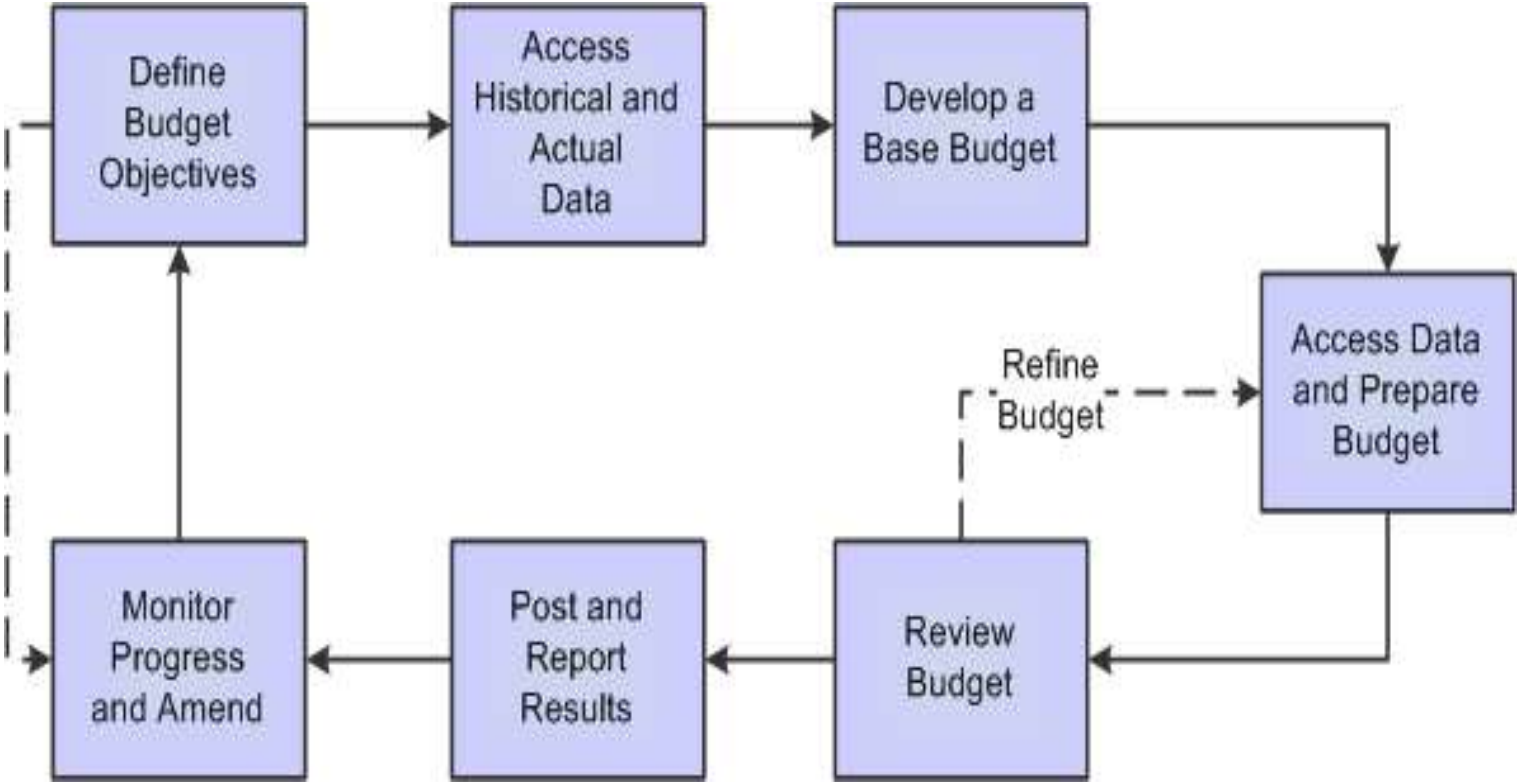
Financial Planning Process

Budget

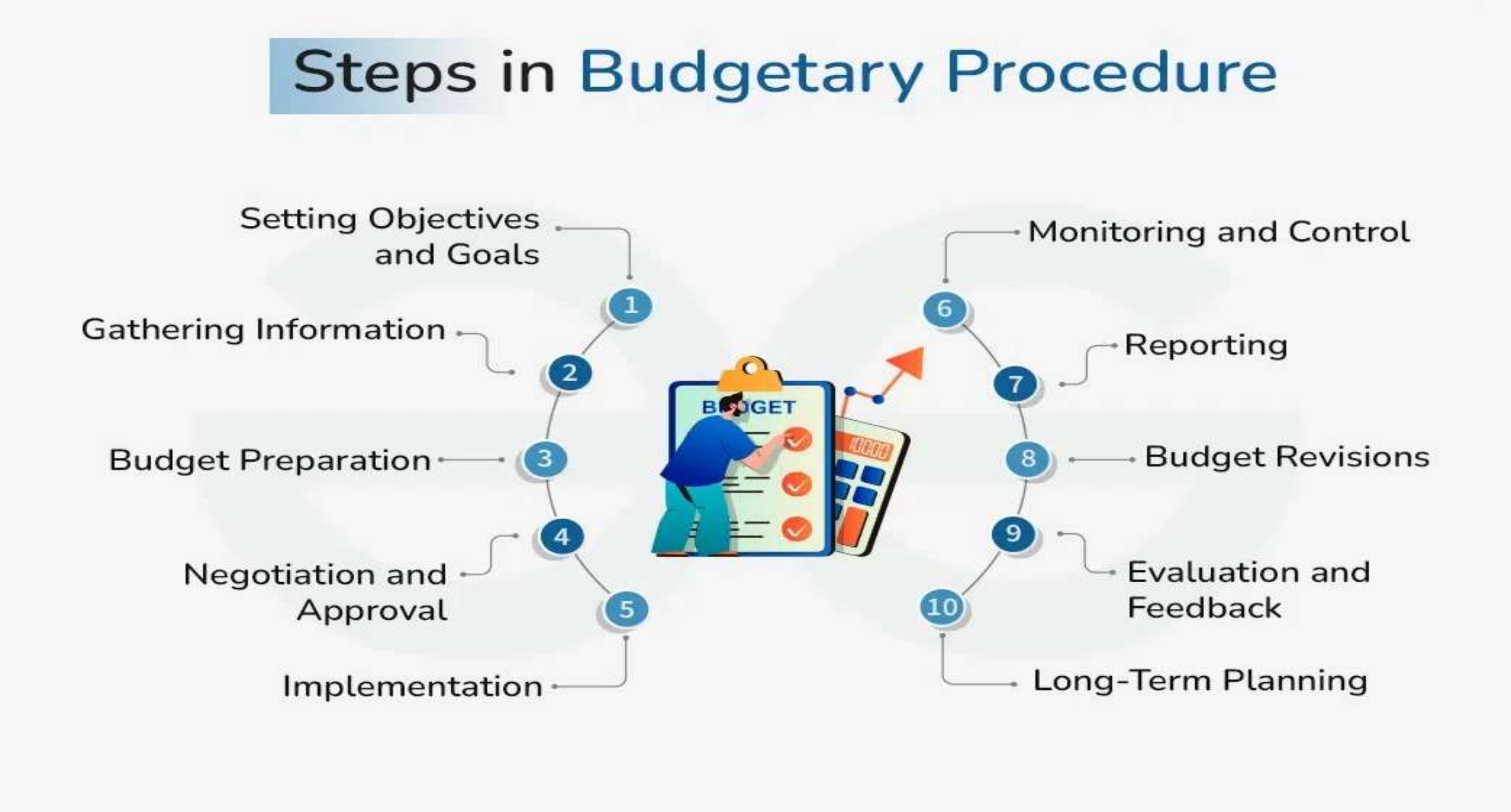
A Budget is a strategic financial plan that outlines income sources and expenses for a defined period, typically monthly, quarterly, or annually. Whether for individuals, businesses, governmental bodies, or non profits, budgets serve as essential tools for resource allocation and financial goal attainment.


Define Budget Objectives
Access Historical and Actual Data
Develop a Base Budget
Access Data and Prepare Budget
Refine Budget
Review Budget
Post and Report Results
Monitor Progress and Amend

Importance of budgeting

Process of Budget

Budgetary Procedure



Steps in Budgetary Procedure

1. Setting Objectives and Goals

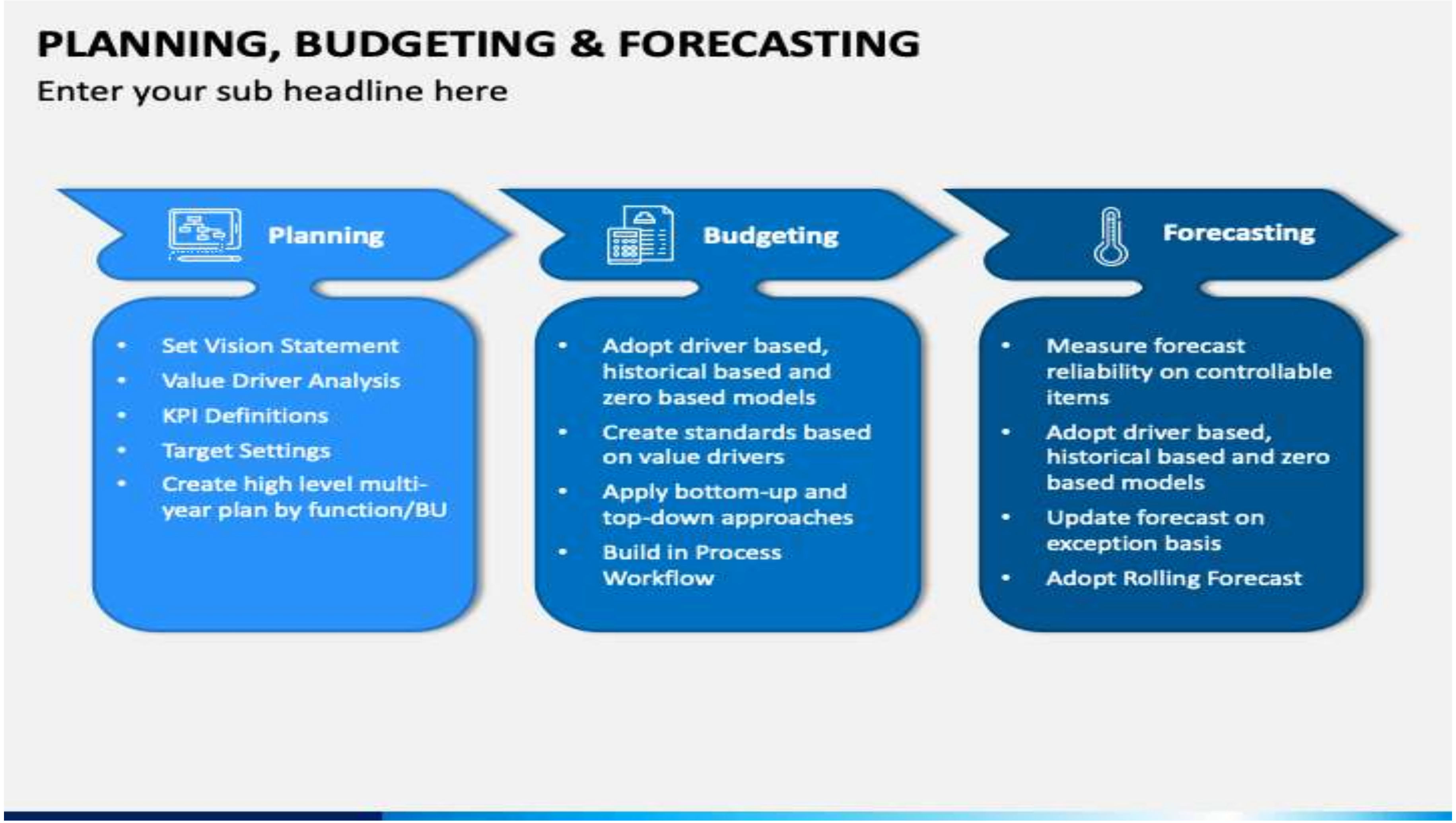
2. Gathering Information

3. Budget Preparation

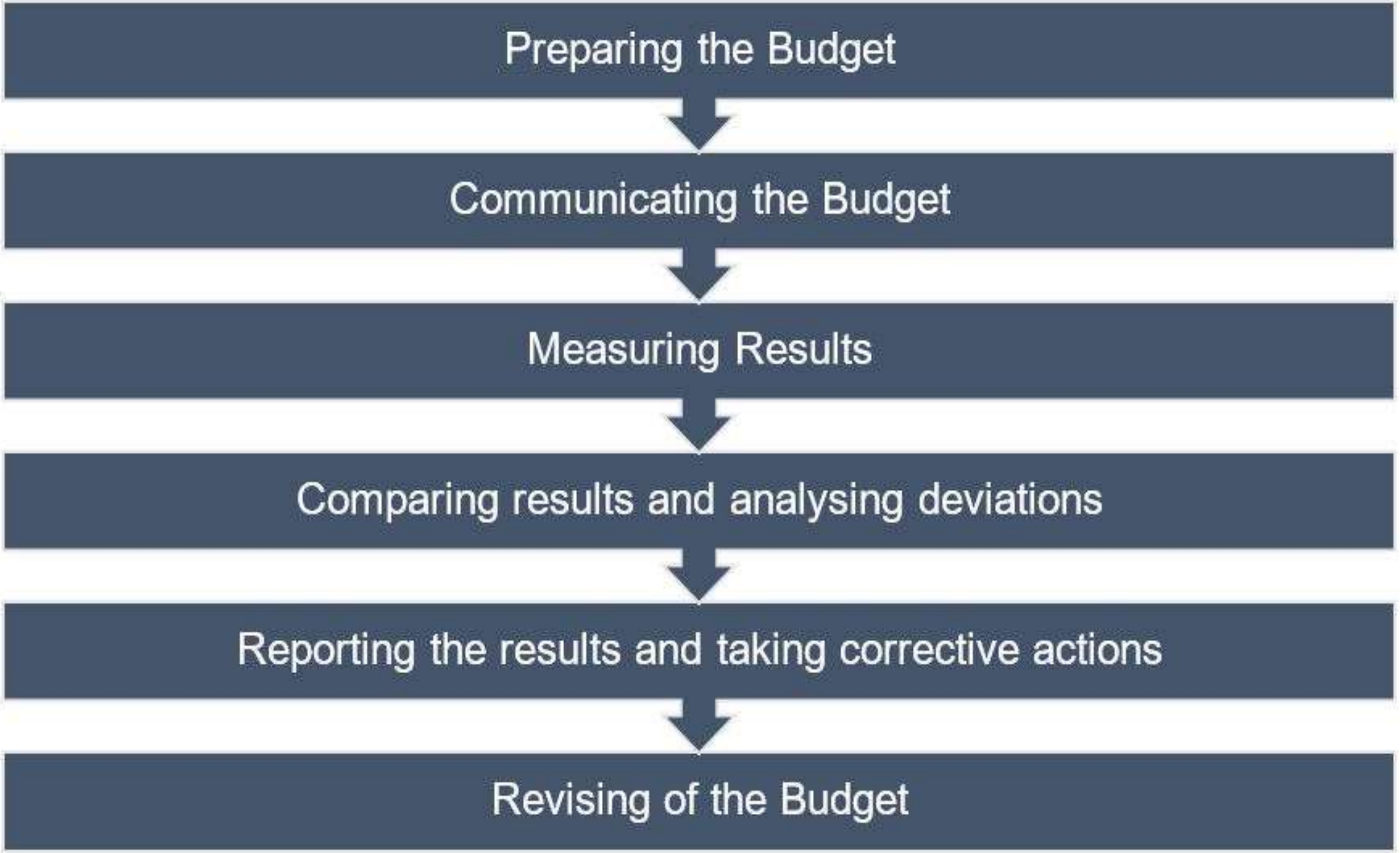
- Revenue Projections: Carefully estimate all anticipated income sources, encompassing revenue from sales, investment returns, grants, loans, and other financial inflows.
- Expense Estimation: Systematically categorises and estimates every expected expense, distinguishing between fixed expenditures (e.g., rent, salaries) and variable costs (e.g., utilities, supplies).
- Capital Expenditure: Consider any substantial investments in assets or infrastructure that require budget allocation.
- Contingencies: Prudently allocate a portion of the budget to accommodate unforeseen or emergency expenses.
- Budget Categories: Hierarchically organise expenses into categories to provide clarity and structure to the budget, facilitating meticulous financial oversight.

4. Negotiation and Approval
5. Implementation
6. Monitoring and Control
7. Reporting
8. Budget Revisions
9. Evaluation and Feedback
10. Long-Term Planning

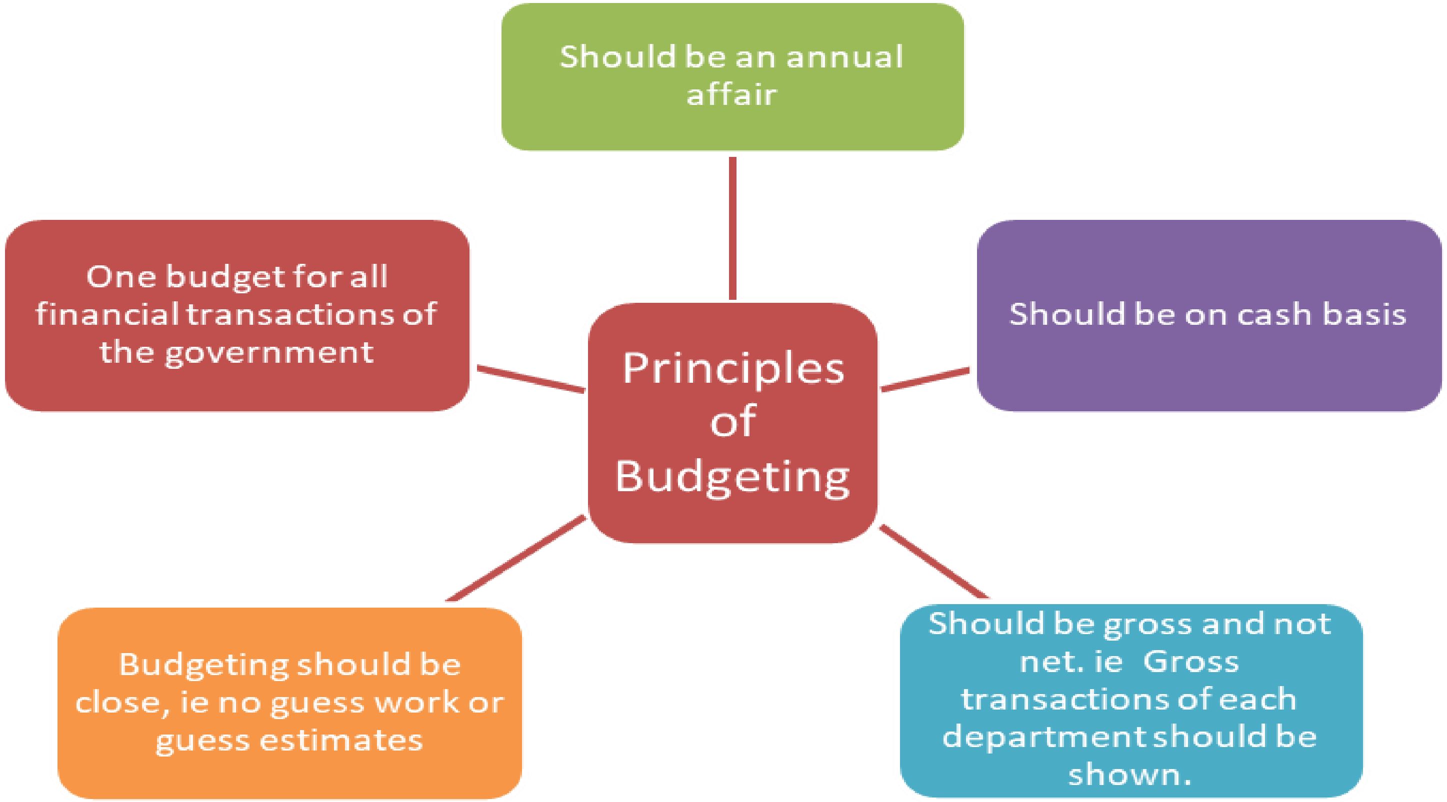
Budget Forecasting and Planning



DIFFERENT TYPES OF BUDGETS


Preparing the Budget
Communicating the Budget
Measuring Results
Comparing results and analysing deviations
Reporting the results and taking corrective actions
Revising of the Budget

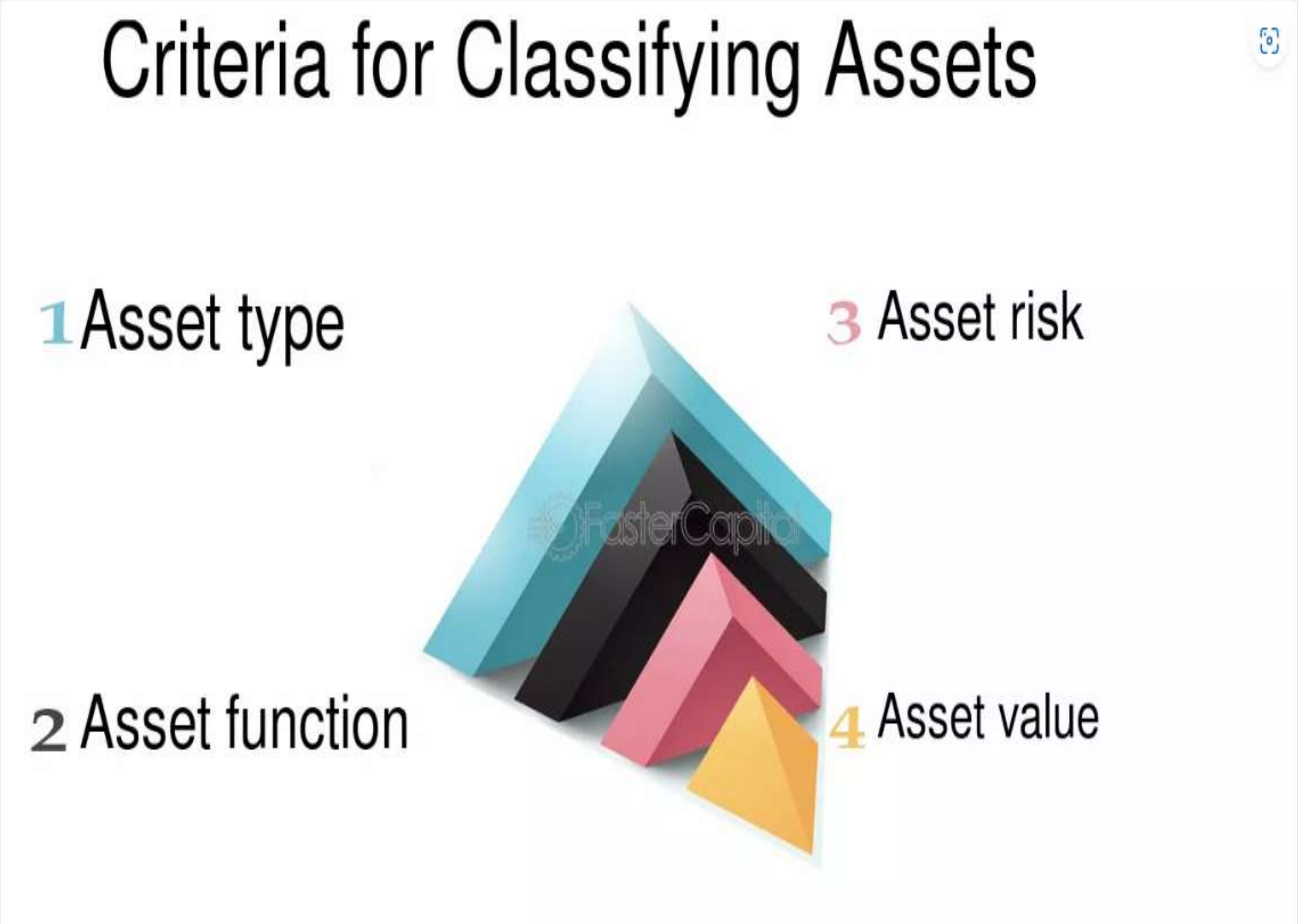
Principles of Budgeting

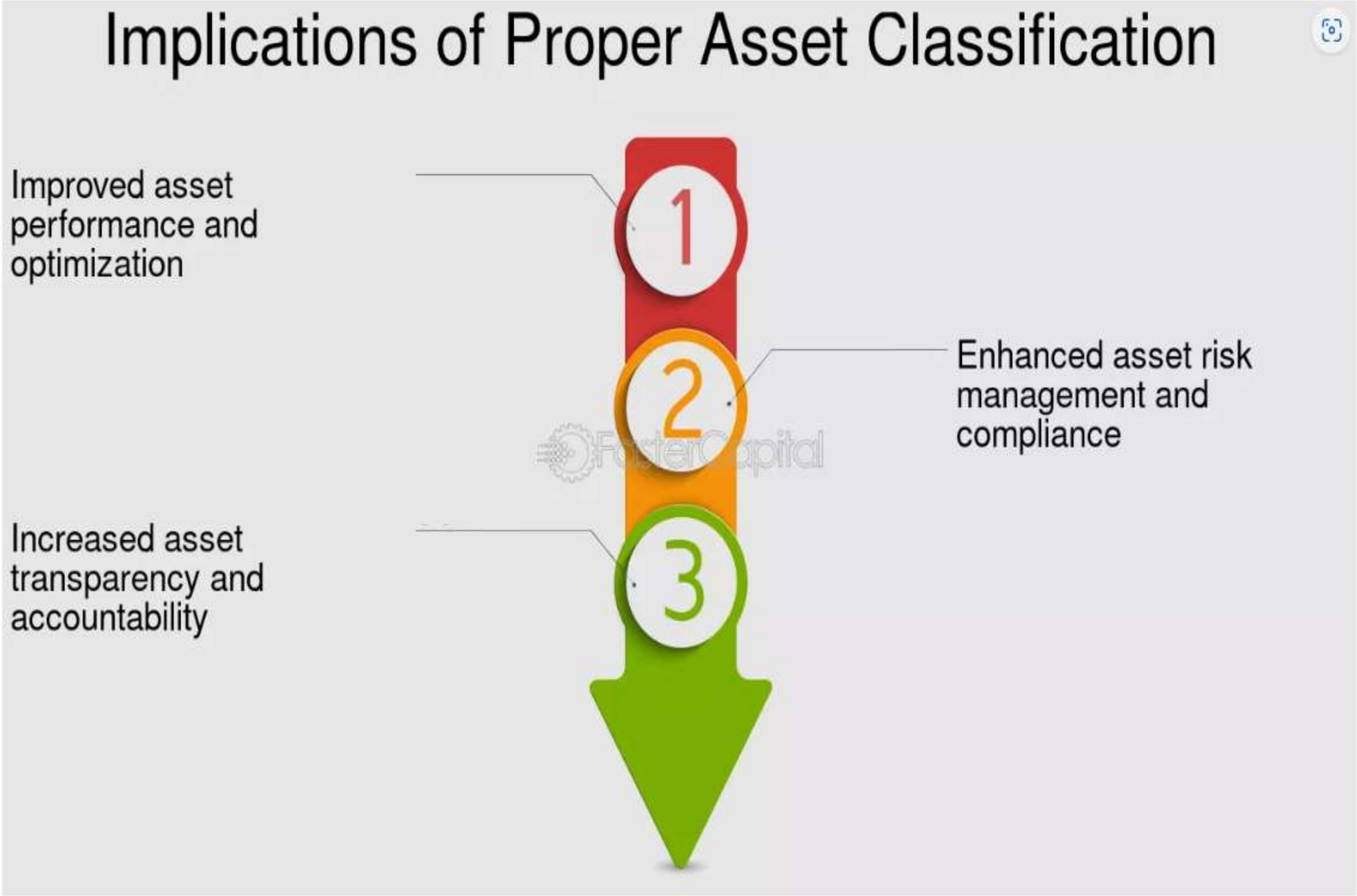


Types Of Asset Classes

Cash	EQUITY	FIXED INCOME	REAL ESTATE	COMMODITIES
liquid Funds Saving Account Online Wallets Hard Cash	Startup Funding Index Funds ETF's Equity Mutual Funds Stocks	Endowment Policies Debt Mutual Funds Debentures EPF/ PPF / NSC Bonds Post Office Products Recurring Deposits Fixed Deposits	REIT Commercial Property Bunglow Plots Flats	Corn Wheat Crude Oil Copper Silver Gold
Liquidity & POWER TO BUY ANY THING	OWNERSHIP INTO A BUSINESS	LENDING MONEY TO SOMEONE	OWNERSHIP OF PHYSICAL SPACE	OWNERSHIP OF GOODS WHICH HAVE AN END ISSUE

Methods and Techniques for Asset Classification
Asset inventory
Asset valuation
06
01
05
02
04
03
Asset review and update
Asset labeling
Asset classification
Asset categorization


Criteria for Classifying Assets
1 Asset type
2 Asset function
3 Asset risk
4 Asset value


Implications of Proper Asset Classification
Improved asset performance and optimization
1
Enhanced asset risk management and compliance
2
Increased asset transparency and accountability
3
FasterCapital

How to Decide your Asset Allocation?

Risk Appetite

Decide your Risk

Define how much risk you are willing to take for an investment.

Goals

What are your Goals?

Investing based on long term goals is very different from Investing based on Short Term Goals

Psychology

What kind of a person are you?

Knowing your psychology is very important, if you cannot sleep well with your investments then they probably are not worth it

Age

How old are you?

If you are young, you have a long runway ahead of you and should allocate more towards equities than someone who is much older

Responsibilities

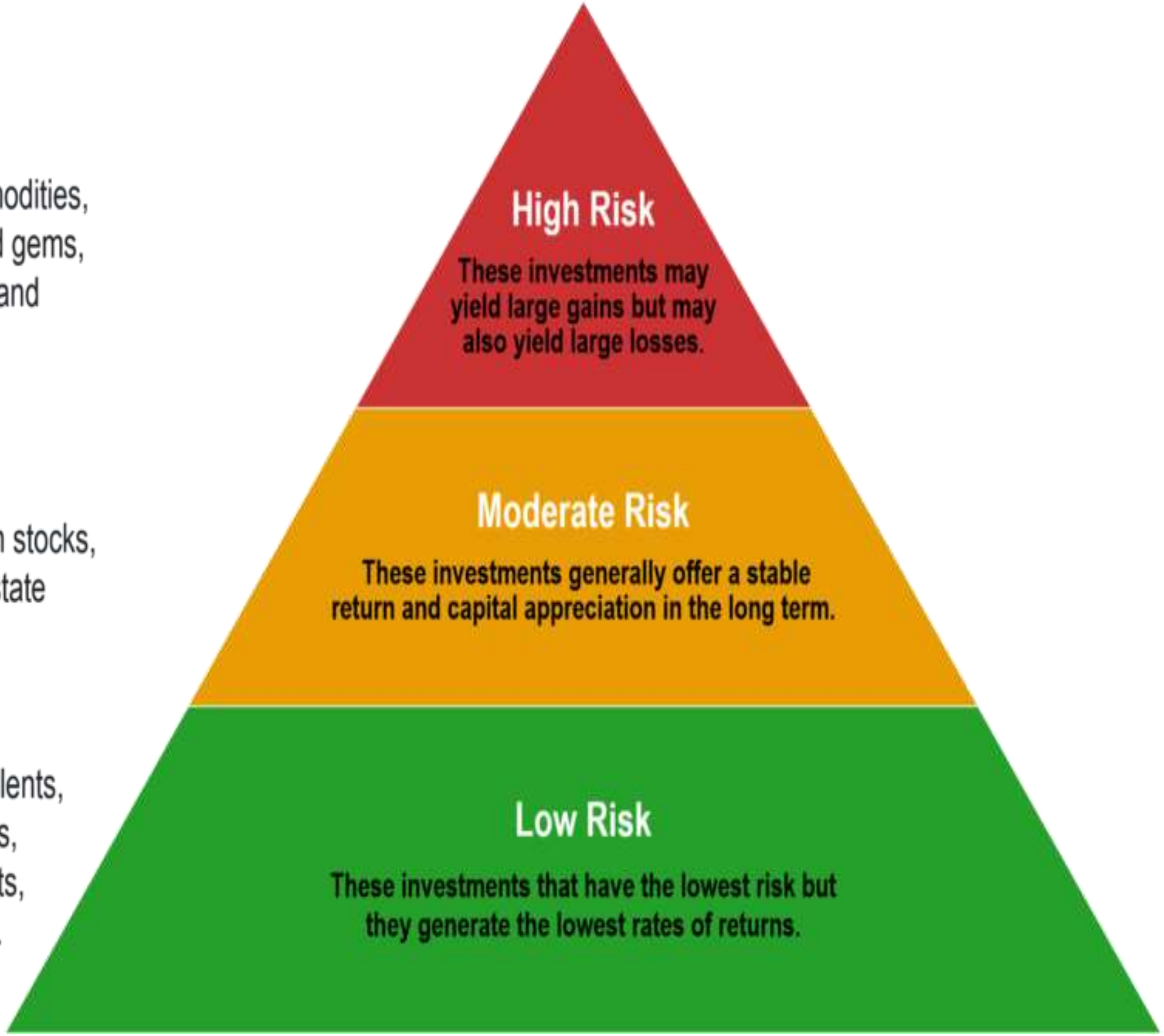
Do you have dependents?

If you have responsibilities and dependents, its likely that your risk taking capacity isn't high and thus your investments need to be more on a safer side

High Risk Investments
Examples: futures, options, commodities, penny stocks precious metals and gems, collectibles, peer-to-peer lending and cryptocurrencies

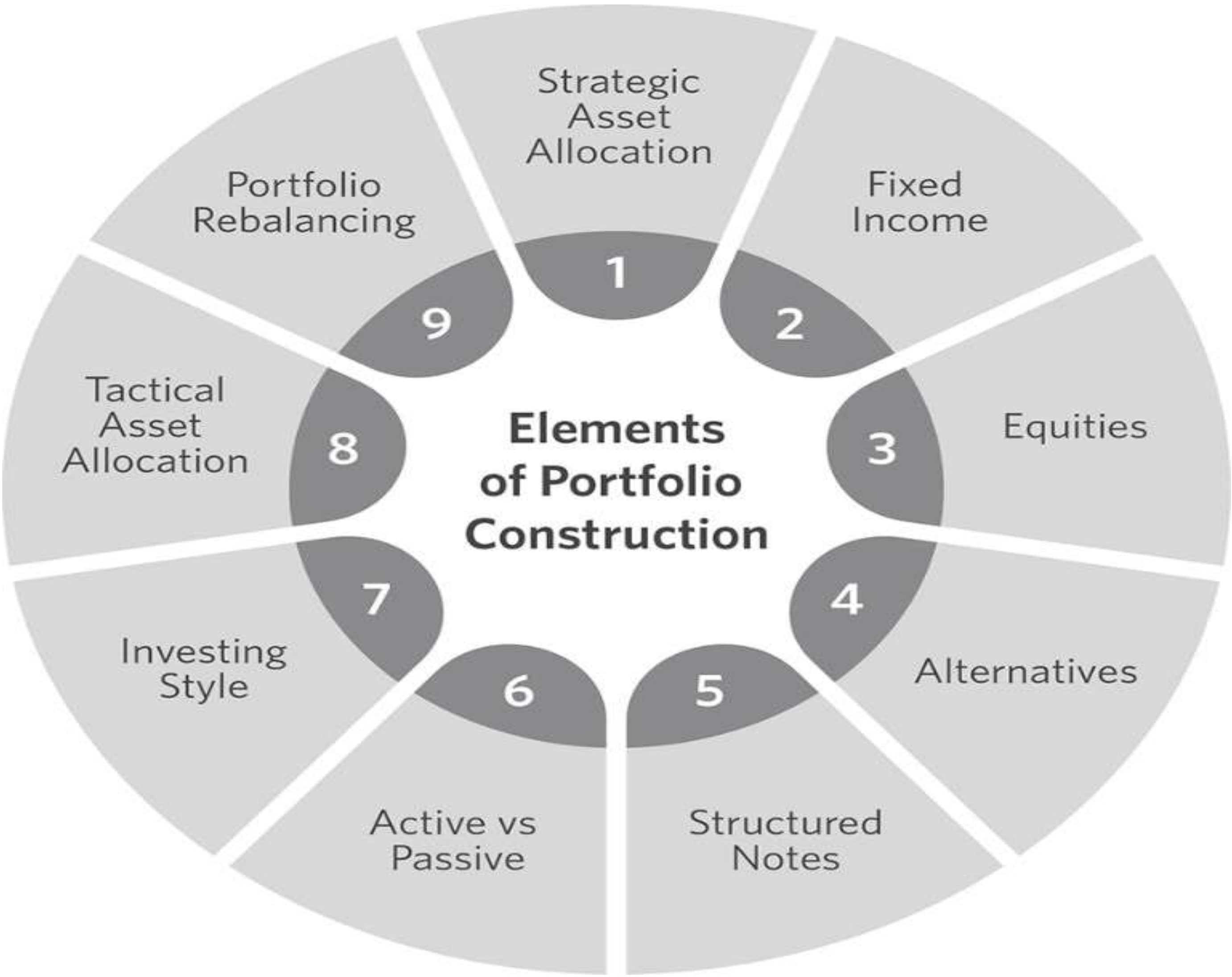
Moderate Risk Investments
Examples: income stocks. growth stocks, mutual funds, index funds, real estate

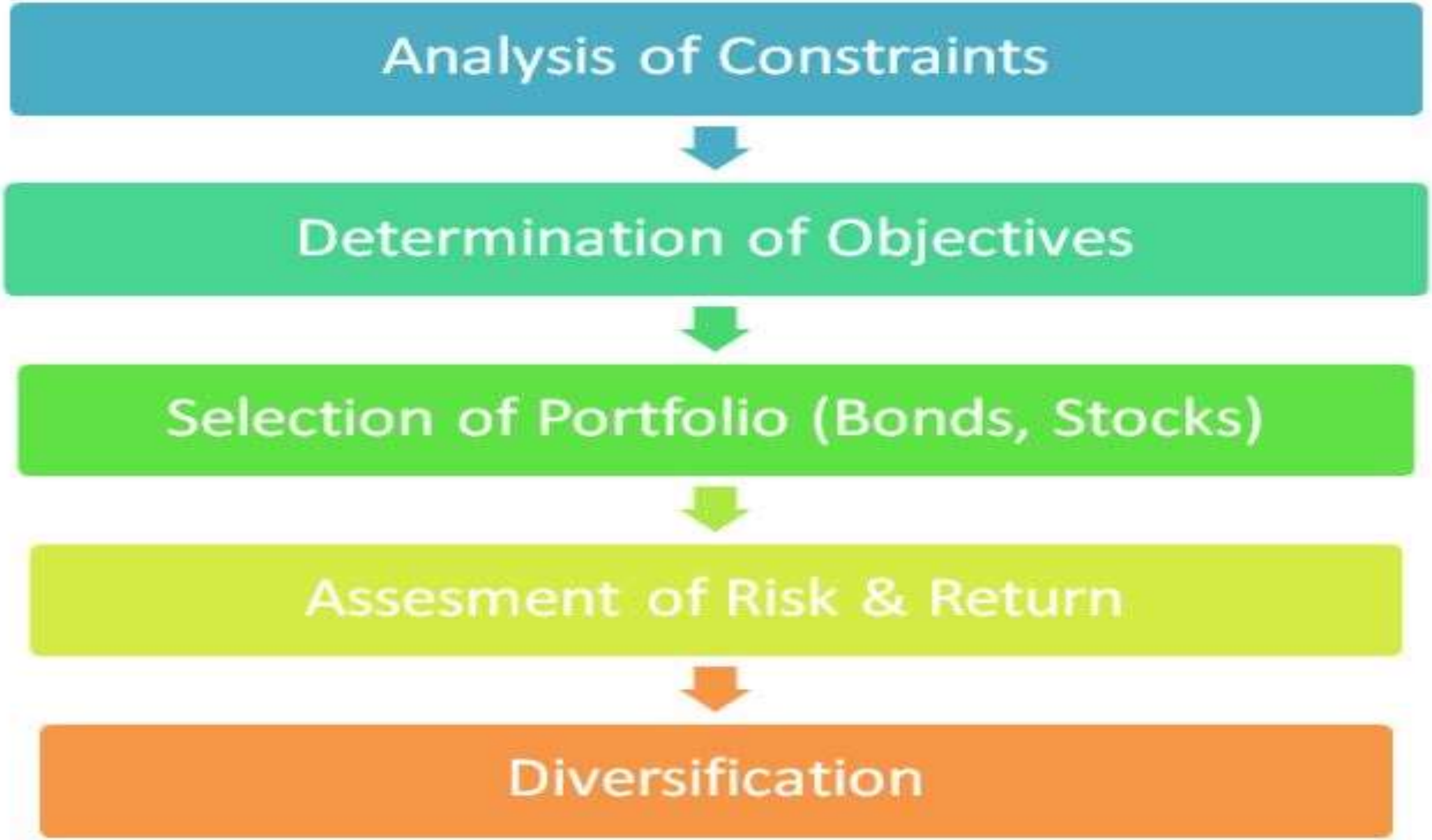
Low Risk Investments
Examples: cash and cash equivalents, money market accounts and funds, treasury bills, certificate of deposits, government and corporate bonds.

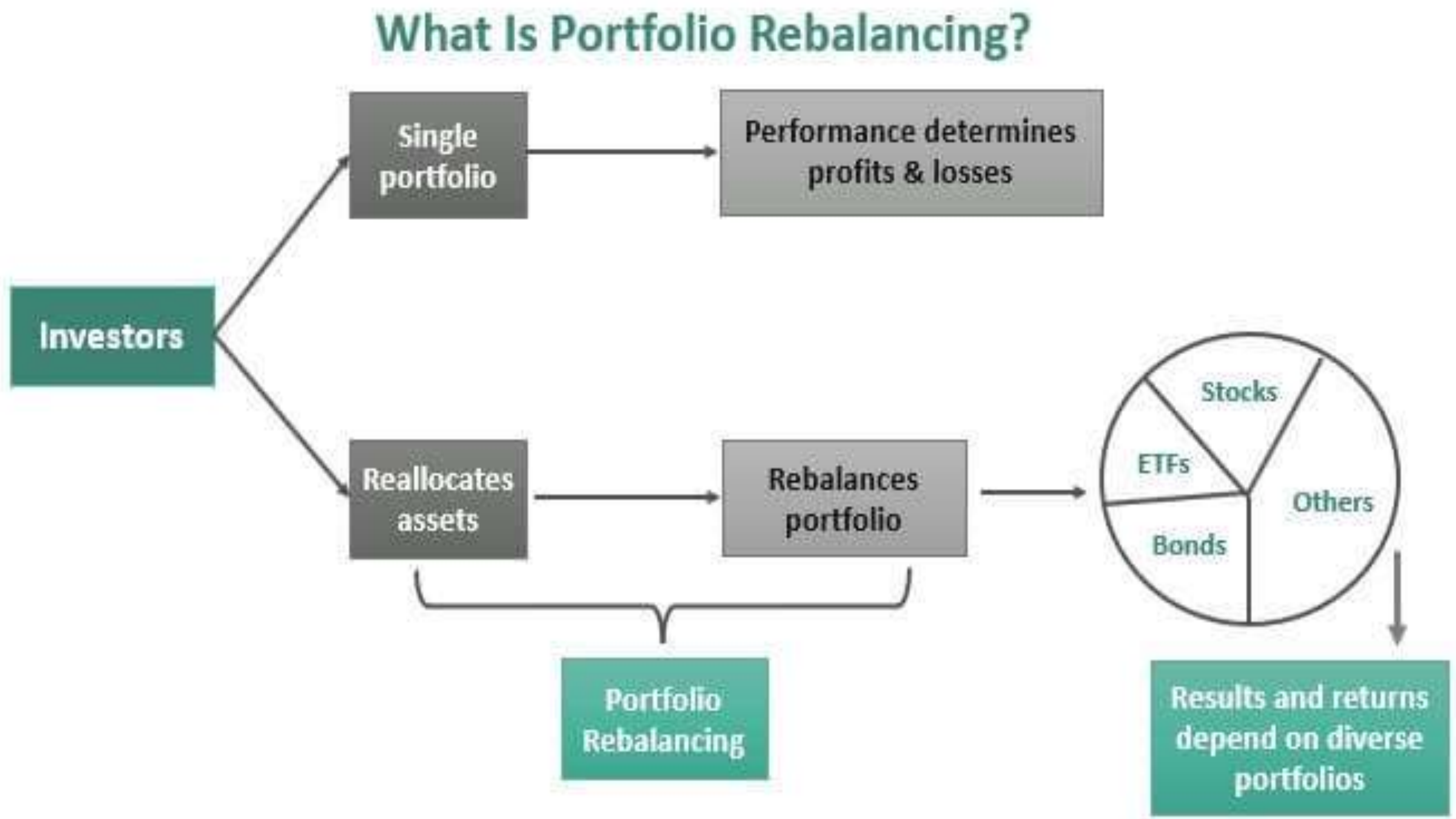


Portfolio Construction

Portfolio Construction is the process of investing in different types of asset classes and financial products, keeping market types and risks, diversification needs, fund management efficiency, risk tolerance, investment time horizon, and long-term and short-term financial goals in mind. The purpose is to strategically allocate capital to improve portfolio returns.


Elements of Portfolio Construction
1
Strategic Asset Allocation
2
Fixed Income
3
Equities
4
Alternatives
5
Structured Notes
6
Active vs Passive
7
Investing Style
8
Tactical Asset Allocation
9
Portfolio Rebalancing


Analysis of Constraints
Determination of Objectives
Selection of Portfolio (Bonds, Stocks)
Assesment of Risk & Return
Diversification


What Is Portfolio Rebalancing?
Investors
Single portfolio
Performance determines profits & losses
Reallocates assets
Rebalances portfolio
Stocks
ETFs
Others
Bonds
Portfolio Rebalancing
Results and returns depend on diverse portfolios


FIVE SIMPLE STEPS FOR EFFECTIVE
PORTFOLIO REBALANCING
ASSESS ALLOCATION
Check how your investments are spread.
COMPARE TARGETS
Ensure your mix matches your goals.
CALCULATE ADJUSTMENTS
Decide what changes are needed
EXECUTE TRADES
Make necessary adjustments.
MONITOR REGULARLY
Stay on track with your strategy.


Portfolio Rebalancing Strategies
Liquidating Assets
Allocating Funds
Asset Mixing
Avoiding Emotional Decisions

Strategies for Effective Portfolio Diversification

01 Asset Allocation

02 Geographic Diversification

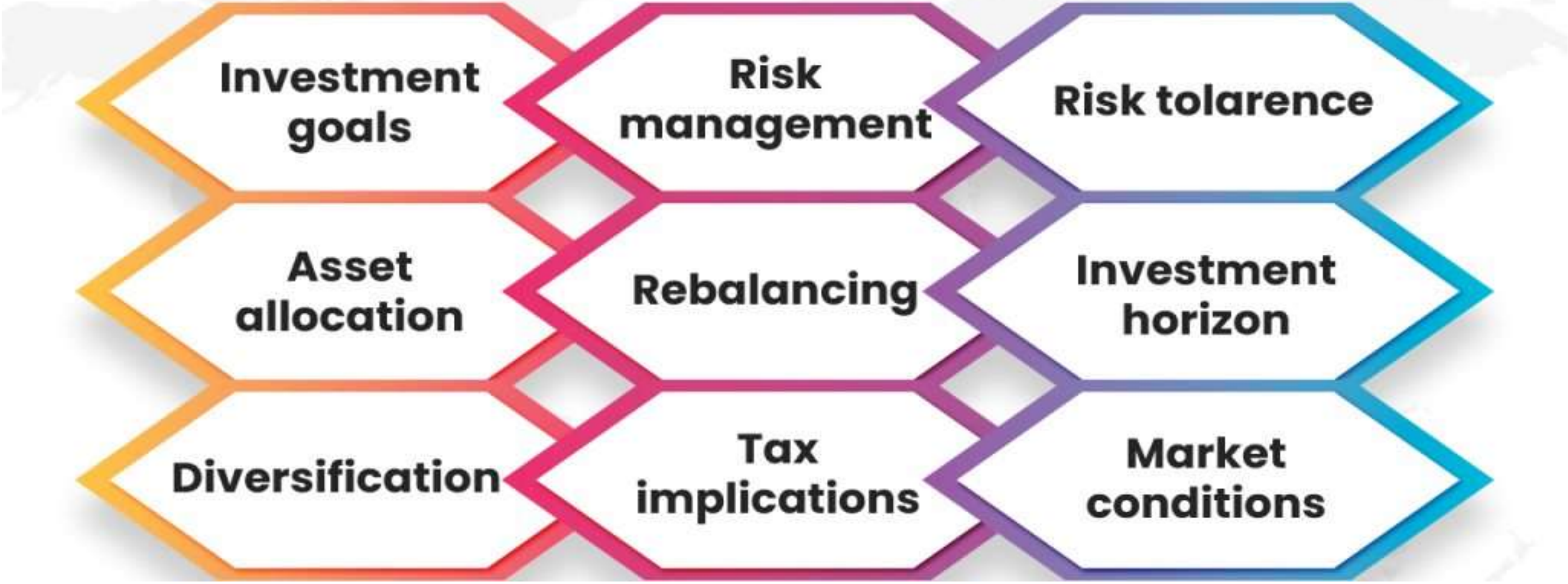
FasterCapital

03 Sector Diversification

04 Investment Styles and Strategies

05 Rebalancing

Important factors for portfolio management



Thank You

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