



#03-04-2020

Financial Lessons from Corona Virus

Hope this note finds you and your family in great health.

In addition to the loss of human life, we all are witness to massive destruction of wealth across the globe due to the pandemic Corona Virus. No one saw it coming till it was too late - no governments, no fund managers, no consultants, no advisors, no investors... practically no one. Not even the World Health Organisation. The nature and speed of global and domestic recovery can be debated but one thing is certain, Equity markets will spot green shoots very early and will be amongst the first to recover.

This market mayhem has left us to revisit few financial lessons which we all had learned in the past but perhaps failed to practice in real lives.

1. Create an Emergency Fund

What can be defined as an Emergency Corpus?

This is your reserve fuel which should help tide during emergency situations, just like we are in at the moment. The emergency corpus calculation should include EMIs, Household expenses and tuition fees for six to eight months. The emergency corpus will allow us to focus on other important aspects of life instead of worrying to run the household.

2. Medical Emergency fund

There must be a provision for a medical emergency fund. Though some of us could have a Medclaim insurance cover (Health Cover), it is prudent to keep aside certain corpus for emergencies.

Here could be some few simple reasons for keeping aside a medical corpus:

- What if your Health cover is due for renewal and you forget to renew it on time?
- You were dependent on your employer for Health cover. You recently switched jobs and your new employer does not provide Health cover for employees. You didn't bother to check the fine print while signing employment contract to realise you do not have a medical cover
- For some unfortunate reason, a large portion of the available cover was required to be used for a family member resulting in reduced Sum Insured for remaining members.



3. Term Insurance Cover

Term Insurance provides protection and financial stability to your loved ones in case of unforeseen events such as death or terminal illness. This is the cheapest cover insurance available with all Life Insurance companies.

4. Goal Based Investments

Refrain from making fresh investments before completing a goal planning exercise. Investments without goals tend to be redeemed or withdrawn for immediate gratification – buying a phone, going for short vacations etc. There is no harm in purchasing a new phone or taking short breaks but it's important to use funds that are only set aside for miscellaneous spends. Else, by the time we are closer to retirement age, there won't be any money left to fund our lifestyle and this may lead to financial distress.

5. Asset Allocation

There are investors and advisors who feel there is no Asset class like Equity which can deliver superior returns in the long term and also beat inflation. Whereas, many others feel there is no better safety than a Bank Fixed Deposit.

Equity as you know can be very volatile in short term whereas Fixed Deposits are not an efficient medium to build long term wealth if you consider associated Tax and Inflation.

A prudent way of investing is to own asset classes in moderation. The Risk-Reward ratio of Equity along with safety of Fixed Deposits are both essential ingredients of every portfolio. The proportion can change basis risk assessment and age profile of each investor.

6. Creating a Will

Writing a will is one of the most important things you can do for yourself and for your loved ones, and it can be done in just minutes. A will primarily lets you direct how your belongings—such as bank balances, property, or prized possessions—should be distributed.

There are many portals which help you can make your own Will. We suggest you choose a professional help to prepare a will and register it at your nearest registrar office.

From the business stand point, there are important lessons for us at 'Naik Financials' to learn from the Equity Market correction and current Lockdown. To start with, we will put the learnings mentioned above into action for our 100 plus families and businesses we have established relationship over last 2 years.

At Naik Financials, we look forward to meet you after the lockdown is lifted. Till then, we collectively pray for early and healthy recovery of humanity from the dreadful disease.

Be Safe and Healthy. Remain Indoors for safety of your and your Loved Ones.