

Case Study: Self Employed Professional

Name: Dr. Asmita Shinde (42 years)

Spouse: Prof. Gururaj Gokhale (45 years)

Son: Vidhan (18 years)

Existing assets

- Equity mutual funds: Rs. 3 lakh
- Equity stocks: Rs. 32 lakh (Rs. 29 lakh of this in three stocks Reliance Industries Ltd, HDFC Ltd and L&T)
- PPF: Rs. 8 lakh
- Fixed Deposits: Rs. 13 lakh
- Insurance policies surrender value (cover)
 - Endowment: Dr. Asmita - Rs. 12 lakh (Rs. 22 lakh)
 - ULIP: Dr Asmita - Rs. 6 lakh (Rs. 20 lakh)
 - Term: Prof. Gokhale - Nil (Rs. 50 lakh)
- Clinic run by Dr. Asmita: Rs. 20 lakh for property and Rs. 12 lakh for equipment at cost
- Own home worth Rs. 1.2 Cr with no loan against it.

Milestones

- Dr. Asmita is keen to join hands with few other doctors and offer a holistic diagnostic clinic to patients. She has thought about a plan which requires her to leave her current clinic and relocate her practice to a larger center. She may also have to contribute in terms of initial set up cost to the tune of Rs. 8 lakh
- Both Dr Asmita and Prof Gokhale have been thinking about creating an education trust for sponsoring education of bright students in need. They have necessary approvals to create such a trust. They are thinking of allocating Rs. 5 lakh to this trust to start with and then add Rs. 2 lakh every year to the trust's corpus. They are thinking that the money for the trust can be managed such that 8-10% returns can be generated for the scholarships every year.
- Dr Asmita and Prof Gokhale are looking to plan for their retirement. They are thinking of keeping building a total corpus of Rs. 1.5 Cr in next 10 years (including current assets) after paying for their son's higher education – budgeted at Rs. 30 lakh in 3 years. They

are expecting this to be sufficient for generating Rs. 1 lakh of income per month post retirement (in the retirement year's rupees)

Portfolio view: observations and recommendations

- The equity portfolio is highly concentrated. The downside risk of such a portfolio is quite high. Also the decision to stick to the portfolio is likely to be driven by inertia rather than specific analysis. It is recommended that the family should build a more diversified portfolio of at least 10 stocks if they are planning to monitor it actively and 4-5 mutual funds if their management is unlikely to be very active.
- The overall portfolio allocation is as follows
 - Debt: Rs. 43 lakh
 - Equity: Rs. 41 lakh
 - Real estate: Rs. 20 lakh

This allocation is in line with the family's risk taking ability. They can consider diversifying away from debt and equity into alternate assets such as managed futures, gold and private equity. The allocation of such assets can be Rs. 20 in total – drawing Rs. 10 lakh each from current debt and equity allocation.

- They can also consider holding some of their equity holdings in the form of structured products – up to Rs. 15 lakh. This will ensure protection against drastic fall in equity markets in next 2-3 years.
- The fixed deposits can be moved into more tax efficient instruments such as fixed maturity plans and long tenor bonds such as those issued by NABARD and PSU banks.

Risk management

- Dr Asmita should think through the general insurance cover required for her clinic if she decides to continue using it. Else, she should urge her colleagues in the new center to take comprehensive cover for the property and equipment in the clinic
- Dr Asmita should consider taking professional indemnity cover to protect from financial losses arising out of her work (e.g. liabilities from a patient suing her)
- The life insurance cover that both Dr Asmita and Prof Gokhale have is sufficient; especially considering their present stock of liquid assets.
- The entire family should be covered with general medical insurance and critical illness insurance.
- Dr Asmita should consider the risk to her income arising out of the shift into the new center. She can postpone renting out the present clinic premises for a period of 3 months to make sure she is prepared for reversing her decision if need be.

Milestones

- The family has sufficient funds for meeting all the milestones. They should however carefully create asset pools for each milestone. The planned educational trust would already account for one such pool. Besides, they should create a separate asset pool for their retirement corpus and for their son's higher education.

The retirement corpus planned should incorporate the impact of inflation in post retirement years on the corpus requirement. For a monthly income of Rs. 1 lakh after retirement they should have a corpus generating Rs. 1.5 lakh of which Rs. 50,000 can be reinvested in the corpus to provide for inflation in later years.