Saving Vs. Investing

IFE Academy
Education Simplified

INVESTORS FINANCIAL EDUCATION ACADEMY

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Kotak Assured Savings Plan
A Life Insurance Plan

kotak life

Guarantee* a secure tomorrow, today

Key Features

- 10% [1]Guaranteed* Yearly Additions will accrue at the end of the policy year till the end of PPT and will be paid out on Maturity or death
- 20% [2]Guaranteed* Loyalty Addition of Basic Sum Assured on Maturity
- Increasing Life cover
- Convenient shorter payment term

Timeline of your Benefits

Premium: ₹30,000[1] for 10 years — 10th year

Accrued [1]Guaranteed* Yearly Additions of ₹1,65,000 in 10 years

Total Maturity Benefit of ₹6,01,820 — 20th year

You Pay

₹30,000 for 10 years i.e. ₹3,00,000

You May Get

Guaranteed* Maturity Benefit at 20th year

₹6,01,820

BEWARE OF SPURIOUS / FRAUD PHONE CALLS
IRDAI is not involved in activities like selling insurance policies, announcing bonus or investment of premiums. Public receiving such phone calls are requested to lodge a police complaint.

Kotak Assured Savings Plan - UIN: 107N081V01, Form No. - N081, Ref. No.: KLI/18-19/E-W/066.
This is a savings cum protection oriented non-participating endowment assurance plan.
*Guaranteed benefits due under this plan are available provided all premiums are paid regularly for the entire premium payment term and the policy is in force.
[1]The above annual premium figures are exclusive of Goods and Services Tax and Cess. Goods and Services Tax and Cess thereon shall be charged as per the prevalent tax laws over and above the said premiums. Above example is for ₹30,000 p.a. premium, ₹364,017 basic sum assured, 10 year PPT & 20 year policy term for a 35 year old healthy male. [2]The above figures are for 10 year PPT where [1]Guaranteed Yearly Addition rate is 10% & [2]Guaranteed Loyalty Addition is 20%. If you opt for 5 years, 6 years or 7 years of PPT, the [1]Guaranteed Yearly Addition % will be 7%, 8% & 9% respectively and [2]Guaranteed Loyalty Addition % will be 10%, 12% & 14% resp. [1]Guaranteed Yearly Addition is a percentage of cumulative annual premium and will be paid out on maturity or death and [2]Guaranteed Loyalty addition is a percentage of the Basic Sum Assured and will be paid out on maturity. Annual Premium = Installment Premium (exclusive of Goods and Services tax and Cess) divided by Modal Factor. For sub-standard lives, extra premium may be charged based on Kotak Life Insurance's underwriting policy. For more details on risk factors, terms and conditions, please read sales brochure carefully before concluding a sale.

Kotak Mahindra Life Insurance Company Ltd. (Formerly known as Kotak Mahindra Old Mutual Life Insurance Ltd.); Regn. No.: 107, CIN: U66030MH2000PLC128503, Regd. Office: 2nd Floor, Plot # C- 12, G- Block, BKC, Bandra (E), Mumbai – 400 051. Website: http://insurance.kotak.com I Email:clientservicedesk@kotak.com I Toll Free No. – 1800 209 8800

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Contents

Basics of Investing

Saving versus investing

Saving for the deposit on a new car or next year's holiday is different from investing to achieve a long-term goal, such as building up a retirement pot or saving for Child's Overseas Education. Saving generally involves putting money into a bank or a bond that is relatively safe and pays a fixed, although typically low rate of interest. However, a savings plan may not earn you wealth enhancing returns over the long term and taking into account the impact of inflation, the real purchasing power of your money will likely decline. Investing, on the other hand, can help you to both create and preserve your wealth. By taking an appropriate level of risk you may have the opportunity to earn potentially higher long-term return. It is important to remember that the value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Getting started - discipline and planning the key

Becoming a successful investor requires both planning and discipline.

Planning means thinking carefully about everything you need to consider when developing your investment plan, including:

1. **Defining your goals and your investment time frame.**
2. **Understanding asset allocation.**
3. **Looking after your investments over time.**

Discipline means keeping market movements into perspective, recognising the potential impact of risk and regularly rebalancing your portfolio. It is also important to live within your means and decide how much you will set aside for investing before you start to develop your plan.

Define your goals and investment time frame

Work out what you want to achieve from your investments and define your investment time frame.

Your investment time frame provides a framework for deciding which investments to choose. People have different goals at different stages of their lives. For example, if you are retired, you may simply want to maximise the amount of income you receive. Whereas, your longer-term focus might be building financial security for you and your family. Whatever your goals and your time frame for investing, it is important to be realistic about what you can afford to invest and how best to manage your investments. If you are unsure of what type of investments may suit you, you might find it helpful to seek the advice of a qualified financial advisor.

Invest for the long term

The old saying 'time is money' sums up precisely why it's so important to invest for the long term.

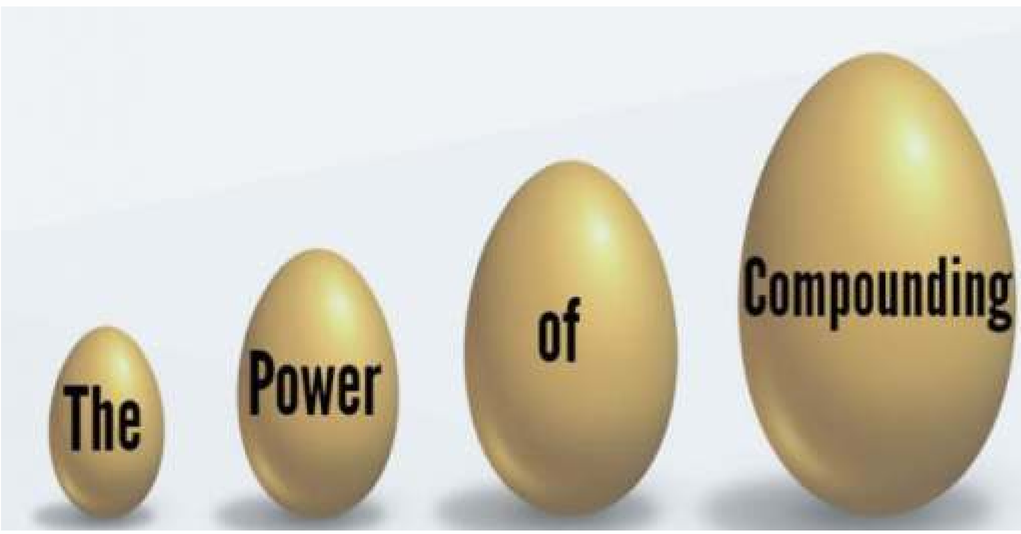
Your financial goals may include launching a business, leaving a legacy for your heirs. Whatever they may be, one of the best ways for you to reach them is to invest over a long period of time. That's because the effects of compounding the returns you receive from your investments over time can be significant. In fact, compounding is the engine that powers long-term investment returns. It happens as you reinvest your returns, then reinvest the returns on those returns, and so on.

Compounding

Where interest is paid on both the initial investment and any interest reinvested during the period. Over time, compounding has the potential to increase gains significantly

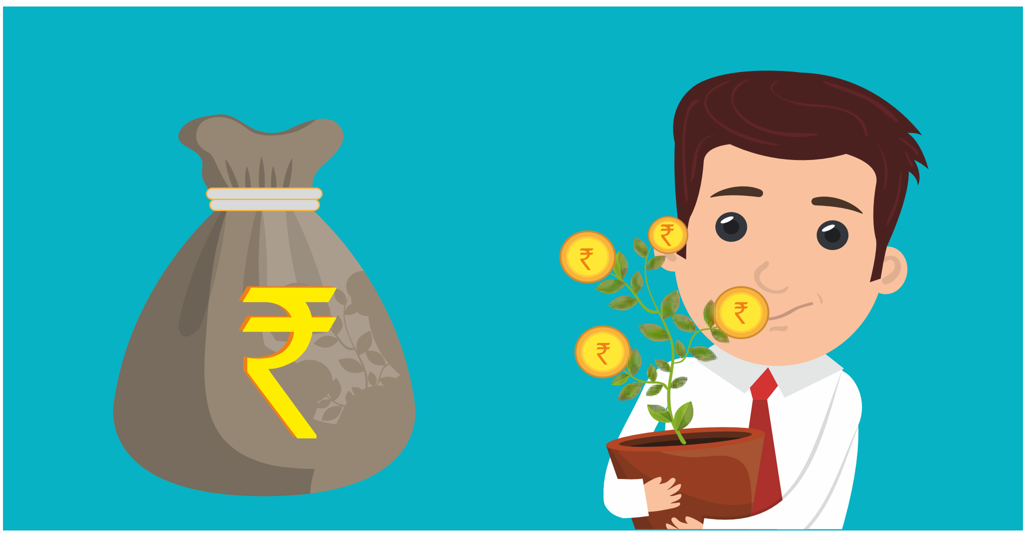
Decide if you need income, growth or both

Investments are divided into income assets and growth assets. One of the key investment decisions you need to make during the planning stage is whether you require income, growth or a bit of both from your investments.



Growth assets

These are designed to provide most of their returns in the form of capital growth over time. Growth assets include equities and property investments. Over the longer term, these assets can help to protect against inflation. Therefore, investors with a longer investment time frame tend to invest in a higher proportion of growth assets. Growth assets tend to have more volatile return over the shorter term, but they have the potential to produce higher return over the longer term.



Income assets

These primarily provide returns in the form of income and include cash investments, bonds and certain equities. Income assets tend to provide more stable, but lower returns. If your primary need is regular income, you may benefit from holding a higher proportion of income assets. Having decided whether you require more income or more growth from your investments, you can develop your investment plan.

Tax Minimization to be kept in mind

An investor may pursue certain investments in order to adopt tax minimization as part of his or her investment strategy. A highly-paid executive, for example, may want to seek investments with favorable tax treatment in order to lessen his or her overall income tax burden.

Understand the Risks

A number of specific risks can affect your investments. As part of developing your investment plan you should understand the potential risks.

One of the ways to define risk is the likelihood that an investment's actual return will differ from expectations.

Country risk : The risk that domestic events – such as political upheaval, financial troubles, or natural disasters – will weaken a country's financial markets.

Currency risk : The risk that changes in currency exchange rates cause the value of an investment to decline.

Inflation risk : Inflation is a measure of the rate of increase in general prices for goods and services. The risk that inflation poses is that it can erode the value or purchasing power of your investments.

Liquidity risk : The chance that an investment may be difficult to buy or sell.

Market risk : There are risks associated with the majority of asset classes. This is what professionals call market risk. Market risk is the risk that investment returns will fluctuate across the market in which you are invested.

Short fall risk : Short fall risk is a possibility that your portfolio will fail to meet your longer-term financial goals.

Market correction : A temporary downward movement in an otherwise healthy equity or bond market.

Diversify to minimise risk

Spreading your money across a range of investments is one of the best ways to reduce risk and protect against sudden fall in any particular market, sector, or individual investment.

With a diversified portfolio of investments, returns from better performing investments can help offset those that under perform. Diversification alone does not ensure you will make a profit, nor protect you fully against losses in a declining market. But it can reduce the risk of experiencing a serious loss of wealth as the result of being over-committed to a single investment.

With your financial advisor's help, you can spread your potential risk by investing in a mix of investments. That way, when some investments are under performing, other investments can carry the load and help to even out the ups and downs in your portfolio.

Asset Allocation

The next step in understanding the fundamentals of investing is to examine the process of spreading your money across the different types of investments in order to meet your investment objectives.

Understand asset allocation

Asset allocation is one of the key ingredients of a successful investment strategy. With an understanding of your investment goals, time frame and risk, you can work with your financial advisor to begin to create an asset allocation for your portfolio. Asset allocation simply means deciding how to spread your money across the different asset classes (including equities, bonds, property and cash) and how much you want to hold in each. It also means selecting a mix of asset classes that reflects your investment objectives, time frame and attitude to risk.

Asset class : Equity

Key characteristics : Potential for capital growth, and may offer income through the payment of dividends.

Potentially suitable for : Medium-to-longterm investors (five years plus).

Asset class : Bonds

Key characteristics : Can provide a steady and reliable income stream with potential for capital growth and usually offers a higher interest rate, or yield, than cash. Includes government bonds (gilts) and company loans (corporate bonds).

Potentially suitable for : Short, medium or long-term investors

Asset class : Property

Key characteristics : Provides the benefits of diversification through access to properties in retail, office, industrial, tourism and infrastructure sectors.

Potentially suitable for : Medium-to-longterm investors (five years plus).

Asset class : Cash

Key characteristics : May be suitable for short-term needs, such as an impending down payment on a new home. Usually includes higher interest paying securities, as well as bank accounts or term deposits (a cash deposit at a financial institution that has a fixed term).

Potentially suitable for: Short-term investors (up to three years).

Equity

Equity, also sometimes called stocks or shares, represent ownership in a company. This ownership gives you the right to share in that company's future financial performance.

Of the major asset types equities, bonds, property and cash, history has shown that equities have the highest potential to deliver strong return over the long-term. That's why many people who invest for the long run make equities the biggest portion of their portfolios. But remember that equities can be volatile. When a company is doing well, it may decide to pay out some of its profits by distributing dividends to shareholders. Or it might reinvest those profits in the business in the hope of increasing future sales – which, in turn, may increase the value of your shares. But if the company runs into trouble, the value of your holding could drop or even be wiped out. It is important to remember that the value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Dividend: A dividend is a payment made by a company to its shareholders. The level of dividend payments is determined by both the company's earnings and its management strategy.

Bonds

A bond is a loan made to the bond's issuer, which could be a company, a government, or some other institution.

Bonds can be useful in a portfolio as they provide income, typically paid once a year. Bonds are issued for a set period and when that period expires – in other words, when the bond reaches its maturity – the issuer will, repay the face value of the bond. You may include bonds in your portfolio to help offset some of the volatility of equities, since bond and equity prices often move in opposite directions. But even when they don't, movements in bond prices tend to be less volatile than those of equities. And the regular interest payments that bonds generate can be reassuring when equity prices fall.

Fixed interest investments : As bonds typically offer regular payments of a fixed amount of interest, they are sometimes called fixed interest investments.

Types of bonds

Bonds are issued by a variety of institutions. Government bonds, also called GILTS, are generally assumed to have a zero risk of default as they are backed by the government. The interest rate paid (or 'coupon') is therefore relatively low. Companies also issue bonds (called corporate bonds). These provide credit to help finance a variety of operations, as an alternative to issuing shares or borrowing from a bank. As you would expect, corporate bonds tend to be safer when issued by reputable companies and riskier when issued by weak companies. Typically, financially stronger companies issue bonds that pay less interest than those offered by financially weaker companies. For example, a start-up biotechnology firm might issue a five-year bond which pays a high rate of interest because it is deemed to be more risky. It has to pay this rate of interest in order to persuade investors to take on the higher risk involved. However, a large stable company making solid long-term profits might pay a substantially lower rate of interest because it is perceived as being relatively safe. Credit rating agencies, such as CRISIL, ICRA, FITCH rate bond issuers according to their credit worthiness, in the same way that individuals are given a credit score by banks. These ratings can be a useful starting point for understanding the credit worthiness of a bond.

Property

For most people, their major investment in property will be owning their own home.

As home ownership represents a significant proportion of an investors' wealth, many people will decide that this gives them a high enough proportion of property in their portfolio. However, for investors who want to increase their exposure to property, it is possible to diversify into commercial property. This can be done through specialist property funds which are run by professional managers (in the same way as equity or bond funds).

These funds may invest in a variety of different types of property, such as office space, retail outlets or industrial property. These funds earn returns from both rents on the property they own and potential gains in the value of that property.

Cash Investments

Cash Investments includes cash holdings in bank accounts, as well as investments in money market funds.

The most common types of cash investments are bank saving accounts and money market funds. These offer liquidity – the ability to withdraw cash fairly easily. While cash investments tend to be the least volatile of the major asset classes, historically they tend to provide the lowest returns. That's why they are often used as places to keep emergency funds, and to save for short-term objectives such as down payment for car and home purchases.

Looking after your investments

A number of factors influence your portfolio and choices of investments over time. It's worth considering the nature of markets and how to adjust your portfolio over time, if it should become necessary.

Keep market movements in perspective

Whatever assets you invest in, the value of these will rise and fall over time. The assets you invest in will rise and fall over time as markets are affected by economic, social and political events. But always remember that it's in the nature of markets to fluctuate, sometimes quite dramatically. It's often impossible to explain market movements until long after the dust has settled. In other words, it is important not to lose sight of your investment objective and speak to your financial advisor before deciding to change your investment approach based on today's headlines and market moods.

You should remember the old adage that 'it's time in the market, not timing the market' that counts. Timing the markets for the best time to invest – buying and selling tactically for profit – is far easier said than done. Trying to pick the top and the bottom of the market is not easy. It's hard to sell when everyone is buying. If you sell out at the bottom (which many investors do) you risk being out of the market when it rallies. Even professional fund managers find it difficult to consistently time the markets.

Review and rebalance

You may decide to review your portfolio, for example if your personal situation has changed, or market conditions have altered. If you do not review and adjust your portfolio in light of changing circumstances, you risk not achieving your investment goals. During your review, you may decide to rebalance your portfolio – that is, change the proportion of assets you hold. This will involve selling some investments and buying others. When you rebalance, you need to think carefully about the costs and tax implications. In most cases, such as buying equities or bonds, you will have brokerage costs – and with some pooled funds you may be asked to pay an initial charge or an exit charge. You may also have a capital gains tax liability if a sale of assets means you go above your annual allowance. Your financial advisor can work with you to determine the best way to rebalance your portfolio

Three ways to rebalance

If you need to make changes, you could consider rebalancing in three ways:

1. **Reinvest dividends:** Direct dividends and/or capital gains from the asset sector that has exceeded its target into one that has fallen short.
2. **Top up.** Add money to the asset sector that has fallen below its target percentage.
3. **Transfer.** Move funds between asset classes. Shift money out of the asset sector that has exceeded its allocation target into the other investments.

What next?

You can use your understanding of investing to work with your financial advisor to develop your investment plan.

Remember that investing successfully is about knowing what you want, understanding your time frame for investing and your attitude to risk, and then making a plan to help you achieve your objectives. You should review your plan regularly and rebalance your investment portfolio when necessary

Finally, always keep an eye on costs. The power of compounding means that you could end up with a much bigger pot of money over the longer term. Talk to your advisor about this.

Kotak Premier MoneyBack Plan
A Saving cum Insurance Plan

kotak life

Many Dreams, One Premier Solution

Key Features

- **Premier Payment Benefit - Pay for only Half the Term[3]**
- **Premier Protection Benefit - Additional benefit of Basic Sum Assured on Accidental Death**
- **Premier Payout Benefit - Guaranteed* payout will range from 110% to 130% of Sum Assured**

Timeline of your Benefits

Premium: ₹40,000[2] p.a. for 10 years

5th year | 10th year | 15th year | 20th year

Payouts → ₹66,362 | ₹66,362 | ₹66,362 | @4[5]% p.a. ₹2,81,044 @8[5]% p.a. ₹5,38,862

Balance SA + Guaranteed* maturity additions + Accrued Reversionary Bonus^ + Terminal Bonus^ (if any)

You Pay

₹40,000[2] p.a. for 10 years i.e. ₹4,00,000

You May Get

Guaranteed* Payout at 5th, 10th & 15th year ₹66,362 + **Total Maturity Payout on 20th year @4[5]% p.a. ₹2,81,044 @8[5]% p.a. ₹5,38,862** = **Total Payout[1] @4[5]% p.a. ₹4,80,130 @8[5]% p.a. ₹7,37,948**

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Kotak Premier Moneyback Plan UIN: 107N083V01, Form No: N083, Ref. No.: KLI/18-19/E-W/061.

This is a participating anticipated endowment plan. [1]The above illustration is for a 35 year old healthy male. Policy Term 20 years & Premium Payment Term of 10 years and Sum Assured chosen is ₹3,31,812. [2]The Above premium figures are exclusive of Goods and Services Tax and cess. Goods and Services Tax and Cess thereon, shall be charged as per the prevalent tax laws over and above the said premiums. For substandard lives, extra premium may be charged based on Kotak Life Insurance underwriting policy. [3]Premium Paying Term & Plan Term Options: 8 years for 16 year term, 10 years for 20 year term and12 years for 24 year term. [4]Total guaranteed payouts (for inforce policies) over the term of the policy will be 110% of Sum Assured, 120% of & Sum Assured & 130% of Sum Assured for policy terms of 16yrs, 20yrs & 24yrs respectively. [5]The assumed non-guaranteed rates of return chosen in the illustration are 4% p.a. and 8% p.a. These assumed rates of return are not guaranteed and they are not the upper or lower limits of what you might get back as the value of your policy is dependent on a number of factors including future investment performance. The actual experience may be different from the illustrated. ^Please note that Bonuses are NOT guaranteed and may be as declared by the Company from time to time. Benefits under this plan are dependent upon the performance of participating funds. Tax benefits are subject to conditions specified under section 10(10D) and section 80C of the Income Tax Act, 1961. Tax laws are subject to amendments from time to time. Customer is advised to take an independent view from tax consultant.

*The benefits are Guaranteed only if policy is in force and all premiums are paid. For more details on risk factors, terms and conditions please read the sales brochure carefully before concluding a sale.

Kotak Mahindra Life Insurance Company Ltd. (Formerly known as Kotak Mahindra Old Mutual Life Insurance Ltd.); Regn. No.: 107, CIN: U66030MH2000PLC128503, Regd. Office: 2nd Floor, Plot # C- 12, G- Block, BKC, Bandra (E), Mumbai - 400 051. Website: http://insurance.kotak.com | Email:clientservicedesk@kotak.com | Toll Free No. – 1800 209 8800

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About IFE Academy

IFE Academy was established in 2011 as a Not-for-Profit entity to promote Financial Education. IFE Academy conducts Investor Awareness Programs across the country with the support of other market participants. www.ifea.in is a comprehensive website on Financial Education. It has various sections such as Videos, Puzzles & Games, Financial Calculators and Library. It gives a holistic view on financial education combining various aspects such as Savings, Investments, Credit, Insurance and Pension at a single place. IFE Academy periodically publishes Investor Educational materials and distributes it to general public.

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