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A Study On Life Cycle Financial Planning

EXECUTIVE SUMMARY

Life Cycle Financial Planning is the growing trend in the present scenario and it needs to be properly supported with educating the investor community which is not much aware of Life Cycle Financial Planning as it of other forms of investment pattern.

Objectives:
1. To study the concept of Life Cycle Financial Planning.
2. Providing meaning and direction to an individual’s financial decisions.
3. To allow individuals to understand how each financial decision affects other areas of their finance
4. Allowing individual to adapt more easily to life change and to feel more secured.
5. To study the risk involved in Life Cycle Financial Planning.
6. To study the performance of various schemes.
Research Design

Title of the Project

A sample design is a definite plan for obtaining a sample from a given population. It refers to the procedure the researches would adopt in selection of item for the sample.

SAMPLE UNIT:
1. Doctors
2. Service sector
3. House wives
4. Businessmen
5. Defense
6. Lectures
7. Lawyers

SAMPLE SIZE: A sample size of 175 respondents was taken to carry out the research.

TOOLS USED FOR ANALYSIS:
1. Graphical Representation of Analysis through SPSS.
2. Pie chart

DATA COLLECTION APPROACH:
Primary data has been used to carry out the research successfully. The secondary data has been collected from various journals and publications. For the purpose of gathering primary data a structure and non-disguised questionnaire was designed to collect data from the investor. The questionnaire contains both open-ended and close-ended questions.
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Method of Communication:

In order to minimize the bias in data collection, the method of personal interview was adopted.

THE SOURCES OF THE DATA ARE AS FOLLOWS

The study relies to a great extent on primary data and to some extent on secondary data:

PRIMARY DATA:
- Questionnaire
- Observation and interview technique

SECONDARY DATA:
- Information is collected through website
- From various text book.

LIMITATION OF THE STUDY:
- Due to time constraint it is not possible to cover entire area of Belgaum city.
- The study of project is limited to only Belgaum city.
- Some of the respondents are reluctant to give information regarding their investments.
- The study is based on a sample size and hence the findings cannot be generalize.
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COMPANY PROFILE

Foundation of Midas Touch Capital Advisors

Founded in 2004 by chartered Accountants Shishir A and Sundar S. They are the First generation entrepreneurs and are the principal promoters of Midas Touch Capital Advisors. A dedicated and efficient team of seniors managers assists of Mr. Sundar S of the company.

About Midas touch Capital Advisors

Midas touch capital Advisors is one of the leading commodity and Financial Futures Stock research with a strong and established market reputation spanning over 5 years. Midas Touch Capital Advisors Pvt ltd; is a leading stock research organization promoted and managed by professionals having exceptional knowledge of Capital Markets. We Recognize in our operating philosophy that the key of our business is service, which will result in total satisfaction of our clients.

Midas Touch Capital Advisors Pvt. Ltd is a full service Equity research house providing value-based advisory services to institution (Domestic) high net Worth and retail investors with its core area of operation being stock broking. We have considerable Strength and domain knowledge in the booming derivatives market Midas Touch capital Advisors Pvt Ltd has achieved a reputation for its innovation and unbiased research along with excellent technical analysis and execution capabilities.
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Track Record

In Short time span we have achieved substantial success in its core business activity. We owe our success to our unique business building strategy plan, components of which are:

- A Differential Positioning
- Selective Geographic Spread
- Flexible and lean operating structure
- High quality People

Why Midas Touch Capital Advisors Pvt.Ltd

Our services are offered under total confidentiality and integrity with the sole purpose of maximizing returns for our clients.

1. Current news and views, analysis, trends during market hours, Daily newsletter and its implications on events affecting the economy and stock markets. Long term investments Avenues, trading strategy on index on specific companies and risk averse investment through derivative product mix.
2. Derivatives: trading strategies in future and options; straddle calls to minimize risks and maximize returns.
3. Online trading and depository services, to cater our retail clients, are on the anvil and should commence shortly
4. Research: An integrated system of research approach is to constantly look out for value in the marketplace based on intrinsic worth of the company/industry with necessary skills to analyze market indices and stocks from technical prospective to feed our army of retail clients
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Objectives

1. Good Services
2. Proper guidance to investors
3. Maximize its returns

Midas Touch Capital Advisors Trading in

- NSE
- BSE
- Derivatives
- Mutual Fund
- Demat services

Midas Touch Capital Advisors Pvt.Ltd provides following activities

1. Stock Research:
   Midas Touch Capital Advisors Pvt. Ltd. does fundamental and technical research in Equities to provide capital advisory to their esteem clients and also provides suggestions and advice to maintain their clients portfolio in equities so that the clients are benefited by the growth of their fund value for their investment in equities.
   Midas Touch Capital Advisors Pvt. Ltd provide their services in DNA money of “Financial Daily Newspaper” of Zee Group giving a technical charts break outs every day for intraday traders

2. Mid-Cap Monitor
   Every Monday one article by name Mid-Cap monitor which gives every detail about the company including financial markets capital, book value, share holding pattern, quarterly profits, EPS etc., and future plans of the company which gives
the preview to the investors about growth of the company so that they add this particular script in their portfolio and grow their funds. Midas Touch Capital Advisors has a tie up with Master Marts Capital Ltd, a broking company which provides depository services of NSDL and CDSL, share trading services of BSE and NSE to their clients.
Introduction to Life Cycle Financial Planning

Brief introduction about Financial planning

One of the important function of every individual, group of members, or a family, any financial manager is that of planning. Financial planning is the process of deciding in advance the course of action to be taken relating to the future in respect of financial operations. It refers to the statement of estimated capital requirements.

Financial planning is not only concern of only new business enterprise, but it is also concerned with how to lead comfortable life. There are 2 concepts of Financial Planning

1. Narrow concept
2. Broader Concept

Narrow concept

According to narrow concept, financial planning relates to total quantity of funds required for a proposed business. In other words financial planning is nothing but capital structure.

The narrow concept of financial planning reflects the capitalization aspects and neglects proper study of financial problems of a concern. It also states financial planning is estimation of funds requirements and its composition

Narrow financial planning involves-
1. Estimation of financial requirement.
2. It reflects capitalization aspects. Therefore no destination is made between financial planning and capitalization.
3. It determines the composition of the capital that is proportion of each security to the capital raised.
4. It neglects totally capital structure planning. That is debt equity mix choice of source of capital, cost of financing, allocation of funds and such other financial problems.

**Broader concept**

According to broader concept financial planning refers to the process of planning in advance, the quantum of capital required how and by what it is to be collected, allocation of funds on different kinds of assets acquired and proportion in which different securities are to be issued.

Broader financial planning involves-

1. The determination of capital requirements of a firm.
2. The determination of source of finance, debt-equity mix allocation of funds on fixed and current assets and the ratio in which different securities are to be issued.
Objectives of Financial Planning

1. **To ensure timely supply of adequate fund**
   The basic objective of financial plan is to determine in advance the probable quantity of funds required and to take necessary steps to procure the same. Financial planning helps in estimating the financial requirements of a firm and also in selecting a right source of finance to realize the wealth-maximization objective. Unless care is taken to estimate the financial requirements of a firm and decision with regard to the pattern of financing well in advance, promotion of new firm would be difficult. Even an existing firm may fall to achieve its pre-determined goals. If no estimation are made in advance with regard to financial operations.

2. **To ensure effective utilization of available funds.**
   Financial planning ensures timely supply of adequate funds. Accurate forecasting of financial requirements eliminates the possibilities of under-capitalization or over-capitalization. Financial planning specifies the result expected to be achieved by the use of funds. Proper planning helps in overcoming the limitations of excess or deficit financing.

3. **To minimize the cost of raising funds**
   Financial planning is not only concerned with estimation of financial requirements of affirm and pattern of financing but also selection of most economical capital. An effective financial plan aims at obtaining adequate quantity of funds at a lowest possible cost.

4. **To maximize return on investment by procuring the funds economically and utilizing them to the optimum point.**
   Wealth maximization objective of financial management can be realized only when the return on investment maximized. The return on investment can be increased,
among things, by minimizing the cost of financing the investment project. Financial planning helps in maximizing the return on investment by ensuring timely the supply of adequate funds at lowest possible cost.
Steps in Financial Planning

1. **Establishment of objectives**

   The first step in the formulation of financial plan is the determination of financial objectives. Objectives specify the result expected to be achieved. Financial objective of a concern, is to utilize the capital effectively so as to maximize the wealth in the long run. While, long-term objective of an enterprise emphasize an increase in the productivity of the capital in whatever proportion it may be, short-term objectives aim at minimizing the business risks by holding adequate amount of cash so as to make to payments of the bills as and when they fall due. Thus, maximization of profit and maximization of unnecessary business risk involve proper administration of fund flow system.

2. **Establishment of policies**

   Second step in the formulation financial plan is to determine financial policies. Policies act as a guide to thinking. The financial policies provide guidelines for all kinds of activities that deals with the collection, disbursement and administration of funds of a business concern.

   Financial plan have following policies:
   1) Policies relating to type of securities to be issued
   2) Policies relating to the capital –mix.
   3) Policies relating to distribution of income .
   4) Policies relating to maintenance of inventory
   5) Policies relating to granting of credit facilities
   6) Policies relating to the borrowing of money from banks and other financial institution
3. **Forecasting**

An effective financial planning is always based upon some relevant past data and probable future factors. Hence it is required to ascertain possible factors that are likely to influence the financial plan when implemented. Success or otherwise of financial plan depends upon accuracy with which forecasting is done.

4. **Development of procedure**

Procedure describe method or manner in which work is to be done. Financial manager has to develop effective procedure so as to realize financial objective. Well developed financial procedures ensures consistency in the work programme, elimination of waste and inefficiency, maintenance of quality of work and better ordination.

5. **Reviewing financial plan**

The last step in the preparation and implementation of financial plan is that of reviewing of plan which is continuous process. It refers to the processor of evaluation of actual performance and finding out any deviation from original plan. It requires change to be made in respect of short-term objectives, policies, procedure etc., depending upon changing situation, business condition etc. Financial manager has to ascertain progress achieved in the implementation of financial plans and shortcomings if any.
Life Cycle Financial Planning

Life cycle financial planning is based on a simple precept. Life tends to progress along a series of stages and the portfolio of every client's needs must be structured around the constraints and opportunities inherent within each of these stages.

Typically, life cycle financial planning models progress towards a 180-degree turn in terms of financial risk tolerance from young adulthood to retirement, where the balance of aggressive to conservative assets is reserved. This means that clients in their early earnings years have a higher tolerance for financial risk than retirees who are in the distribution, or capital preservation, phase of their financial life cycle.

A Google search on the word life cycle financial planning yields 28.7 million sites that offer templates and techniques for do-it-yourself money management and asset allocation strategies. Among them, life cycle funds that automatically adjust asset allocation over time to manage risk as an investor moves from young adulthood to middle age, to retirement with common goal of first growing and then later preserving principle, life cycle tends to contain a diversified mix of stocks, bonds, and cash.

Life cycle financial planning models can serve as an invaluable guideline for making solid asset allocation decisions. The problem, of course, is that fewer and fewer clients are fitting into the established mold. Some clients are already aware of this; other are expecting that lives will progress down a predictable path. In either case, advisors bring an added dimension to the planning process, where they point out careers, corporations, industries, marriage family life, health and nature often take unexpected turns. The key is to build flexibility and contingencies into the financial plan.
A Study On Life Cycle Financial Planning

People financial need changes throughout their lives while there is typical financial life cycle pattern that applies to most people every family and individual might be faced with Unexpected event at any time that are difficult to predict if and when they might occur and are not planned for in the financial life cycle. There are certain commonalities in a typical financial cycle such as the need to protect your family against risk; accumulate; and distribute your wealth and provide for an orderly transition of your asset. Life style situation will effect client financial situation and requirements at different stages in life style situation include but are not limited to the following:

2. Employment status: Employed, unemployed, facing unemployment.
3. Age
4. Number of Dependent: Children, Spouse, parents, other family members.
5. Economic outlook: interest rates, employment level.
6. Education: education of the family members, tuition needs of children
7. Health status
Objectives of Life Cycle Financial planning

1. **Protection Against Risk**

   The first financial objective is to protect yourself against risk in two ways. The first way is to protect against risk of the unexpected by setting up emergency funds. The second way is to protect against risk by purchasing an adequate mix of insurance that will cover life, disability, health, property and casualty, and automobile.

2. **Provide for a Financial Security**

   The second financial objective is to provide for the financial security of yourself and your family. This may include providing financial security for extended family members, providing partial or full financial needs for education of family members, purchase of home, cars, and other basic needs. The objective is to provide adequate financial security without placing undue stress on your resources to cause financial crisis.

3. **Develop a comfortable standard of living**

   The third objective is to have a comfortable standard of living that goes beyond the financial security provided for in objective #2. You might want to have some of the added benefits of life such as vacations, memberships in clubs, entertainment and relaxation, a second home, additional cars, and time from work to pursue other interests.

4. **Provide for a comfortable retirement**

   The next objective is to provide for a financially independent, comfortable retirement during your later years that will provide the same standard of living that you enjoyed during your working years.
5. **Estate Planning.**

The final financial objective is to provide for an orderly transition and distribution of your assets and wealth. This objective is usually called “estate planning” and should be an important objective Whether you have accumulated a large estate or not.
Personal Financial Management Pyramid

Management Pyramid the financial management pyramid shows the levels that contribute to a well managed and Balanced financial strategy recommended for individuals. The pyramid follows the typical individual’s life cycle, starting with the basic financial requirements at the bottom of the pyramid to establish strength and stability for a healthy financial foundation, and moving up the pyramid to the top where distribution of wealth to one’s chosen beneficiaries is the final financial strategy. Decisions about one level have a strong impact on what is done at each higher level of the pyramid. For example, if you have not established a realistic spending plan, you may have a difficult time when it comes to using credit wisely and not spending more than you earn, which subsequently will have an impact on saving for a down payment and qualifying for a home mortgage. Your financial life becomes more complex as you move up the pyramid. The financial complexities and the changes in your life may require you to re-evaluate your strategies and set new financial goals periodically.
A Study On Life Cycle Financial Planning

Personal Financial Management Pyramid

Wealth Distribution
- 'giving it to your chosen ones'

Wealth Accumulation
- 'giving it to yourself'

Basic Wealth Protection
- 'not giving it to others'

- Estate Planning
  - Building Long Term Wealth: goal setting, retirement planning, investments
  - Building Financial Security: goal setting, savings plan, home ownership, children's education
  - Risk and Tax Management: goal setting, insurance, protection against economic loss, income tax reduction
  - Credit and Debt Management: goal setting, credit use, avoiding credit abuse, debt reduction
  - Cash Management: goal setting, emergency cash reserve, record keeping, spending plans, net worth and income-expense statements
Life cycle planning

By identifying the usual activities that an individual faces progressing through life, the typical portfolio structure and constraints can be developed. For example, an older client will likely have a lower tolerance for risk than a younger client, but these generalities should be avoided and detailed discussions with the client will help to determine the client’s own objectives and considerations. An individual’s own unique circumstances are paramount, and life cycle should only be used as a guideline. Life cycle planning often puts individuals into four or more broad age categories. While different names are used to describe each stage, they generally fall into one of the following categories:

- Early earning period;
- Later earning period;
- Peak earning period; and
- Retirement.

During the first stage, individuals generally have low earnings and high expenses. Many professionals today pursue education until their late 20’s or early 30’s, at which time they begin their careers and earning. Those who pursue less education are usually entering their profession at a relatively low level of earnings. At this time, portfolios tend to be small and more heavily invested for long-term growth. Individuals also tend to have high expenditures during this stage as they establish a first home, purchase a vehicle, pay off student loans, and possibly travel.

The second stage, or later earning period, includes an increase in earnings and is characterized by high expenses as children are raised. The trend toward starting families later means that many individuals will have large expenses later in life, which may reduce the ability to save during this period.
The third stage encompasses the peak earning years prior to retirement. In addition, for many families the expensive child raising years are past, and saving, investing, and debt elimination can be given focus. At this time, a slight reduction in risk and investment time horizon is often prudent, although most experts recommend a significant growth component to the investment portfolio. However, many individuals may have aging parents or university age children to support, so this stage may be marked by both high earnings and high expenses.

At retirement, focus usually shifts to preservation of capital and maintenance of lifestyle. Expenses are expected to be lower during retirement, but discretionary funds for travel and hobbies is often a goal. The importance of a pension plan and RRSP planning become evident during the retirement stage. Since the time horizon is shorter, lower risk assets are desirable. Recently, some planners have pointed out that for many retired investors, the time horizon may still be 20 or 30 years, highlighting the importance of some growth component in the portfolio. Careful financial planning is still necessary for the retirement stage investor. It is in this stage that many retired individuals may decide to gift their assets. Those who have built family businesses or substantial assets may find it more reassuring to gift assets during their lifetime when the process can be controlled, rather than leaving them as part of an estate.
Traditional View

This traditional view of life cycle theory has recently encountered criticism, as the nature of individual life cycles has changed dramatically. First, professionals may spend more than a decade in post-secondary education, dramatically delaying the start of their earning years. These individuals may reach their peak earning years more quickly, but their earnings will have been delayed because of the additional education. The increasing cost of education means large student loans, which inhibit cash flow and reduce the time to amass a suitable asset base.

Technological View

Second, rapid technological advancements have created a shift to life-long learning. For many, there is no longer a measurable end to education. Rather, education is now pursued throughout a career, rather than prior to beginning a career. Some experts believe that an individual’s current career is one of up to seven lifetime careers. This reinforces the role of lifelong learning and fewer peak earning years. At best, there may be several periods of low earning and peak earning throughout a lifetime as the result of career changes.

Life Cycle Expenses

Third, the theory makes assumptions about typical life cycle expenses, particularly a home and the cost of raising children. However, many individuals today are delaying the purchase of a home. A growing number of households are non-traditional households, and not all of these will purchase a home or raise a family. There is also evidence that many younger professionals are forsaking the traditional purchase of a home to build a small business or work outside Canada to reduce their taxation burden.
The 6-Step Approach to Life Cycle Financial Planning

1. Your present situation

The financial planner clarifies the client’s present situation by collecting and assessing all relevant financial information, including: net worth and cash flow statements, insurance policies, tax returns, investment portfolios, pension plans, employee benefit statements etc. The planner will itemize all basic family information - name, age, marital status, employment history, details of the children’s birth dates and other qualitative data.

2. Identify the goals of the data

Essentially this step summarizes where the client is today. An individual’s current situation is a result of the cumulative effects of all of the financial decisions and transactions that have occurred in the past up until the current time.

The financial planner helps identify both financial and personal goals and objectives as well as clarify the client’s financial and personal values and attitudes. These may include providing for children’s education, supporting elderly parents or relieving immediate financial pressures, which would help, maintain the client’s current lifestyle and provide for retirement. These considerations are important in determining the best financial planning strategy. Any goals established should be:

Specific. Otherwise they are not goals, they are merely dreams. “I require $500,000 by my 65th birthday” is an example of a specific goal. “I want to be rich when I retire” is a dream, not a goal.

Measurable. Financial goals are easily measurable since dollars and cents can be counted.

Realistic and attainable. In order for a goal to be achieved, it must be within the realm of reason. To accumulate $1 million by age 65, if one is currently age 64, and has no savings may be attainable by winning a lottery however; this is unrealistic. Conversely,
A Study On Life Cycle Financial Planning

for a 25-year-old to accumulate $1 million by age 65 through saving and investing is probably both attainable and realistic.

**Time bound.** All goals should be time bound in order to track progress towards the goal’s completion and to provide feedback. Corrections should be made in the action plan therefore maximizing the probability of success.

3. **Identify the problem**

   The financial planner identifies financial obstacles to achieving financial independence. Problem areas can include too little or too much insurance coverage, or a high tax burden. The client’s cash flow may be inadequate, or the current investments may not be winning the battle with changing economic times. These possible problem areas must be identified before solutions can be found.

4. **Design the plan**

   The financial planner provides written recommendations and alternative solutions. The length of the recommendations will vary with the complexity of one’s individual situation, but they should always be structured to meet the client’s needs without undue emphasis on purchasing certain investment products.

5. **Implement the plan**

   A financial plan is only helpful if the recommendations are put into action. Implementing the right strategy will help to reach the desired goals and objectives. The financial planner should assist in either actually executing the recommendations, or in coordinating their execution with other knowledgeable professionals.

6. **Periodic review**

   The financial planner provides periodic review and revision of the plan to assure that the goals are achieved. Your financial situation should be re-assessed at least once a year to account for changes in life and current economic conditions.
Further complicating the life-cycle financial-planning process is an increasing trend toward commoditization. Indeed, frequent coverage of life-cycle financial planning in business publications and programs over the past several years has led to the proliferation of models designed to facilitate the process. As a result, many consumers now have widespread access to a bored range of life cycle financial planning tootles.

With a little bit of knowledge and a willingness to input basic income and demographic information, consumers can tap into a range of resources available from the internet and come up with a financial plan that is based on where they are in their life cycle.
Effective Goal Setting of Life Cycle Financial Planning

Without effective goal, your hard work may not produce meaningful result. Hard work puts on the road of success. But to achieve success, you need to effective goals. Well constructed goals are the points on the roadmap where you apply your energy and, in turn, achieve the desired results. Goals motivate and show the right path.

The authors Sushan.B Wilson and Micheal.S.Dobson say that most people who achieve their goals write them down and develop plans to implement them. The authors offers 10 steps to evaluate and write down your goals.

Before following those guidelines you first need two of your goals and write them down. Then, you should complete the following self audit by checking “Nearly Always”, “sometimes”, or rarely for the each statement.

<table>
<thead>
<tr>
<th>Self-Audit for Goal-Setting</th>
<th>Rarely</th>
<th>Nearly Always</th>
<th>Sometimes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. When I set a goal, I write it down</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2. I describe my goal in specific, measurable terms</td>
<td></td>
<td></td>
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<tr>
<td>3. I often visualize my goals</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>4. My goals are achievable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. I set realistic deadlines for completing my goals</td>
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<td></td>
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</tr>
<tr>
<td>6. I break a large goal into manageable units</td>
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<td></td>
<td></td>
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<tr>
<td>7. I look for potential problems that may keep me</td>
<td></td>
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</tbody>
</table>
from reaching my goals.

9. I take action to remove or minimize those potential problems.

9. I review progress toward my goals on a regular basis.

10. I know the personal rewards of reaching my goals.

To Score yourself

- Count the number of times you responded “Nearly Always” and multiply than number by three.
- Multiply the number of times you responded “Sometimes” by two.
- Multiply the number of times you responded “Rarely” by one.
- Add the three for a total score

If you score between 24- 30 you would do an excellent job of setting an effective goals

A score of 18- 23 means that you are on your way of setting an effective goal .The areas that require additional are here your responses are less than “Nearly always” A score of fewer than 18 indicates that you improve your goal setting.
What should Life cycle Financial planning Include

1. A comprehensive financial plan is one that addresses entire financial picture and should include
2. Personal data: Name, Address, Date of Birth and other applicable data
3. Clients goals and objectives: statement of client’s goals and objectives in accordance to their priority and time frame to achieving
4. Identification of issues and problems: Education costs, taxes etc
5. Assumptions: regarding inflation, interest, mortality
6. Balance Sheet/Net worth: Itemized listing of assets and liabilities and net worth
7. Cash flow Management: Statement and analysis comprising client’s sources and uses of funds and net cash flow.
8. Income Tax: statement and analysis comprising income and tax deductions allowed.
10. Investments: Listing of current investment portfolio and analysis of liquidity, diversification and investment risk
11. Retirement planning: capital needed at future time for financial independence on retirement
12. Estate planning: Identification of the assets of the client and analysis of the control, disposition of assets.
Characteristics of sound Life cycle Financial Planning

1. Simplicity

A good financial plan should as simple as possible. It should be easily understandable. It should be free from any confusion. Those who are responsible for implementing the plan should not face any difficulty in executing it.

2. Fore-sight

It is concerned with the total of estimation of total capital required and proportion in which different kind of securities are to be issued, forming the capital structure. This can be decided accurately only when present as well as, future financial needs are taken into consideration. Financial requirements may vary from time to time depending upon changing market condition, better future prospects, technological developments, government policies etc. Therefore every client should be in a position to visualize future course of event with accuracy while preparing financial plan.

3. Optimum use

The available fund should be utilized to the optimum extent. Excessive fund should neither be kept idle, nor should there be any shortage of funds. An effective life cycle financial plan.
4. **Flexibility**

   It implies adjustability or changeability. A successful Life cycle financial planning should be capable of being adjusted or modified in the light of changing situations. It should not be rigid or static.

5. **Contingencies**

   A good financial plan should provide for future contingencies. Financial emergency may arise at any time. An efficient client should identify possible financial difficulties that may arise in the future, based on his past experience. Financial plan should be drafted in such a way, as to meet the contingencies as and when they arise. While making provisions for future contingencies, care should be taken to see that the Funds are not kept idle.

6. **Economy**

   A good Financial plan should try to keep the average cost of capital at the Minimum. The planned capital mix reduces the cost of financing.
Financial Goals

1. Short Term Goal
This is up to twelve months in duration. The shortest period could be as short as one day as in the case of “call money markets” and/or “Repo contracts”. It is convention to take a year to consist of 365 days even if the year under consideration were to be a leap year. The short-term market is called “money market”. Hence short-term instruments are often referred to as “money market” instruments. In other words “funds that are required day –to-day operational expenses are raised through short term sources such as Bank finance, trade credit etc.

2. Mid-Term Goal
This is beyond twelve months and the maximum duration is five to seven years. Some authors and some markets consider the maximum duration for a medium-term instrument as ten years. All the medium-term instruments are debt instruments. Examples – Debentures, bonds, fixed deposits accepted from public etc.

3. Long Term Goal
Anything beyond the medium-term period is long-term. There is no ceiling on the maximum duration of long-term instruments. Examples – long-term bonds, Equity share capital, Preference share capital, unsecured loans from promoters, friends and relatives etc.
A Study On Life Cycle Financial Planning

Avenues of Investment

Equity Share

According to section 85(2) of Indian companies act 1956. “Equity shares means all shares which are not preference shares ” they are also known as ordinary shares. Equity share capital represents ownership capital of the company. One of the outstanding feature of equity share is that they possess voting right that enable the equity shareholders to participate in the management of the company.

Classification of Equity Share

1. Blue- chip Shares
   Shares of large, well established, and financially strong companies with an impressive record of earnings and dividends.

2. Growth shares
   Shares of companies that have fairly entrenched position in the Growing market and which enjoy an above average rate of growth as well as profitability.

3. Income Shares
   Shares of company that have fairly stable operations, relatively Limited growth opportunities, and high dividend payout ratios.

4. Cyclical Shares
   Shares of company that have a pronounced cyclicality in their operations

5. Defensive shares
   Shares of company that are relatively unaffected by the ups and downs in the general business condition

6. Speculative Shares
   Shares that tend to fluctuate widely because there is a lot of speculative Trading in them.
What has been the average return on equities in India

Since 1990 till date, Indian stock market has returned about 17% to investors on an average in terms of increase in share prices or capital appreciation annually. Besides that an average stock has paid 1.5% dividend annually. Dividend is the face value of shares that a company returns to its shareholders from its annual profits. Compared to most other forms of investment investing in equity shares offers the highest rate of return if invested over a longer duration.

Merits of Equity Shares

1. Permanent and long-source of finance
2. No Financial burden.
3. No charge on asset
4. Wide Market
Mutual Fund

These are funds operated by an investment company which raises money from the public and invest in the group if asset (shares, debentures) in accordance with a state set of objectives. It is substitutes for those who are unable to invest directly on equities or debentures because of resources, time or knowledge constraints. Benefits include professional time management, buying in small asset and diversification.

Mutual fund units are issued and redeemed by fund management company based on the fund’s Net Asset Value (NAV) which is determined at the end of each leading session.

Types of Mutual fund
1. On the basis of objective: Equity fund / Growth fund
These funds carry the objective of capital appreciation of the investment over the medium to long term. They are best suited for the investors who seek capital appreciation. There are different types of funds such as: Diversified Funds, Sector Funds and Index Based Funds.

Tax saving Fund

These funds offer tax benefit to investors under income tax act. Opportunities provided under this schemes are in the form of tax rebates under income tax act.

Debt / Income Funds

These funds are predominantly in high rated fixed income bearing instruments like Bonds, Debentures, Commercial papers, Government securities and other money market instruments. They are best suited for the medium to long term investors who are averse to risk and seek capital preservation. They provide regular income to the investors.
Liquid Fund/Money Market Fund

These funds invest in highly liquid money market instruments. The period of investment would be as short as a day. They have emerged as an alternative for saving and short-term fund fixed deposit account with comparatively higher returns. These funds are ideal for corporate, the institutional investors, and business houses that invest their funds for a very short period.

2. On the basis of Flexibility

Open-ended Fund

These funds do not have a fixed date of redemption. Generally, they are open for subscription and redemption throughout the year. Their prices are linked to the Daily NAV from the investor's perspective, they are much more liquid than close-ended funds.

Close-ended Fund

These funds are open initially for entry during the Initial Public Offering (IPO) and thereafter closed for entry as well as exit. These funds have a fixed date of redemption. One of the characteristics of close-ended schemes is that they are traded at a discount to NAV; but the discount narrows at maturity. These funds are open for subscription only once and can be redeemed only on the fixed date of redemption. The units of these funds are listed on stock exchanges (with certain exceptions) and are tradable. The subscribers to the fund would be able to exit from the fund at any time through the secondary market.

What are the different investment plans that mutual funds offer?

The term investment plan generally refers to the services that the fund provides to the investors, offering different ways to invest or reinvest. The different Investment plans are an important consideration in the investment decision, because they determine the flexibility available to the investors. Some of the investment plans offered by mutual funds in India are:
Growth plan and Dividend plan

A growth plan is a plan under a scheme wherein the returns from the investments are reinvested and very few income distributions, if any, are made. The investors thus only realizes capital appreciation on the investments. under divident plan income is distributed time to time. This plan is ideal to those investors requiring regular income.

Dividend reinvestment plan.

Dividend plan of scheme carry an additional option for reinvestment of income distribution. This is referred to as the dividend reinvestment plan. under this plan Dividend declared by a fund are reinvested in the scheme on behalf of the investors, thus increasing in the of units held by the investors.

Merits of Mutual fund

1. Professional Management
2. Diversification
3. Convenient Administration
4. Return Potential
5. Low costs
Fixed deposit

A deposit of money, generally with the bank, finance, company or large corporation repayable on a certain date. Interest may be payable at regular intervals during the term of the deposit or on withdrawal. In other words “Fixed Deposit with banks are also referred to as term deposit and minimum investment period for bank FD is 30 days. Fixed deposit for banks are for investors with low risk appetite, and may be considered for 6-12 months investment periods are normally interest on less than 6 months bank FDs is likely to be lower than money market fund returns.

Merits of Fixed Deposit

Advantages are quicker communication methods, being able to save money by not Having to use snail-mail for bills and letters, having great resources of information virtually ones fingertips, although I find using the printed phone book much faster than looking up online.

Recurring Deposit

The Recurring deposit account is an account in the bank (or a Post office in some countries) where an investor deposits a fixed amount of money every month for a fixed tenure (mostly ranging from one year to five years). This scheme is meant for investors who want to deposit a fixed amount every month, in order to get a lump sum after some years. The small monthly savings in the Recurring Deposit scheme enable the depositor to accumulate a handsome amount on maturity. Interest at term deposit rates is computable on quarterly compounded basis.

The Recurring deposit in Bank is meant for someone who want to invest a specific sum of money on a monthly basis for a fixed rate of return. At the end, you will get the principal sum as well as the interest earned during that period. The scheme, a systematic way for long term savings, is one of the best investment option for the low income groups.
Features

The minimum investment of Recurring Deposit varies from bank to bank but usually it begins from Rs 100/- per month. There is no upper limit in investing. The rate of interest varies between 7 and 11 percent depending on the maturity period and amount invested. The interest is calculated quarterly or as specified by the bank. The period of maturity ranging from 6 months to 10 years.

The deposit shall be paid as monthly installments and each subsequent monthly installment shall be made before the end of the calendar month and shall be equal to the first deposit. In case of default in payment, a default fee is chargeable for delayed deposit at the rate of Rs. 1.50/- per Rs. 100/- per month for deposits up to 5 years and Rs. 2/- per Rs. 100/- in case of longer maturities.

Since a recurring deposit offers a fixed rate of return, it cannot guard against inflation if it is more than the rate of return offered by the bank. Worse, lower the gap between the interest rate on a recurring deposit and inflation, lower your real rate of return. Premature withdrawal is also possible but it demands a loss of interest.

Advantages

Some Nationalized banks are giving more facilities to their customer, State Bank of India give Free Roaming Recurring Deposit facility to their customers. They can transfer their account to any branch of SBI free. Tax benefit on the interest earned on Recurring Deposit up to Rs 12000 Tax Deductible at source if the interest paid on deposit exceeds Rs 5000/-per customer, per year, per branch.
Insurance

A protection against loss of income that would result if the insured passes away. The named beneficiary receives the proceeds and is thus safeguarded from the financial impact of the death of the insured.

Insurance is stated to mean “A form of contract or agreement under which one party agrees in return for a consideration to pay an agreed amount of money to another party to make good for loss, damage, or injury to something of value in which the insured has a pecuniary interest as a result of some uncertain event.

Types of Insurance

1. Marine insurance
2. Fire Insurance
3. Life Insurance

Marine Insurance

Marine Insurance is a contract under which the insurer or underwriter undertakes to indemnify the insured against losses incidental to marine adventure. It may be defined as a form of insurance covering loss or damages to vessels or to cargo or passengers during transportation on the high seas. The risks insured against are those commonly known as “perils of the sea” such as storms, collisions of one ship against another, rocks, etc.

Fire Insurance

Under fire insurance contract the insurer in return or the premium paid by the insured undertakes to pay for or make a good a loss suffered by the insured as a result of damage caused by fire to the property covered by the policy. We know that the whole society is exposed to the risks of fire. But, it cannot be known in advance as to who is going to suffer in any particular year. Therefore a heavy burden of uncertainty hangs.
over the head of every individual. Fire insurance removes this uncertainty of loss by protecting all those members of society who insure against fire.

**Life Insurance**

Life Insurance is a contract under which one person, in consideration of a premium paid either in lump sum or by a monthly, yearly, quarterly, half yearly payments undertakes to pay to the money either on the death whose life is insured or on the expiry of a certain number of years.

The person who agrees indemnify is called the insurer. The person whose life is insured is called the assured. The consideration paid to the insurer is called the premium. The rate of premium remains constant. Usually, non-payment of premium in any year brings the contract to an end.

**Real Estate**

A mutual fund that invests primarily in residential and/or commercial real estate to produce income and capital gains for its unit holders.

**Merits**

After stocks, there is probably no asset class like property that can preserve the value of your portfolio from the eroding effect of inflation. It is widely held that gold is also a good foil to counter inflation. But over the years, gold has performed poorly on the return parameter.

Another important touch a real estate fund adds to your portfolio is that of stability. Although property prices can also be volatile, the volatility is a far cry from what investors are used to seeing in stocks for instance. When turbulence in global oil prices or economic upheavals rock your portfolio, you can expect real estate/real estate funds to be the rock in your portfolio.
Limitations

Real estate funds have the same risks that are associated with equity/debt mutual funds. For instance i.e. you could make the wrong choice while selecting a real estate fund in which case you could be saddled with a non-performer. Although this is not a limitation with real estate funds per se, it serves to highlight that there can be poorly managed real estate funds just like there can be poorly managed equity/debt funds.
A Study On Life Cycle Financial Planning

Short term goal

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Television</td>
<td>12</td>
<td>6.9</td>
<td>6.9</td>
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<tr>
<td></td>
<td>car</td>
<td>88</td>
<td>50.3</td>
<td>57.1</td>
</tr>
<tr>
<td></td>
<td>Two wheelers</td>
<td>17</td>
<td>9.7</td>
<td>66.9</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>58</td>
<td>33.1</td>
<td>100.0</td>
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<tr>
<td></td>
<td>Total</td>
<td>175</td>
<td>100.0</td>
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</tr>
</tbody>
</table>

Interpretation: According to the survey 50.3% customers says that car as their short term goal because people psychology owning a car means having a Convenience of life.
Mid term goal

<table>
<thead>
<tr>
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<tr>
<td>Childern Education</td>
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<td>7.4</td>
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<tr>
<td>Tours</td>
<td>41</td>
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<td>23.4</td>
<td>87.4</td>
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<tr>
<td>Others</td>
<td>22</td>
<td>12.6</td>
<td>12.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>175</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Interpretation: According to the survey 29% customers gives more importance to children education and housing. This emphasis that majority of the people spend more on children’s education and housing.
Interpretation: According to the survey 67.5% people give more preference to property. This emphasis that majority of the people have long term goal of buying a property once in a life time.
Avenues of monthly savings

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
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<td>R/D</td>
<td>30</td>
<td>17.1%</td>
<td>17.1%</td>
<td>17.1%</td>
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<tr>
<td>F/D</td>
<td>94</td>
<td>53.7%</td>
<td>53.7%</td>
<td>70.9%</td>
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<tr>
<td>Mutual funds</td>
<td>33</td>
<td>18.9%</td>
<td>18.9%</td>
<td>89.7%</td>
</tr>
<tr>
<td>Others</td>
<td>18</td>
<td>10.3%</td>
<td>10.3%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total</td>
<td>175</td>
<td>100.0%</td>
<td>100.0%</td>
<td></td>
</tr>
</tbody>
</table>

Interpretation: According to the survey 58% of the customers believe in investing in fixed deposit. It is the most traditional and safest means of investing money.
Interpretation: According to the survey only 21% of the people have planned for retirement there is a need of educating the investors to go for retirement planning.
A Study On Life Cycle Financial Planning

Equity

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
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</thead>
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<tr>
<td>important</td>
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<td>19.4</td>
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<tr>
<td>average</td>
<td>18</td>
<td>10.3</td>
<td>10.3</td>
<td>29.7</td>
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<tr>
<td>not important</td>
<td>46</td>
<td>26.3</td>
<td>26.3</td>
<td>56.0</td>
</tr>
<tr>
<td>not at all important</td>
<td>77</td>
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<td>44.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>175</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Interpretation: According to the survey only 13.1% people give more preference to equity and 26.3% say not at all important as all because people don’t have much knowledge about share market.
A Study On Life Cycle Financial Planning

<table>
<thead>
<tr>
<th>Mutual fund</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid very important</td>
<td>12</td>
<td>6.9</td>
<td>6.9</td>
<td>6.9</td>
</tr>
<tr>
<td>important</td>
<td>31</td>
<td>17.7</td>
<td>17.7</td>
<td>24.6</td>
</tr>
<tr>
<td>average</td>
<td>29</td>
<td>16.6</td>
<td>16.6</td>
<td>41.1</td>
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<tr>
<td>not important</td>
<td>66</td>
<td>37.7</td>
<td>37.7</td>
<td>78.9</td>
</tr>
<tr>
<td>not at all important</td>
<td>37</td>
<td>21.1</td>
<td>21.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>175</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Interpretation: According to the survey only 18% customers give more important and 21% customers says not at all important because majority of the customers don’t have much idea about mutual fund.
Interpretation: According to the survey only 50% customers says fixed deposit is the safest means of investment as there is very less risk compared to any other avenues of investment.
A Study On Life Cycle Financial Planning

## Table 1: Importance of Insurance

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
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</thead>
<tbody>
<tr>
<td>Valid</td>
<td>40</td>
<td>22.9</td>
<td>22.9</td>
<td>22.9</td>
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<tr>
<td>very important</td>
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<tr>
<td>important</td>
<td>80</td>
<td>45.7</td>
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<td>68.6</td>
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<tr>
<td>average</td>
<td>35</td>
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<td>17</td>
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<tr>
<td>not at all important</td>
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<td>1.7</td>
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<tr>
<td>Total</td>
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<td></td>
</tr>
</tbody>
</table>

Interpretation: According to the survey only 30% customers says insurance as very important because return on investment has a very long gestation period so people prefer to invest in some other avenues of investment and there also myths in the minds of customers that insurance is an investment.
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### Real estate

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid very important</td>
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<td>10.3</td>
<td>10.3</td>
<td>10.3</td>
</tr>
<tr>
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<td>10</td>
<td>5.7</td>
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<tr>
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<td>25.7</td>
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</tr>
<tr>
<td>Total</td>
<td>175</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Interpretation: According to the survey only 39% of the customers says gives an average importance to real estate as they say it is unfamiliar to them.
Are you satisfied with your present saving and return on them

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
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<td>70.9</td>
</tr>
<tr>
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<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>175</td>
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<td>100.0</td>
</tr>
</tbody>
</table>

Interpretation: According to the survey 71% they are satisfied with their current savings because people in Belgaum they have nuclear family and they are satisfied with their current salary and expenses.
Is financial planning necessary in Life

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
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<td>96.6</td>
</tr>
<tr>
<td></td>
<td>No</td>
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</tr>
<tr>
<td>Total</td>
<td></td>
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</tr>
</tbody>
</table>

Interpretation: According to the survey 97% customers says that financial planning is necessary in life because planning helps an individual to maintain reserves and surplus which can be useful in future.
Is your family economically, financially protected against unforeseen eventualities

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
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<td>93.1</td>
<td>93.1</td>
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<tr>
<td>Total</td>
<td>175</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Is your family economically protected against risks

Interpretation: According to the survey 93% customers says that their families are protected against unforeseen eventualities as their they are satisfied with their current salary.
Do you require any professional help for financial planning, are open to take professional guidance

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
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<td>62.9</td>
</tr>
<tr>
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<td>65</td>
<td>37.1</td>
<td>37.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>175</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Interpretation: According to the survey 63% of the customers says they need professional guidance as they are not aware about new schemes.
Findings

1. According to the survey 63% customers say that they need professional guidance.

2. Majority of the investors don’t have an idea of mutual fund as they don’t have much knowledge about Mutual Fund.

3. Through the interaction many of the customers say post office deposit saving and fixed deposit is the safest means saving.

4. LCFP helps us to maintain the reserves which can be utilized in future.

5. Better returns and Tax benefits are the most critical factors which investors focus while investing in Mutual Fund.

6. Most of the investors invest in bank deposits followed by in Mutual Fund and Equities.

7. According to the survey majority of the customers says that investing in insurance is just an investment which is an wrong notion.
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Suggestion

1. Investors can invest even in foreign stock exchanges tools.

2. Transparency is important and the investor have a right to know where their funds are invested continuous feedback in this regard has to been to be making with the investors.

3. Monthly reports should be send to the investors regarding performance of the fund and the different sectors where their funds are diversified.

4. More agents and marketing executives should be appointed to educate the customers because the customers are having many myths in their mind

5. Now a days investors who are in urban area and having an income of 2-3 lakhs are going for advisors who can give an suggestion on wealth management and even many banks are advising the wealth management.

6. Insurance should not be understood as investment there is wrong notion. Insurance is to cover the risk and there is also a need to educate the customers regarding insurance.

7. According to the survey only 21% have planned for retirement there is a need for educating the investors to go for retirement planning

8. People don’t invest in shares because they don’t have much idea about share market and there is need for educating investors. Initially investors can go for Mutual Funds
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Conclusion

As per the study Life Cycle Financial Planning as a good future. It is gaining importance in the minds of customers. Common people are taking more interest in investments. But the services providers like Midas Touch Capital Advisors Pvt Ltd need to more educate the customers. So the companies need to promote different avenues of investment options more in order to benefit the customers and gain the confidence.
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