



The Only Long-Term Investment Guide Millennials Need

Protect before you invest, and other thumb rules for you to sail through the golden years

Millennials as a group is those who were born in the 80s and first half of the 90s, and are now at the cusp of entering a new life stage, where income growth coincides with growth in the family, as parents become older, bringing in additional responsibilities and expenses. The realisation dawns on them suddenly that one has to plan for financial goals not just in the near future — the next phone or the big post-pandemic road trip — but also for medium and long term — financial security for your spouse, building/buying your dream house, planning for kids' education, or building a corpus to take the leap into your second career or venture a few years down the line.

In the early part of the financial year, it's worth assessing which investments are likely to give you best impact over the long term. There is no standard answer here, as the investment options most suitable for you, depends on your specific goals, risk appetite and preferences.

Some guidelines to keep in mind:

As a millennial, you have time on your side for long-term investments. Decide how much of your investment should go into assets which are more volatile but have potential to give higher long term returns (e.g. equity) — the remaining can go into safer but lower yielding assets (e.g. debt). The longer your goal horizon, greater your personal risk appetite (i.e. how much would it impact your well-being, if you lost this capital in the market), the higher amount of equity you can keep in your asset mix. Revisit your asset allocation decision once a few years but not every week.

Don't mix up money kept for long term investment goals with short term requirements. For example, keep your regular long term investment for a larger goal like your child's education separate from the money needed for your international vacation in 2 years, even if it's tempting to dip into and 'withdraw a little bit' from the corpus you're creating for 10 years hence. Such withdrawals can seriously dent your plan and create a gap because the power of compounding works against you — increases the impact of a shortfall in investments over time.

Assess if you really need complete liquidity when doing long term investment planning. Having access to your funds at any time is great, but it often comes with a penalty or an impact on the investment. If you have kept adequate money aside for emergency requirements, you have the option to go for products which lock in your investment for some time such as ULIPs or ELSS, but can provide potentially higher returns.

Tax saving should not be the only reason for your investment, though tax benefits should definitely be considered when you evaluate the expected return. For example, if you have purchased a guaranteed return insurance plan, then most likely you would get tax exemption at maturity and interim withdrawals, while interest income from a deposit may be taxable. In such cases, compare the post-tax return from the deposit (at your highest tax slab rate) with the return from the guaranteed insurance plan, and then take your pick.

"P before I — Protect before you Invest". Long term planning means protecting what you have and cherish before you plan for your dreams.

Hence, check these 5 boxes first:

Adequate life insurance to protect your family's well-being in your absence

All your loans are adequately covered through life cover

Health insurance to provide peace of mind, particularly essential in pandemic times

Coverage for critical illnesses which can really drain your finances

Emergency funds (at least 3-6 months expenses) for unexpected challenges/ loss of income which can strike with no notice

With these guidelines in mind, one can evaluate the options for each category of long term investments. You could consider unit-linked plans, or diversified mutual funds for taking exposure to equity for long term. For safer, fixed income returns, you could consider guaranteed return insurance plans or specific government schemes/small savings schemes which also provide tax advantages.

While millennial is a broad category, make sure you understand your life stage and also your specific requirements before you choose the product that's right for you. Whichever plan you choose, remember it's for the long term. Staying committed to your investment goal and disciplined regular investing is most important in the long run.

The writer is Chief Digital and Strategy Officer at Canara HSBC Oriental Bank Of Commerce Life Insurance

Link:- <https://www.outlookindia.com/outlookmoney/equity/the-only-long-term-investment-guide-millennials-need-7784>