Investing in your Child's Future

The arrival of a child brings a lot of happiness and responsibilities at the same time. In fact, as soon as a child is born, parents start worrying about the future. Whether there will be enough to provide for the child's growing up years, and more importantly, education and marriage. For parents, education is not an expense but an investment that will provide their child good career growth and opportunities.

With the opening up of specialised fields and a surge in the number of students applying for foreign universities, the cost of education has gone up in recent years. The worry of providing for education prompts most parents to invest in financial instruments. But most land up investing in the wrong plans such as public provident fund, long term bank deposits, gold, or life insurance policies.

However, if we factor in inflation, the returns earned are not good enough to reach the desired goals. Therefore, choosing a right investment plan is critical if you want a lump sum closer to your goals and at a higher rate over inflation. Here are five financial strategies that ensure smart investments.

Planning

The first step is planning; how much is required for the child's school education, higher studies, and wedding. Start early. The sooner you start saving, the longer your investment has time to grow.

Go by Systematic Monthly Investments

A key tool which allows you to invest regularly, smoothen out market volatility and benefit from power of compounding is systematic monthly investments which could help in building up a sizeable corpus over the years. For instance, take an example of a parent investing Rs 5,000 per month for his newborn for 15 years at the rate of 12 per cent per annum. His investments will grow to Rs 25 lakh in 15 years. On the other hand, a person who starts investing the same sum and at an expected return of 12 per cent for five years will only be able to grow Rs 4 lakh in five years. Such is the power of compounding.

Participate in Equities

Historically, equities as an asset class has provided superior risk adjusted returns over a longer time frame and have outperformed all other asset classes. However, a common man finds it difficult to research stocks which could provide him good returns. This is where investments in mutual funds are advisable and are the best way to participate in equities.

Segregate Investments

It's best to define and segregate the investment for each goal. You can consult a financial advisor to understand these and chalk out a suitable investment plan. If you are 10 years or more away from your goal, then you can take a greater exposure to equities, but bear in mind that you should not be impacted by short-term fluctuations. As you start nearing your goal, re-align the portfolio accordingly.

Analyse Investments Periodically

Instead of looking at the end goal, take stock of how far you have come and what changes you need to make to your portfolio.

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Source: India Today

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