Fidelity's Guide to Saving for Children

Fidelity
WORLDWIDE INVESTMENT

Contents

1. Have big dreams for your children?

As a mum or dad, you always want to give your children only the best of everything.

To begin with, a good education, and it comes at a price. Today, private schooling, college and an MBA at a renowned Indian business school could run into lakhs. An MBA overseas, medical, engineering, the arts or any other professional study could be almost double the cost.

Soon after education comes the next big one - the grand Indian wedding. You may want to spend on gold and other jewellery, gifts and clothes for the bride, the groom, the immediate and extended family as well as the to-be in-laws. The celebrations could run into days before the reception. And all of it could add up to a bill as memorable as the occasion!

Some parents even go on to help their children put down a deposit for a house or put something aside for their grandchildren.

And so, saving for your children is one of the most important financial decisions you could make. This guide aims to help you plan for all your big dreams. We hope you find it useful.


ETC. ETC.
MARRIAGE
HIGHER EDUCATION
COLLEGE
SCHOOL

2.

How do I begin to plan?

Being prepared is essential. So the first step is to find out how much your children's education or a marriage in the family will cost.

How costs can increase over time

Saving for children has one significant advantage – you know when you are likely to need the money and that means you can plan very specifically for your defined time frame. Let's say you have estimated education or marriage expenses to be Rs.5 lakhs at today's value. Believe it or not, 10 years later when your children grow up, you could need almost double the amount to cope with the increased cost! Check the table below for yourself.

Amount in Rs lakhs

Today's Value	In 5 years	In 10 years	In 15 years	In 20 years
3	4	6	8	12
5	**7**	**10**	**14**	**19**
10	14	20	28	39
20	28	39	55	77
30	42	59	83	116
50	70	98	138	193

This table is for illustrative purposes only. Annual inflation rate is assumed to be 7%. All figures are rounded off to the nearest lakh.


THERE'S NO SECRET. I JUST STARTED EARLY!

3.

When should I start investing?

Saving for children is about the long term. You need to start saving as soon as possible to give your money as much time as possible to grow. Read the example below carefully.

The difference time can make

Let's say you start saving Rs. 5,000 every month when your child turns three and starts going to nursery. In 15 years or by the time he or she is 18 years old, your money could grow to over Rs. 20 lakhs, assuming an average annual return of 10%.

Alternatively, if you start saving Rs. 5,000 every month when your child turns 15, you will have just 3 years of savings when he or she turns 18. Assuming the same average annual return of 10%, you could have just over Rs. 2 lakhs.

How is this possible? The earlier you start saving, the more time your money has to benefit from 'compounding' – when the growth your investment has achieved also starts to grow.


I ENJOY
MINE HOT!
THE MIX
IS JUST
RIGHT
WHERE'S
THE TASTE?

4. Where should I invest my money?

There are three key financial assets - cash, bonds and equities - and they are very different from each other.

Cash: Cash investments are safe. The problem with cash for long-term savings however is that this security comes at a price. With low earnings, the spending power of your money could wither away with inflation.

Bonds: Bonds are a special type of loan. If you invest in a bond you might be lending money to the government or a private or public sector company. In return, you could receive regular interest payments and at a set date in the future, your loan could be repaid. Bonds are less risky than equities and offer more growth potential than cash savings.

Equities: Equities is another name for company shares. When you buy shares, you own a little bit of a company. If it does well, you could profit and vice versa. Equities are known to offer significant long-term growth potential, but over short periods they tend to be volatile.

Know the difference at a glance

	Safety	Liquidity	Returns Potential
Cash	High	High	Low
Bonds	Moderate - High	Moderate	Moderate
Equities	Low	High	High

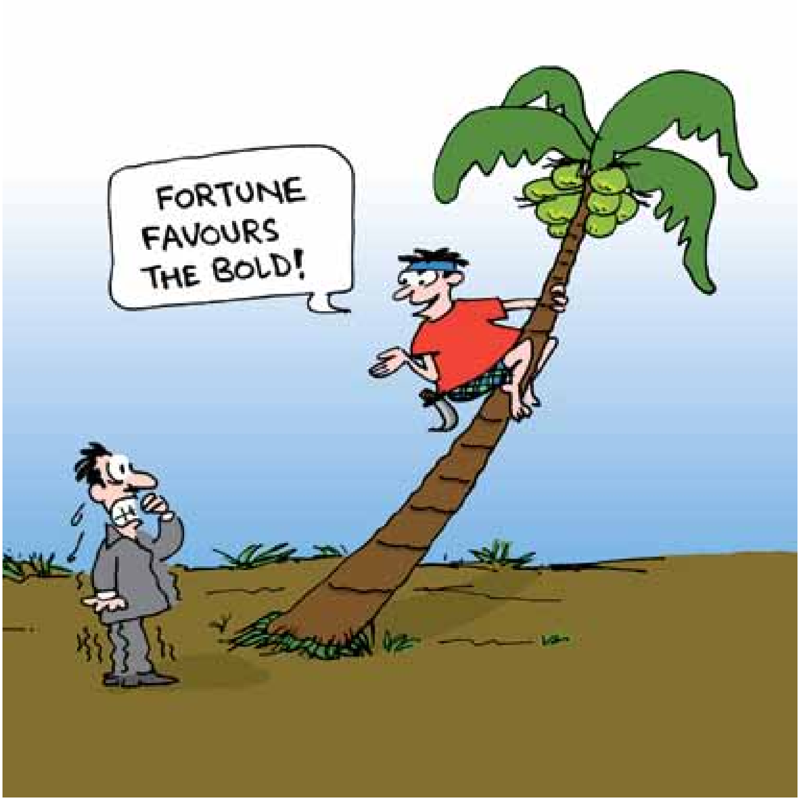

INFLATION
HELP!
S.S. SAMPATTI

5. How are 'risk-free' cash savings unsafe?

Returns on 'risk-free' cash savings may sound respectable, but when you subtract the current rate of inflation you may not be so impressed. Check the example below.

Inflation – the ticking time bomb

If you invest Rs 10,000 in a fixed deposit earning 8% a year, your investment would be worth Rs 17,244 after 10 years - assuming you are in the highest tax bracket of 30% - that is a return of 5.60%. However, if inflation is 7%, Rs 17,244 would only be worth Rs 8,766 in today's terms. The value of your investment would actually erode! For significant long-term growth, you need to make your money work harder.


FORTUNE FAVOURS THE BOLD!

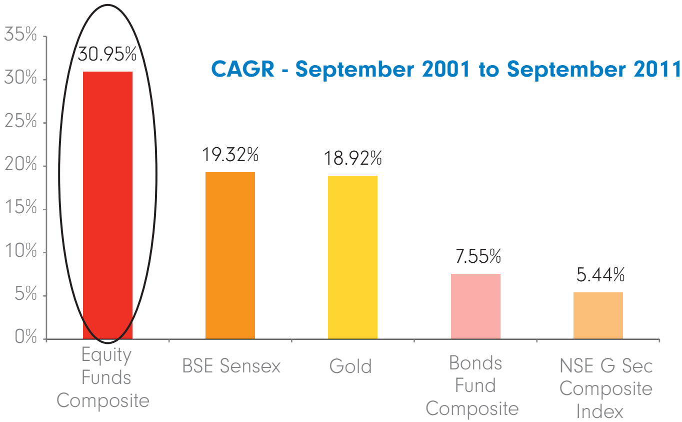
6.

Risk and return go hand in hand

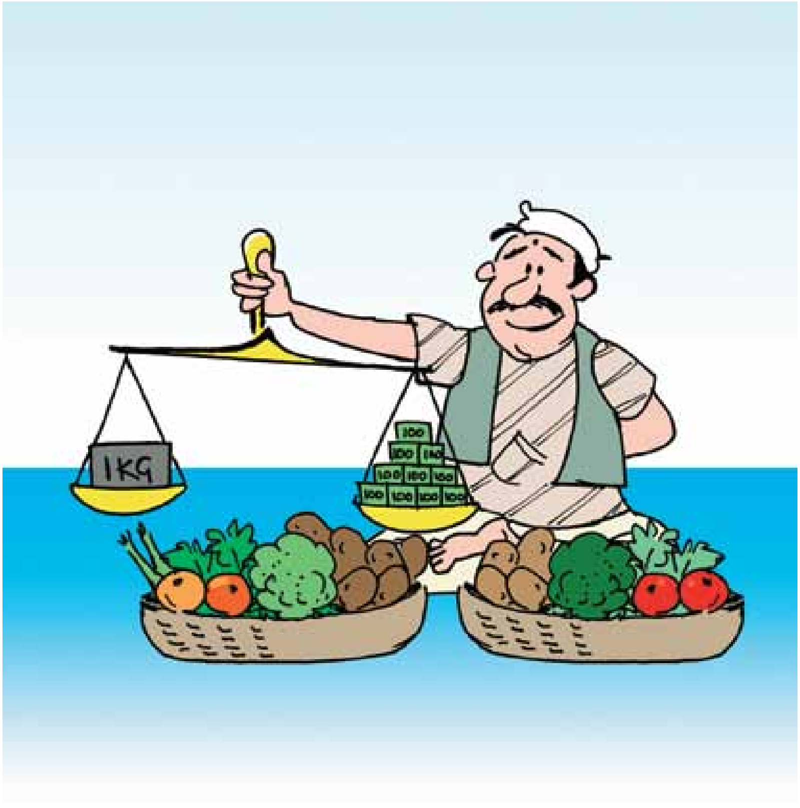
If you know you will be investing for five to ten years or more, our investment experience suggests holding a larger portion of your investments in equity-based mutual funds (more about mutual funds on Page 19), as they offer long-term growth potential that other investments cannot match. Of course, volatility is a natural part of the stock market over the short term, but the truth is that equities tend to outperform other assets over the long term.

The chart below demonstrates how some assets have performed over the last 10 years. Gold the traditional favourite did shine out, but the prize for true wealth creation would have to go to actively managed equity mutual funds. Despite market ups and downs, they delivered a notable performance.

Look back to look ahead



As on 30th September 2011. Past performance may or may not be sustained in the future. Equity Funds Composite and Bond Funds Composite are created with a base date of 28th September 2001 assuming equal investment in all open-ended diversified equity funds and open-ended income funds respectively, which have been in existence as at September 2001. Number of funds in composite - Equity: 15, Bond: 8. Gold performance is based on the London pm fix gold prices. Source: ICRA MFIE, www.worldgoldcouncil.com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7.

A lump sum or regular savings?

The answer to this question depends on your own situation and preference. Some people prefer to invest a lump sum. Others prefer an SIP or Systematic Investment Plan. You can opt for a monthly, quarterly, half-yearly and even an annual SIP.

How to accumulate Rs.10 Lakhs

Lump sum

	5 years	10 years	15 years	20 years
@ 8%	680,583	463,193	315,242	214,548
@ 10%	620,921	385,543	239,392	148,644
@ 12%	567,427	321,973	182,696	103,667
@ 15%	497,177	247,185	122,894	61,100
@ 18%	437,109	191,064	83,516	36,506

Half Yearly SIP*

	5 years	10 years	15 years	20 years
@ 8%	80,087	32,290	17,144	10,119
@ 10%	75,719	28,802	14,335	7,884
@ 12%	71,574	25,646	11,933	6,096
@ 15%	65,754	21,481	8,996	4,093
@ 18%	60,385	17,933	6,731	2,715

Monthly SIP^

	5 years	10 years	15 years	20 years
@ 8%	13,520	5,430	2,871	1,686
@ 10%	12,807	4,841	2,393	1,306
@ 12%	12,123	4,304	1,982	1,001
@ 15%	11,151	3,589	1,477	660
@ 18%	10,240	2,974	1,088	427

Annual SIP

	5 years	10 years	15 years	20 years
@ 8%	157,830	63,916	34,101	20,234
@ 10%	148,907	57,041	28,613	15,872
@ 12%	140,544	50,879	23,950	12,392
@ 15%	128,970	42,828	18,276	8,488
@ 18%	118,456	36,029	13,901	5,780

If you have a specific amount in mind and need help with your calculations, please go to www.fidelity.co.in and use our handy **Saving for Education, Saving for Marriage** and **SIP** calculators.

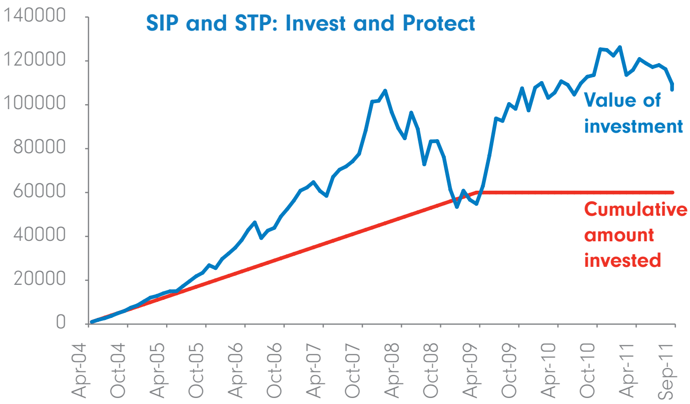
^ Compounded monthly. * Semi-annual compounding. These tables are for illustrative purposes only and should not be construed as a guarantee of minimum returns and safety of capital by Fidelity Mutual Fund/FIL Fund Management Private Limited. Calculations are based on assumed rates of return and hence the actual return on your investment may be more or less. Various fees/expenses and other charges can reduce the return you may get on your actual investment. Inflation has not been considered in the calculations. All figures are rounded off. You are advised to consult your financial adviser before taking any investment decision.


KHANA, PEENA, HOTELS,
JEWELLERY,
ACCOMODATION
CLOTHES,
TRANSPORT
...

8. Protect your gains

Typically, equity funds could account for most of your investments when your children are young as you want to maximize your money's growth potential. An easy way to invest in equities is via a SIP or Systematic Investment Plan as it helps you to reduce market volatility. However, it is always sensible to have an exit strategy. You could set up a Systematic Transfer Plan (STP) to gradually shift from equities to less volatile bond or cash funds in order to protect your gains ahead of your target date, should the markets fall.

The graph is an example of one such negative scenario: Let's say you started investing Rs. 1,000 a month in a five-year SIP beginning April 2004 through March 2009. You would have invested Rs. 60,000, but when the market dipped, you could have also lost some money. However, if you opted for a STP of Rs. 1,000 a month beginning April 2009, you would have over Rs.1.06 lakhs by September 2011.



Past performance may or may not be sustained in the future. The SIP investment is assumed to be made in the BSE Sensex and the STP is assumed to be made in the NSE Treasury Bill Index. The SIP investment/STP transfer date is assumed to be the 1st business day of every month. No loads and expenses have been considered. Source: ICRA Online.


I LEAVE IT
TO THE EXPERT

9. Hire a Professional

Most investors choose a variety of different investments, which together make up a "portfolio". However, rather than investing in equities, bonds and cash yourself, you could invest in a mutual fund.

Mutual funds create, protect and manage your money and have a host of advantages. For starters, you don't need a lot to begin investing, your money is diversified across various investments to spread your risk and you can invest through a financial adviser or at an Investor Service Centre or the website of a mutual fund house. The best part is that the analysis and strategic thinking that goes into investings is not your worry - that's what a fund manager does for you! Over the years, tax policies on mutual funds have been favourable to investors and SEBI, the Securities and Exchange Board of India regulates and monitors the operations of mutual funds to protect your interests.

In summary, when planning for your children's future:

1. Quantify your goals – account for inflation while estimating the future cost
2. Ascertain how much you need to start saving to meet each goal
3. Start saving early and regularly to benefit from compounding and to mitigate volatility risk
4. If you do not have a lump sum, start a SIP – in short, just begin investing!
5. Have an appropriate exit strategy – you could start with equity funds for the initial years and set up a STP or SWP to move your money to less volatile bond and cash funds nearer to your target date in order to prevent erosion of your gains

We're here to help

Fidelity has a long history of helping people meet their financial goals. We have a range of brochures about our products and services and a number of free guides on key investment topics. Please contact us if you would like copies of any of these publications or more information.

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