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THIS ISSUE

Things you must shun along with 2013 Page 1

Don't go overboard with tax-free bonds Page 2

Top 6 Bank Scandals of 2013

Wells Fargo and Bank of America sued for $2.15 million

FINRA, The Financial Industrial Regulatory Authority, the biggest independent securities regulatory company, fined the brokerage divisions of Wells Fargo and Bank of America for $2.15 million based on allegations that the bank sold floating-rate bank loan funds that harmed the risk options of its clients.

Wells Fargo paid National Fair Housing Alliance $42 million

Wells Fargo agreed to settle on allegations that it purposely neglected maintaining and marketing foreclosed homes in black and Latino neighbourhoods, nationwide, for $42 million.

Ten major banks paid for foreclosure abuse

JPMorgan Chase, Bank of America, and Wells Fargo, among other major banks, agreed to pay $8.5 billion for wrongfully foreclosing on homeowners that had the right to stay in their homes.

JP Morgan Chase in hot water

JP Morgan Chase & Co. paid $920 million in penalties to settle allegations of a $6.2 billion trading loss due to violating securities laws when managers withheld information from the Securities and Exchange Commission board in 2012.

Things you must shun along with 2013

Indiscipline- The Killer

A late start many times kills the very purpose of the journey. Hence, you start as early as possible when it comes to financial planning. The magic of compounding works in your favour if you start early because your saving accumulate and compound for more number of years.

For example, if you start saving Rs 1000 each month at a monthly rate of interest of 1 percent from the age of 20, by the time you reach 60 years of age, you are sitting on a sum of Rs 1.17crore. But if you start at the age of 40, you make it to only Rs 9.89 lakh by the time you reach 60. The gap between these two numbers is enough to explain the importance of being 'in time.'

Ignorance-Beware

Though it is a good idea to start early many do not know what to do. Most do not have a financial plan in place nor intend to educate themselves. Though there are efforts taken by the financial services industry and media to educate people about financial planning, there is not enough inclination shown by individuals. In today's times of easy access to information, it becomes crucial to be educated. Hence, there is a need to dispel this ignorance in our lives by educating ourselves.

Always pay your bills on time as late payments are viewed negatively by Loan providers and may affect the chances of your loan getting approved. Please note that credit repayment is one of the most important variables that decide your Cibil credit score. Your credit history, other than your income, is the single most important tool used by a Loan provider to evaluate your application for any loan or credit card application

Thinking short term

Many would argue that they know how to manage money and have been taking care of their tax liabilities. But it is the time to ask the right questions – is tax saving the only financial goal or creation of a better financial future is one. Many a time individuals are seen discussing products that help save them taxes, but they may not necessarily have an idea of where do these products fit in their journey to financial freedom.

Inability to go to the root and identify one's financial needs makes many go for investments that cater to short term objectives such as saving taxes and do not serve in the long term. So stop being happy with what you know and what you have, and instead prepare for a long haul.

Fight for results, not for a lesson

Being human, we enjoy the liberty to make mistakes. But not all of us own their mistakes. That is a cause of problem for most of us. Consider a simple example. Fighting with a bank on some disputed transaction is not a wrong thing. But it should yield results. If not, it is certainly a problem, which then pulls down the credit score of an individual. Here the mistake is not concluding the dispute. It is the time to treat any dispute or issue related to your old loan account as a priority. And ensure that the dispute is resolved and it gets reflected in your credit report. Such an approach can help you improve your credit score this year.

Being Trendy does not work

Just because fixed income has done well over the last couple of years and there are many bond issues offering good yields open for subscription, do not chase them. What is trendy today need not necessarily be the 'in thing' tomorrow. Hence, do not offer too much weight to what is going on around you today. Instead wear the hat of the captain of a ship who chooses to set his eyes on the course of travel.

The bank also agreed to repay consumers that faced unfair treatment with the bank's flawed handling of credit-card debt collections. In November, the bank settled claims over their sale of mortgage-backed securities with the Justice Department for $13 billion.

International manipulation of the Foreign Exchange Market (Libor Scandal)

In Nov., an ongoing inquiry widened to include 15 of the biggest banks, including Barclays, Citigroup, Deutsche Bank, Goldman Sachs, JPMorgan Chase, and UBS regarding the collaboration that took place between the banks' traders to set benchmark exchange rates that would be favourable to them, causing higher costs for pension funds, mutual funds, multinational corporations, and other bank clients that purchase and sell currencies.

Is Bank of America the most corrupt bank?

In Jan., the Bank of America agreed to pay Fannie Mae over $11 billion to settle claims that they knowingly made bad mortgages before the financial crisis of 2007, and sold these mortgages to the government, causing Fannie Mae to suffer significant losses when those borrowers defaulted.

'Don't go overboard with tax-free Bonds'

Alamy

Tax-free bonds are back in vogue as the benchmark 10-year benchmark bond yield crossed 9% mark recently. This is reflected in the quick response and subscription to AAA-rated tax-free bonds issued by National Thermal Power Corporation, which offered up to 8.91% returns. It is not just NTPC, HUDCO tax free bonds also received strong response from subscribers. Juxtaposing this reality of increased investments in bonds markets at a time when investors are not too keen to invest in equities, can give us an impression that bond investors are reading something more substantial. But we can be completely wrong. While many would want to ignore them saying that it is the flavor of the season, joining the herd can be un-remunerative as it disturbs the asset allocation of the investors. No doubt it is a good idea to invest in the ongoing long term tax free bond issues such as India Infrastructure Finance Company Ltd (IIFCL), given the lower risk of default and a possibility to earn capital gains over the next couple of years as the interest rates are expected to come down.

It has been observed that investors redeem money from equities as they obtain the cost of buying shares with rising markets, which they subsequently invest in bonds. Such a tendency can be counterproductive if it is contradicting the ideal asset allocation of an investor.

Consider an example, if an individual aged 30, who plans to retire at the age of 60, is redeeming all his money from equity mutual funds and parking it in tax-free bonds. This is not a wise idea. It is better to stick to asset allocation and keep rebalancing it at regular interval, let's say once in a year.

If you are young, and has some appetite for risk you should ideally have some exposure to equities. It is better to consider investing at least 50% of money in equities with the long-term view.

An aggressive individual may have up to 75% of his money in equities, whereas a conservative investor may choose to keep his equity exposure to 10% of total portfolio value. Whatever be the case an allocation to equity is a must along with fixed income exposure.

An important point to note here is to understand that volatility in markets are but violent waves in a sea which rise and go, but eventually subside giving tranquillity of mind. So, one should not be much affected by intermittent volatility in the equity markets. One should learn to live with it.

Fixed income as an asset class can offer you predictable returns in short to medium term with a little volatility as compared to equity, but in the long term it can generate almost nil returns when adjusted to inflation.

Also fixed income investors should never forget the time-tested wisdom in the financial markets: it is difficult to predict interest rates in the long-term but it is easy to predict long-term expected returns from equities. If you are investing for the long-term, typically more than five years, do not go overboard on fixed income.

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