

A Study of financial planning for investors and small scale industries

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Abstract:

Individual investors, people tend to overspend when they do not understand what they really need. They keep on spending to fulfill all their requirements and lose count of how much they have spent. Everyone should understand the difference between needs and wants. This is what financial planning is all about to save and help our self to achieve our financial goals. Whereas SMEs are concern they always find it difficult to secure finances even at the best of times. While their capital base is weak, sometimes even to the level that they often find themselves unable to offer appropriate collateral security, banks seems to refrain from advancing even medium-term loans for buying equipment and machinery. As a result, most SMEs find it easier to follow the conditions of local money lenders than those laid down by commercial banks. Despite several credit recommendations by the Reserve Bank of India (RBI) and promises by the government, it seems that the situation is not going to change in the near future. Therefore in this scenario financial planning is a must for SMEs to have some fair idea about how to make the best of the available resources.

Keywords: SME, Financial planning process, Smart Goals, Risk vs returns, investment strategies.

Introduction:

AIM OF THE STUDY:

To know the Need for financial planning.

To know precautions to be taken before making investments.

To know Investment strategies to achieve financial goals.

To know importance of financial planning for small scale industries.

RESEARCH METHODOLOGY:

The topic for the research paper is financial planning by entrepreneur of small scale industries; the nature of the topic is theoretical and descriptive. So to conduct the research study the type of research suitable is descriptive research only. The required secondary data was collected from the Official Website, various Journals and Research Papers, diagnostic study reports and newspaper articles have been surveyed in making this study.

Secondary data are the data which is collected by a party not related to the research study but collected for some other purpose in the past. These data then become secondary data for the current users. These can be available in written, typed or in electronic forms. A

variety of secondary information sources is available while gathering data. Secondary data is also used to gain initial insight into the research problem. Secondary data is classified in two categories (in terms of its source)

Internal: Internal or in-house data is secondary information acquired within the organization where research is being carried out

External: External secondary data is obtained from outside sources.

LIMITATIONS OF THE STUDY:

It was difficult to measure the exact level of the financial planning of the investors and SME firms. Time was also limited therefore other data collection methods such as primary data analysis, interviews or face-to-face communication has been excluded.

INTRODUCTION:

Financial planning is the process of managing finances with goal of investor's life. Goals can include buying a home, managing your and your children's wellbeing, saving for their education or planning for your retirement.

Financial planning process involves gathering financial information, setting goals,

examining current financial status and coming up with a strategy or plan which is helpful to meet your goals. Life is full of competing priorities sometimes we plan for it and sometimes we don't have any plan. We probably have an idea of the things we want to do which required money like buying a house, having children, paying for their educations and weddings, having enough money for a comfortable retirement. But unexpected expenses like a broken down car or hospital bill can strain anyone's finances.

A financial plan can control the spending so that, investors can stay on track regardless of what life throws at them. Financial planning can help you to build a foundation so that, life doesn't take you or at least your finances by surprise. The purpose of financial planning is to set realistic goals and finding a way to achieve them. It assists investors in taking difficult decisions and helps to avoid costly mistakes by ensuring that investors are fully informed and aware about all possible consequences.

Financial Planning is the process of meeting life's goals by efficient management of your financial resources. This process involves defining short-term and long-term goals, prioritizing and assessing current financial situation and commitments.

Therefore start early for your future financial goals and have the benefit of meeting them when you want to. This is because you have a longer time horizon to spread out your investments and manage your portfolio across time. Every school-going kid is taught from his childhood to count and save money for his future so that, he can use them appropriately to finance his financial goals. If people understand its significance at a younger age then achieving their future financial goals becomes more convenient as they can invest in different products to meet their needs.

OBJECTIVES OF FINANCIAL PLANNING:

Emergency Funding: To build up liquid assets

to fund the short-term financial needs.

Protection against personal risks: To provide for personal risks such as premature death, sudden disabilities, and medical emergencies etc.

Special needs funding: to gather savings to fulfill special needs.

Higher education for children.

Wedding expense for each of the children.

A lump sum for the down-payment deposit for an apartment.

An overseas holiday tour for the family and so on.

Capital accumulation for Education funding, Retirement funding, general investment fund, Reduction of tax burden, Estate planning, Investment and property management.



STEPS INVOLVED IN THE FINANCIAL PLANNING PROCESS:

Step 1: Gathering your financial data (such as details on your income, debt level, commitments etc.)

Financial planning constituted these 5 basic steps. At the first step you will need to list down your various sources of income. If you are an earning individual your source of income could be your monthly pay, for retired person it could be his pension income or retirement plan return and if you are having part time business then the income generated from that business would be your income. The source of income will vary from person to person

Step 2: Identify your financial goals

Defining investment objective is vital before planning for finances. Your goals will tell you how you should manage your finances so that,

when you wish to meet your goals you have enough funds. You can then plan accordingly how much you need to save today for the future plans and how much returns you will receive on your investments to fulfill your future needs. Your goals may be short term, medium term or long term. Short term goals could be say to pursue an MBA after a year, to purchase a two-wheeler etc. Short terms goals are defined to be met in up to three years. Medium term goals could be financing your marriage expenditure, gift your parents a vacation package etc. These goals are defined as those needs which have to be met up to 5 years. Long term goals could be to purchase a new house and these would have to be met after tenure of 5 years. You could further define the target date for each of these goals along with an approximate amount of funds you would require to meet these needs.

Step 3: Identifying any financial issues

At this step you should find out if you have any loans to be repaid. Someone might have monthly insurance premiums to be paid, retirement plan premiums, or a home loan. Determining your liabilities is extremely essential so that you do not overspend and end up defaulting on your EMI (equated monthly installments) payment. You should also know how much is your monthly expenditure; i.e., the money spent on food items, clothes, water, electricity and other amenities used so that you can allocate some of your funds to pay for it.

Step 4: Preparation of Financial Plan

Financial plan depends on various factors like income, risk taking ability, age group and investment objective. This means financial planning would differ from person to person, because the income of two individuals may not necessarily be the same and personal needs could also be changed. Investor needs to consider such Differences and then accordingly plan investment. If he considers all the investors to be the same then, an investor might not be able to meet his/her

financial needs or objectives and the basic purpose of financial planning would not be fulfilled. Many investors fail to understand this.

Step 5: Implementing your financial plan

After preparing financial plan there is need to review and revise plan to stay up-to-date and relevant to the economic climate & changing lifestyle. The entire collection of investments you make is termed as the portfolio. Suppose investor have Rs 1000 and he/her invest 50% in equity and the rest in debt securities. Their entire investment would be a portfolio which has a value of Rs 1000 currently. This value might increase or decrease depending upon the market fluctuation, which will bring a change in the value of the securities. Now a day's investors use various portfolio management services to help them manage their investments, as we know every asset is different from the other in terms of risk and returns.

Every step in the process of financial planning is equally important. Most of the investors declare their income, risk tolerance levels and also make investments but neglect to monitor their investments. Thus there is a need to periodically review your portfolio and make changes in the portfolio as per the situation. Suppose the equity investments are not performing well in the last quarter and you hold up to 70% of your portfolio in the shares of these companies, then you cannot continue holding the same portfolio. You might have to shift your funds to other assets which are less risky like bonds till the markets recover.

SMART GOALS:

Critical step in managing finance is to setup SMART financial objectives. Financial goals has to be S (specific), M (measurable, motivated), R (realistic, resource-based), and T (time-bound, can be monitored). People do the mistakes in setting general goals, which later did not materialize.

Objectives	Goals	Incorrect Approach	Right Approach
Specific	Need to know exactly what you want and when you want it.	I need money to pay my college fees in a years' time	I will save the money of Rs. 50,000 to pay my fees at college
Measurable	Goal should be measurable so that, you know when you can achieve it.	I will pay off my debts to my friends	In the next six months, I will return Rs 2000 to my two friends for lending me their money.
Attainable	Your goals should be reasonable i.e. within your reach	I will save money	I will save Rs. 2,000 each month by cutting down on eating out and Partying.
Realistic	Your goals should be based on resources and tasks that you can reasonably accomplish	If I save money I will be rich.	If I save money regularly, then I don't need to borrow more money from others
Time-bound	Goals with timelines allow you to track your progress and encourage you to keep going until you reach your goal	I will save money for my vehicle	I will save Rs.10000 a year for the next 2 years for my vehicle

How to make financial planning work:

Set measurable goals.

Understand effects of financial decisions on other financial issues.

Periodically Re-evaluate Financial Plans.

Start as early as possible and start with what you have got.

Take charge of the financial planning engagement.

Look at the big picture – It is more than just retirement planning or tax planning.

Don't confuse financial planning with investing.

Don't expect unrealistic returns on investments.

Don't wait until a money crisis to begin financial planning.

RISK V/S RETURNS:

Every individual has their own risk taking capacity. Your risk-return profile is your level of risk tolerance. If you invest in business like a startup firm your risk would be high. There are three types of risk return profiles which are as under:

1. Conservative: When investors take minimum risks ensuring their funds are secure. E.g. investing in post office deposit schemes, bank fixed deposits, government

bonds etc.

2. Moderate: when investors are willing to take some risks at certain level e.g. investing in mutual fund.

3. Aggressive: when investors are willing to take high risks and prefer investing in equity, commodities markets.

There is an important investment principle which says the level of your returns depends on the level of risk you take. Always check the potential risks when quoted returns are unusually high

INVESTMENT STRATEGIES:

Investing strategies are like food diets: There is no "best investment strategy" except the one that works best for *you*. So before making a commitment to anything, whether it be food diets, clothes, or investing strategies, see which works best for your personality and style

Fundamental Analysis:

Fundamental analysis involves evaluating all the factors that affect an investment's performance. For a stock, it would mean looking at all of the company's financial information, and it may also entail meeting with company executives, employees,

suppliers, customers and competitors. Fundamental analysis is one of the oldest and most basic forms of investing styles. Primarily used for researching and analyzing equities, fundamental analysis is a form of an active investing strategy that involves analyzing financial statements for the purpose of selecting quality stocks. Data from the financial statements is used to compare with past and present data of the particular business or with other businesses within the industry. By analyzing the data, the investor may arrive at a reasonable valuation (price) of the particular company's stock and determine if the stock is a good purchase or not.

Value Investing Strategy:

In simple terms the value investor is looking for stocks selling at a "discount;" they want to find a bargain. Rather than spending the time to search for value stocks and analyze company financial statements, investor can buy index funds, Exchange Traded Funds (ETFs) or actively-managed funds that hold value stocks.

Growth Investing Strategy:

Growth stocks typically perform best in the mature stages of a market cycle, when the economy is growing at a healthy rate. The growth strategy reflects what corporations; consumers and investors are all doing simultaneously in healthy economies.

Technical Analysis:

Technical analysis can be considered the opposite of fundamental analysis. Investors using technical analysis (technical traders) often use charts to recognize recent price patterns and current market trends for the purpose of predicting future patterns and trends. In different words, there are particular patterns and trends that can provide the technical trader certain signals or indicators about future market movements. When analyzing stocks using technical analysis there are two principles that the follower must take into the account.

"The first principle of technical analysis is that all information about earnings, dividends, and the future performance of a company is automatically reflected in the company's past market prices".

"The second principle is that prices tend to move in trends: A stock that is rising tends to keep on rising, whereas a stock at rest tends to remain at rest".

The ability to find and read the charts of a stock and analyze it is paramount to the implementation of the technical analysis of the stock market. Technical analysis concerns the study of charts and followers of this type of stock analysis are known as, chartists, and do not believe in information such as dividends or earnings as the fundamentalist does because they feel that it distracts from the ability to correctly predict what the future of the stock will do. A chart showing the past market prices and the trade volumes of a stock in the past is all the technical analysis would need to analyze where the stock will go in the future. It is important to know that as a stock is rising it is believed that it will keep rising because of the momentum of a stock.

Once a stock has an uptrend it will then slightly fall and go up again forming what looks like a shoulder then fall slightly and go up a little higher than the should fall and go up again forming the next shoulder, and then the technical analysis looks for the stock to fall below the line that the valleys have lined up on, called a neckline. If the stock falls below the neckline it will quickly be sold because it will usually result in a downtrend similar to the uptrend occurring before.

Buy and hold Strategy:

In this strategy investors believe "time in the market" is a more prudent investment style than "timing the market." The strategy is applied by buying investment securities and holding them for long periods of time because the investor believes that long-term returns can be reasonable despite the

volatility characteristic of short-term periods. This strategy is in opposition to absolute market timing, which typically has an investor buying and selling over shorter periods with the intention of buying at low prices and selling at high prices.

The buy-and-hold investor will argue that holding for longer periods requires less frequent trading than other strategies. Trading costs are low in this strategy, which increase the overall net return of the investment. The buy and hold strategy also called as lazy portfolios because of their low-maintenance, passive nature.

Core and Satellite:

Core and Satellite is a common and time-tested investment strategy that consists of a "core," such as a large-cap stock index mutual fund, which represents the largest portion of the portfolio, and other types of funds—the "satellite" funds—each consisting of smaller portions of the portfolio to create the whole. The primary objective of this investment strategy is to reduce risk through diversification (putting your eggs in different baskets) while outperforming (obtaining higher returns than) a standard benchmark for performance, Core and Satellite investment strategy helps to achieve above-average returns with below-average risk for the investor.

Modern Portfolio Theory:

Modern Portfolio Theory (MPT) is an investing method where the investor attempts to take low level of market risk to gain maximum returns for a given investments. An investor that follows the tenets of MPT may use a core and satellite approach, as described above. At the core of investment philosophy, every investor would like to achieve the highest possible return possible without taking extreme levels of risk. This can be done through diversification. According to MPT, an investor can hold a particular asset type,

mutual fund, or security that is high in risk individually but, when combined with several other asset types or investments, the whole portfolio can be balanced in such a way that its risk is lower than some of the underlying assets or investments.

Tactical Asset Allocation

Tactical asset allocation is a combination of many of the previous styles mentioned here. It is an investment strategy where the three primary asset classes (stocks, bonds and cash) are actively balanced and adjusted by the investor with the intention of maximizing portfolio returns and minimizing risk compared to a benchmark, such as an index. This investing style differs from those of technical analysis and fundamental analysis in that it focuses primarily on asset allocation and secondarily on investment selection.

FINDINGS:

The firms did not having financial planning and strategies they performs poorly. They thought financial planning and strategies are not important to their firm's performance.

Weak financial planning strategies result in to low return on investments & on capital employed.

Lack of financial planning creates challenges like financial constraints, high inflation, high interest rates and lack of external financiers.

SUMMARY & SUGGESTIONS:

Inflation effect should be considered by investor and small scale industries in financial planning.

Time value of money should be considered by investor and small scale industries in financial planning.

While dealing with a banker approach tactfully and try to know what they are thinking and looking for. Must have concrete plans and past performance.

Business plan speaks volumes so, while applying for loans in bank have a look at

your business plan carefully and make any improvement if it requires.

While taking loans from bank, the SME owners should collect detail information about all available special loan schemes designed particularly for the small scale enterprise sector.

Long-term finance should be strictly utilized for acquiring fixed assets.

SME must try to plough back a good part of its earnings into the business to ensure growth and stability.

Categorize the financial needs into long-term and short-term requirements. This policy will not only help to pay high returns in future but also help in easily getting loans from external sources like banks and financial institutions.

Never accept defeat easily ever, when one bank does not show a helpful attitude try in another bank or another branch or if possible wait for some time and apply again when the previous manager changes.

CONCLUSION:

A disciplined approach to financial planning can help individual investor and SME to face potential financial problems. It gives protection and preservation of assets, financial planning has been called "more of

an art than a science" and part of this art is getting people to overcome their biases and make more rational decisions. For every entrepreneur whether it is small business or large firms financial planning is a vital aspect to grow and make company profitable. Investors & SMEs must have clear and careful financial planning from starting up to its whole life-cycle. It is important to be clear about when the cash flow will start or when it will start earning profit. Implementing sound economic principles and keeping a close watch on cash flow will help to make solid financial foundation. Monetary policies and procedures for effective cash management also need to be part of investor's individual plan and SME business plan. Whereas SMEs are concern to reduce sickness of business at the initial stage banks & financial institutions should periodically review the accounts of the small scale industries, identify SME units which are becoming sick or are prone to sickness. The Government of India & the RBI should collect the information from commercial banks & financial institutions on sickness of such SMEs. So that they can implement the rehabilitation programme to facilitate them.

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