Treating insurance as an investment will never get you anything – neither a good insurance cover nor a good return. The insurance policies are peddled as an investment option only because the agents get a very high commission there. And this high commissions get paid from your own premium money only!

Every asset class is cyclical in nature. Property has a long term cycle, and it is believed that in India, the cycle is about 20 years for real estate. However, the poor performance of real estate for over five years that we are witnessing right now in India is not part of a normal cycle, but is a true disruption in this sector.

The blockbuster returns of the past few decades in real estate in India may now be a thing of the past due to three reasons:

- The demand-supply equation is badly skewed at present and there is huge supply of residential property that is currently available against the virtually no demand throughout the country;
- Black money, the actual driver of real estate in India, is being squeezed out due to govt regulations and the narrowing of the gap between the market rates and circle rates of areas;
- Awareness of importance of financial assets for maintaining a desired life-style vs. physical assets is diverting money to the former.

Due to our past good experience, real estate (in the form of plots, residential houses/flats and commercial properties like offices/shops) may still seem very alluring, but please remember that its long-term prospects right now are quite cloudy. It is better that we realise that our lifestyle and financial requirements like the education and marriage of children will require money at frequent intervals and the lack of liquidity in real estate, may actually hamper the fulfilment of such dreams. The rental returns, on the other hand, have always been very poor – to the extent of just about two per cent per annum of the capital value of the property. For example, in Delhi, a residential house costing Rs one crore fetches a rent of about Rs 16,000/- per month, i.e. Rs 1.92 lakhs a year. After taxation, this amounts to about Rs 1.5 lakhs a year which is a return of just 1.5 per cent per annum on the current value of the property. Thus, if your biggest investment earns this small amount only, it doesn’t matter how much the rest of your much-smaller investments earn!

I, therefore, recommend that you invest in real estate with your retirement money only if you wish to have a house for yourself. Anything else does not make sense. I would make a stronger statement and say that buying real estate with your retirement corpus will block your other dreams. Keep your money liquid in investment avenues like mutual funds, govt bonds and FDs, choosing them carefully as per your requirements and risk appetite, and have the great standard of living that you dreamed of. After retirement, you need good cash flows for good living, rather than creating assets which you may never use.

My wife is keen that I buy good amount of gold with the retirement money. I don’t feel too good about it. Is my wife correct?

If the gold is being bought for personal use or for marriage purposes, it is your personal decision. However, if it is being bought for investment
purposes, my recommendation will be to refrain from it.

Please remember that gold, like real estate, is in a long term decline phase right now. Another factor contributing to its downward spiral is the buoyant state of global economy. It is said that, “Gold zooms when the world is doomed!” and the opposite of it is also true – when the world’s major economies do well, gold will decline. This is precisely what is happening now. Gold is on a continuous decline and it does not make sense to use your retirement corpus to buy gold as an investment right now.

An insurance agent has approached me and explained the details of an insurance policy which will give me very good returns when it matures, as also regular income in between. Should I take it?

Insurance is meant for the financial protection of your dependents and dear ones in case of any mishap happening to you. It is meant for their financial well-being and that’s it. Treating insurance as an investment will never get you anything – neither a good insurance cover nor a good return. Insurance policies are peddled as an investment option only because the agents get a very high commission! And these high commissions are paid from your own premium money only! If you calculate the returns from an insurance policy in percentage terms, you will find that the actual returns to you are generally in the 4 per cent - 5.5 per cent range.

If you do need an insurance cover after retirement, which actually most officers don’t, then go in for a Term Insurance Plan and nothing else. For investments, use proper investment options and not an insurance plan. Using an insurance policy as an investment product is like giving your jawans khukris to fight a modern battle!

In your opinion, which is the very best investment option for a retirement corpus?

I would undoubtedly opt for mutual funds (MFs) as the best investment option. Most people think that MFs are very risky – this is so because even now they think that MFs invest only in the share market! It is very important to know what are MFs and how they work.

MFs are a ‘route’ or a method of investment rather than a type of investment. In MFs, you invest in the same products that you would normally do for yourself (bank FDs, govt bonds, company FDs, gold and stock markets) but in this case you get accomplished fund management teams to help you. So you can buy MFs that invest only in bank FDs or govt bonds or company FDs or gold or stock markets or any combination of these. The difference is that, instead of just guess work at your end, experienced fund management teams are making the decisions on your behalf and getting you higher tax-efficient returns. You get a very high flexibility on investing money, withdrawing money, getting monthly returns if you want, taking out any amount of money at 2-4 working days’ notice, switching between various funds as also debt and equity funds, and also the tenure of investment from a single day to as long as you want. The degree of risk taken would be as per your choice – from literally zero risk in liquid funds to the highest stock market risk in sector funds. Information regarding MFs is available on a large number of websites on the internet including my company’s website at www.humfauji.in. In case you find it difficult to take a call on the plethora of funds available, consult a good financial planning and investment company – it would be advisable to get a Retirement Plan customised for your needs and then invest as per your long and short term requirements and financial goals.