

Wealth Wisdom

September 2011

At Capital League, we've had the privilege of working with very smart and successful entrepreneurs and professionals. And we've observed very closely how flawed some of their thinking tends to be when it comes to managing the wealth they have so painstakingly created. And often, we land up asking ourselves "Why do even "smart" people do "stupid" things with their money"?

Why do we feel happy about the safety of our portfolio when we are actually destroying it? Why do we treat money kept aside for children's education differently from the money received from a bonus? Why are we eager to book profits in a hurry while nursing losses for years?

It is these questions that spurred us to create Wealth Wisdom. Wealth Wisdom is our attempt to help affluent individuals understand where they sometimes go wrong in managing their wealth, where they sometimes make mistakes that they shouldn't. The objective of Wealth Wisdom is to sensitize affluent individuals about some of the common blunders that people make in managing their wealth. If this effort helps you in avoiding such blunders that we have seen many people make and puts you on the road towards investing success, we would consider this a worthwhile effort.

Wealth Wisdom is an educational platform with multiple formats which currently include a periodic newsletter and short presentations that we make for corporations and associations. Wealth Wisdom is part of Capital League's CSR (corporate social responsibility). Wealth Wisdom does not seek to promote any product or investment strategy in any of its formats.

Capital League is a boutique, wealth management firm and is counted amongst India's leading independent financial advisors. The firm is headed by seasoned private bankers.

Successful Indian families are finding it counter-productive to individually deal with multiple investment advisors, tax consultants, accountants, insurance agents, stock brokers and lawyers for managing their personal wealth. They are increasingly recognizing the value of a 'Family CFO' – an experienced guide, a financial coordinator and an advocate who would offer unbiased advice within the unique context of that family's circumstances and goals. Capital League has emerged as family CFO of choice to successful families.

Capital League allows its clients the opportunity to continue doing what they do best: building wealth, pursuing hopes, and living the life of their dreams.

At Capital League, we have a singular passion – to be client centric – and that guides everything we do. We believe that our combined 45 years of private banking experience gives us the necessary expertise to help our clients achieve their wealth protection and wealth creation objectives.

Wealth Creation Fundamentals

“Your house is an asset....” Is it ?

Mr. Sharma is a 56 year old senior corporate executive, a few years away from retirement (60 yrs). He has recently bought and moved into his dream house which reflects the level of his success in his career. This is his third house, every new one being larger than the previous one. When asked about his net worth, he proudly states INR 15 crores! Out of which, the house is worth nearly INR 10 crores. He states that his house is a valuable asset which will only appreciate with time, thus increasing his networth.

So what is wrong with Mr. Sharma's decision to move into a bigger house?

Post retirement, Mr. Sharma requires approximately INR 3.5 lacs a month to maintain his lifestyle. By the time he retires, he will have financial assets (inclusive of retirement benefits) of approx. INR 7 crores. He thinks he is set to lead a comfortable retired life – playing golf, visiting grandchildren and pursuing his other hobbies.....

A closer look at his finances reveal the following:

Post retirement expenses

Household + medical + travel expenses:
INR 42 lacs per annum

Assuming, a post-tax return of 8% on his retirement corpus and average inflation of 6% over 25 years of retirement: Retirement corpus needed at age 60 = INR 10.45 crs

Here, contrary to Mr. Sharma's belief, his house is a “life style expense” rather than an asset. It is an idle asset at best! Pre retirement a bigger home means bigger expenses: which in turn reduces the surplus which he can put away in investments/income generating assets! He is treating his home as his primary asset, whereas it is a 'lifestyle expense' which will eat into and not supplant his retirement corpus.

When Mr. Sharma worked the expense numbers he realised that once he retires, he would not have the requisite 'income' to fund his chosen lifestyle, despite having a high networth! Adding the value of our home to our personal balance-sheet gives a deceptive picture of personal networth. This unfortunately leads some of us into the syndrome of **“Asset Rich, Cash Poor”!**

The Pleasure of Giving – “The Giving Pledge”

“The Giving Pledge” is a campaign started by Bill and Melinda Gates and Warren Buffet to invite the wealthiest individuals and families in America to commit to giving the majority of their wealth to the philanthropic causes for social development either during their lifetime or after their death.

Excerpts of some pledges:

2011 Annual Letter from **Bill Gates**: *The Giving Pledge*

“A few years ago Warren suggested that he, Melinda, and I should get together with some of the most generous givers in the country and see what we could learn from them. We started out by having dinners where everyone talked about why they give, what they are passionate about, and what they wish they could do better. It became clear that there was a lot of collective knowledge and that we could inspire each other and in some cases work together.

Although this effort is focused on those people in the United States with the greatest wealth, we are encouraged by and support similar efforts that focus on other groups. For example, some of the top business people in China and India asked if we would meet with them to stimulate discussion about giving in their country.

Not everyone can go to the field, or even donate. But every one of us can be an advocate for people whose voices are often not heard. I encourage everyone to get involved in working for solutions to the challenges those people face. It will draw you in for life.”

Warren Buffet, Chairman, Berkshire Hathaway

“First, my pledge: More than 99% of my wealth will go to philanthropy during my lifetime or at death.

Millions of people who regularly contribute to churches, schools, and other organizations thereby relinquish the use of funds that would otherwise benefit their own families. In contrast, my family and I will give up nothing we need or want by fulfilling this 99% pledge.

Many people, including -- I'm proud to say -- my three children, give extensively of their own time and talents to help others. Gifts of this kind often prove far more valuable than money.

Some material things make my life more enjoyable; many, however, would not. Too often, a vast collection of possessions ends up possessing its owner. The asset I most value, aside from health, is interesting, diverse, and long-standing friends.”



Michael R. Bloomberg, Founder, Bloomberg, LP and Mayor of New York City.

“In the 1990s, a generous individual planned to leave Johns Hopkins University, my alma mater, \$50 million upon his death. But I asked him: Why wait? Why deny financial aid to this generation? Why deny a possible cure for a disease to this generation? That convinced him - and he gave the money right then and there.

The reality of great wealth is that you can't spend it and you can't take it with you.

Making a difference in people's lives - and seeing it with your own eyes - is perhaps the most satisfying thing you'll ever do. If you want to fully enjoy life - give. And if you want to do something for your children and show how much you love them, the single best thing - by far - is to support organizations that will create a better world for them and their children. Long term, they will benefit more from your philanthropy than from your will. I believe the philanthropic contributions I'm now making are as much gifts to my children as they are to the recipient organizations.

Giving also allows you to leave a legacy that many others will remember.....”

Philanthropy or any effort to re-balance wealth distribution is an excellent move with vast socio-economic payoffs.

Capital League Wealth Creation Conclave 2011 "INDIA: SUPER POWER?"



From left to right: Panelists -Madhusudan Kela, Chief Investment Strategist, Reliance Capital Group, Ravi Bhoothalingam, Former President, Oberoi Group of Hotels, Amal Ganguli, Advisory Board Member, Capital League and Former Chairman, PWC, Prashant Jain, ED & CEO, HDFC MF, Raghav Bahl, CEO & Founder, CNBC TV18.



Mr. Subodh Bhargava, Member, Advisory Board, Capital League and Chairman, Tata Communications launching the book "SUPER POWER" written by Mr. Raghav Bahl, CEO and Founder, CNBC TV 18 (right)



The Capital League team with Madhusudan Kela and Prashant Jain



The Capital League partners in discussion with Raghav Bahl



The esteemed gathering listening in rapt attention to the preview to the book by Raghav Bahl



We are beginning to make a mark.....

Capital League Wealth Creation Conclave 2010 "PARTICIPATING IN THE INDIA GROWTH STORY"



From left to right (A Balasubramaniam, Birla Sunlife, Anup Maheshwari, DSP Blackrock, Vinita Idnani, Partner, Capital League, Rajul Kothari Partner, Capital League, Nilesh Shah, ICICI Prudential, Navneet Munot, SBI Mutual Fund conducting the panel discussion.



Sapna Narang, Managing Partner, Capital League



The Capital League Team