



# Short-Term Goals Matter Too

**Hemant Rustagi**

Chief Executive Officer, Wiseinvest Pvt Ltd.

**O**ne of the key factors that can help you achieve consistent investment success is to follow a goal-based investment process. Apart from creating a roadmap, it allows you to have clarity in terms of time horizon and target for each of the goals. Besides, it helps you decide how much you need to invest to achieve these goals as well as maintain the right balance in terms of risk and reward through an ideal asset allocation.

While it is encouraging to see an increasing number of investors following a goal-based approach, some don't follow this strategy in totality. It's quite common to see many of them ignoring short-term goals like creating an emergency fund, planning for a family vacation, buying a car, buying a gift for a family event, paying an insurance premium, etc., thinking that these can be managed by making a few adjustments here and there in the portfolio.

In reality, when the time comes to provide for them, they flounder and often end up derailing their longer-term investment process. Then, some investors provide for short-term goals but often create a pool of investments despite having a time horizon ranging from say a few months to a couple of years for different short-term goals. This strategy not only results in an overlap in terms of how funds are utilised but also compels them to compromise on returns. Remember, providing short-term goals offers a step-by-step approach that allows you to keep your focus on long-term goals.

One of the most important short-term goals is to create an emergency fund. An emergency fund should be a part of your risk management and hence must be the first step while initiating your investment process. An emergency fund is needed not only to take care of anything unexpected that may come along but also to allow you to continue your long-term investment process uninterrupted. You must ensure that your emergency fund is sufficient to cover at least 6-9 months of expenses and is liquid enough to access it anytime. It will be apt to also assign a time horizon to your other short-term goals too.

**An emergency fund is needed not only to take care of anything unexpected but also allow you to continue your long-term investment process uninterrupted. You must ensure that your emergency fund is sufficient to cover at least 6-9 months of expenses and is liquid enough to access it anytime.**

Mutual funds have an important role to play in providing for all your short-term goals. There are options like money market funds, liquid funds, ultra-short-term funds, and so on. Then, there are arbitrage funds that can be suitable for investors in the higher-income group. Arbitrage funds provide tax-efficient returns as short-term capital gains on units redeemed within 12 months are taxed at a flat rate of 20 per cent and long-term capital gains on units redeemed after one year are taxed at 12.5 per cent.

Another stage of your investment process that may require a clear short-term investment strategy is when your long-term goal like children's education is about to complete its time horizon. It would help if you begin realigning the portfolio 1-2 years before the completion of the time horizon to protect the gains as well as have the required liquidity. Similarly, if the goal is retirement planning, you must realign the portfolio to convert it from being growth-oriented into one that can produce a combination of regular income as well as growth to meet the current expenses and stay ahead of inflation.

The systematic withdrawal plan (SWP) is a smart strategy to generate regular income in a tax-efficient manner. There are hybrid funds like equity savings funds, dynamic asset allocation funds and equity-oriented hybrid funds that can be considered. The combination will depend upon the quantum of regular income required, the size of the portfolio and your risk profile. In short, a wise investor is someone who first defines the goals as short-term or long-term and then builds an investment portfolio to cater to both requirements.

