



How to protect your finance in 2nd covid wave?

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WHAT'S HAPPENING?

The **second wave** of the covid-19 crisis **has hit India in more ways than one.**

Equity markets are starting to take notice, displaying volatility reminiscent of the first wave in March-April 2020.

HOW CAN 2ND WAVE AFFECT YOUR FINANCIALS?

With India adding record **more than 2 lakh cases** in the **last 24 hours**, parts of the country are on the verge of a total lockdown.

Cities such as Delhi, Mumbai and Pune are **already** seeing curbs such as **night curfew** and in some cases, weekend lockdown.

All of this has started to take a toll on the markets.

Nifty has dropped around 6.5% from its peak of 15,300 on 15 February.

Markets may see further decline if key states such as Maharashtra and Delhi come under total lockdown, thereby eroding the value of your equity investments.

If this leads to more pay cuts and layoffs as was the case in 2020, it can imperil your financial security.

WHAT RISKS ARE PECULIAR TO THE SECOND WAVE?

The **current wave** has **hit India harder than** other major economies, such as the US, China and the UK, some of which have **vaccinated a higher proportion** of their populations than India.

This **means that monetary policy in the US may not come to the rescue** this time around.

It has already taken a toll on the rupee.

RBI's soft and accommodative monetary policy stance, even as the Federal Reserve tightens its monetary stance, weakens the rupee.

The second wave may also hit domestic stocks, particularly those geared towards domestic consumption more than foreign stocks or export-oriented sectors like information technology.

HOW DID INDIVIDUALS RESPOND IN 2020?

The market crashed close to 7,500 levels in March 2020 but recovered, essentially doubling itself by February 2021.

There were outflows from equity mutual funds since July 2020, but also record numbers of demat account openings as individuals moved to directly trade in stocks.

On the debt side, the Franklin Templeton shock freeze of 6 debt schemes hurt investors.

WHAT WERE KEY INVESTOR MISTAKES IN 2020?

Not having a sufficient emergency buffer caught many individuals off guard when there were salary cuts and layoffs.

Second, redeeming money too early caused investors to miss out on a large proportion of gains.

Investors were also caught off guard by the **great rotations within equity that happened** as the **recovery** gathered pace.

For one, there was a rotation **from growth stocks to value stocks.**

Secondly, there was a rotation **from pharma and IT to sectors more sensitive to the domestic economy such as banks.**

WHAT MEASURES CAN INVESTORS TAKE NOW?

First, **keep an emergency corpus** worth **6-12 months** of expenses.

Second, a **diversified portfolio** of **equity, debt and gold**, can protect you against sharp correction.

Third, some **exposure to global stocks or international mutual funds** protects you against both a **surge in the virus** in India and a consequent **fall in the rupee**.

Fourth, ensure that you **have life insurance** (term plans) **if** anyone in your family is financially **dependent on you**.

Fifth, ensure that you have **adequate health cover**.

Q. The primary goal of the financial management is?

- A) To maximize the return
- B) To minimize the risk
- C) To maximize the wealth of owners
- D) To maximize profit



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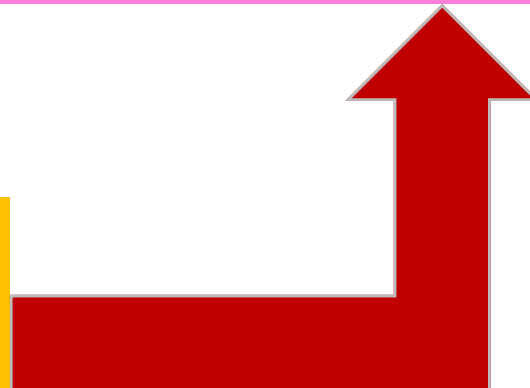
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