Do not let the Hero in your Soul perish in lonely frustration for the life you deserved and have never been able to reach.

The World you desire can be won. It Exists...It is Real...It is Possible..It's Yours.

John Galt

YOU CAN BE A MILLIONAIRE

AND YOUR FAMILY DESERVES IT!

For a 40-year-old today, retiring at 60, the annual expense requirement is Rs.80 lakhs if their current annual expense is Rs.20 lakhs. **Your retirement corpus required at age 60 is estimated to be in the range of Rs.10 to 12 crores (about US$1 million at that time).** You can seed your retirement corpus, i.e. the **IMMillionaire** Sovereign Family Wealth Fund (your family's wealth fund) with as little as Rs.10-25 lakhs with annual additions starting at Rs.5-6 lakhs and increased 10% annually. This simple act of disciplined savings and investments is likely to accumulate a corpus which is sufficient to take care of your retirement

YOU CAN BE A MILLIONAIRE

AND YOUR FAMILY DESERVES IT

INCOME RICH, NETWORTH POOR

According to income tax reports[1], in India, it seems only top 0.5% of the households, i.e. about 12 lakh households earn more than INR 10 lakhs per annum. *(We are not talking about the population but households. There are approximately 5 members of the population per household. This will reconcile the difference between 0.091% in the article vs. our 0.5%. It is also possible that some of the households have multiple members earning about INR 10 lakhs, which will bring down the total number of high earning households further.).*

In an Indian metro, a typical professional in the age group of 35-45 would be spending about INR 20 lakhs per annum. The professional, of course, considers himself or herself "middle class". While that might not ring true considering the above data about income taxes that we shared, it is what most professionals think.

We address this report to the typical metro middle-class professional with age 35-45 and annual expenses of INR 15-30 lakhs. For others, there are numerous websites offering retirement calculators. Or, you can enquire with us; ***We are always ready to help!***

We will personify our typical professional as Mr. Milan Iyer. Mr. Iyer has been working in the IT industry for a long time. He is 40 years old and owns a 3 Bedroom apartment in Bangalore. He is still paying his EMI. Other than the EMI, he needs INR 20 lakhs per annum for running his household.

Another professional, Mr. Milind Nayyar has been working in the Mumbai corporate world for a long time. He is 45 years old and owns a 2 Bedroom apartment in Mumbai. He is still paying his EMI. Other than the EMI he needs INR 25 lakhs per annum for running his household.

How should they start saving for their financial freedom or their IMMIllionaire Program?

[1] http://bit.ly/2xbvICV

FINANCIAL FREEDOM

It is important that one is rich not only in terms of annual earnings, but also in terms of their net worth. A high-enough net worth allows one to be financially free. The return on the net worth is sufficient to support one's expenses as well as to earn above inflation.

Currently, a net worth of about $0.5-1 Million should be sufficient to set one financiall free for a "middle class" lifestyle of INR 20 lakhs expenses p.a.

PLAIN LANGUAGE DISCLAIMER

Please read this disclaimer carefully and if you are not sure, please DO NOT read this report any further beyond this disclaimer. Also read the closing disclaimer carefully.

Before proceeding further, please ensure that you can understand the risks involved in financial markets.

You should understand that investments in financial markets and instruments, such as, stock markets, bonds, debentures and mutual funds etc. involve risks. The risk includes the possibility of substantial or total loss of capital invested.

Indulging in financial markets with borrowed money or leveraged instruments (e.g. derivatives) or certain leveraged strategies (e.g. margin trading) has the risk of losing more than the contributed capital.

If you do not understand the risks involved, you should first gather the basic information and knowledge and then hire an advisor or planner to handhold you. ***You should remember that you are responsible for your own destiny and your depth of understanding and actions will determine your future financial situation.*** A financial advisor can only ***assist*** you on that journey with knowledge and advice. ***Treat your financial advisor as your financial coach.***

Investing in stock markets and other financial instruments carries the risk of total loss of capital.

Always, remember that do not invest in anything that you don't understand.

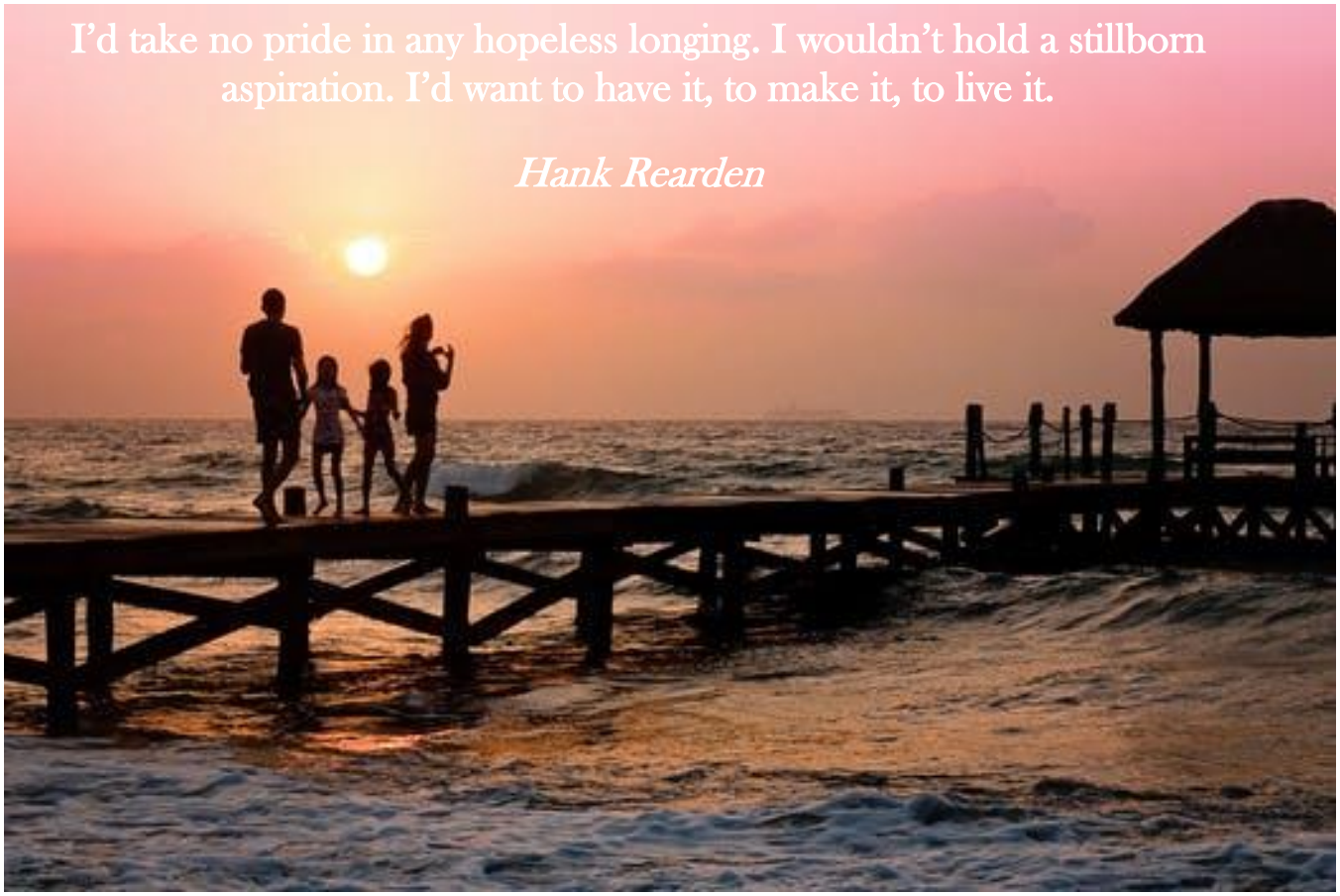
THE USE OF THE PHRASE "YOU CAN BE A MILLIONAIRE" OR "IMMILLIONIARE" OR "I AM MILLIONAIRE" OR "I AM MULTI-MILLIONAIRE" DOESN'T IMPLY ANY IMPLICIT OR EXPLICIT GUARANTEES THAT IT WILL LEAD TO BEING A MILLIONIARE.

THE INTENT IS TO HELP ONE ORIENT TO A REGULAR SAVING AND INVESTING MINDSET AND CONSCIOULY CREATE A RETIREMENT CORPUS.

THIS IS NOT INVESTMENT OR FINANCIAL ADVICE BUT AN EDUCATIONAL INITIATIVE. PLEASE CONSULT YOUR FINANCIAL ADVISOR FOR HELP.

ALSO, REMEMBER, THAT THE EARLIER YOU START INVESTING, THE FASTER YOU ACHIEVE FINANCIAL FREEDOM.

Safe and Happy Investing!



THE PERSON:

Let us understand these people a little bit better. Mr. Iyer and Mrs. Iyer have 2 children, a boy aged 8 years old and a girl aged 3 years old. Currently, they save whatever is remaining after their expenses. Mr. and Mrs. Iyer are quite conservative but have never thought too much about their financials. Their spending levels are quite similar to their peers and fellow professionals. Given the handsome salaries they have never been required to think about their financials. They never have a problem paying their EMIs. In fact, there is always enough cash in the salary account so that the EMI is automatically deducted from it.

Based on various tax saving advise from various advisers or friends and relatives, they have taken several insurance policies and have a few mutual funds, besides bank fixed deposits of various amounts which were suggested at various points of time. Given their age, they have hardly thought about retirement at all.

But recently, Mr. Iyer has started thinking about this and has been doing some research on this. ***Mr. Iyer loves his family like any husband and father and wants to make sure that after retirement he and his wife can live comfortably without being a potential burden for their children. In fact,***

ideally, he would also like to leave a legacy for his children and future generations. We will come back to Mr. Iyer's case and its analysis.

Mr. & Mrs. Nayyar have 2 girls, aged 14 and 11. Mr. & Mrs. Nayyar had always enjoyed a high household income and are little bit stylish. They like to live a better lifestyle and their friend circle and peer group is highly brand conscious. Given their high household income and yearly increments etc., they have never worried too much about savings.

While the salary account is always able to take care of the EMIs, typically, they are not fully aware of their savings situation. Again, several insurance policies and mutual funds bought at different stages abound.

Recently, one of their friends casually commenting that they would like to settle down after early retirement in a European or a Mediterranean Island country has set Mr. Nayyar and his wife thinking about their own finances. According to that friend a half million or million US dollars are sufficient to get permanent residence in these countries. Further, for a quiet retired life in a small town there, the living expenses are similar to their expenses in Mumbai.

Mr & Mrs. Nayyar wouldn't mind being global citizens and settling down in a quiet, small town, in a European country eventually.

Every man is free to rise as far as he's able or willing, but it's only the degree to which he thinks that determines the degree to which he'll rise.

John Galt

THE CHOICE:

Mr. Milan Iyer and his wife Malti had a long discussion one weekend about this. They dug out all their various bank statements and other investments, including mutual funds and various insurance policies. ***It turned out that they had accumulated around INR 80 lakhs so far.*** The questions that were not clear were; (i) Exactly how much would they need for their retirement while maintaining the same lifestyle, (ii) How much more did they need to accumulate, and (iii) How much time would it take? One thing was clear that they needed to make a choice to focus on their goal rather than drifting along. The goal they set for themselves was: ***We will create our own retirement fund which will set us financially free for life.***

Mr. Milind Nayyar and his wife Mona too had a long discussion one long weekend while they were chilling out in Goa and were shut indoors due to heavy rains. They too decided that they would consolidate all their savings and investments, have a hard look at their income and expenses and get focused on their goal. Their goal: ***Accumulate a fund as quickly as possible which allows them to retire comfortably in the Mediterranean.***

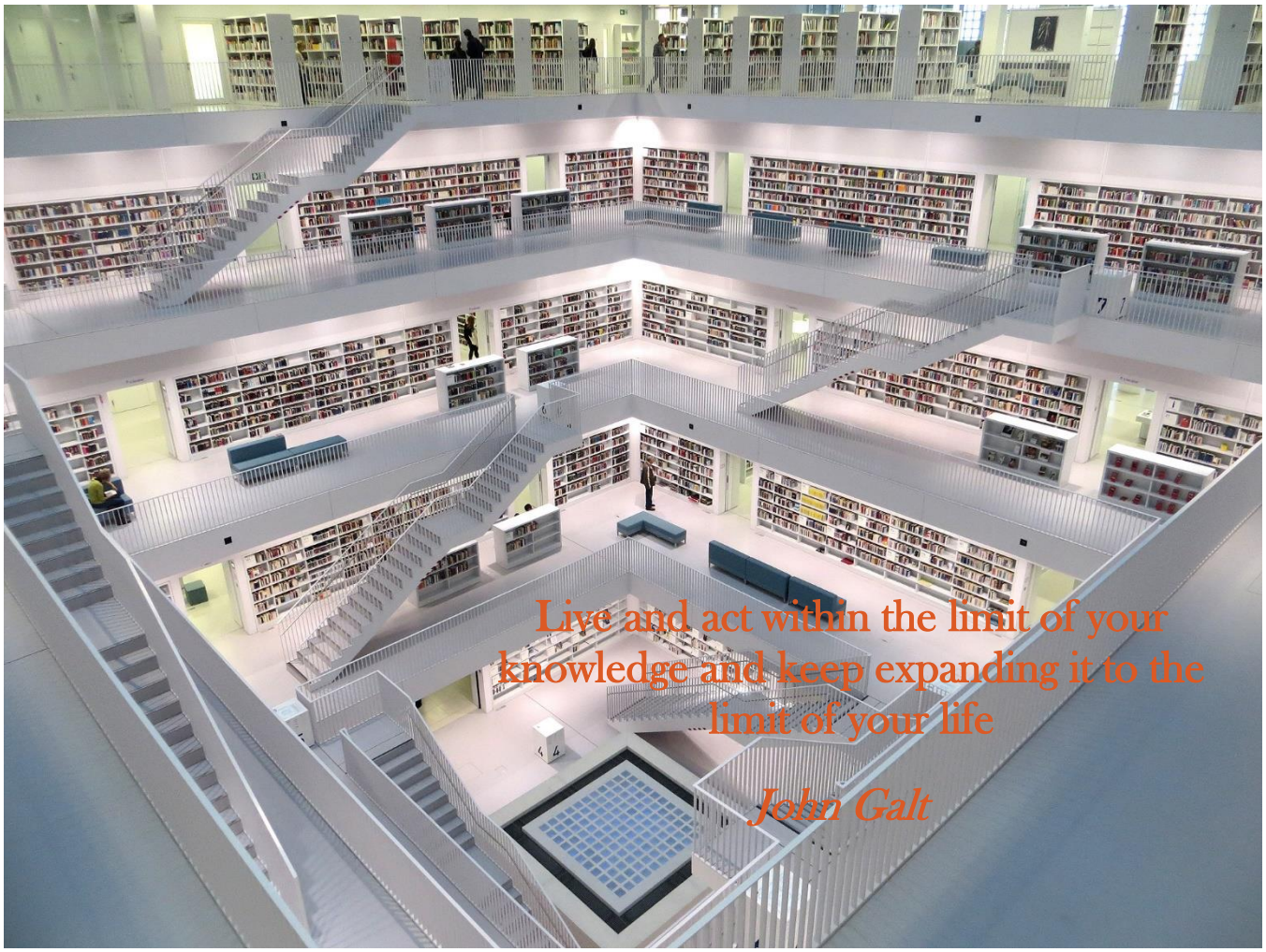
Later, they put together all their various investments, including mutual funds, real estate, insurance policies, savings deposits and fixed deposits. ***It turned out that they had about INR 1.5 crores as their total savings.***

(Of course, they understood that Mediterranean was just a concept, it could be anywhere in the world including Indian coastal towns or hill stations or any global location which they chose at that time in the future. They wanted to have the freedom to choose any location anywhere in the world.)

Both, couples decided that the first thing to do after this was to educate themselves about retirement and investments and that they would craft their own destinies as they had done so far in their lives.

Their research threw up lot of material which they thoroughly absorbed. They, being professionals themselves, understood the value of engaging professionals for help with this technically sophisticated long-term project of retirement planning and investing.

However, they decided that they would hold themselves accountable for achieving their goals and would follow the approach of "Delegate and Track" rather than "Delegate and forget".



THE RESEARCH:

It was easy for Mr. Iyer, with his analytical background, to reach the conclusion that to achieve a goal, the first step is to define it in crystal clear terms. Since he wanted to live comfortably for the rest of his life on his fund once retired, he wanted to calculate the monetary target which he needed to accumulate. Since he could work for at least 20 years more, he decided to do a few quick calculations to understand how much money he would need in about 20 years' time to maintain the same lifestyle.

CURRENT EXPENSES:

Mr. Iyer and Malti had tracked their current expenditure for couple of months and then further added other expenses which did not happen regularly on a monthly basis but were of the nature of once a year or few times a year. For example, insurance payments for their car, house, and life. Or buying clothes or vacations, or medical expenses. ***They calculated that their annual expenses were around INR 20 lakhs per annum.*** They could probably manage with a little bit lower, but it was better to plan with a higher figure. They also had enough income coming in to not worry about cost management at this stage. They were prepared to do whatever it took to achieve their goal, including severely reducing their expenses if the situation so required.

Mr. Nayyar and Mona too calculated their current expenses at INR 35 lakhs per annum. They weren't too keen on cutting their expenses, but realized that some of these were absolutely wasteful and they were just spending them without even getting the benefits. ***If they cut those expenses they would be able to manage within INR 30 lakhs without compromising at all on any of the things that they valued and enjoyed.*** But they, too, were prepared to take whatever drastic measures on the expenses front, if required.

EXPECTED INFLATION:

Mr. Iyer had already understood that inflation caused the same thing which was INR 100 this year to cost higher, say INR 105 or INR 110 next year. The precise amount would depend on the exact inflation that year. His research showed that the long-run inflation for India in the past had been 6% to 7% per annum. Of course, there had been years with inflation (CPI or Consumer Price Index) as high as 12% to 15% and as low as slight negative to 3% or so. Further, there were experts who projected that the future inflation of India would tend lower given the increasingly better infrastructure and reforms like GST etc. However, to be conservative, while calculating future expenses, it was better to assume a higher inflation figure. ***Mr. Iyer thought that 7% was about right.***

Mr. Iyer started with calculating his expenses at age 60, 20 years from now. ***INR 20 lakhs compounded at 7% was (1+7%)^20=INR 77 lakhs or approximately INR 80 lakhs.*** Calculating with 6% yielded INR 64 lakhs. Mr. Iyer, decided that ideally he should target for INR 80 lakhs but probably INR 65 lakhs should also be ok.

Mr. Nayyar's INR 30 lakhs compounded at 7% for 15 years, when he would be 60, yielded a target expenditure of INR 83 lakhs per annum. A lower value of 6% gave him INR 72 lakhs as future annual expenses.

EXPECTED RETURNS:

For calculating the future target corpus, first Mr. Iyer needed to estimate the returns on various investment instruments. Using the returns which the corpus could generate, Mr. Iyer would be able to estimate the required target corpus.

Mr. Iyer's research showed that savings bank paid about 4% returns per annum before taxation. Bank fixed deposits could yield about 6% to 9% pre-tax. This translated to about 4% to 6.5% post-tax. Debt instruments like corporate fixed deposits, corporate bonds or listed NCDs (Non-Convertible Debentures) could yield as high 10% pre-tax. Some debt mutual funds could generate about 9% or so pre-tax with a low effective tax rate due to indexation benefits. However, a long-run expected post-tax fixed income return would likely be in the range of about 8% at best, just beating inflation.

It would be difficult to expect a pure fixed income corpus to support the future income needs.

Mr. Nayyar too had been researching the expected returns and had come to the conclusion that a heavy dose of equity investments would be required. His research showed that various estimates existed to provide equity returns.

Both understood that all these were broad estimates and no precision could be expected. Best way to deal with the uncertainty was to use conservative estimates, i.e. high expenses and lower returns.

Index Returns

Historical index returns of Sensex[2] show that it has delivered about 16% returns without including dividends and about 18% including dividends over its full life from 1979 to 2017. Historical index returns of Nifty[3] show that it has delivered about 11% without including dividends and about 13% including dividends over its full life from 1995 to 2017.

This shows that expected returns from large-cap equity indexes range between 13% to 18%. Typically, there are some costs associated with equity investing which will reduce the returns by about 1% to 3%, say 2%. That will give a range of returns from 11% to 16%. The average return could be in the range of 13 to 14% for large-cap equity investments.

Inflation, GSEC yields, and Return on Equity

Based on his research and understanding of debt and equity, Mr. Nayyar thought of another way of estimating the returns based on the return on equity which companies in India deliver. Typically, he reasoned, if the Indian historical, long-term inflation rate is about 7%, then the Govt of India 10-year bonds would should yield about 1.5 to 2% more, i.e. about 8.5% to 9%. AAA corporate bonds should yield about 9.5% to 10%. A-rated corporate bonds should yield about 11.5% to 12.5%. Typically, banks in India lend to corporates at 12% to 14%. The return on equity of these companies should be about 15%-20% to be able to service bank debt. If the shareholders buy the shares of the company at fair value, then they too should be able to generate returns in line with the return on equity of the company. Hence, 15%-20% should also be the return which equity holders should generate in the long run assuming they buy at fair value and sell at fair value.

Buying at higher valuations will significantly reduce the returns. This could be the reason why the actual returns on Nifty seem to be on the lower side compared to Sensex. At the inception of Nifty in 1995, the PE ratio was probably quite high[4] at about 30 or just below.

GDP growth rates, inflation and Market growth rates

Mr. Iyer, too, thought of another way of estimating the expected returns on stock markets. He reasoned that the GDP of the nation is primarily contributed by the activities of its companies. Thus, the total consolidated revenues of all companies put together should be the nominal GDP, assuming that all companies are listed and there is no import or export. So, the growth rate of nominal GDP should match the growth rate of the stock market including dividends, assuming that the starting and ending values of the stock market are fair values. Based on this, the real GDP growth rate of India is expected to be about 7% to 7.5% in the future. Further, the inflation rate of 7% is to be added to this to estimate the nominal GDP growth rate. For a nominal GDP growth rate of 14.5%, the stock market, too, should deliver approximately 14% to 15% in the long term.

[2] http://bit.ly/bsesensex
[3] http://bit.ly/CNXNifty
[4] http://bit.ly/indiaPE1990s

Mutual Fund Returns

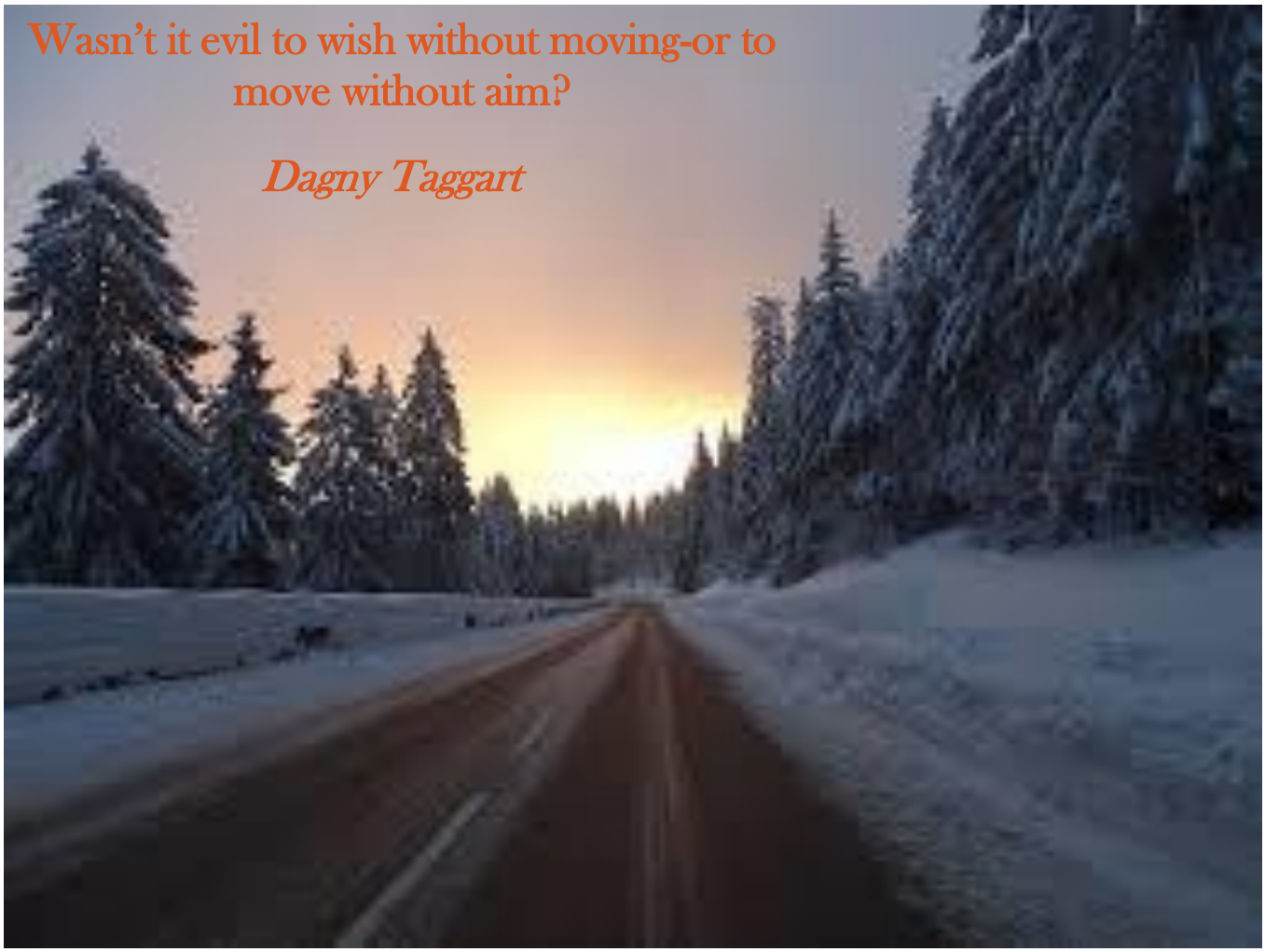
Finally, they also looked at the data from mutual fund returns[5][6][7] and here too the rate of 15% to as high as 28% over nearly 15 to 20 years is corroborated.

In short, both Mr. Nayyar and Mr. Iyer independently conclude that while the markets could deliver lower returns when shareholders enter them at high valuations, in the long-run, if the investors enter the market at fair values, on an average, then, a return of about 15% is possible.

Both understand that this is an estimate based on past data and some logical estimates about the future and hence there is no necessity that these returns will be achieved.

They also understand that there is a risk of complete loss of capital in equity markets and that there have been periods of negative returns[8] even for a 10-year holding period!

[5] http://bit.ly/UTIMFReturnsET
[6] http://bit.ly/MFreturnsIndia
[7] http://bit.ly/MFReturnsNDTV
[8] http://bit.ly/NegSensex



THE GOAL

TARGET CORPUS:

Mr. Nayyar now assumed that a mix of equities and debt could probably yield enough for providing the required income in future. Assuming that he had a corpus generating 10% post-tax, 7% of that would just go in taking care of inflation, i.e. maintaining the purchasing power of the corpus for future. So, the usable amount would be about 3%. If 3% was equal to INR 83 lakhs, the target corpus was INR 83 lakhs/3% = INR 28 crores. Not surprising, thought Mr. Nayyar, given that he had assumed a relatively low rate of 10%. The target corpus of INR 28 crores looked quite large but Mr. Nayyar proceeded undaunted.

Since his research had shown that equity markets could generate returns in the range of 15%-20% or so, Mr. Nayyar thought of trying with a more aggressive equity-like returns. How about if he used a rate of 15%, thought Mr. Nayyar. Of the 15%, 7% would take care of inflation and 8% could generate the INR 83 lakhs required annually. INR 83 lakhs/8%=INR 10.5 crores. The target corpus of INR 10-11 crores with an assumption of 15% annual returns on the corpus seemed relatively smaller. Mr. Nayyar concluded that he would need at least INR 12 crores and, ideally, INR 30 crores as his target corpus.

Mr. Iyer's calculations, too, yielded a target corpus ranging from INR 10 crores to INR 26 crores for generating INR 77-80 lakhs annually.

MR. NAYYAR'S GOAL

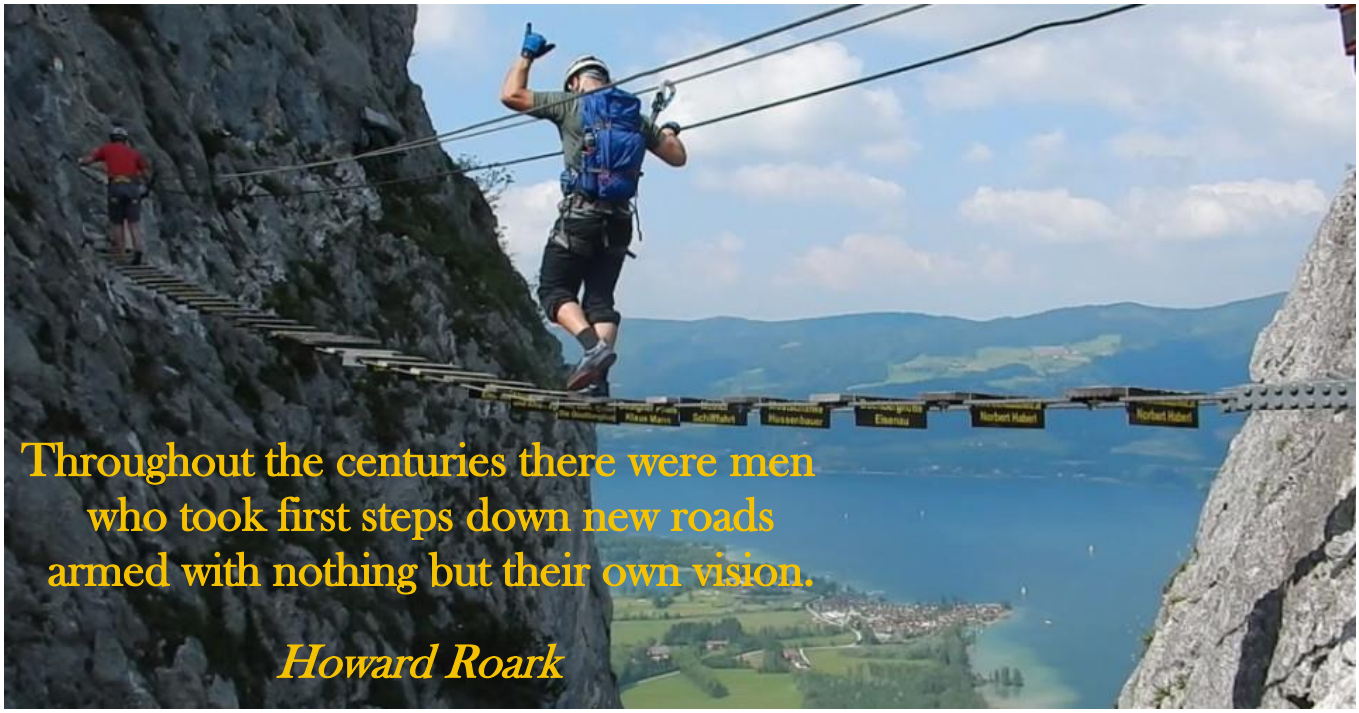
Mr. Nayyar set himself the goal of reaching a target corpus of INR 30 crores, but at least INR 10 crores within 15 years.

MR. IYER'S GOAL

Mr. Iyer's goal was to reach the same target corpus but he had 20 years to reach it.

Mr. Iyer had assembled his understanding of the mathematics involved to achieve such a goal. He knew that the important pieces of information, or variables, as he called them, were the following:

- Starting Corpus
- Time Horizon
- Expected Returns
- Regular additions to the corpus (if required)



THE PATH

MR. IYER'S PATH

Mr. Iyer put down his own information as follows:

- Starting Corpus= INR 80 lakhs
- Time Horizon = 20 years
- Expected Returns = 15%
- Regular additions to the corpus = 0

Starting corpus of INR 80 lakhs in 20 years at 15% compounded rate results in a corpus of INR 13 crores. Not near the higher goal of INR 30 crores, but definitely above the lower goal of INR 10 crores.

Mr. Iyer decided to explore further. What if he was able to add INR 6 lakhs per year? Will that take him further to his goals? That was nearly INR 19 crores. Pretty close!

What if he increased the additions by 10% every year, i.e. add INR 6 lakhs in the first year, add INR 6.6 lakhs the next year and so on. Bull's eye! That created a corpus of nearly INR 25 crores!

Mr. Iyer, was getting excited and wanted to understand the dynamics of portfolio compounding better. What if he did NOT invest anything in the beginning but started savings INR 1 lakhs per month to the corpus, i.e. INR 12 lakhs annually? That would accumulate to INR 12 crores.

What is he kept increasing that contribution of INR 12 lakhs by 10% every year? That took him to more than INR 23 crores!

Starting with investing the 80 lakhs AND contributing INR 12 lakhs per year AND increasing that contribution by 10% every year could yield a corpus of INR 36 crores at a 15% return.

Even a 12% return would yield a corpus of INR 25 crores.

Lesson Learnt, Mr. Iyer Noted: ***Keep contributing regularly and keep enhancing the contributions as his salary increased.***

MR. NAYYAR'S PATH

Mr. Nayyar was sceptical that he would be able to achieve his goals in the 15 years' time frame that remained before he wanted to retire. But he had understood the mathematics of compounding and had a sliver of hope.

Mr. Nayyar's initial assumptions:

- Starting Corpus=INR 1.5 crores
- Time Horizon=15 years
- Expected Returns=15%
- Regular additions to the corpus=0

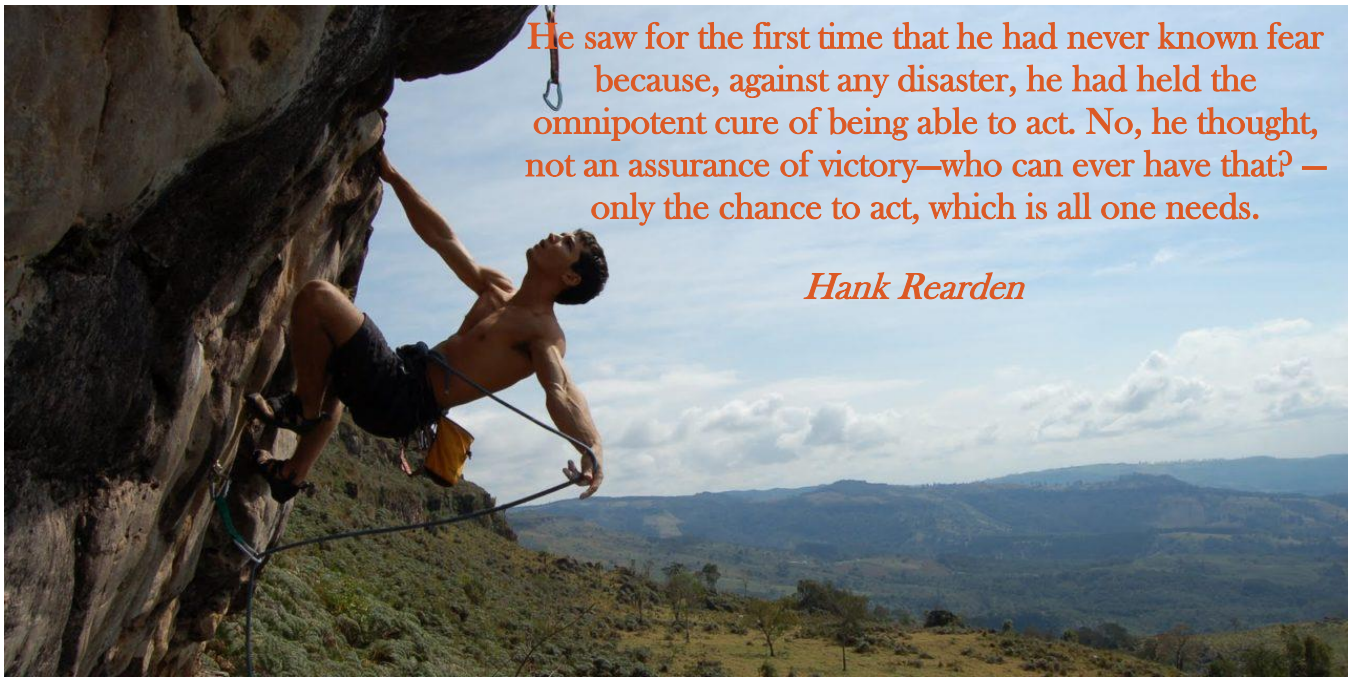
The above showed an ending corpus of INR 12 crores. Increments of INR 12 lakhs every year would take the sum to ~INR 18 crores. Increasing the contributions by 10% annually resulted in an ending corpus of ~INR 22 crores.

What if he did not contribute anything in the beginning? Mr. Nayyar's final corpus dropped to INR 9.5 crores. **The initial seed contribution was very important for Mr. Nayyar.**

Mr. Nayyar, also calculated that if he seeded the corpus with INR 1.5 crores, added INR 12 lakhs every year to the corpus, increased the contributions by 10% every year and worked until 65 years, he could end up with a substantially larger corpus of ~INR 48 crores.

Lesson Learnt, Mr. Nayyar Noted:

- **Seed the kitty with as much as you have; and then**
- **Enhance it with regular contributions every year; and**
- **Keep increasing the contributions regularly in line with the salary enhancements**
- **Finally, work for a few more years beyond 60, say 65, if possible**



THE RISK:

MR. IYER'S RISK ANALYSIS

Now that it was clear to Mr. Iyer that, in principle, it was possible that he could achieve his goals, he needed to carefully look at what could derail his plans. He needed to understand the risks involved.

To Mr. Iyer, risk was all events which could prevent him from reaching his goals. This would primarily entail the following:

1. Possibly losing capital along the way
2. Achieving returns lower than expected
3. Not being able to contribute more every year
4. Not being able to increase the annual contributions

Losing Initial Capital

Since he was a beginning investor, Mr. Iyer considered the possibility that he lost the initial capital completely. He would still be able to continue investing INR 6 lakhs the first year and increasing the contributions by 10% every year. Assuming those investments worked out, he would be at a corpus of approximately ~INR 12 crores at the end of 20 years. He would be at roughly half of his ideal target corpus of INR 29 crores, but still significantly ahead of the minimum threshold of INR 10 crores.

If, in response to the loss in the initial corpus, he increased his annually increasing contributions to INR 12 lakh instead of INR 6 lakhs, he would be able to achieve his goal of INR 23 crores.

The chances of losing capital were the highest in the beginning years when he did not know much. But since he had a long time-horizon remaining and strong earning capability during the period, he would be able to make up for any losses by increasing the contributions significantly for the remaining period.

Achieving lower returns

Mr. Iyer knew that there was always a possibility that the future returns might be much lower than the past. One case was that Indian markets delivered lower nominal returns due to lower inflation. In this case, he knew it did not matter as much since his future expense requirements would also decrease in proportion and hence he would need a much lower corpus.

The other case was that the real GDP growth slowed down and hence the market returns were lower. Assuming that the market returns fell to 12% due to slower real GDP growth rates while inflation was still at 7%, Mr. Iyer calculated that he would have to work up to the age of 65 to generate a corpus sufficient for his goals. Or he would have to start increasing the annual contributions substantially in whichever year he realized that the economy and markets were growing at a much slower rate than assumed. In that case, he would still be able to reach his target corpus within the timeframe.

If, finally, he achieved lower returns, say 10%, he would have to significantly cut down his expenses, say by 25%, and also try to work for at least 5 more years until 65.

Not being able to contribute annually

If he was not able to contribute further in future years, the amount, if compounded at the assumed 15% rate would be sufficient if he worked until age 65. A further adjustment to the living expenses to the extent of 25% reduction, would make the corpus sufficient to last for a long time beyond both him and his wife's lifetime.

Not being able to increase the annual contribution

An increase in the annual contribution is quite important, but not as critical as making the annual contribution, even though, non-increasing. A modest increase in working life of even 2 years should compensate for not being able to increase the contributions annually.

LESSON'S LEARNT, MR. IYER'S NOTES:

Mr. Iyer realized that for achieving his goal, given the investment time frame he had available, the annual contributions were the most important element of his plan. Second-most important was achieving decent returns, even if a little bit lower than targeted, on his annual contributions.

He needed to learn about investing in the initial 1-3 years and reduce significantly the chances of losing in investments due to mistakes. He couldn't guard against market risks reducing his capital during the holding period. But if there was a major fall in the markets, he could probably increase his annual contribution in those years significantly to take advantage of lower market valuations and the subsequent gains. But that was something he could worry about then. He would have learnt about "how to invest" and "when" in the first few years.

He understood that his time horizon and capability to contribute for next several years made his plan robust to a sudden fall in the markets during the initial years of his investment period.

He had to be prepared to contribute more annually, as much as he could, especially, if the markets fell significantly. Further, he had to be ready to work for a longer duration than planned, so be mentally ready to work up to the age of 65, if required. Finally, also be mentally ready to reduce expenses by 20-25% from the current levels, if required.

It seemed that with all these potential corrective actions, he could respond to most challenges he was likely to face.

Of course, his eventual corpus would be severely impacted, if all bad things happened at the same time; i.e. he lost his initial capital and he could not contribute annually. Even worse would be if he also lost his job.

But, in most realistic worst-case scenarios, he could take remedial actions given the long time-horizon he had. ***Most important, he had to learn about the right way to invest in the initial years and identify the right advisors who could help him preserve and grow his capital with safety.*** He knew he had to be exposed to market risk, i.e. the notional loss of his investments during market crashes. If someone sold off their holdings during these periods, the notional loss would be converted to a permanent loss of capital.

One had to develop the understanding of equity investments and how to judge whether your portfolio was robust even though it was showing a loss in terms of its quoted value. The learning also involved how to judge if the loss in quoted value actually meant that the portfolio had lost its value. This involved learning the intricacies of equity investing and Mr. Iyer made a note of getting on that job immediately. Without that expertise, even with a good advisor to guide him in portfolio design, he would end up losing. He knew that if the understanding was not internalized, he would panic when there was a market crash and exit precisely at the wrong point of time.

MR. NAYYAR'S RISK ANALYSIS

Based on the investment mathematics, Mr. Nayyar understood that the following variables could be critical to his reaching is goal.

The important variables were:

- Starting capital
- Expected Returns
- Annual contributions
- Annual increases

He decided to understand the sensitivity of the plan to the different variables.

Starting Capital

He realized that in his plan, the initial capital was contributing slightly more than 50% to the final corpus. So, the initial corpus was very critical. However, even if he did not contribute the initial corpus, the annual increasing contributions would still deliver about ~INR 10 crores.

Expected Returns

Mr. Nayyar wanted to see how important were the 15% returns to the plan. What corpus could be achieved if lower returns, say 10%, were achieved? At 10%, he would reach more than INR 13 crores. While the portfolio was reduced significantly, it was still a substantial corpus. Remedial action was to work for a few more years, say until 65 years.

Annual Contributions

Not making annual contributions would again reduce the portfolio by about half to INR 12 crores.

Annual Increases

Making the annual contributions, but not on an increasing basis would reduce the final portfolio to ~INR 18 crores.

Mr. Nayyar concluded that he had to definitely invest his starting capital and continue making annual contributions. If he was not able to increase the annual contributions, that was not such an important issue to worry about.

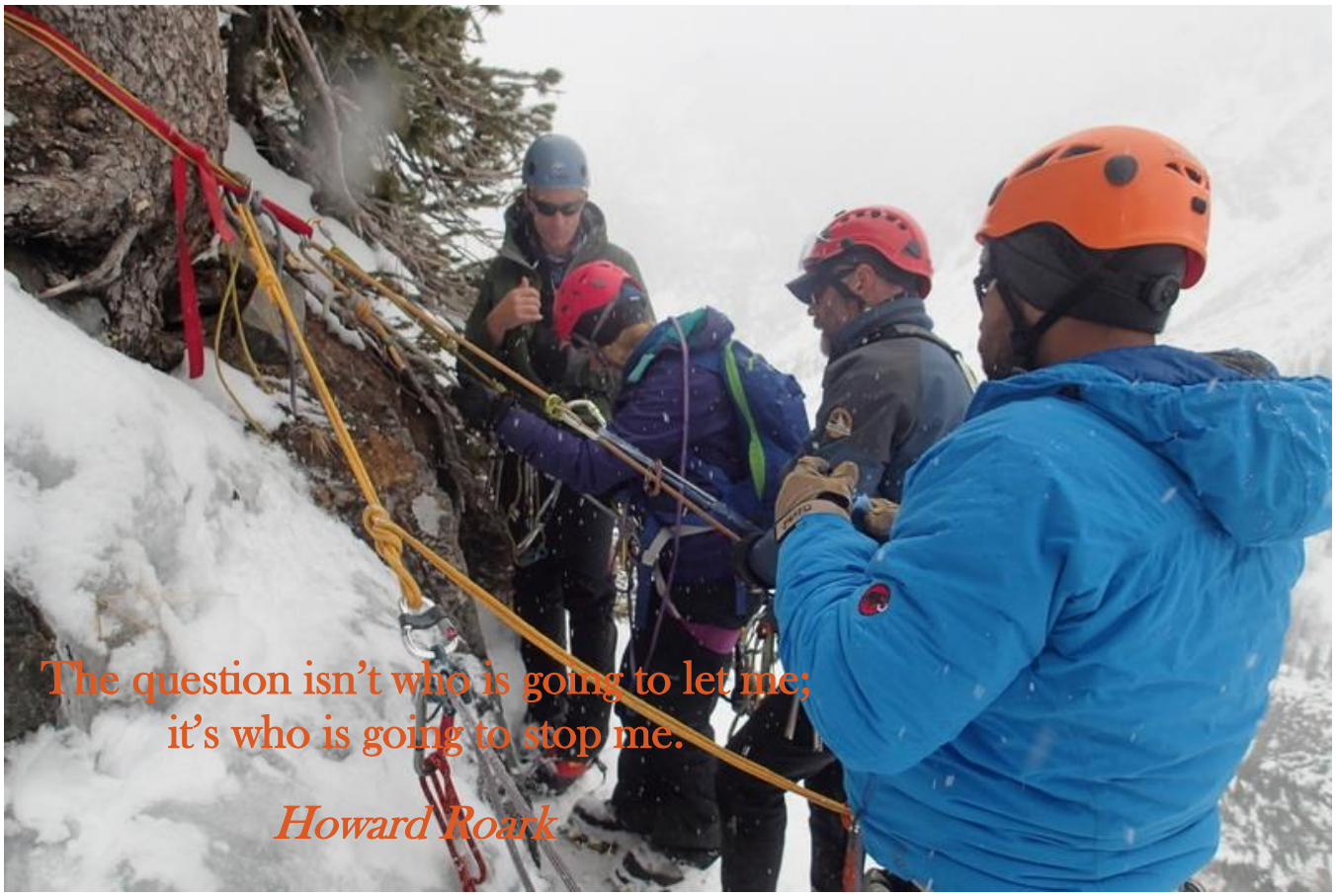
Expected returns were important. Lower returns would mean that he had to work for few more years, if possible, contribute more capital annually, and, also lower his expenses to some extent.

In the worst case, he might not be able to move to his dream Mediterranean country. But he should still be able to retire comfortably, albeit at a slightly compromised lifestyle.

He could definitely not afford to lose his capital. It was important that he learn about investing and ways to deal with the severe volatility which markets are subject to.

He decided to take quick action on starting his savings and investment program immediately. He also decided that he needed very quick lessons on how to invest in equities. While he did not plan to become an expert, but rather engage experts for advising, he definitely needed to learn how to pick the experts and how to differentiate between their expertise.

His most important investment, he decided was to learn to pick experts and advisors.



THE IMPLEMENTATION:

MR. NAYYAR'S IMPLEMENTATION:

Mr. Nayyar had learnt during his research that internationally, individuals opened a specialized investment account on an investment platform. This investment account was managed by a custodian who kept track of all cash inflows and outflows, all transactions, such as buying or selling securities, handling their settlements and, also keeping track of corporate actions, such as, receiving dividends, and keeping track and receiving bonus shares. Above all, the custodian kept safe custody of all assets on behalf of their clients.

Further, the custodians also provided reports on the current value of the assets and the performance of the portfolio against standard benchmarks.

If required the custodians could also interface with other professional service providers, such as investment advisors and brokers and take care of calculating and paying their fees from the investment corpus and the linked investment bank account.

Mr. Nayyar liked this idea of having a separate investment account with his own custodian reporting to him.

Secondly, on the learning about investing front, Mr. Nayyar started reading the ***Intelligent Investor by Benjamin Graham*** and keeping his eyes and ears open to learn more from there.

Mr. Nayyar and Mona labelled their investment program ***"I am Millionaire"***.

Mona said to Mr. Nayyar, "Congratulations, Mr. Millionaire, a.k.a. Mr. Milind Nayyar!"

MR. IYER'S IMPLEMENTATION

Mr. Iyer, too, had decided to find an investment platform to consolidate and manage all his investments and support new contributions on a regular basis. Further, this would help him to monitor whether he was on track with his plan. He had made up his mind that he would only work with experts who were willing to work with him in this highly sophisticated structure.

For starting his investment education program, he had learnt that an initial reading of the ***Berkshire Letter to Shareholders written by Warren Buffett*** would be a good start.

Once the investment platform was finalized he would move all his assets there and start the investment program.

In parallel, he also needed to assemble experts in the fields of financial planning to vet his plan. In addition, he needed equity specialists to advise him on his equity allocations. He also planned to allocate to both Indian and Global equities, if that made sense.

Mr. Iyer and Malti labelled their investment journey as ***"I'm Multi-Millionaire".***

Mr. Iyer said to Mrs. Iyer, "Congratulations, Mrs. Muli-Millionaire, a.k.a. Mrs. Malti Milan Iyer!"

IT IS NEVER TOO LATE: MR. IYER'S BROTHER-IN-LAW

As happens often, the notorious brother-in-law is always nearby whenever financial advice is being disbursed. Mr. Iyer's brother-in-law Raj Singh was always giving him free advice on real estate flipping, gold future trading and intraday derivative play. Of course, Mr. Iyer would always politely listen and then ignore the advice and go back to his work.

Raj used to make a decent salary of about INR 20-25 lakhs. However, unfortunately, Raj's playing with his money in various "investments", such as, flipping under-construction real estate, gold futures trading, day trading in the stock markets, Bitcoin, etc. had led to losses over the years. On learning about Malti and Mr. Iyer's Millionaire initiative, Raj's wife had asked him to seek advice from Mr. Iyer. The tables had turned. The advice-giving older brother-in-law was seeking advice from the younger Mr. Iyer!

Mr. Iyer found out that Raj was left with just INR 25 lakhs in savings. He was already 50 and had 10 more years of work. Fortunately, he was in a solid job which paid well and had decent increments. Even more fortunately, Raj lived in a smaller town, had already paid fully for his house, and their family expenses were about INR 10 lakhs. So there was enough cash flow to do some investments.

Mr. Iyer's calculations showed that if Raj started investing INR 50,000 per month, i.e. INR 6 lakhs per year, and kept increasing it by 10% every year, in line with his salary increases, he could reach about INR 2 to INR 3 crores by 60. If he reached INR 3 crores, that would be sufficient to take care of their lifestyle at the current level in inflated costs 10 years from now. If he ended with lower amounts, it would still be a decent-sized corpus if he continued investing regularly and prudently.

Best scenario would be, if Raj contributed INR 10 lakhs per year, increasing it at 10% and continued working up to the age of 65. With a potential corpus of INR 10 crores, he could end being a millionaire too!

IT IS NEVER TOO SMALL: MR. NAYYAR'S BROTHER-IN-LAW

Mr. Nayyar's brother-in-law, Ram Subramanyam, had just joined his first job, was 25 and was earning a decent salary. Mr. Nayyar advised him to start investing regularly, even if it was as little as INR 25000 per month, i.e. INR 3 lakhs per year. By the time Ram retired at 60, he could have around INR 25-65 crores, quite likely a multi-millionaire at that time.

Further, even if Ram lost money in the initial years, he could learn from the experience and keep contributing and reach a very substantial corpus despite those initial losses.

EPILOGUE: MR. IYER'S VISION

Mr. Iyer was sitting on the first-floor balcony of his bungalow in Coorg. He could see coffee gardens and hills around him. He knew that it was his 85th birthday and he had just come back from playing some golf in the morning. His whole life from 40 onwards, from the day he had decided to embark on the **"I'm Multi-Millionaire"** initiative, started going through his mind. He realized how he had started with INR 80 lakhs and decided to add INR 12 lakhs to it every year and increase the contributions in tandem with his salary increases every year. There were many ups and downs but he had continued making the contributions through all ups and downs. At times when the markets went into a severe downturn he had tried to add the maximum amount he could comfortably add.

He remembered that he had turned a Dollar Millionaire with about INR 7.5-8 crore before he had turned 50. His portfolio had delivered higher than expected returns. He had sufficient inflation-protected income at that time, so that he could have retired and lived off the income maintaining his lifestyle while his corpus kept increasing at faster-than-inflation rates. However, he had decided that he wanted to work for a long time since he loved his work.

He chuckled at the thought and how anxious he had been about the returns and risks when he had first started. However, fortunately for him, he had become a millionaire much earlier than anticipated. But soon after the markets went through a huge crash and his corpus which at its peak was about $1.5 million had tanked to roughly half. He had not lost heart and kept trying to add. For a few months, he could not add a lot since he himself was not sure about his job and income continuing and wanted to maintain some liquidity. However, his corpus was still about INR 5 crores. Once the uncertainty on the job front had settled, he had resumed adding to his corpus.

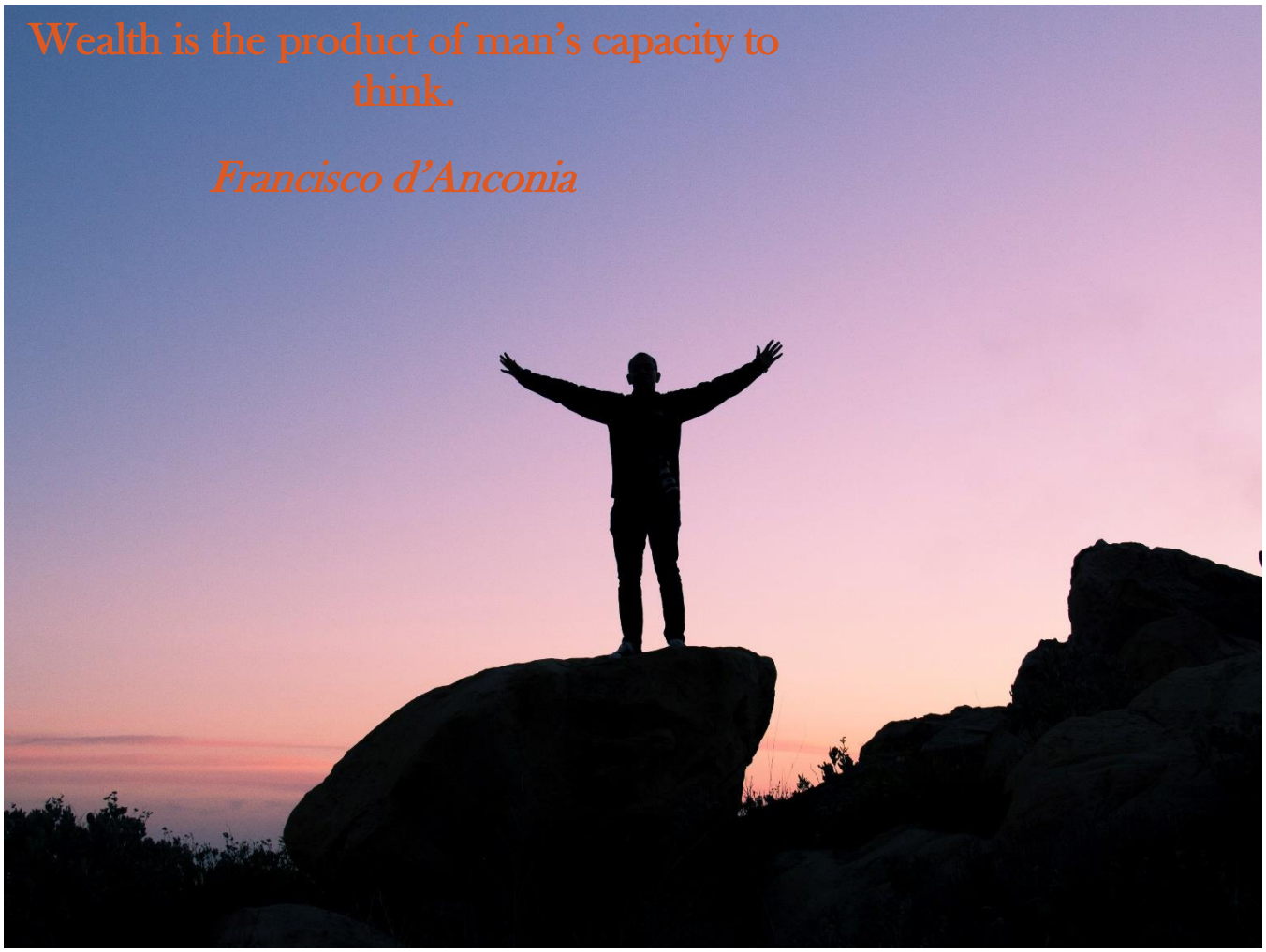
On his 60th birthday, he had decided to continue working until, at least, 65. At 85, today, he was worth more than INR 1000 crores and about $30 million+. His brother-in-law Ram who had also started 45 years back opening his account with INR 25000 per month was 70 now. He was INR 200+ crores and $8 million.

Mr. Iyer had a satisfied smile on his face. He had already formed a trust to transfer his legacy to the next generation. He had also created an Iyer Family Constitution which laid out the basic principles of wealth creation. His idea was to create a 1000-year legacy. No one could withdraw capital from the trust, but it could be invested according to prudent investment norms that he had laid down. Post-tax returns (whether interest, dividends or capital gains) up to the long-term inflation estimates were treated as capital and reinvested back as capital. Returns above that could be used for specified purposes for the family and philanthropy.

It was expected that each new member of the family had to start contributing, at least, 10% of their income to the family corpus starting at the age of 25. The future voting rights of the trustee boards were divided based on the cumulative contributions of the family members, net of their receipts from the family corpus. He could easily see that the corpus would be in billions in a generation or so as his children had grasped the principles and were already contributing to it.

He was satisfied and was going to continue overseeing the family wealth and businesses for several years. He felt completely healthy and mentally fit. That was the other secret in the family constitution!

A part of Mr. Iyer wondered: Was he 40 and dreaming or 85 and had his vision come true?



WHATEVER THE MIND OF MAN CAN CONCEIVE AND BELIEVE, IT CAN ACHIEVE.

NAPOLEON HILL

THE IMMILLIONAIRE DATA SHEET

Current Annual Income (net of all taxes): _____

Current Saved Corpus: _____

Current Annual Expenses: _____

Current Annual Savings (Income-Expenses) _____

Planned Annual Investment Contribution: _____

Planned Annual increases in contribution (%): _____

THE IMMILLIONAIRE PLEDGE (TO ME AND MY FAMILY)

I PLEDGE TO BE A MILLIONAIRE.

I UNDERSTAND THAT IT IS NOT A DESTINATION BUT A JOURNEY.

I UNDERSTAND THAT NO ONE CAN SEE THE FUTURE AND WE CANNOT PREDICT RETURNS

I UNDERSTAND THAT WHAT IS IN MY CONTROL IS TO SAVE AND INVEST REGULARLY IN PRUDENT INVESTMENT AVENUES

I UNDERSTAND THAT KNOWLEDGE AND EMOTIONS ARE VERY CRITICAL TO A SUCCESSFUL INVESTMENT PROGRAM

I UNDERSTAND THAT REGULAR CONTRIBUTIONS THROUGH UPS AND DOWNS OF THE MARKETS IS VERY IMPORTANT

I UNDERSTAND THAT EXITING AT THE BOTTOM OF THE MARKET IS THE WORST INVESTMENT STRATEGY

I WANT TO START THE IMMILLIONAIRE JOURNEY

I UNDERSTAND THAT NO ADVISOR CAN MAKE IT HAPPEN FOR ME, I AM RESPONSIBLE FOR MY OWN DESTINY

INITIAL CORPUS: ----------

REGULAR ADDITIONS: ----------

ANNUAL INCREMENTS: ----------

TARGET CORPUS: ---------- (I UNDERSTAND THAT THERE IS ABSOLUTELY NO GUARANTEE THAT THIS COULD BE REACHED)

SIGNED

MR. ----------

MRS. ----------

DATE: ----------

GET STARTED WITH THE IMMILLIONAIRE PROGRAM

Fortunately, OmniScience Capital has launched a world-class investment platform in collaboration with a custodian for Indian and NRI clients. This can be used for consolidating all Indian securities in one place.

There are only 19 SEBI registered custodians in India. All FPIs are required to appoint and invest through a SEBI-registered custodian. Further, all PMS platforms with AUM more than INR 500 crores are required by SEBI to appoint a custodian. The importance SEBI accords to custodial services signifies that a third party handling the custody and safe keeping of assets and also handling the transactions, settlements, and reporting is a very important service.

OmniScience Capital is of the view that individual clients should also try to avail of these services for their own private investments.

Once such an investment account is created, the client is in full control of his investment program and can hire appropriate advisors to advise on various security instruments. Further, his financial planners and wealth managers can also have access to his regular reports and can monitor and advise on course corrections as and when required.

PLEASE ENQUIRE WITH US ABOUT THE IMMILLIONAIRE INITIATIVE AND THE CUSTODIAN INVESTMENT PLATFORM.

OmniScience Capital is an equity specialist focused on listed Indian and Global equities. We encourage you to learn about the unique Scientific Alpha approach of OmniScience.

Visit www.omnisciencecapital.com to learn more about Scientific Alpha

To develop your own expertise in understanding investing,

Follow us on Social Media

https://www.linkedin.com/company/omniscience-capital

https://twitter.com/vikasvgupta

https://www.facebook.com/OmniScienceCapital/

DISCLAIMER:

Past performance is not necessarily indicative of future results.

Omniscience Capital Advisors Private Limited (Omniscience Investment Advisers) is a Registered Investment Advisory firm with SEBI-registration no. INA000007623. Equity investments are subject to market risks. Please read all related documents carefully. An investor should consider the investment objectives, risks, and charges & expenses carefully before taking any investment decision. This is not an offer document. This material is intended for informational purposes only and is not an offer to sell any services or products or a solicitation to buy any securities. Any representation to the contrary is not permitted. Omniscience makes no warranties or representations, express or implied, on the products and services offered. It accepts no liability for any damages or losses, however caused, in connection with the use of, or on the reliance of its product or services. This document does not constitute an offer of services in jurisdictions where the company does not have the necessary licenses. This communication is confidential and is intended solely for the addressee. This document and any communication within it are void 30-days from the date of this presentation. It is not to be forwarded to any other person or copied without the permission of the sender. Please notify the sender in the event you have received this communication in error.

All calculations, estimations, projections in this document are theoretical and hypothetical and could have errors. These do not represent any real returns. Real investments could have substantially different returns.

We may have recommended stocks, or stocks in the mentioned sectors to clients, including having personal exposure.

ABOUT OMNISCIENCE CAPITAL

OmniScience is an all IITian global investment management firm that has developed a proprietary investment engine, Scientific Alpha, which is based on a Structured Value Investing framework focused on enhancing safety & designed to capitalise on market inefficiencies and capture alpha.

Scientific Alpha

Scientific Alpha is built on decades of deep research on value investing philosophy as formulated and developed by Ben Graham and Warren Buffett and the first principles of investment management. Scientific Alpha is the next stage of evolution of this philosophy focusing on alpha from safety. The resulting portfolio is what is termed a SuperNormal Portfolio or an Investment Grade Equity Portfolio ***(Note: Investment Grade Equity does not imply any form of capital protection.)***

Global Product Suite

Our offerings are built for Global Listed Equities (USA, UK, Europe, Japan, India) and aimed at Indian & Global HNWI, UNHWI, Family Offices & Institutional Clients. Through its partnerships with SEBI (India), SEC (USA), FCA (UK), FSC (Mauritius) & DIFC (Dubai)-registered custodians, OmniScience Capital offers India's only separate account investment platform for taking exposure to Scientific Alpha portfolios of Indian and Global equities.

The Team

All IITian, IIM, IVY League (Columbia Univ., New York, EDHEC/EST Toulouse-France) & Alumnus of Bulge Bracket Investment Banks (Goldman Sachs, ING)

Dr. Vikas V. Gupta

CEO & Chief Investment Strategist

- Inventor & Architect of the Scientific Alpha concept
- Formerly, served as Professor/faculty at IIT Kharagpur & University of California, Irvine.
- B.Tech from IIT Bombay, Masters and Doctorate, Columbia University, NY
- Columnist at The Street, Mint, Moneycontrol, ET, among others

Ashwini Shami

EVP & Portfolio Manager

- Previously worked with ArthVeda and Goldman Sachs
- B.Tech and M.Tech from IIT Bombay; MBA from IIM Lucknow and Toulouse Business School, France

Varun Sood

VP Quantitative Research

- Previously worked with ArthVeda, ING and Masan group
- B.Tech from IIT Roorkee and earned his MBA from IIM Bangalore and EDHEC School of Business, France

AN OMNISCIENCE CAPITAL INVESTOR EDUCATION INITIATIVE AS PART OF THE

World Investor Week 2017

CONTACT INFO

Our Website

www.omnisciencecapital.com

Follow us on Social Media

https://www.linkedin.com/company/omniscience-capital

https://twitter.com/vikasvgupta

https://www.facebook.com/OmniScienceCapital/

OMNISCIENCE CAPITAL
SCIENCE OF ALPHA FROM SAFETY

Fort Office: 3rd Floor | 67 Podar Chamber | SA Brelvi Road | Fort | Mumbai 400001

Andheri Office: 7A, | Nucleus House | Saki Vihar Road | Andheri (E) | Mumbai 400072

T: +91 22 2858 3750/51 | M: +91 989 214 0540 | M: +91 998 768 1967 |