144 Pages Ebook

15

LESSONS WHICH CAN CHANGE YOUR FINANCIAL LIFE

JAGOINVESTOR.COM

HELLO

WELCOME FROM MANISH CHAUHAN AND NANDISH DESAI FROM JAGOINVESTOR

In this ebook, you will read some of the life changing lessons on money and managing wealth.

Over last 8 yrs, we at www.jagoinvestor.com are spreading financial literacy and from our 750+ articles, we have short listed around 15 of our best content and presenting them in a ebook form.

We are sure that these articles will truly change the way you look at money and how you manage your financial life.

Lets Start ...

6 simple reasons why you should get serious about Savings starting today?

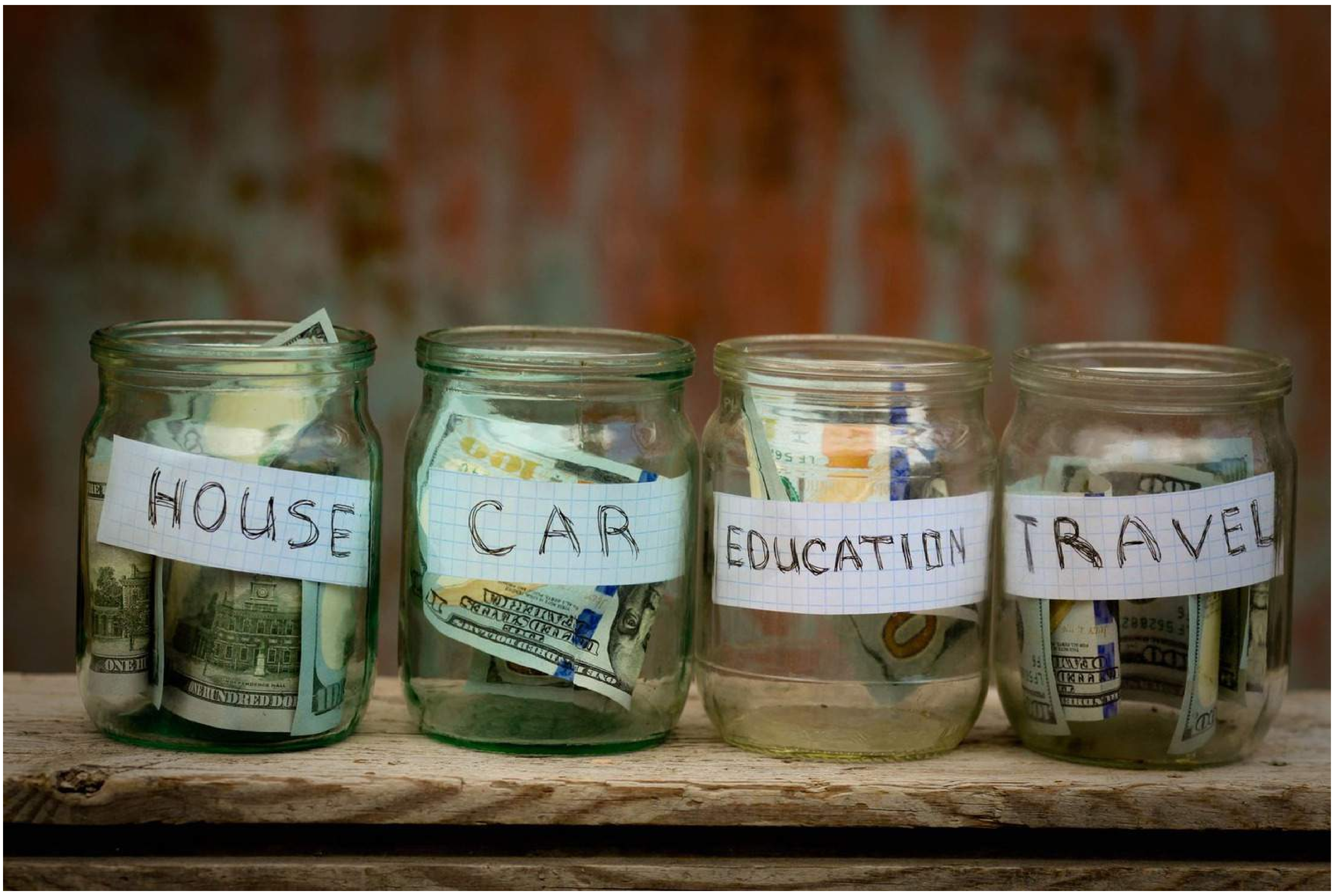
ARTICLE

1

Think for a moment that you have 3 yrs worth of your salary in your bank account.

How does it feel?

So if you earn Rs 10 lacs a year, you have Rs 30 lacs lying in your savings (other than real estate). If you earn 20 lacs per annum, its 60 lacs!



But in real life, most of the people do not take enough effort to save more money. It's on their wish list to "start saving from next month", but the motivations soon fizzles out.

Most of the people are so busy and stuck with various problems in life that with each day, saving money for future remains a distant dream for many.

Are you one of them?

Life has various dynamics.

Many people are stuck in a bad job, while some people are in a bad marriage which is draining all their energy and time. Some people are running around to arrange for a house down payment, while some are wondering if they should have second kid or not!

Life keeps throwing so many things at us, that we really forget where we are headed towards and we are not able to see how our actions today will shape our future.

We keep dealing with the NOW, only to realize many years later that our FUTURE is almost there waiving at us. And then suddenly we realize that we have so much to catch up in life. More health, More money and More happiness !

We start our jobs in our 20's, then settle by the end of 30's, move to next level in our lives while we are in our 40's and then in this journey we realize we are approaching our 50's and if we have not done a good job of saving enough money then we PANIC !

And we tell ourselves – "Oops .. I could have handled my life in a better way, if only …" . As per a HSBC report, around 47% of the Indians have not yet started saving for their retirement or have stopped it after starting.

6 reasons why you should save money and create wealth

Today I want to do a deep conversation regarding saving money. I know you might feel, is there a lot of it to talk about that?

Today I want to make sure that this is the last article, in order to get serious regarding saving & investing more money in your life (I will refer "saving and investing" as "saving" in this article henceforth).

Almost all the people feel that "saving money" is only related to securing your future. The equation for them is

`Save money = Lead a better life tomorrow`

But there is more to it!

There are various other angles you need to think about, and that's what I want to discuss today. So read this article with all our eyes open!

Reason #1 – To secure your future

Let's start with the most basic and core objective of saving money. You save money to accumulate the money and use it for your future requirements.

Let me give you a surprise – "One day, your salary will stop coming in your bank account"

There will come a time when you will be left with 40 more years of your life and there won't be a regular salary coming into your account like it happens today. You need to create a big enough corpus, which helps you to lead a life you desire for next few decades till you die.

You should actually not be worried about "death" in today's world, It should be "living enough". Some people think they can avoid creating their wealth because their kids will take care of them. However it's up to you to decide if that's the right approach towards life or not

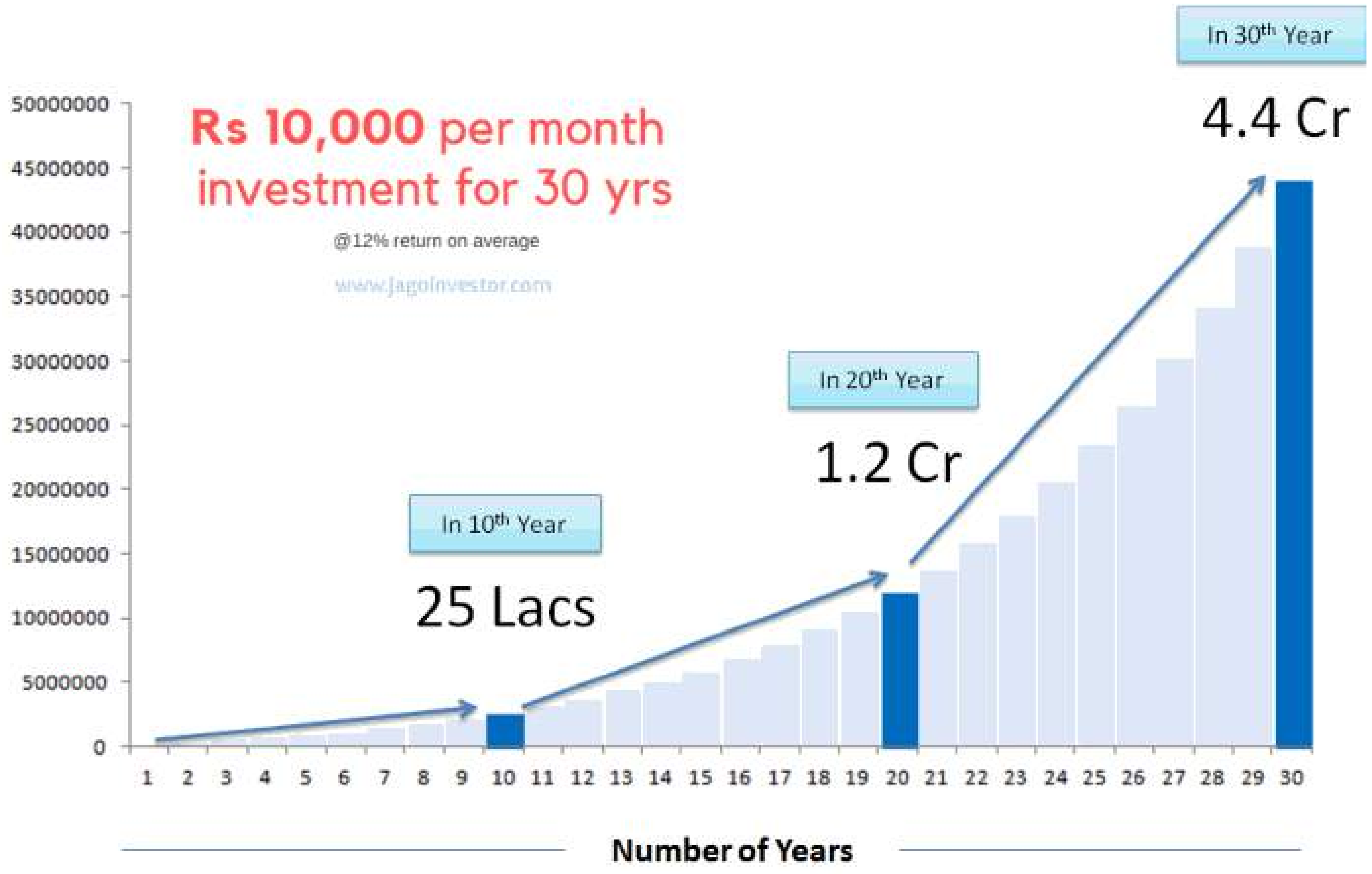
Savings and Investing definition by a 9 yrs old girl

Long back, Subra had asked a 9 yrs old kid to read a book on money and summarize what she learned about "saving and investing" and she gave a very crisp understanding about it. Please appreciate the simplicity of the girl thoughts.

> **Saving:** Saving money is very important. We should save money because if one day suddenly we need money we will have it with us. If we just keep on spending all the money that we get and one day we need money we will not know what to do. I am also saving all my pocket money because I might need it in future. I have kept it in a bank account and I get interest on that every year.
>
> **Investing:** Investing makes our money grow. Just as a plant grows from a seed to a plant. When we keep our money in a savings bank we get interest but if we will invest our money in fixed deposits, shares, mutual funds, public provident funds, etc. our money will grow from a small amount to a big amount faster. Real money takes more time to grow whereas a plant grows within weeks.

Start saving some money for future. If you can't manage to save enough money, at least start saving some money starting next month TODAY .

Let me share with you some numbers on this. If a 30 yrs old person invests Rs 10,000 per month for next 30 yrs consistently, then @12% average return over long term, a total of approx Rs 4.4 crore can be accumulated.



I know a lot of people who can surely start with Rs 10,000 per month investment. Don't worry if you can't do that much?

What about Rs 5,000? Rs 2,000 ? Anything is a good start! , upgrade later – but at least START.

If you are interested to start your wealth creation journey, just leave your details at http://www.jagoinvestor.com/pro and a mentor from Jagoinvestor team will reach out to you in next 24 hours

Reason #1 – To do what you love in life

Do you do what you love?

No, I am not talking about pursuing your passion for living or doing full time job in the area which you love. All I am saying is do you have enough time and money to do things you love for few hours each week? Something which you truly want to do other than your regular job work?

- **Do you love travelling to new places, but you are stuck because the EMI needs to be paid first?**
- **Do you love photography, but those costly lenses seem to be out of your budget?**
- **Do you want to socialize more by throwing a party for your friends, but worried how you will afford to do it?**
- **Are you afraid to tell your boss that you want to go on a month long road trip, with your best friend which was planned years back?**
- **Want to go on a weekend trip with your friends, but oops .. it's out of the budget!**

It's going to be very tough to really achieve all the points mentioned above, if your bank balance is very low. Less money means less power with you!

While you cannot afford a lot of things, you can't also arrange for a lot of time to do all these things, because you can't take some tough decisions because you are so dependent on monthly paychecks.

You basically need money or time to pursue your hobbies and both of these will come only when you focus on creating wealth.

Making money is a hobby that will complement any other hobbies you have, beautifully. ~~Scott Alexander

I understand that you will not be able to achieve all these things right now, but If you don't start your wealth creation right now, you will NEVER be able to achieve the above. Enough wealth in your kitty gives you that power to do things you love.

If you are so much dependent on your monthly pay checks, it's going to be very suffocating going forward. A lot of wonderful people are dying slowly inside because they have no wealth created.

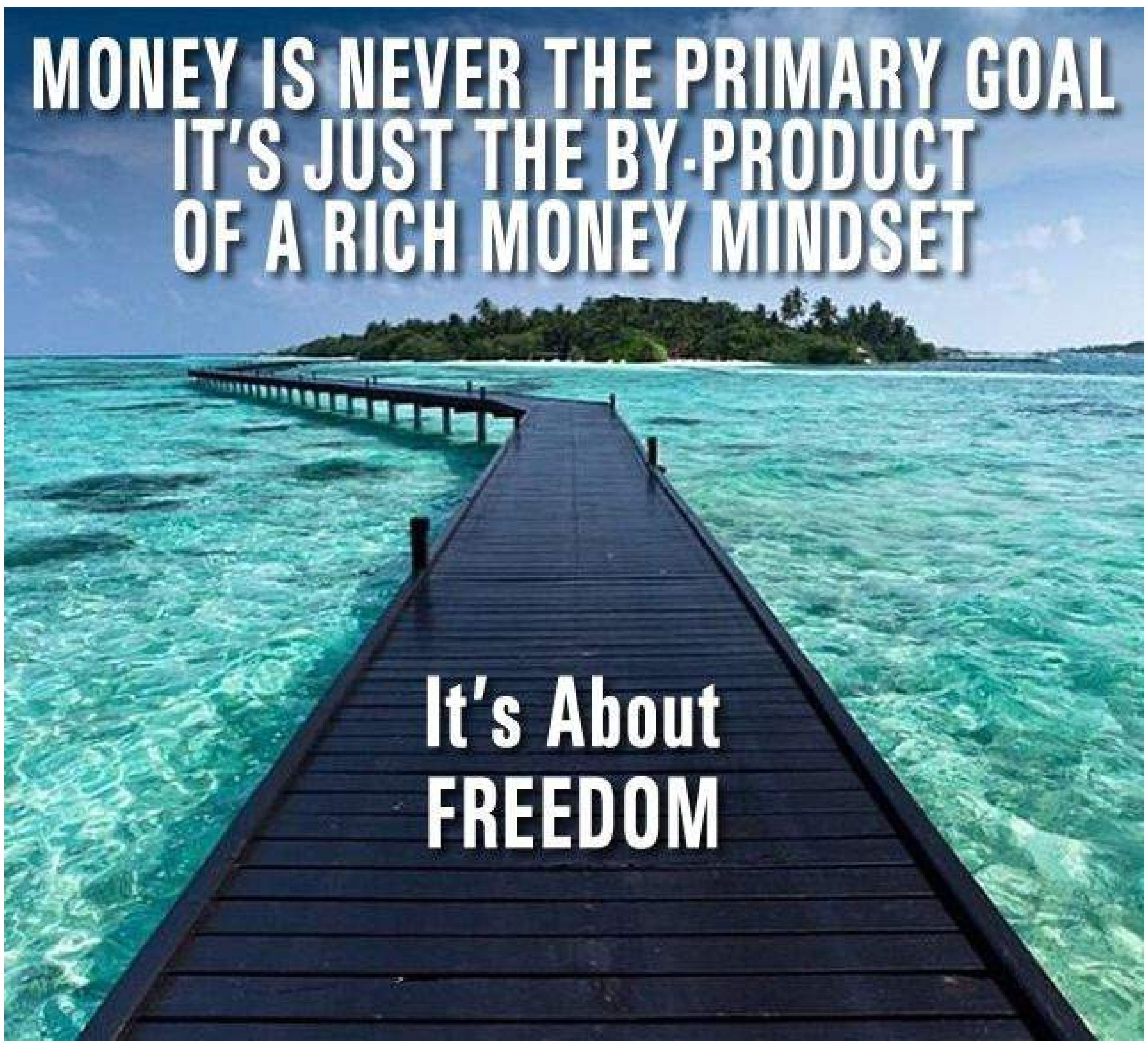
Reason #3 – To spend and live a better lifestyle

A lot of things in life do not require money. A great nap, a conversation with a good friend, a simple meal with your loved ones.

But then there are things in life which require money. Yes, I am talking about those materialistic things.

- *A better Car*
- *A better house*
- *Dining in a great restaurant*
- *Partying with your friends*
- *Buying that gadget*
- *Going on that Trip*
- *Redesigning your house*
- *That Ladakh road Trip*
- *That DSLR Camera*
- *Travelling to exotic places with your family*

You will spend money on various experience and possessions, only if you have the money at the first place (not always, but most of the times), and you be able to do it only if you have money saved at your end at the first place.



Your lifestyle will improve only, if you have created enough money.

While you can always take a personal loan and upgrade your car or go on that vacation and earn all the facebook likes, I am not talking that! . I am talking about, the real upgrade in your lifestyle which does not increase your EMI or stress level and does not compromise your cash flows to a big extent.

It's easy to upgrade your life from a bike to a car and a rented apartment to first house, but then beyond that's its not as simple as it was earlier. It takes good amount of money and dedication because we get stuck with EMI's and mid level crisis in our 30's.

So see, what are your aspirations for yourself and your family? What kind of life are you looking forward in coming times? Is your wealth enough to lead you there? Are you doing enough for that?

Reason #4 – To be financially independen

Don't confuse financial independence with retirement. They are different .

Retirement	Financial Independence
HAPPENS	HAPPENS
when you don't work anymore	*when you don't work for money anymore..*

While retirement is linked to age (which is generally around 60) , the financial independence is a function of wealth and not your age. Financial independence can happen even at the age of 35 (My best friend at age 32 is already financially independent)

Where do you stand in your financial independence?

Financial Independence is often referred as financial freedom. Nandish likes to describe as "A situation where your passive income equals your desired lifestyle expenses"

For a normal investor, financial independence can happen only when you start your wealth creation journey well in the start of your life and are disciplined enough not to disturb it for long time.

Do you always want to keep doing the same job you are doing? And wait desperately for that "salary credited" sms at the end of the month?

How dependent are you on that monthly inflow in your bank account? How will your life look like if that sms that does not arrive (I mean the money) for next 6 months?

Millions of people go to their jobs in the morning with different moods depending on the day. They are happiest on Friday and very sad on Sunday night.

You need to seriously start investing for the goal of financial independence if this is the case with you.

You need to also reduce your dependence on your active income (salary) as you move from age 25/30 to age 45/50 . You should have created enough wealth in the first 10-15 yrs of your life that some part of your expenses can be met by passive income your wealth can generate if things go wrong.

I am not saying that you should create wealth and then start the passive income right away, but you need to create that situation for yourself. It will bring peace of mind (which I am going to talk in detail next)

Reason #5 – Peace of mind

Not have enough money brings a lot of stress. If you need peace of mind, you need enough wealth on your side which can comfort you!

You will keep worrying about future every now and then and every small financial problem will give you goose bump and force you to think about your scary future.

Imagine a guy who is around 45 yrs of age, and has not create any significant wealth to show. By this time, he should have ideally created a corpus of 1 crore, but he has just 2 lacs in a FD which might get broken if some financial emergency happens !

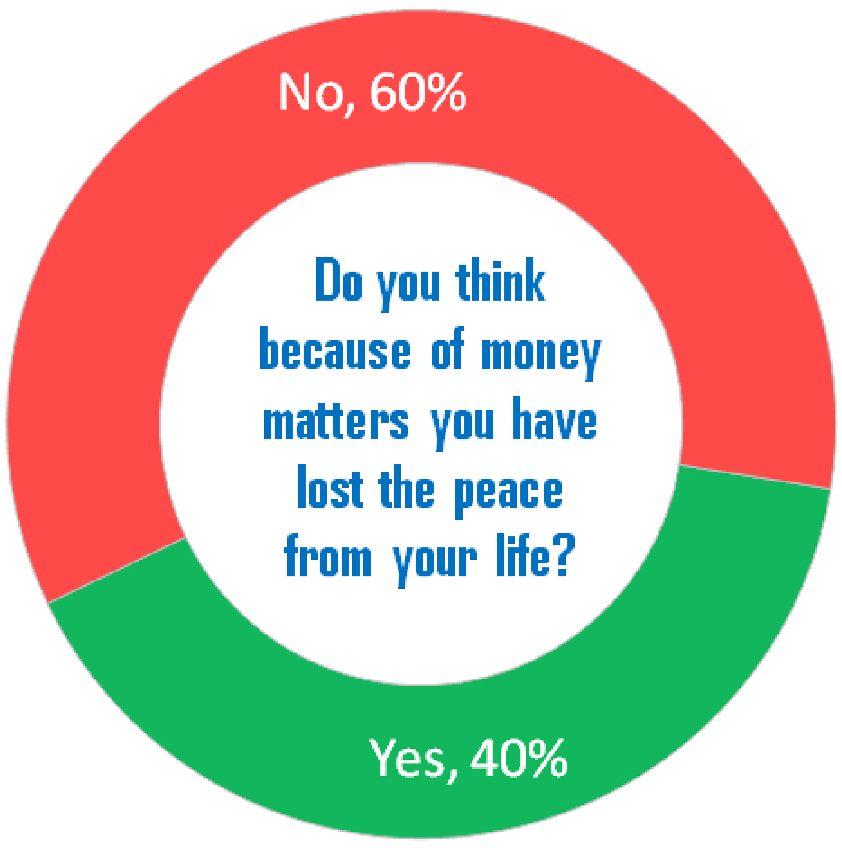
This is bound to cause a lot of stress, Various thoughts will cross the mind …

How will I meet my financial goals?

What if I lose my job?

What if I suddenly need a lot of money?

What if I am not able to give my kids all the things they want?



A respectable amount of money saved at your end might not end your worries, but it will surely bring some peace of mind and lower the stress. You know you are not in that bad shape and have arrived somewhere in the middle at least.

We did a survey with as many as 2,440 investors and we found out that 40% of the investors in our survey reported (check above image) that the money matters have taken away their peace of mind.

As a general rule of thumb, If you have worked for X yrs in your life, you should at least have X/2 years worth of basic expenses saved at your end. This I think is the minimum one should aim for.

Reason #6 – To pass your wealth to next generation

A lot of families struggle for money generation after generations. The grandfather worked for money all their life, then father and then the son is also doing the same.

Many people who struggle financially set a goal in life that their kids should not face the same. They want to teach them money lessons and make them responsible, but also want to leave them a house and some wealth which makes their start a little easier in life.

Is that the right approach?

It's a debatable topic if that's the right thing do to or not. Many people believe that they should not handover anything to kids and let them create their own life out of what they have learned. Let them see the struggles and only then they will appreciate what they earn in life.

While that's correct approach for many people. I am sure we have many others who will not agree with that thought process in the same way.

Anyways, coming to the point, if you create wealth in your life, you can leave some part of it for your kids so that they can pursue things they truly wanted to do and not work just for money to bring food on the table.

A lot of wonderful people are never able to do things in life which they truly want to do. They are not able to live their own life fully because of the money matters. You need to check for yourself, if passing wealth to your next generation is part of your plan or not?

What will happen if you don't save enough money for future?

So to summarize this article, there is a great possibility that one or more things mentioned below will happen to you if you do not get serious about saving money in your life going forward.

You will have hard time maintaining a good standard of living

You will depend too much on others (your kids may be) for money

You will be spending a lot time worrying about future and how will your life end

You will be too dependent on your active income and will be forced to keep working even when you don't like it

It will be hard for you to focus on things you love to do, because you don't have enough money or time

You will find it tough to lead a better life compared to current lifestyle

FINAL WORDS

If you have still not crossed the age of 45, You still have a good chance to create a respectable corpus by the time you retire, even though you have lost a lot of time for compounding. Our team can help you in getting your financial planning done, if you are interested do leave your details for a small chat at **www.jagoinvestor.com/pro**

Just make sure you do not reach your pre-retirement age of 50+ without doing anything, because that's the zone where it's going to be very tough creating any sizable corpus.

:Lets move on the new lesson on the next page ...

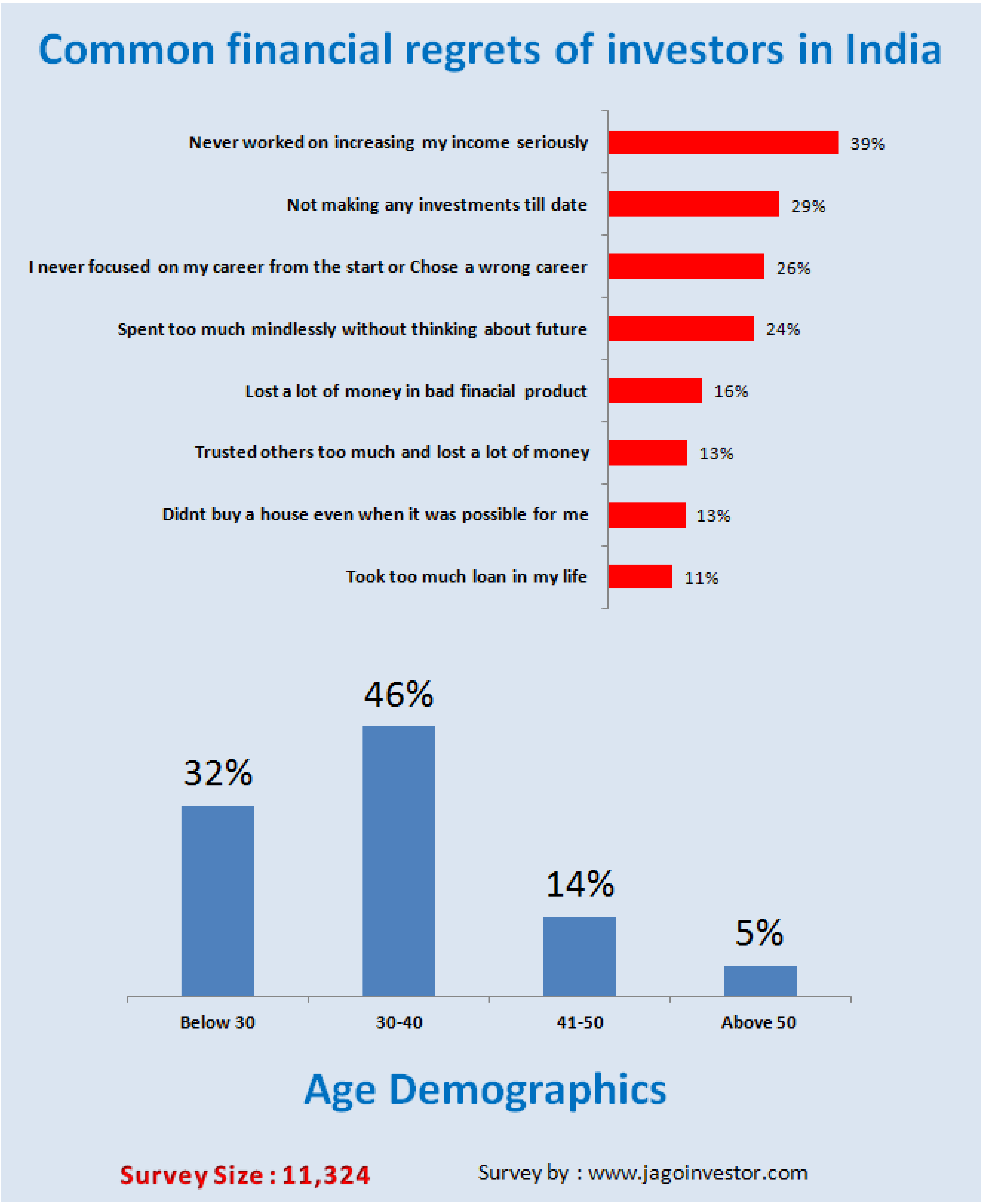
Top 8 financial regrets of Indian investors (Survey with 11,000 participants)

ARTICLE

2

We all make various kinds of financial mistakes, and then regret it later.

Don't we? I wanted to find out, what kind of regrets are widespread among Indians, so I ran a survey for many weeks & got an amazing 11,324 participants for the survey. There were 8 regrets I gave as option and here are results.



Now we will look at each of these regrets and discuss them in detail

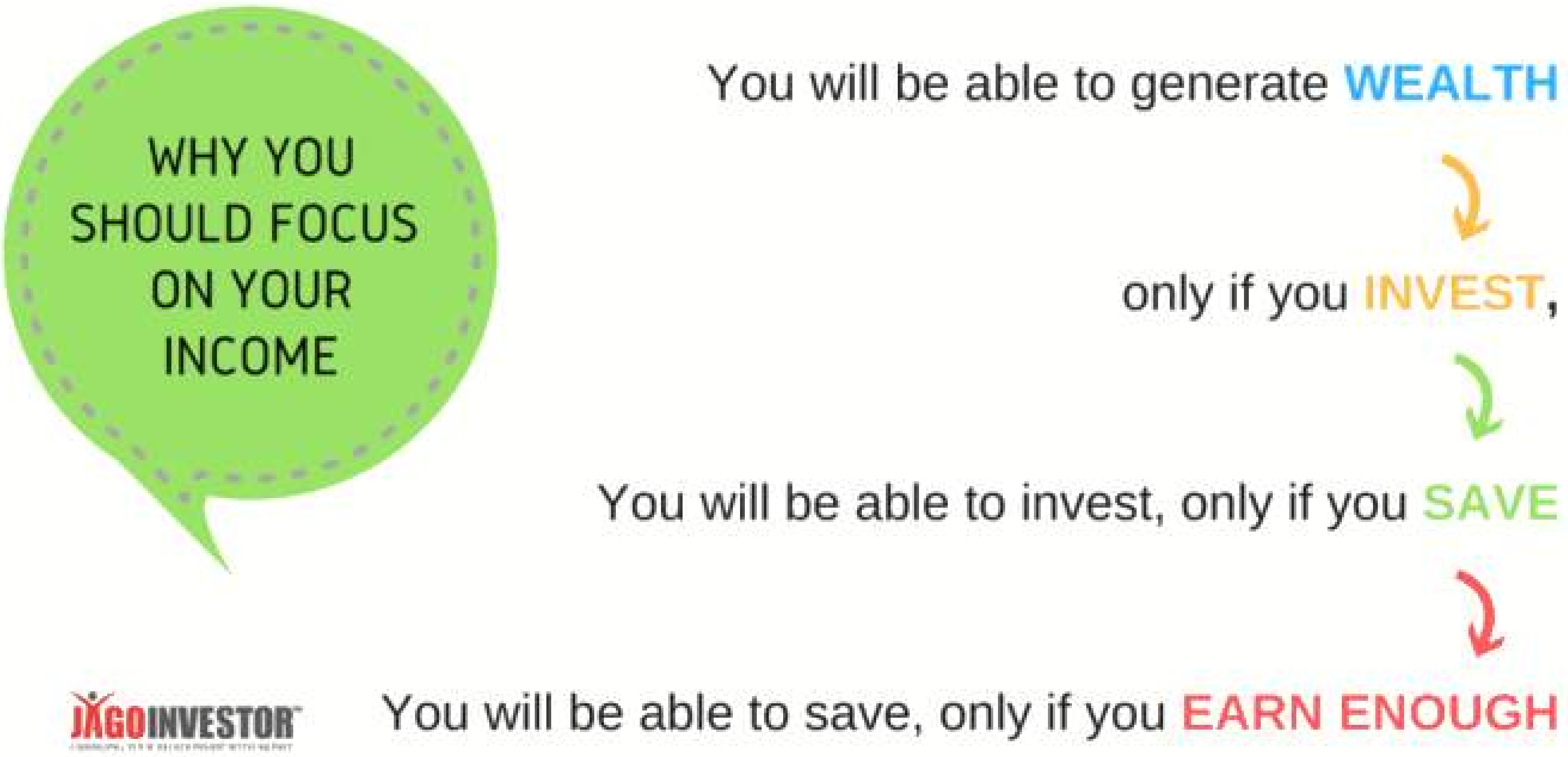
Regret #1 – Not working seriously on increasing the income

When I listed down 8 mistakes as the part of the survey, I was quite excited to know which mistake will be on the top and after I looked at these 11,324 results, it was clear that the biggest regret was – "Not working on increasing the income"

Think about it for some time…

The "income" one earns is one the top most important thing in a financial life. You will be able to build wealth overtime, only if you invest the money.

The investment can only happen, if you are saving decent amount of money after your expenses happen. Which becomes possible only if you are earning good enough income.



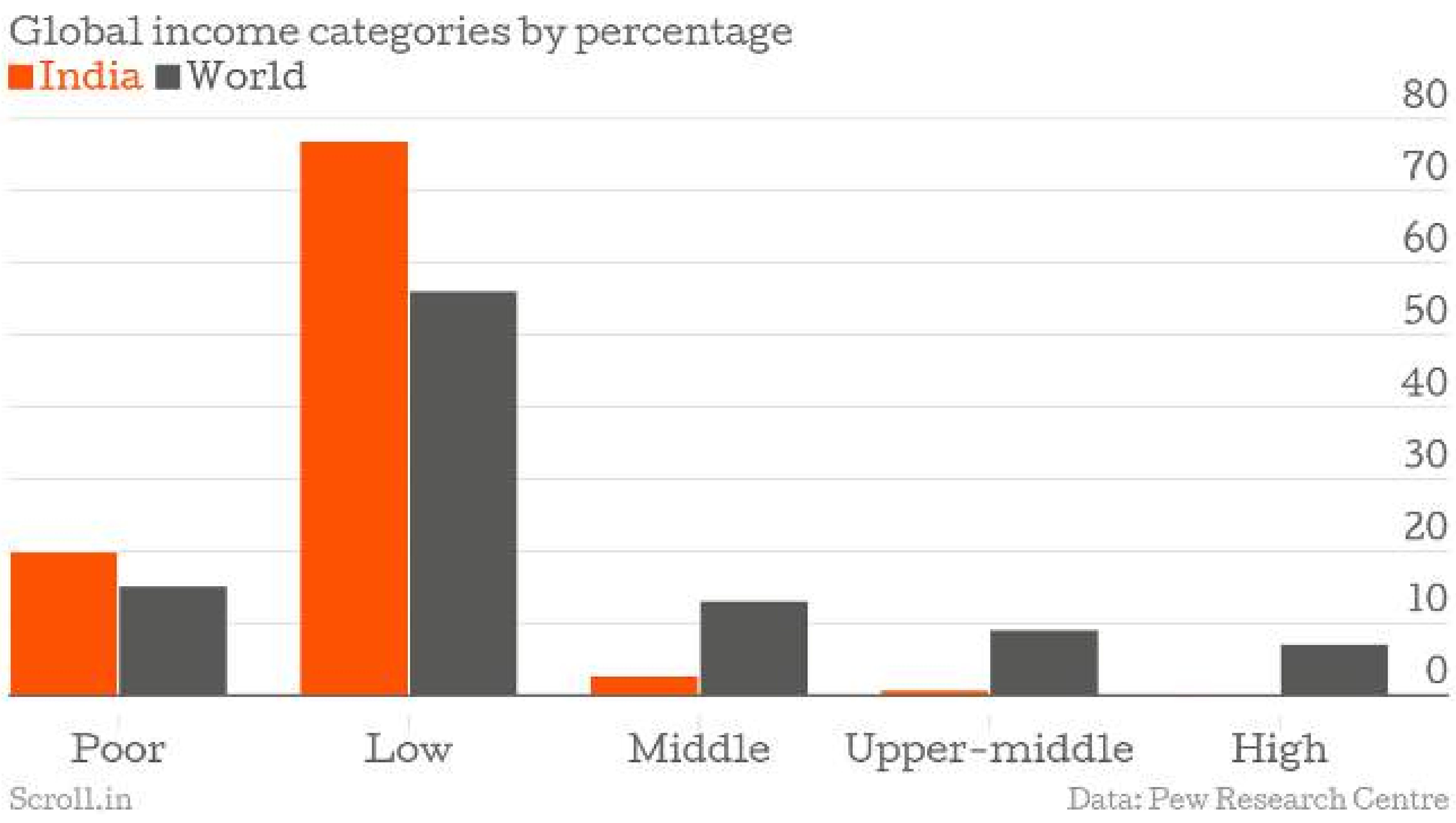
So if one has low income, then it's not a great situation to be in, especially in today's times.

Because then your expenses itself will eat up all your income and you will not be left with enough surplus each month.

You will not be able to save enough for your financial goals, for buying a house, and other necessities in life.

If this continues for many years, you will be stressed most of the time thinking about the future and handling the short term demands which life keep throwing at you.

As per Pew Research Center study, India primarily has poor or low income families and even by world standard we are not doing well. Not everyone in India works in Big IT parks or sophisticated jobs like you and me.



When most of the people start earning money, they go into the comfort zone of life and don't take enough measures to increase their income.

Whatever pay-raise they get from their employer is taken silently for many many years assuming that they are getting what they deserve, only to realize years later, that they are under paid.

As an investor, you should spend a lot of quality time on building your skills, and finding the right environment which values you and pays you good enough.

You should find out various ways though which you can increase your income.

This article gives you some background on how to change your habits and mindset around money, in case you want to do something about it.

Regret #2 – Not making any investments till date

Even after many years of earning money, a lot of investors still don't make any real investments. By real investments I mean a considerable wealth. I am not talking about few small Recurring deposits you did or your LIC investments which you did for tax saving. No !

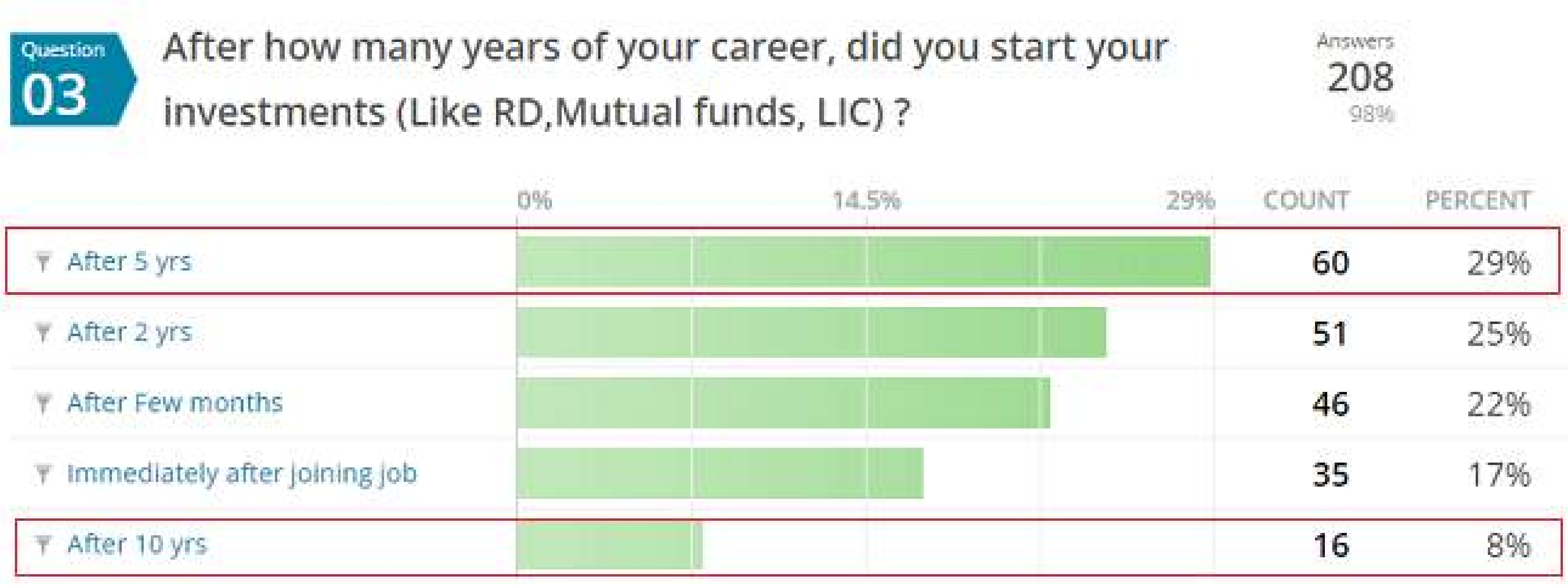
Answer this … **"How much of your earnings till date, have you saved?"**

There are many people who have been working for last 10 yrs, but their savings/investments are just equal to their yearly income!.

1 in 3 investor wait for 5 yrs, before they make first investment

Here is a survey I did last year where I asked investors how late they were for making their investments. 29% people said that they waited for 5 yrs before making their first investment and 8% people had not invested even after working for 10 yrs.

If you add both the numbers, seems like 1 out of every 3 investor wait for at least 5 yrs before making any investment. That's a scary number.



Here are the top most reasons why people do not make investments for many years

- They don't save enough after their expenses
- They feel it's not worth saving a small amount
- They are spendthrifts by heart and just spend the money
- They just keep thinking – "I will invest once I have enough money"
- They tried saving some money, but eventually used it for some purpose
- They faced a bad experience, and then decides to not invest
- They just avoid investing because they feel it's complicated and confusing

If you are a young investor and waiting for the right time to invest, trust me – it's never going to come!

Start with whatever small amount you can, so that you at least teach yourself the habit of investing, see how it feels to see few thousands in your bank account which was saved by you. That feeling will be great and the chances of that habit of saving getting stronger is high.

Regret #3 – Not focusing on career or choosing wrong career

Your career is a very important part of your life.

Your career will decide how much you will earn, which in turn will decide the quality of your financial life to a great extent. Your career will decide how will be your mood for 8-10 hours each day. It will decide your stress level and your health too.

Your career is like the centre of your life, if I am correct.

If you don't love what you do to earn money, there will be issues in your life and many things will get affected due to that. I want you to read few answers from quora where people have shared their views on the career mistakes people make.

Ankit Vani, A nomad seeking answers from experiences.......!!!!!
286 Views · Ankit has 30+ answers in Life Lessons

Thanks A2A Surya Ramesh

1. Not looking at the bigger picture, the long-term view of their careers.........

Very often, I meet students who are extremely seduced either by the brand value that a company carries or the perks that comes along with their offer letter. When I ask people why they want to get into a particular organization, more often than not I have faced "salary" and "brand value" as a reason for choosing that company.

Years down the line, they feel compelled to earn because of the liabilities accumulated over the years.

Look into what are its future prospects, where it can give a boost to your long term goal and how it can help you achieving mastery in a particular domain.

Julie Zhuo, Product Design VP at Facebook
101.2k Views

For maybe the first 7-8 years of my career, I would say that I operated with more of a *fixed-mindset* where I relied on my innate talent to carry me. I consider this my biggest career mistake, as I believe it led to self-confidence issues which limited my ability to dream big and stretch myself. More recently, I have come to learn about and shift my thinking more and more towards a *growth mindset*. I believe this has made me more effective at my job, and also a happier and more curious individual.

Here is one of my favorite articles written about fixed versus growth mindset, written by my colleague Tom Stocky: Thoughts About Self-Confidence. Also, check out the book by Carol Dweck where these concepts were first popularized: Mindset: The New Psychology of Success.

I have often seen that a bad financial life is a result of a bad career or wrong career. Many a times, people get into a job which they don't hate, but then they never work on making themselves skilled enough to reach the top positions.

Take an example of a software engineer, there are many people who don't hate their job, but then they are stuck with a profile or skills which they have not upgraded and hence they are not fully satisfied with themselves.

Dont be that person

If I have to share from my personal life, My first and only job was at Yahoo as systems engineer. I was recruited from the campus. I was an algorithms and problem solving guy who was chosen for the server related work which involved everything I never enjoyed, nor I was confident enough.

Within a week of joining the job, I realized that I am in a mess.

I knew that I am stuck into something which I am going to hate like anything for next coming years. I just survived for many years and side by side worked on this website and with few thousands in my bank account, I told my manager that I am quitting my job.

My Current Situation

I changed my career path totally. I am now satisfied with what I do for living and to earn money. I have increased my skill levels in a totally new domain.

I know it's not an easy, but see what all actions you can do and improve things on your side.

Regret #4 – Spent too much mindlessly without thinking about future

This regret is somewhere closely related to #2 point – "Not investing anything till date"

After the first paycheck comes to one's bank account, it's a very special phase of life. Most of the people get into the spending spree. We all have done that and there is nothing wrong in it. After all, for so many years you wait for that day when you will have control over money and take decisions of spending without any restrictions from parents.

After all there are so many unfulfilled wishes and desires we all have.

However, there is one problem

Many investors never stop their spending spree and continue it for many many years, without looking back on how it's affecting their financial life.

They are busy enjoying life, buying expensive gadgets, taking vacations they can't afford, and eventually get into debt trap and keep paying the a big portion of their income into EMI's

No, we are not talking spending money on needs and enjoyment. We are talking about people who go overboard and cross their limits. We are talking about that person, who earns Rs 5 lacs a year, but lives the lifestyle of a person who earns Rs 10 lacs/year.

- **If their financial status allows them to own a Maruti Wagon R, they buy Honda City.**
- **If they can afford eating out twice a month, they do it twice a week**
- **If they can afford to call 50 people for a family function, they call 500 so that they "look good"**

And this continues for years and years … and once they get married or once they have kids, then they start wondering about future.

That's when they wake up and realize that they have messed up.

> Too many people spend money they haven't earned to buy things they don't want to impress people they don't like.
>
> Will Rogers

If you want to do mindless spending and never restrict yourself, then better earn like hell.

Make sure you take your income to a level, where "how much you spend?" does not matter. But most of the people earn a fixed income whose growth is going to be linear over time. Better control your spending beyond a level if you can't earn enough.

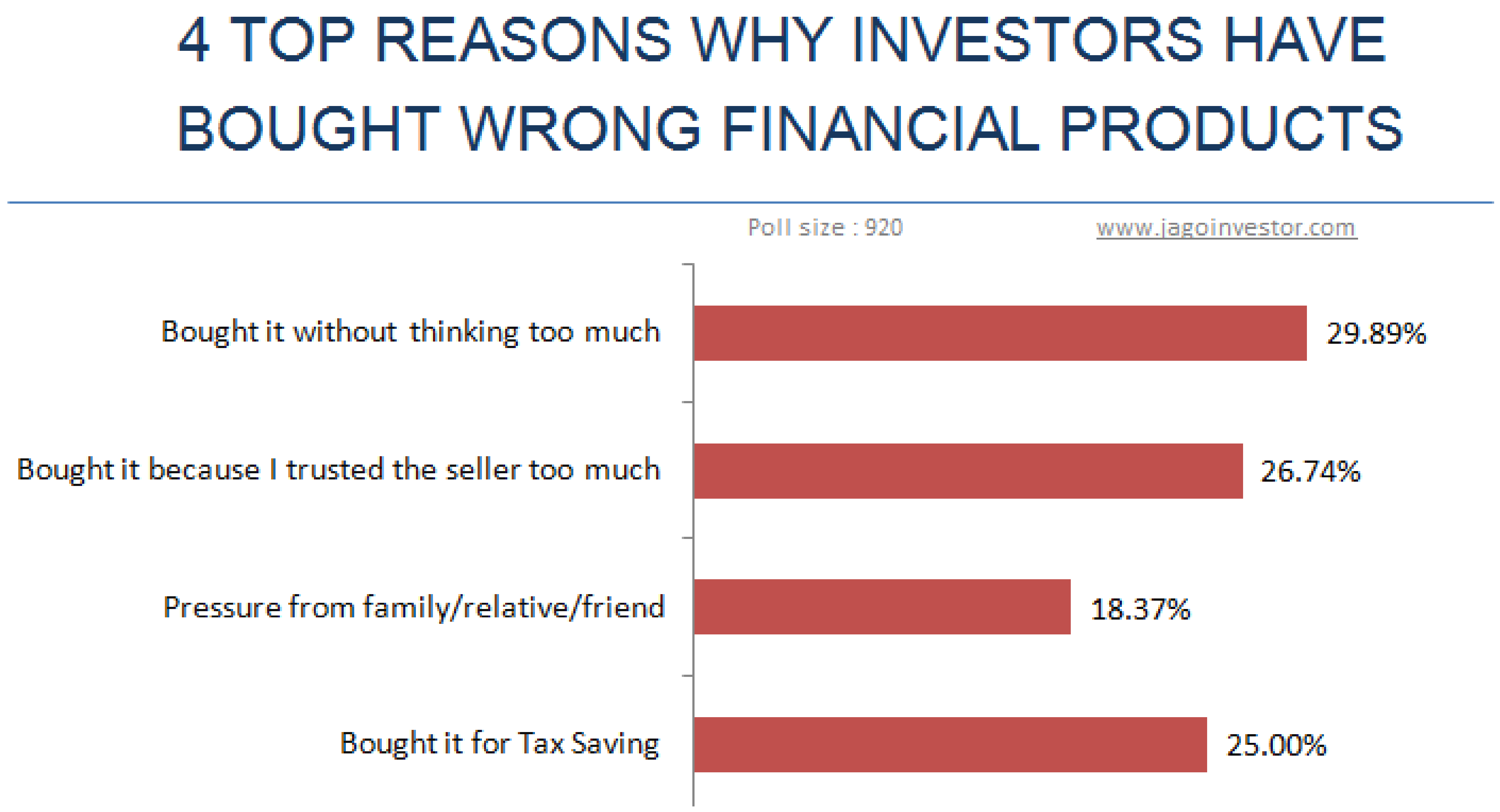
Regret #5 – Lost a lot of money in bad financial product

Investors trust close relatives and friends while investing their hard earned money and invest money based on relations, hearsay or recommendations and don't think enough before writing that cheque.

So the family uncle becomes the insurance advisor and the tax saving expert, and the friend in the next cubicle is your financial advisor at times..

In the name of tax saving rush, investors commit themselves for years of premium payment in a useless product which is packaged very well and then many years later, they realize that they invested in a dud product.

Check the poll results below where 920 investors have shared why they bought a financial product which they realized is a wrong one for them. People buy it because they trust others easily, or its pressure from family/relatives at times.



The worst thing is the time lost and not exactly the money only.

If you invested Rs 50,000 each year for 10 yrs and finally realized that you only have Rs 4 lacs back out of 5 lacs paid, Your loss is not just 1 lac, its 5-6 lacs, because your 5 lacs could have become 10-12 lacs over these 10 yrs, think about the opportunity lost too.

Regret #6 – Trusted others too much and lost a lot of money

This is just a sub part of the point we just discussed.

A lot of people have lost a lot of money because they trusted someone. It can be a friend/relative or completely unknown person. There are various scams which happens in our country and worldwide. There are chit fund scams and get quick rich kind of scams and people put their hard earned money without thinking much.

Here is a recent case where a women trusted a person and transferred 11 lacs to their account and later realized that she has been duped.


THE TIMES OF INDIA
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Techie's wife loses Rs 11 lakh to phishing, ends her life

Praveen Kumar Bangalore Mirror Bureau | Jun 29, 2016, 09.07 AM IST

A- A+

HIGHLIGHTS

- The woman fell prey to scamsters after she received a message stating that she had won Rs 45 lakh and shelled out Rs 11 lakh to claim the amount
- She did all the monetary transactions without informing her husband
- After she realised she was conned, she returned to her house and killed herself

Representative image

I am not recommending that you become paranoid about your money security and just never trust anyone, But when you are investing your money, make sure you do the background check of the person you are dealing with, do your homework and understand what you are getting into.

Regret #7 – Didn't buy a house even when it was possible to buy

13% people from 11,324 people who took the survey said that they regret not buying the house when it was possible for them.

I am not sure what percentage of these people don't have a house at the moment, but I am speculating that many people had the money to commit for down payment and take a loan, but they didn't do it and finally prices went up and they could not buy the house later due to rise in prices.

My suggestion is that if one has the potential to make a down payment for the house and can afford to pay the EMI, then one can buy the house for consumption purpose (if not for investment purpose).

Once you buy the house, a big pending task of life seems to be completed. But then this is a personal choice.

Regret #8 – Took too much loan in my life

Only 11% people chose said that they regret taking too much loan.

It does not mean that people are not taking a lot of loan, just that they are ok with it or deal with it properly and don't consider it as an issue. A lot of people prepay their loans before the original tenure.

My recommendation is to not take unnecessary loans for consumption purpose like vacations, alliances etc. The only two loans which to me makes sense is Education loan and Home loan.

At times car loan is fine, but then no other loans. Personal loans should only and only be taken in case of emergency and never otherwise.

What is your financial regret?

Would like to know from you what has been your biggest financial regret? Have you committed some mistake which you repented for years? If you had avoided that mistake, you would have a different financial life today?

Now .. lets move to next article

5 Asset Classes Explained – A simple guide for beginner Investors

ARTICLE

3

Today I am going to teach you about “asset classes”, which is the most primary lesson every investor should go through.

Understanding asset classes is very important for an investor because when you invest your money in any financial product, then in the background, it goes to a certain asset class only.

The world of personal finance has hundreds of financial products, which makes everything confusing for an investor, but if you understand which asset class it belongs to, then this whole world of personal finance will sound easy to you.

So if you are confused about whether to invest your money in a fixed deposit or a mutual fund? Or into gold ETF’s or PPF? How do you decide?

Just ask – “Which asset class does it belong to?”

Is a fixed deposit in bank better or a PPF would be the right thing for you, this all questions might seem to be confusion to you if you do not understand which asset class they come from?

So in this article, we will go deeper into the basics of investing and help you to get stronger into the primary level information.

What is the meaning of Asset Classes?

Asset classes can be seen a big basket where all the financial products belonging to that asset class share a common characteristics.

Things like risk, returns, liquidity and various other parameters are similar.

For example, a Fixed Deposit and PPF is different financial instrument, but at the deeper level they both are secure products, you do not lose money in these products, their returns are also predefined and there is predictability in their returns.

Can you see that both FD's and PPF share some common characteristics? It's because they both belong to the asset class "Fixed Income".

Here is a video which gives an introduction to asset classes

https://www.youtube.com/watch?v=fAfvUNI_DA4&feature=youtu.be

In the same way, an equity mutual fund or direct stocks, both are different financial instruments from high level, but inside they both are high volatility instruments, and have potential to multiply your investment amount many times in short period of time, this is because they both belong to same asset class called "Equity".

Below is a snapshot from Karvy website which shows you the wealth distribution of Indian investors in year 2015.

Table 2: Classification of Individual Wealth in India based on Financial Assets.

Assets	Amount (₹ Cr.)	YoY Change %	Proportion
Direct Equity	34,39,861	29.02	21.4%
Fixed Deposits and bonds	33,26,429	13.10	20.7%
Insurance	23,59,790	16.85	14.7%
Savings Deposits	19,90,249	22.20	12.4%
Cash	14,48,320	11.33	9.0%
Provident Fund	9,24,026	25.53	5.8%
NRI Deposits	7,20,997	15.85	4.5%
Small Savings	5,78,990	0.02	3.6%
Mutual Fund	5,52,325	40.49	3.4%
Current Deposits	3,42,785	11.25	2.1%
Pension Fund	3,15,915	30.96	2.0%
Alternate Assets	41,960	76.85	0.3%
International Assets	14,040	10.91	0.1%
Total Financial Assets	**1,60,55,686**	**19.19**	**100.0%**

Source : www.karvy.com

There are 5 asset classes

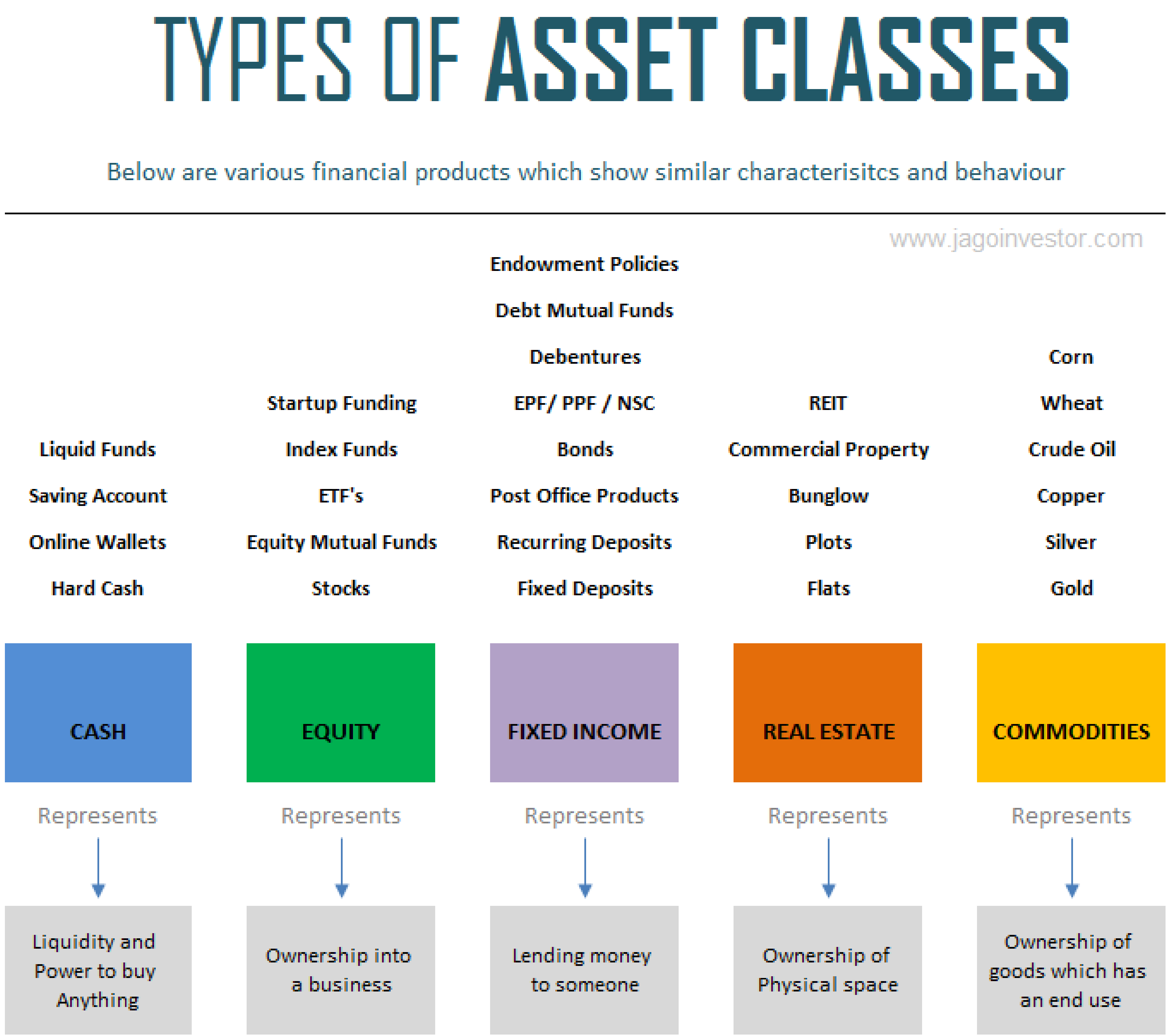
While there is no standard list or category of asset classes, widely it's accepted that there are 5 types of asset classes namely

- Fixed Income
- Equity
- Real Estate
- Commodities
- Cash

Every financial product you come across will fall into any of these 5 asset classes only.

Each of these asset classes has their own set of behavior and they represent something unique about them.

The chart below shows you financial products belonging to these asset classes and what these asset classes denote



Asset Class #1 – FIXED INCOME

Let's start with the most famous and favorite asset class of India, which is "Fixed Income".

Fixed Income asset class refers to the class of financial products where your investment amount is more of less protected and the returns are either fixed or predictable to a great extent.

There is almost no/less risk in these products which are from fixed income asset class.

Investing in fixed income asset class is like lending your money to someone with assurance of return with predefined returns.

So when you make a fixed deposit in a bank, you are not exactly "investing", but lending your money to the bank with a promise that they will return back your principle amount along with a pre-defined interest.

Fixed Deposits do not beat inflation

Even if you are getting 8-9% return on your fixed deposits, many people do not realize that it's the pre-tax return.

As Fixed deposits are taxable (and every other debt instrument), once you pay the tax on the returns, the post tax returns are only in range of 6-7% and if you adjust the inflation of 8-10%, you are actually getting a negative return on your fixed income investments.

Livemint has done a story on this topic in a detailed manner which you should read.

WHAT YOU ACTUALLY GET

1-2 year fixed deposits for below ₹15 lakh

		Actual returns					
		10.30% tax bracket		20.60% tax bracket		30.90% tax bracket	
Bank name	Interest rates	Post-tax	Inflation-adjusted*	Post-tax	Inflation-adjusted*	Post-tax	Inflation-adjusted*
Punjab National Bank	8.75%	7.85%	0.35%	6.95%	-0.55%	6.05%	-1.45%
State Bank of India	8.75%	7.85%	0.35%	6.95%	-0.55%	6.05%	[illegible]
Bank of Baroda	9.00%	8.07%	0.57%	7.15%	-0.35%	6.22%	-1.28%
Bank of India	9.00%	8.07%	0.57%	7.15%	-0.35%	6.22%	[illegible]
ICICI Bank	9.00%	8.07%	0.57%	7.15%	-0.35%	6.22%	-1.28%

Top 5 banks based on assets as on March 2012

*Inflation taken at 7.50%

Source: Mint research; bank websites

Risk is less in Fixed Income Asset class

All those who want to get a fixed return and do not want to take any risk should choose this asset class. It's a human nature to seek assurity, and given that fact, fixed income instruments are big hit.

No wonder Fixed Deposits rule the world of investments, It's a simple and easy to understand financial product.

Same goes with PPF , NSC, recurring Deposits and various govt bonds or debt mutual funds.

However note that this asset class does not beat inflation or nearly matches it, hence over a long term, while your investments amount will become bigger in number, the purchasing power will remain stagnant or might drop.

So this asset class is to only protect your money, not grow it.

Asset Class #2 – Equity

Equity asset class is an interesting asset class and slowly getting more and more acceptance from last 1-2 decades.

Equity means ownership

So when you invest in equity, it means that you have bought ownership into a business. For example, when you buy stocks of Infosys or Reliance, you become a small owner of that business.

Even the RSU and ESPP which you get from your company makes you a small investor in the company and that's "equity investment"

Now obviously when you invest in business, you get a % ownership. And if that company becomes big someday in future, your overall worth also goes up.

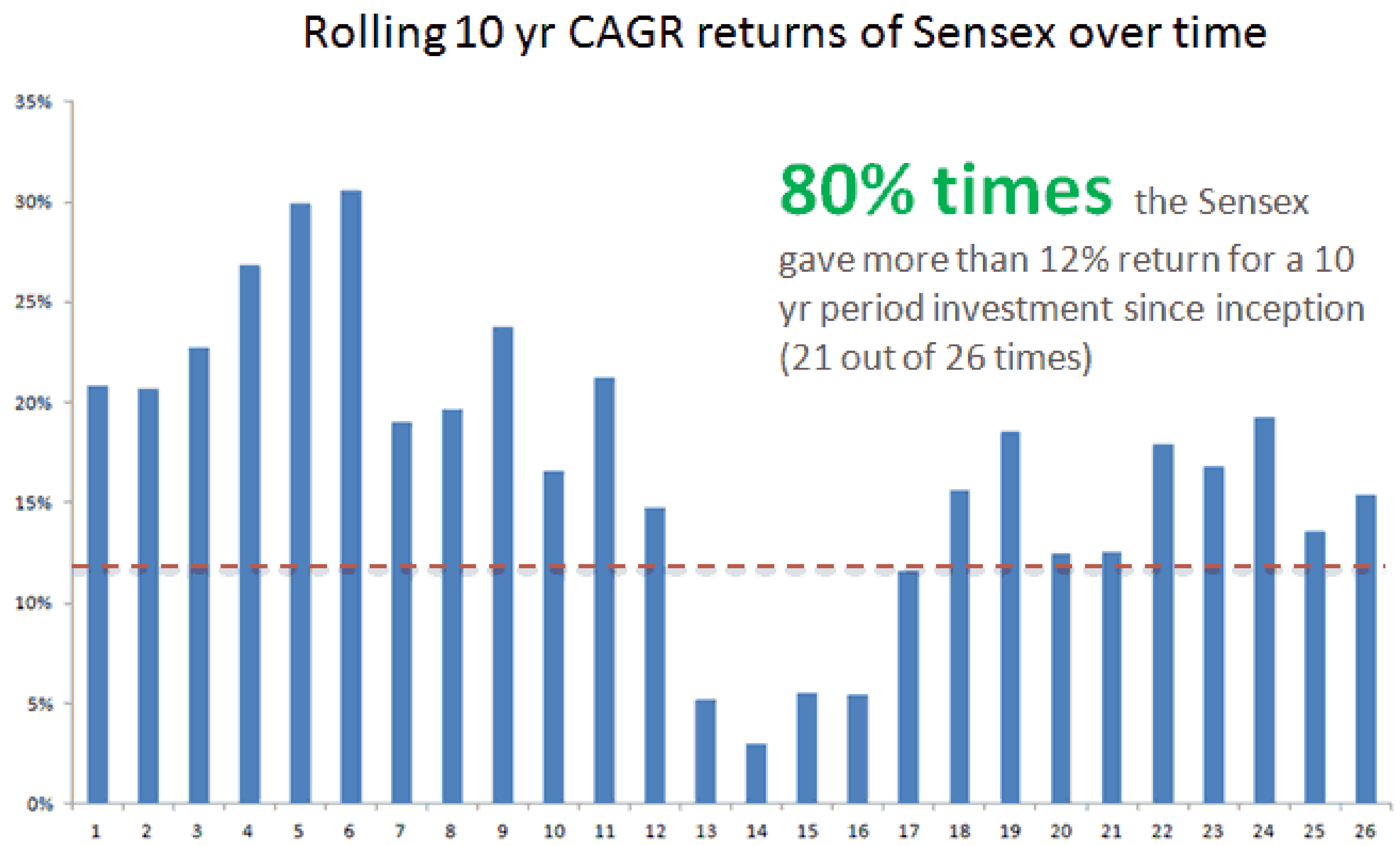
But there is a problem, the business grows only over time and in between there are ups and downs and that reflects in the stock price of the business/company.

If you look at all the rich people today (really filthy rich), it all happened with equity investor.

Someone either opened their own company or invested in some company which was growing and held it over long term.

Equity Investing works in long run

Below is the 10 yrs return chart for various years for sensex. You can see that most of the times sensex has given more than 12% return (much more than that actually) every 4/5 times. This is since the time sensex has been into existence.



Because the equity returns are very volatile, most of the people refrain from mutual funds investment or investing into direct stocks, but they are the real wealth builders for any investors.

There are mutual funds from various Asset management companies which have proven track record for building wealth for its investors.

Asset Class #3 – Real Estate

Real estate, as we all know refers to physical space, or physical structure like land, residential flats, commercial spaces etc.

These spaces are either used for living purpose or for doing the business and generate income. Should one invest in real estate or not is a topic of debate and I am not getting into that right now.

Over the last 2 decades, the real estate asset class has got tremendous interest from investors. Everyone wants to now own a home and real estate is very sought after asset class.

As the country develops and expands, we see many upcoming areas in all cities and a location which was considered outskirt of the city becomes a very important location in the city and we see some amazing returns.

However the fact is that we always hear the "good" stories and never the bad stories where one got bad returns from real estate or lost their money.

Returns from Real Estate

Real estate market has cycles of ups and downs and returns from real estate can be very volatile and can depend on various factors like city future, govt policies, political situations and many more.

For example if you look at Hyderabad, the returns in real estate has not moved anywhere in last 7-8 years and we are talking about average returns here.

Bigdecisions.com has done a study based on NHB Residex to compute the real estate returns in various Indian cities from 2007-2014 and below were the results

Annualised Return between March 2007-Sept 2014			
Hyderabad	-0.96%	Mumbai	12.26%
Faridabad	10.81%	Bengaluru	1.16%
Patna	5.83%	Delhi	8.86%
Ahmedabad	10.88%	Bhubneshwar	9.46%
Chennai	18.71%	Guwahati	6.47%
Jaipur	0.13%	Ludhiana	5.18%
Lucknow	9.39%	Vijayawada	6.56%
Pune	12.51%	Indore	8.78%
Surat	6.47%	Chandigarh	7.66%
Kochi	-1.69%	Coimbatore	8.15%
Bhopal	11.87%	Dehradun	8.78%
Kolkata	10.33%	Meerut	6.38%
Raipur	6.90%	Nagpur	8.15%

I am in on way saying if real estate is good or bad. All I am trying to do is make you aware about the characteristics of real estate as an asset class.

You need a high ticket size for investment, the market is not regulated at all (only recently the regulation has been made) and it's more of less one side market with lot of opaqueness.

Asset Class #4 – Commodities

Commodities refer to various types of physical goods or products which we all can buy and sell for various uses. Gold, Silver, Copper, Rice, and Oil etc will be counted under this asset class.

The price of these products depend on demand and supply in the market.

commodity

/kəˈmɒdɪti/

noun

plural noun: **commodities**

a raw material or primary agricultural product that can be bought and sold, such as copper or coffee.

"commodities such as copper and coffee"

synonyms: item, material, type of produce, product, article, object, thing, artefact, piece of merchandise; More

Commodities are for "Trading" and not investing

With my limited understanding, I came to the conclusion that commodities are not for investing for long term, but mainly for trading, where you can benefit of the market cycles and predict demand and supply moves and get a profit or loss.

Returns from the commodities can be very volatile and each commodity has its own market and dynamics.

Only a handful of commodities like Gold or Silver can be invested in for a very long time because they can be stored without losing their usage.

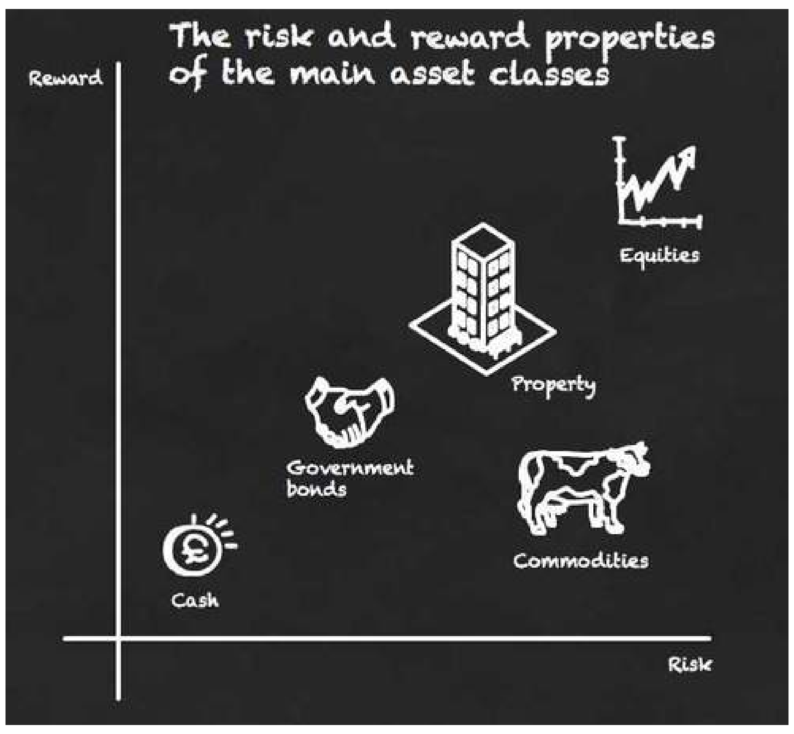
A common man can't store other commodities in the same way, hence trading them for short term is a feasible option.

Asset Class #5 – Cash

When I say "cash", I don't just mean the hard cash bundles, but also the money lying in your saving bank account, or liquid mutual funds. I will refer all of these things as "Cash".

The best thing about cash is that it gives you freedom to "buy" anything you want instantly. You can buy a car, a house or a phone or invest your money in other asset classes.

The freedom you get with cash is very high and that's one reason why most of the people prefer to hold a lot of cash. Also the cash cannot be tracked (unless it's several multi crore rupees) and many people keep their black money in form of cash.



It's not uncommon to see many lakhs lying in a saving bank account just because the investor thinks "What if something goes wrong?"

However cash has one problem, it does not fight inflation at all or very little. The money lying in saving bank account just earns 4% and that does not help you as an investor.

Which asset class you should invest into?

Where should you invest your money? This question can only be answered if you are clear about your requirements like how much risk can you take and how much return do you expect out of your investment?

Are you ok with locking your money for several years or not? I have made a simple table which compares all asset classes on various parameters.

COMPARING VARIOUS ASSET CLASSES

Criteria	Equity	Fixed Income	Real Estate	Commodities	Cash
Return Potential	Above Inflation	Near Inflation	Above Inflation	Near Inflation	Below Inflation
Volatility in Returns	High	Low	High	High	Nil
Liquidity	Very High	High	Very Low	Low	NA
Can one invest small amounts ?	Yes	Yes	No	Sometimes	NA
Can one invest every month/year	Yes	Yes	No	No	NA
Complexity	Average	Less	High	High	NIL

www.jagoinvestor.com

I hope this article gave you the high level understanding of all asset classes and cleared your basics. Please share which is your favorite asset class and why?

7 deadly mistakes every early investor should avoid in life

ARTICLE

4

Today I am going to talk about some mistakes which young investors make in their early life.

Many experienced investors would be able to relate to it, because often we make these mistakes because there was no one to guide us when we started our journey of wealth creation.

"Young investor" here means any person who has just started their careers. Most of them would be below 30 yrs of age.

I will share 7 mistakes in this article. You can consider these 7 points as the words of wisdom from experienced investors.

Mistake #1 – Not Focusing on increasing the income

Nobody became rich by only controlling their expenses!

“Low income” is probably 1 reason, why most of investors are unhappy in their financial lives. Low income means low/no savings, restricted life style and constant worry about future.

A small financial mistake can turn very costly if one has small income.

Imagine a guy living in Mumbai & earning just Rs 35,000 a month (or even Rs 80,000 now a days) and have to support a family of 4 people? Can you imagine how “tight” his situation is?

For most of the people, salary increment “happens” naturally and never worked on consciously.

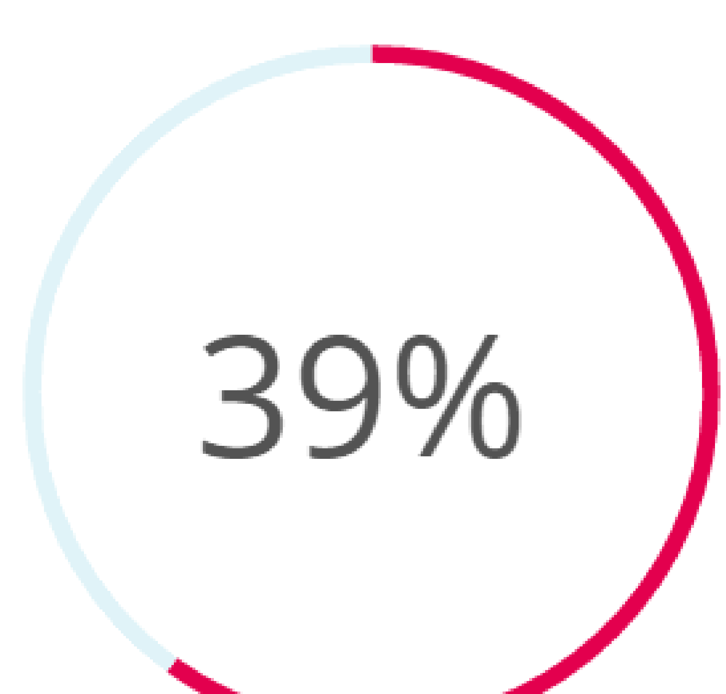
Most of the people take whatever comes their way for many years, only to realize that rather they should have come out of their comfort zone and worked “actively” on increasing their income.

They could have relocated to a new place with better opportunities, changes their jobs, asked for a salary raise, or could have worked on an alternative income, but most of the people don’t do that.

They just go with the flow thinking – “I will get, what I deserve”

In one of the survey’s I have done recently, I asked participants to choose the top most mistake of their financial life.

987 out of 2502 people (39%) said that *not working on increasing their income* was one of their top financial life mistakes



***Source :** Jagoinvestor Survey with 2502 participants*

I gave them 8 different options to choose from and 39% of the people chose – **"Never worked on increasing my income seriously".**

As a young investor, the best investment you can make it not some mutual fund, or a policy, but you yourself. Invest in yourself and develop skills which makes you "valuable".

Make yourself so employable that people run after you.

Remember, if you earn a big income, you can still make a lot of mistakes, spend like hell and choose not to control your expenses.

Mistake #2 – Getting into Debt Trap Early in Life

Don't get me wrong!

I am not against taking debt.

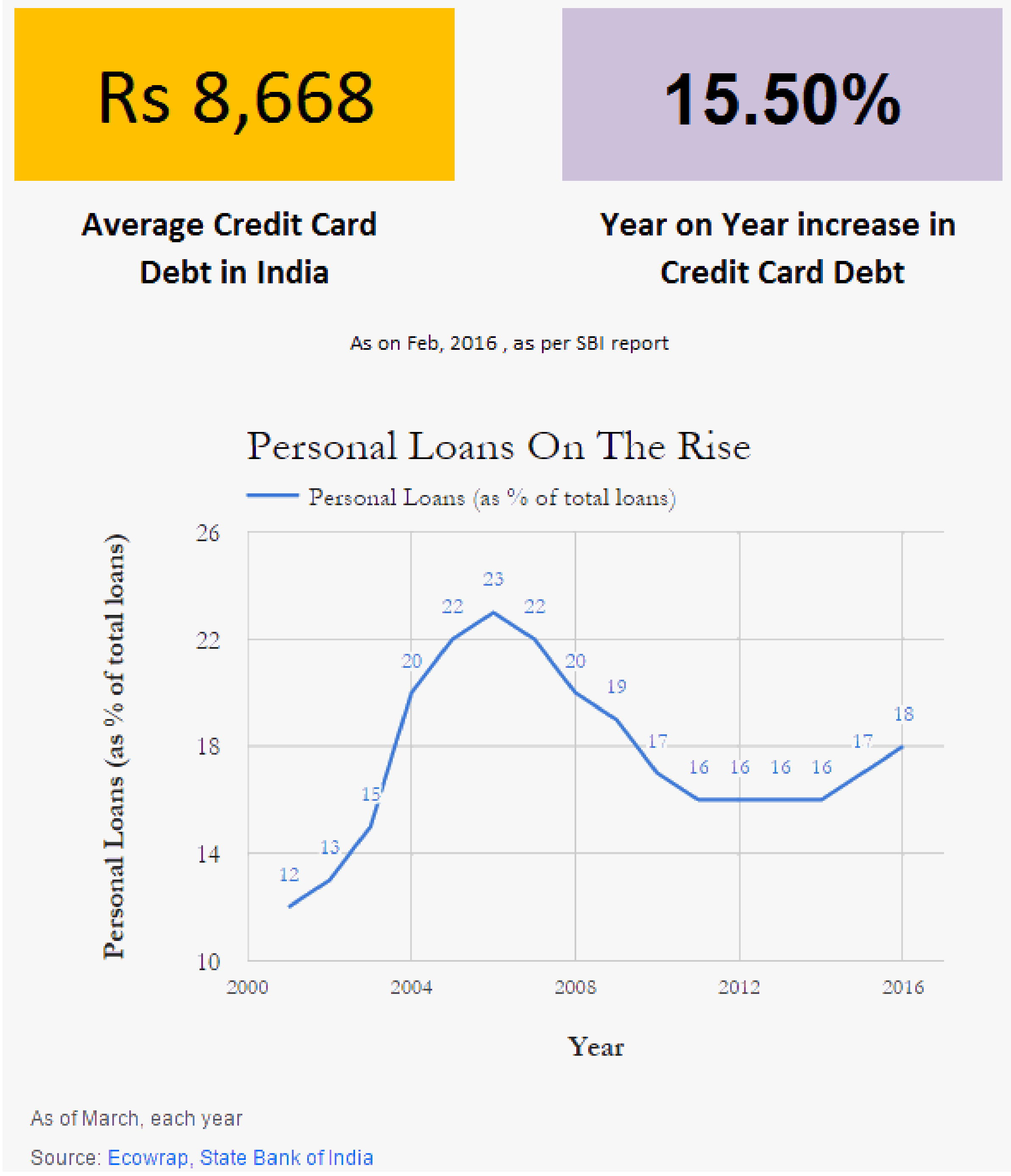
But, a large number of young kids who start their career have bad relationship with money and credit facilities. They start using credit cards as if it's a money toy.

It all starts with a small outstanding credit card bill, and soon it starts rolling up every month and soon they find themselves paying minimum due amount and finally when things go out of control, they take a personal loan to close off the loan or convert the outstanding amount to EMI's and starts how their debt trap starts!

Then follows car loan, home loan, another personal loan, another credit card and this way a person gets into deep debt cycle.

I am sure if you look back, you will realize that the debt trap started very small.

Let me share some data with you on this. As per this report, personal loans as % of loans stands around 18% as in the year 2016 (Out of every 100 loans, 18 are personal loan).



As a young investor, you can still do mindless spending, but that should happen with cash money and not credit. Because getting into debt is easy, but coming out of it is not that simple. So as a young investor try to take debt only if you don't have any choice. As far as possible, take responsible credit which helps you in life (education loan or home loan).

Mistake #3 – Not taking risks in start of your career

I am not saying that everyone should go and start taking some risk without planning.

All I am trying to convey is that its more easy to take risk when you start your career, rather than middle of your career or when you turn 40, because in your early days you have less responsibility and enough time to fix your mistakes if any.

Think of these options below!

- Want to move out of your industry and try something else?
- Want to try a start up?
- Want to try that online business idea?
- Want to change your career path because you don't feel you belong to current job?
- Want to ask for a salary hike, but too afraid to lose the job

The above 5 things can be tried at any point of career, but practically you have more appetite to try out these things in the start of your life, when you have less responsibilities and enough time in hand to correct the mistake if any.

If you are still confused about this, you should listen to this YouTube video about best practices in Career Risk-Taking. It will help you

https://www.youtube.com/watch?time_continue=6&v=pbYPKZPpqZE

Mistake #4 – Buying policies from your relatives/friends

There are millions of investors in India, who have lost a lot of money in bad products which were sold to them by someone close to them. It was often an uncle, aunty, father's friend, distant relatives or even your siblings at times.

A lot of products are bought in India based on trust and goodwill. Often relatives pressurize you to take a policy.

This is particularly true for Endowments policies, ULIP's and other insurance products. You will often find someone in your close circle who is an agent and your parents trust them like anything and force you to buy a policy from them.

Years later you realize that you have burnt your fingers and can't express your dissatisfaction openly.

So what is the way out? Either research on things on your own or directly buy form the companies or if you need external help, better hire an advisor or an external agent, but not a relative

Mistake #5 – Investing in a product you don't understand yourself

On an average, 90% of the investors can't explain what exactly they have bought.

I was once talking to an investor in our workshops (the upcoming one is in Pune on 22nd May, 2016) and the guy said he has few policies. When I asked how many? He had no idea.

When I asked what are the names of the policy, he didn't even know that.

He said that he had bought them few year back for tax saving and does not exactly know what they are !

The problem is that investing in products, which you don't understand blocks your financial energy. Your money is stuck in a rotten product and takes away a lot of time.

So if you are buying a financial product, please learn how it works and how it's going to benefit you at the end of the day . Find out everything about return, risk, liquidity and taxation. If possible, better know which financial goal it's going to fund.

Mistake #6 – Not saving early in life

After spending many years in your job, you will realize as an investor that "I will save when I will have more money" is an illusion.

When you start earning money, your income is less and you are not able to save money at all because you are hardly left with anything at the end of the month.

If you look at all the rich people today (really filthy rich), it all happened with equity investor.

Someone either opened their own company or invested in some company which was growing and held it over long term.

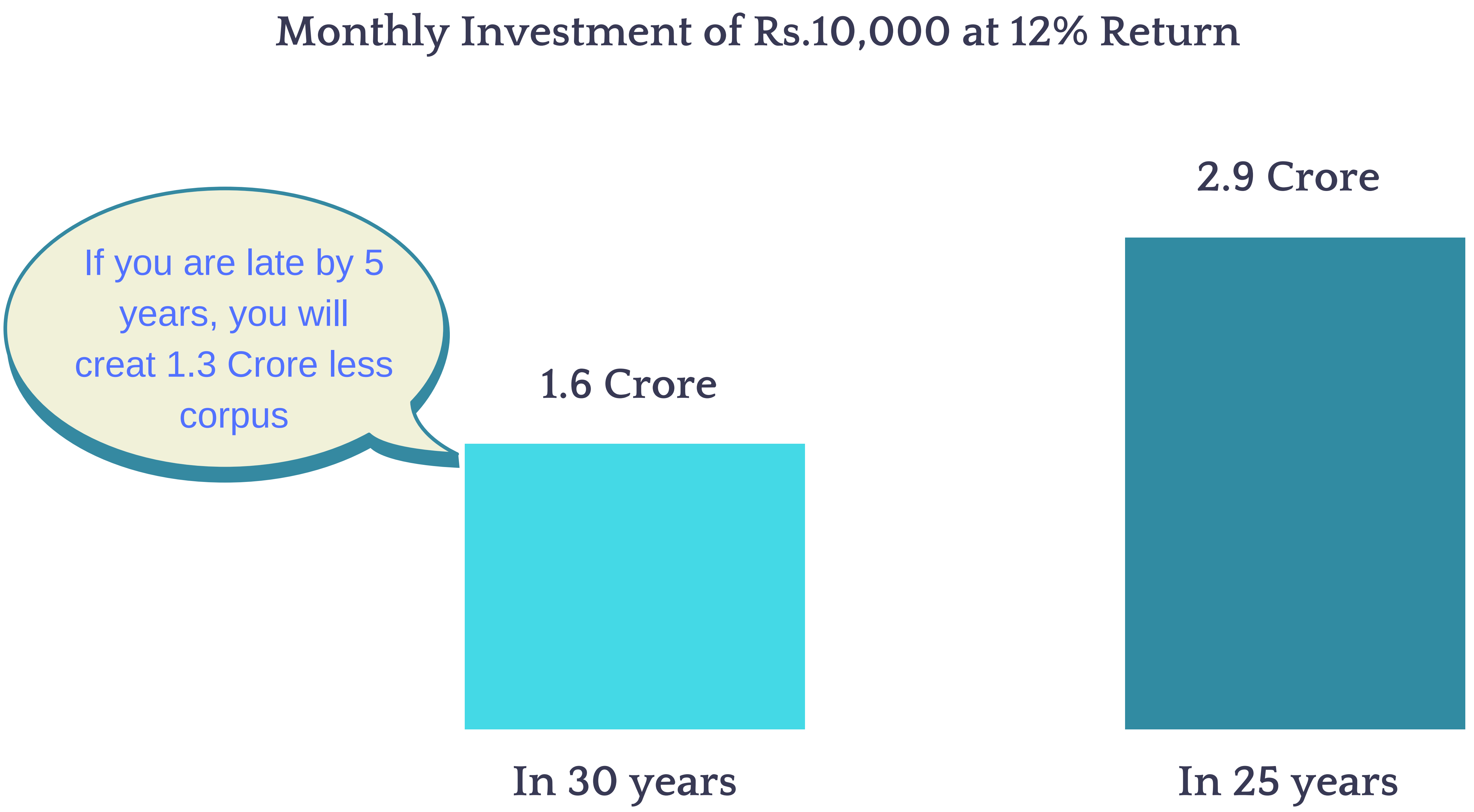
However note that this is going to be true always. While your income will rise in future, so will your expenses.

You will get married, have kids, your lifestyle will improve. You will get a car, buy a house and what not. You will enough feel that you have enough to save.

The graph for expenses is set to rise and this feeling of “I will save in future, when I earn more money” will be intact. This is the reason a lot of investor never save enough money which they deserve.

The graph below shows you if a person starts investing Rs 10,000 a month, they can accumulate around 2.9 crores in 30 yrs. However if they delay it for 5 yrs, and then start the same thing.

They will accumulate only 1.6 crore by the same time. That’s a big difference because of the delay.



As a young investor, you need to understand that habit of “saving money” is more important than how much do you save. If you can’t save anything, start with Rs 100 per month.

I know it sounds like a joke. But once you do it for 5-6 months, you at east know that you can save Rs 100.

Then upgrade the number!

Upgrade to Rs 500 or Rs 1000 a month. Continue for another 6 month.

Soon, you will realize that you have reached Rs 5,000 or Rs 10,000 because you are just increasing the number, the "habit" was already in background.

Mistake #7 – They neglect their health

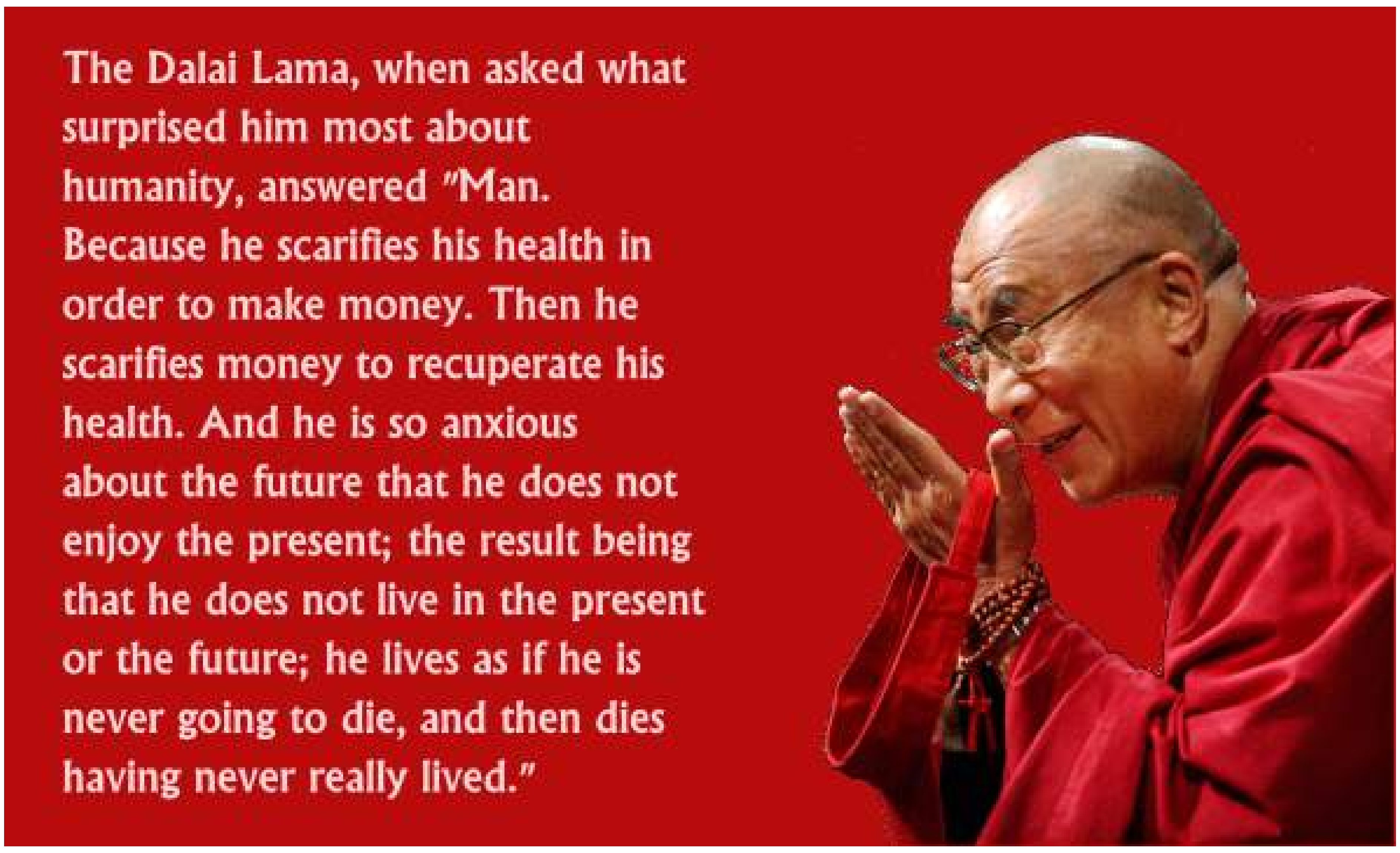
If you do not have good health, it will not matter how much money you have earned, because you won't be able to enjoy that money at all. It does not make sense to lie down on a bed made of gold in your retirement.

While earning money is important and required, make sure you also pay attention to your physical and mental health.

These days, the jobs are too demanding and there are many money matters which will take the peace out of your life. You might get lost in the rat race and forget that you have a body to take care for years.

Only years later you will realize that it would have been better to earn a bit less and have a healthy body, rather than having bad health with money.

The quote from Dalai Lama is worth reading



Learn from others mistake

At this point of time, internet is flooded with the mistakes other investors have done. It's a wise thing to learn from those mistakes and not repeat them.

A good and healthy start of one's financial life helps a lot and if you are a starter, I strongly suggest you take a note of the points above and implement them.

Please share your views on the points above. Were they helpful to you as a new investor?

Now .. lets move to next article

5 reasons why creating long term wealth is not a child's play

ARTICLE

5

Do you want to create a lot of wealth? Do you want to see crores of rupees in your bank account? I am sure you know that's not an easy task.

You also know, that it will take a lot of time and dedication to create the wealth over long term. Do do you know that its more tough than you think? I will show you why?

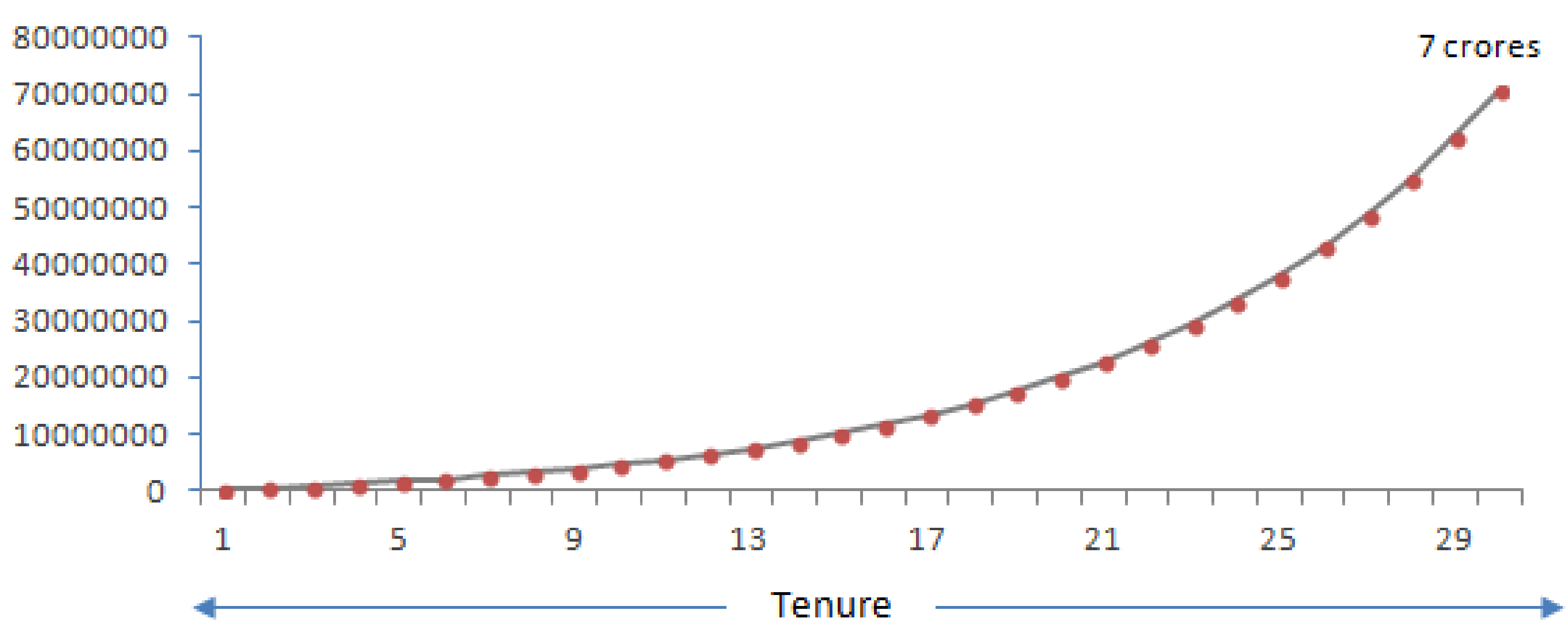
Have you ever seen those retirement calculators online, where you punch in your numbers and find out how much corpus you will be able to generate over the years if you consistently invest a fixed amount year after year at certain rate of interest?

The calculator throws a big number at you and you feel – "Wow … Thats looks straight forward and simple"

Below you can see an example.

What if Rs 20,000 is invested monthly for 30 yrs ?

Investment Amount per month	Rs. 20000
Return on investment	12.00%
Tenure (yrs)	30 yrs
Freqency	Monthly
Corpus generated after 30 yrs	**7 crores**



Above is the result.

I calculated how much wealth a 30 yr old guy can generate by the time he retires at age 60 (30 yrs tenure) if he invests Rs 20,000 per month at a return of 12% per annum.

It looks so simple on paper. One can generate wealth of Rs 7 crores in 30 yrs period if one consistently invests Rs 20,000 per month.

Doesn't it look over simplified? It definitely is!

While the calculator above makes it look like a child's play to create long term wealth, in reality – it's definitely not that easy and there are various things to be considered here, which I want to discuss in this article.

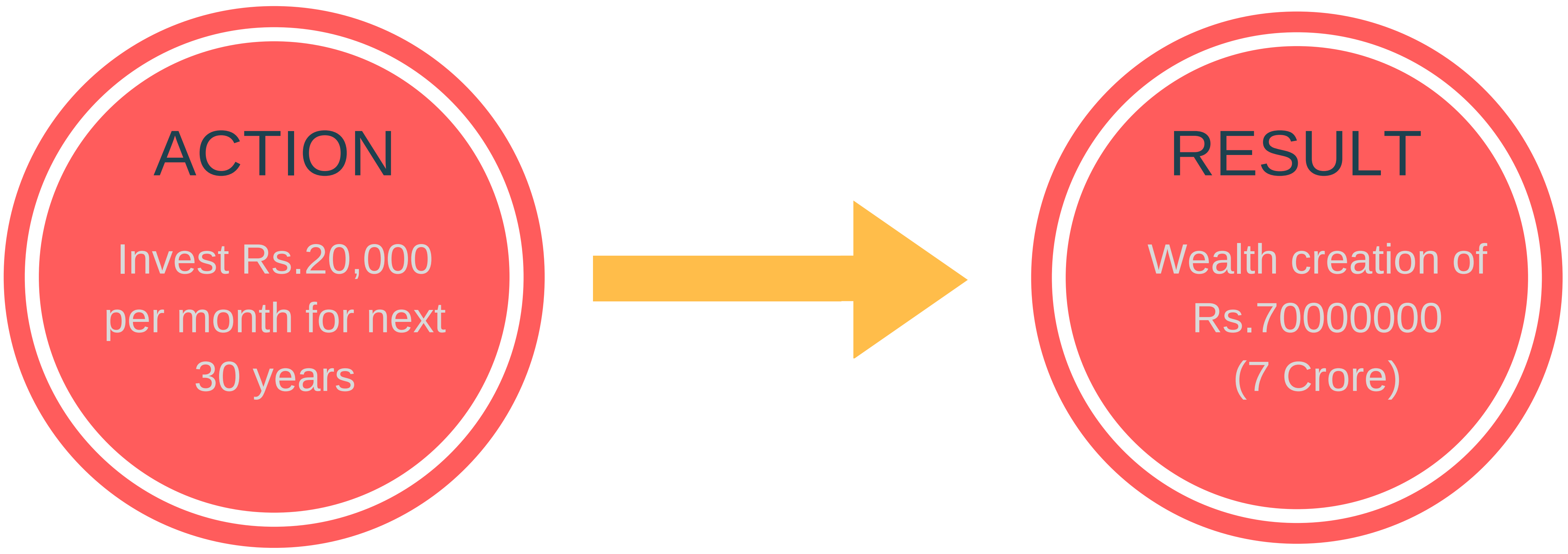
What are the assumptions in te calculator above?

If you look at the calculator above and the numbers, you will realize that 5 assumptions which are

- The investor keep earning over years and bring back the income
- The investor will have enough surplus each month
- The investor will be able to generate 12% return over long term
- The investor will not disturb his wealth creation process
- The investor will not use the money out of the accumulated money till the end of tenure

Now if you look at the 5 points above, long term wealth can be created only if all the 5 points above are true or maximum of them are true. Each of the point above is a challenge in itself. If you overcome all these 5 points, you are then set to build long term wealth.

So now, if you try to capture these points as the ACTION and RESULT, then here is how it looks like



Assumptions

- **The investor keep earning over years and brings back the income.**
- **The investor will have enough surplus each month.**
- **The investor will be able to generate 12% CAGR return over long term.**
- **The investor will not disturb his wealth creation ptocedure.**
- **The investor will not use the money till the end of tenure.**

So let's touch on each of these 5 assumptions one by one and see in detail and see what are the challenges in handling them

Assumption #1 – The investor will keep earning over years and bring back the income

Let's start from the most basic foundation point.

A lot of people who have been earning from many years (lets say 5 yrs) and never faced any issues in their career seem to feel that its a cakewalk to continue doing it without any issues for next 20-25 yrs of their life.

They think that it would be a smooth ride. However you need to know that

- There is a section of population who are struggling in their career and will not be getting same salaries if they switch jobs
- There are people whose income is not rising as per their expectation and a lot of people take salary cuts
- A lot of investors are out of their jobs/business due to competition, policy changes in industry
- A lot of investors at times spend many months without bringing back any income because of health issues, layoffs and other reasons.

At least 3 of our clients have stopped their SIP's in last 6 months because their income have stopped/reduced due to some issue at their workplace. While it might be a short term problem, you never know if it can extend for a very long time for some one.

One client is working in Middle east, and his job is not that stable and he is damn scared of this fact.

Another client told me that as per his understanding, he is getting the maximum salary he can command in his industry and if he loses his job for any reason, he will have to join another company at a lower salary.

One client is hell scared because he is just surviving his job from many years and if he is fired due to non-performance, he does not believe that another companies will hire him at the same salary

Focus on your "employability" and potential to earn

My partner Nandish Desai, says a very important point about employability – "To get a job, you need to be useful for someone"

You need to make sure that whatever you do, whichever sector you enter, which ever skill you acquire – do it like a pro. Become a highly useful person in your domain of work. Be among the best.

Your skills should be outstanding and you should be the master of what you do. If that happens, you will be highly sought after and everyone will want to hire you.

You need to make sure that whatever you do, whichever sector you enter, which ever skill you acquire – do it like a pro.

Become a highly useful person in your domain of work. Be among the best.

Your skills should be outstanding and you should be the master of what you do. If that happens, you will be highly sought after and everyone will want to hire you.

This way you are ensuring that all your future income is secured. If things get tough in your industry, you will be one of the last people who will face issues.

If you face any issue, you will soon find a new job. If you want to switch, you can command a better salary.

Focusing on your career and investing in your own development is one of the most rewarding decisions you can make in your financial life. Only when you ensure that you have taken care of this point, others points will come into picture.

You need to understand that only if your future cashflow is protected, only then you can save from it and only then you can think of the returns and everything else. No income, no wealth in future !

Assumption #2 – The investor will have enough surplus each month

Taking the example above, the 2nd assumption was that the investor will continue investing Rs 20,000 per month over the next 30 yrs without fail.

For you personally, this number can be Rs 10,000 or Rs 50,000, the same is true for yourself.

Will you be able to consistently invest that much each month? Will you be left with that much each month? year after year?

You might be able continue that for some months or years, but think of the real life issues which we all face.

You never know your life will take turns, you never know how unpredictable things are. You might have to switch jobs because of health.

When you will have kids, your expenses might shoot up, you may face an emergency which might last for many months to come, there can be health issues and you can get into the never ending cycle of high income -> high expenses -> less saving.

Infact I have seen this in reality.

Forget about investing each month, one of our client is redeeming back from his mutual funds corpus because there is a prolonged medical emergency at home and he is not able to handle all expenses the way he had planned before.

My whole point is that its very very tough to maintain the consistency and discipline in investing in real life and there will be disturbances.

High Lifestyle is making saving more tough

Now a day's its more common to see people living on paycheck to paycheck basis. The high lifestyle and the increased consumerism have ensured that even if you are earning high, it will get tough for you to save.

Salaries like Rs 1 lac or 2 lacs per month are very common these day in many cities, but the savings are not in line with the salary.

Hence, you need to ensure that you after your expenses are done, you generate a consistent and a minimum 20% of investible surplus from your salary. Take it as a game and try to win it each month.

Assumption #3 – The investor will be able to generate 12% return over long term

The next assumption is that the investor will generate 12% return over long term from his investments? Now where do you invest your money to get more than 12% returns over such a long term?

Any guesses?

The answer is equities !. It has to be in shares, equity mutual funds, ETF's, Index funds etc.

This is not easy thing for a majority population in India, because most of the people in India do not understand how equities work and banking products are their lifelong favorite.

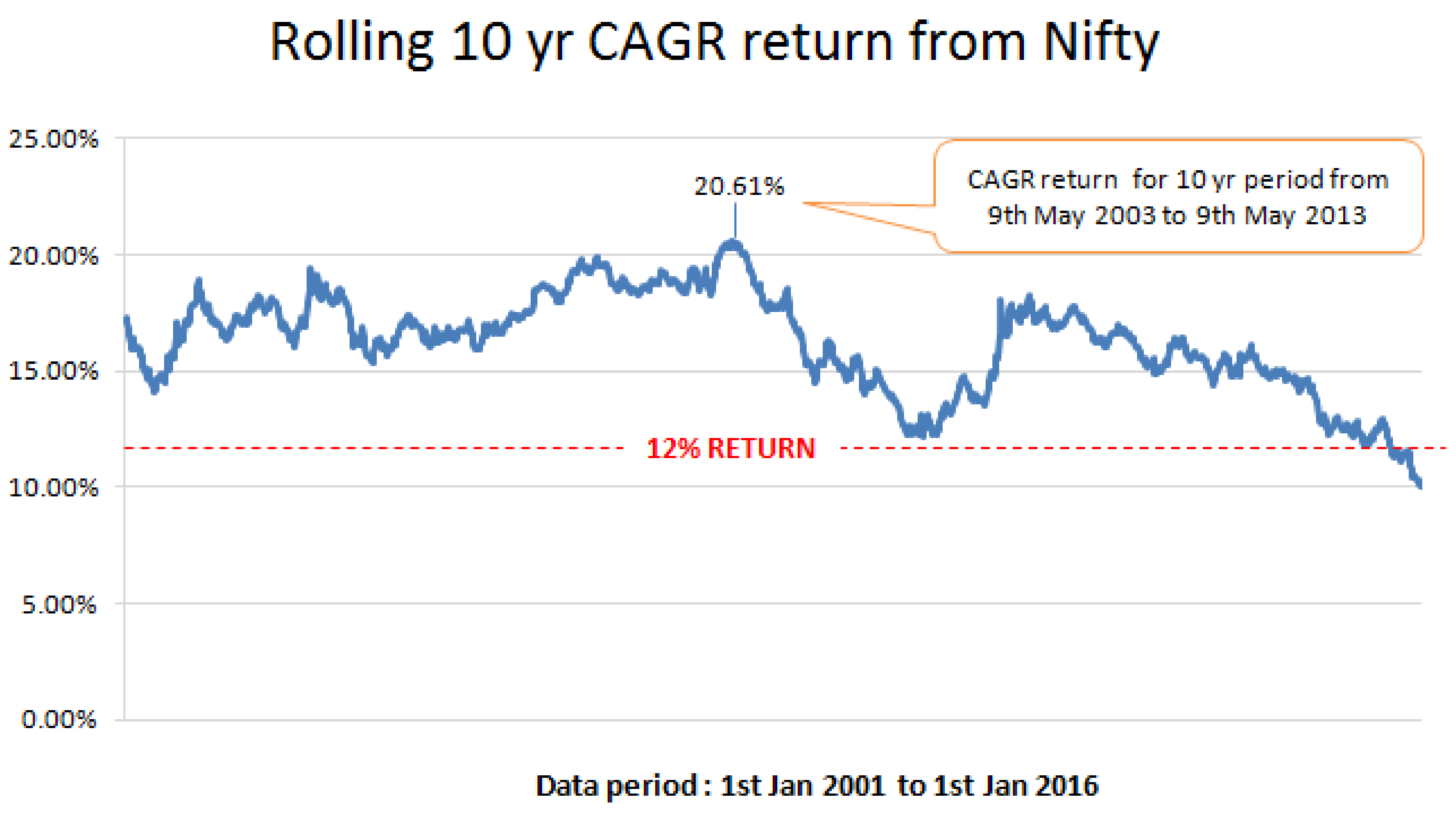
They are earning 8-9% (6-7% post tax) from years. So for them to earn 12% would be very tough because first they need to get the clarity about how equities work and get comfortable with it.

Now let me show you some data and charts which will convince you why you should be in equity to earn 12% return on your investments.

Below is the chart which shows the CAGR return for 10 yrs periods if the money was invested in NIFTY. The data is from 1st Jan 2001 to 1st Jan 2016, so there are many 10 yrs period like

- 1st Jan 2001 – 1st Jan 2011 (first point)
- 2nd Jan 2001 – 2nd Jan 2011
- —
- —
- 1st Jan 2006 – 1st Jan 2016 (Last point)

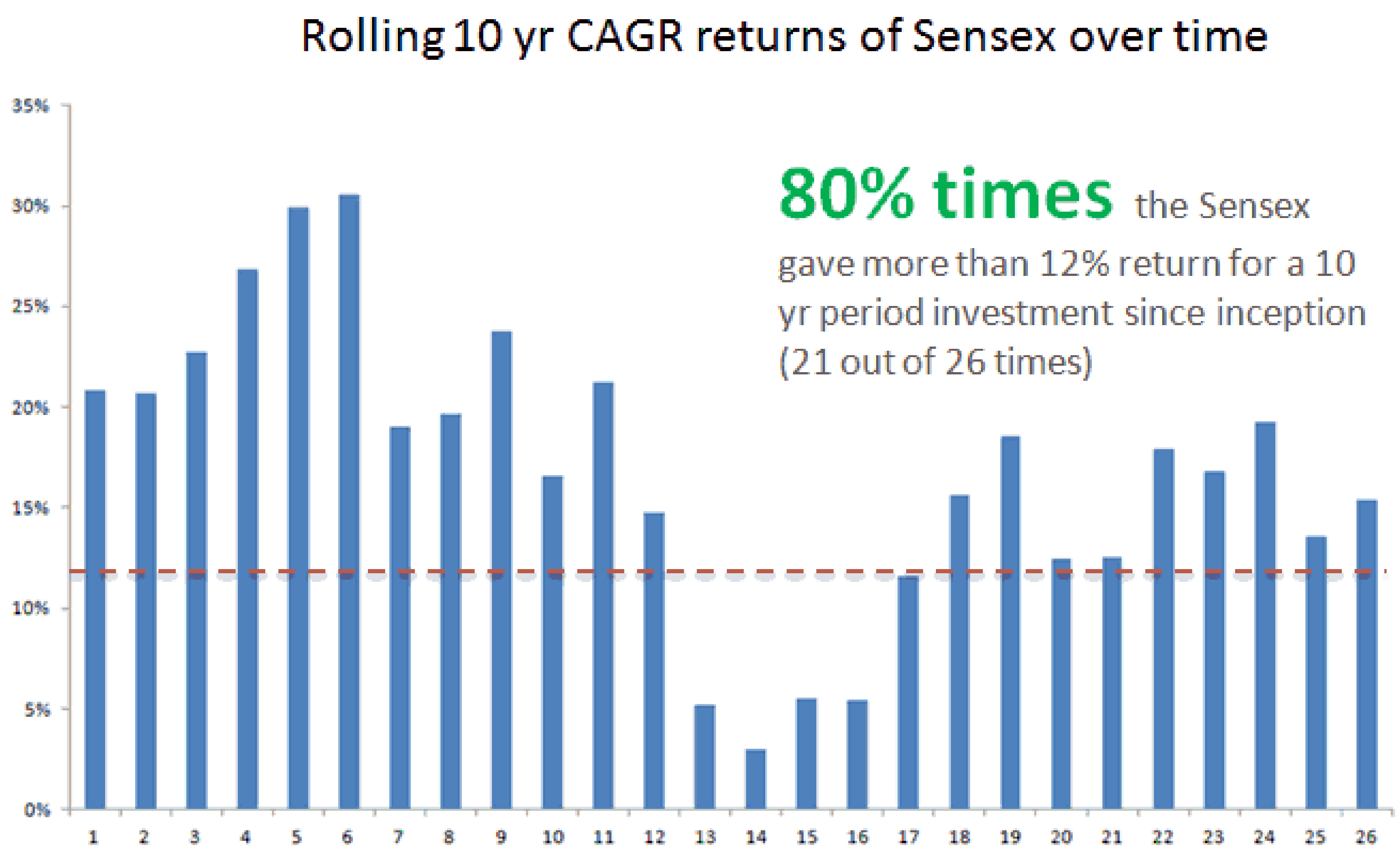
We then plotted the CAGR Return for all these periods and below is the answer. The CAGR return almost always was above 12%, however for few months towards the end it was a bit below 12% .



Another graph which I want you to see is the 10 yrs CAGR return chart from Sensex, which is for its 36 yrs of existence.

So there are 26 different “10 yrs” tenures and we calculated the CAGR return for all the 26 data points and below is the result. Around 21 times out of 26 , the return was more than 12% and at times it was very high like 20%-30% .

Few periods had less returns like 6% or 11% , but then if you look at the overall 36 yrs period, the CAGR return converts to 17% return.



Now while it's very easy to conclude that if you invest in equity over a long term, you will get required 12% return, its very tough to practice in real life, which we will see in next point very soon.

POST-TAX RETURNS (CAGR) OF ASSET CLASSES

	5-year	10 year	15 year	20 year
Equities	11.0	17.0	13.6	12.9
Gold	9.0	12.9	11.0	8.4
Bank fixed deposit	5.7	5.2	5.1	5.5
Property	8.0	13.4	10.8	6.2
CAGR in WPI index	6.2	5.9	5.7	5.5
Avg Inflation for the period	7.4	6.3	5.9	5.7

in % **Source:** Morgan Stanley

Lets me share with you that a very small percentage of our India population invests in Equity. The major money lies in FD , Gold and insurance products and even real estate.

And it's going to be very tough to generate 12% return from these asset classes. Infact Morgan Stanley research has clearly shown that equity has beaten all the asset classes in long run and below is a snapshot of that research.

So if you want to build wealth over long term and you are investing majority of your money in FD, understand that your post tax return is lower than the inflation.

Your money might be growing in numbers (Rs 10 lacs became 20 lacs in 9 yrs), but the worth of your money has come down (20 lacs today can buy less of what 10 lacs could have bought 9 yrs back). You are infact getting poorer in a slow motion and you are not realizing that.

Assumption #4 – The investor will not disturb his wealth creation process

Read the following question and answer.

> " **Q –** Do you know what is the biggest challenge for an investor if he has **invested in equities (mutual funds or Stocks)?**
>
> **ANS –** To remain inactive and sit tight without doing anything and let his wealth grow.

Making money in stock markets is challenging, not because markets have any issue, but because we investors have behavioral issue. We can't handle the uncertainty and volatility which comes with the stock market. Its not for weak hearted.

For some one who has been with FD's and have the habit of seeing his investments grow in linear fashion, can literally go crazy with mutual funds because it brings so much of ups and downs and volatile movements.

In the last 2 weeks itself, we have got many emails from our clients whose SIP's are going on in equity mutual funds, asking if they should stop their SIP's as markets are falling?

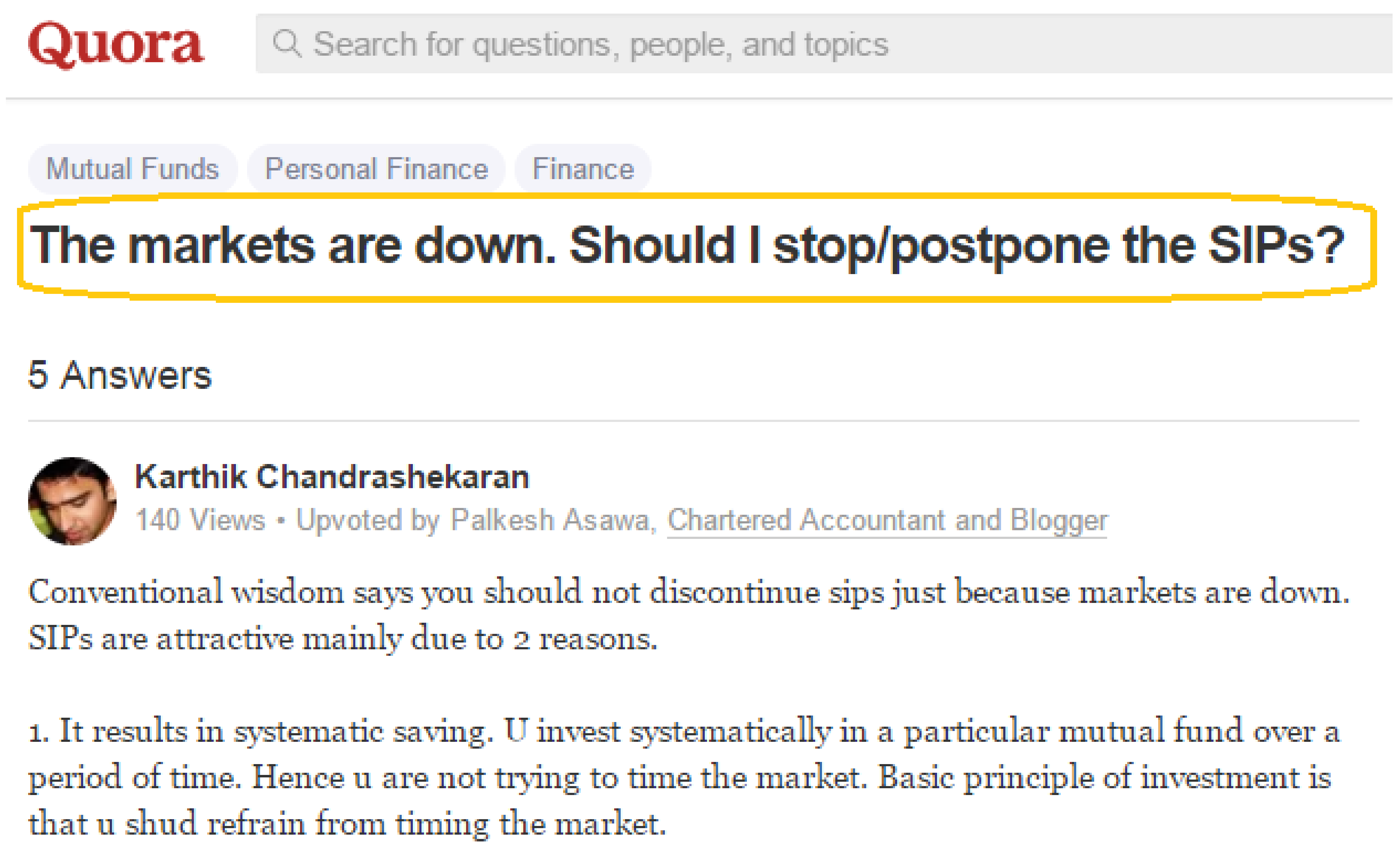
I have told them to act like a ninja investor and see it as an opportunity and pump in more money because in coming years we might see a very good bull run? (any body remember what happens for next 2-3 yrs after 2007 crash ?)

Note that all these clients SIP's are running for very long term goals like retirement or children education which are going to arrive only after 15-20 yrs. There is no problem as such with that behavior.

It's very natural, but I am just trying to tell you that it's not that easy to handle the pressure which comes from the volatile nature of markets and very few investors have that dedication and understanding of how things work in stock market.

Very few people can control their greed and fear and that's the reason very few people are able to make the most of the returns from the equity markets over long term.

Below you can see a snapshot of kind of queries which start coming up if markets show any kind of fall for a long time like 6 months or an year.



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The markets are down. Should I stop/postpone the SIPs?

5 Answers

Karthik Chandrashekaran
140 Views • Upvoted by Palkesh Asawa, Chartered Accountant and Blogger

Conventional wisdom says you should not discontinue sips just because markets are down. SIPs are attractive mainly due to 2 reasons.

1. It results in systematic saving. U invest systematically in a particular mutual fund over a period of time. Hence u are not trying to time the market. Basic principle of investment is that u shud refrain from timing the market.

Cycle of Greed and Fear

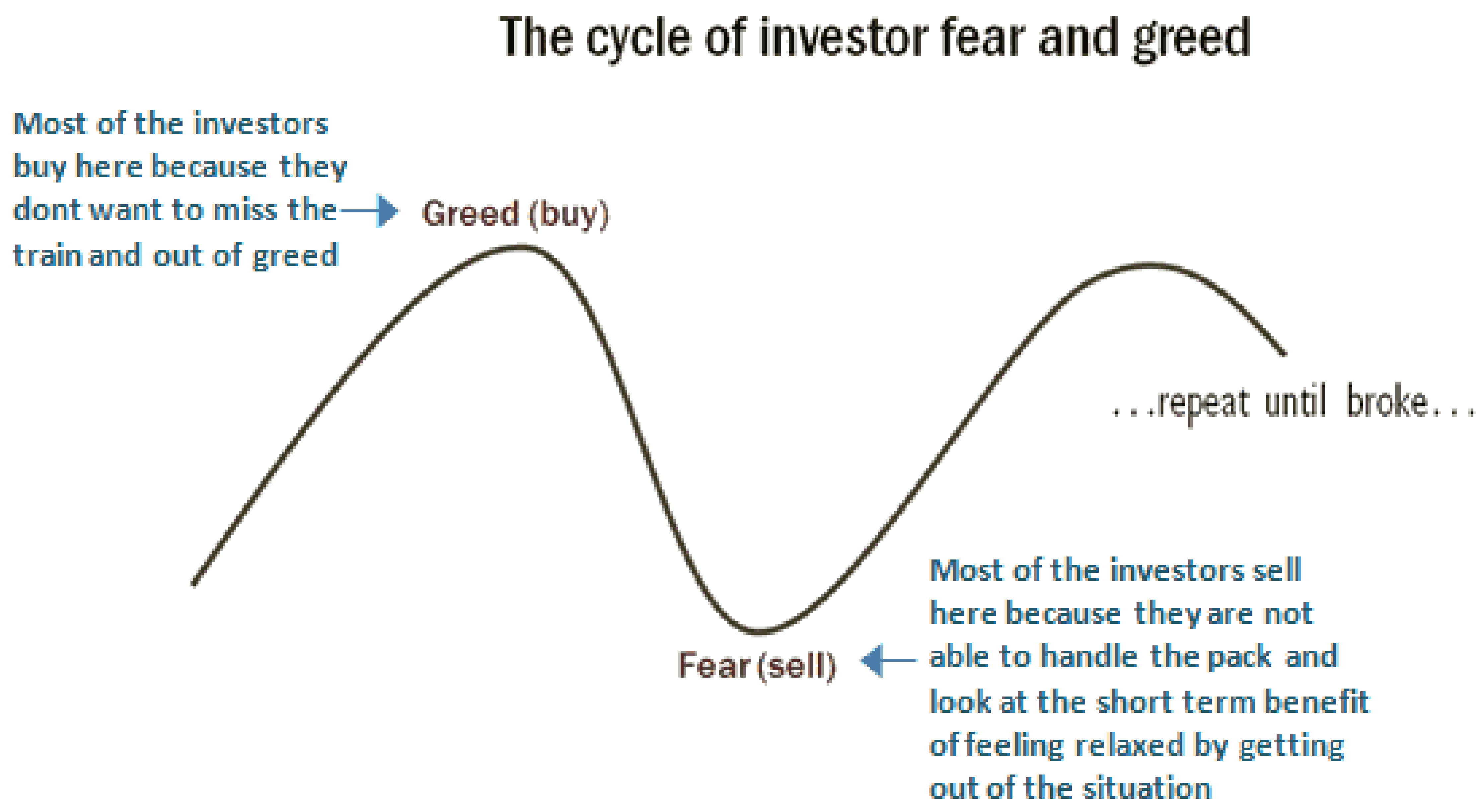
If you see the stock markets right now, you will realize that we currently are in that same phase where investors panic and take out the money from their portfolios.

Markets are falling from last 1 yr and especially this month it has gone down by a big margin.

So even if an investor is investing a good amount each month and he has read about how equity markets work and they understand the game of equity, still it's very tough for an average investor to stay calm and stay with markets consistently for a very long time.

Some stop their SIP's , Some redeem their money and shift it to FD's thinking – "I will again be back, when the markets will calm down and start going up".

However, you never know when that up move started and by the time you realize, you lose the next bull run. Below chart clearly shows how 99% investors think and behave in stock markets.



So what is the solution? What should you do?

Remember that if you are in equities with a long term view like 10-15-20 yrs, then you are going to see many cycles of ups and down. You can't escape it.

You need to think of the down market as the "sale" where you can accumulate more stocks or mutual funds units at a cheaper price so as to gain from the up move later.

And when markets are going up, don't redeem your money or try to "book the gains" because you will most probably miss the bigger up move trying to redeem the smaller up move.

You need to understand that you are not there for "trading" or short term profit booking (incase, you are there for trading, then this does not apply to you)

Just sit tight, keep your SIP going and make sure you are in right mutual funds (not the best, because it does not exist). Review them in few years and let the process of wealth creation take place.

It requires patience and only a small percentage of investors are going to reach the final destination. Be one of them.

Assumption #5 – The investor will not use the money out of the accumulated money till the end of tenure

Having 5 lacs in your bank account is very different from having Rs 5 crores. You might think – "What's the difference? it's just 100X, rest everything is same"

No, your feelings about your money, your risk appetite, your thoughts around money, your desperation to do something will be at a very different level when you have 100X money in your bank account.

It's a very tough thing to "not do anything" when you have so much money getting accumulated in your account. Once your corpus reaches a respectable limit like 80 lacs or 1 crore, you will start thinking in these lines

- Lets shift some money in FD now.
- Lets upgrade our house now, I can surely take out 50 lacs from my portfolio
- Now I deserve that dream car I always wanted, I have good money now
- Let me have a grand wedding for my children, after all – I have a good corpus now

Your lifestyle will go up, your vacations will get luxurious and you will get all the reasons to spend the money and take a dip in your portfolio.

Let me be clear, that I am not saying there is anything wrong with spending your money or using it for yourself. please do that.

After all, if you have managed to earn so much money and accumulated the good corpus, you surely deserve a better lifestyle.

All I am saying is that it's a challenge to let your portfolio grow and not disturb it.

So in our example in the start of the article, you might not reach 7 crores as per calculation, but may be 4.3 crores or just 3 crores, because you keep taking out the money out of your corpus many times in between for various reasons.

If you are just taking out a portion of your corpus and reinvesting in something else which you can redeem back later, it's still fine. But if you are "spending" the money and consuming it, then it's GONE.

That part will not reflect in corpus now and you will have a lesser corpus by that extent.

If you can make sure you have that ability to stay calm and see your wealth grow without disturbing it, then you are bound to see a good amount of wealth in your life.

So here is the final checklist before you start your wealth creation journey

- Spend a good amount to time to understand how equities work in long run. I have explained about equity in the 3rd chapter of my 1st book – "16 personal finance principles every investor should know". Get a copy and read it
- Work on your career strongly and become very very good at what you are doing. Make sure you are highly employable even if the bad time comes. This will make sure your cash flows are more or less ensured.
- Spend 10% time on cutting down your expenses if there is any scope, and spend 90% of your energy in increasing your income. Remember, reducing expenses is tough and has a lower limit. Increasing income does not have a ceiling.
- Make sure you start the SIP in equity mutual funds with a long term perspective. When markets fall, rejoice ! and keep adding more money. Be a tough hearted and you will be rewarded over long term
- Make sure you plan for other goals separately so that you do not use your main corpus in between for small things

Let me know if your way of looking at long term wealth creation has changed or not by reading this ebook. I would love to hear your views.

Now .. lets move to next article

Why most investors struggle to save money every month & how to fix it?

ARTICLE

6

Recently, I came across one interesting short story on quora, which I found interesting and worth sharing with all the readers.

This story will help you understand why you are not able to save enough money by the end of the month.

You will get to know why your hard earned money is spent into useless things and you don't have enough control on it.

Lady: Do you smoke?
Guy: Yes I do.
Lady: How many packs a day?
Guy: 3 packs.
Lady: How much per pack?
Guy: $10.00 per pack.
Lady: And how long have you been smoking?
Guy: 15 years
Lady: So 1 pack is $10.00 and you have been smoking 3 packs a day which puts your spending per month at $900. In 1 year, it would have been $10,800. Correct?
Guy: Correct.
Lady: If 1 year you spend $10,800, not accounting for inflation, the past 15 years puts your spending total at $162,000. Correct?
Guy: Correct.
Lady: Do you know if you hadn't smoke, that money could have been put in a step-up interest savings account and after accounting for compound interest for the past 15 years, you could have by now bought a Ferrari?

Guy: Oh. Do you smoke?
Lady: No.
Guy: Then where's your fucking Ferrari?

The story above sounds funny. The lady did not smoke, so that money must have got accumulated and she should have owned a Ferrari as per the logic. But that did not happen in reality.

Why?

The answer is – "Ferrari was never on her mind"

Her money was not put on the purpose of buying the Ferrari someday. She did not spend the money on cigarette but then that same money kept getting consumed on some other things which came in small chunks.

Life kept throwing small and tempting desires and she fell for it without realizing about it. And finally at the end, did neither have the money, nor the Ferrari.

You are the biggest enemy of your financial life

If you leave your money in the saving bank account without giving it a strong purpose. Then the lifestyle today is such that no amount of money is enough to meet your short term desires.

Life will throw all kind of requirements and if your money is available right in front of you, you will keep trying to handle those requirements without much analysis.

Justifying the expenses becomes very easy when you have the money sitting in front of you, waiting to spend.

Investors are generally over-confident about their saving abilities and there is tons of research to prove that.

Take out the manual mode of investing from your life

Here is the rule – "Lesser the money available in front of your eyes, higher the chances that you will restrict your useless spending.".

You need to take out the manual mode of saving money out of your life and take the help of automation. There has to be some way, where some part of your salary leaves your bank account and gets invested on its own.

Because the more you leave the decision making to yourself, it's not going to happen on consistent basis. Humans are designed to take the path of least resistance. Machines don't make mistakes.

Let some automated way to save your money, and it will happen consistently, without fail. No one will

The best example of this is your EPF

Your employer deducts a part of your salary and that gets accumulated over months and years. That small deduction becomes a very big amount, if you leave it just like that and don't disturb it.

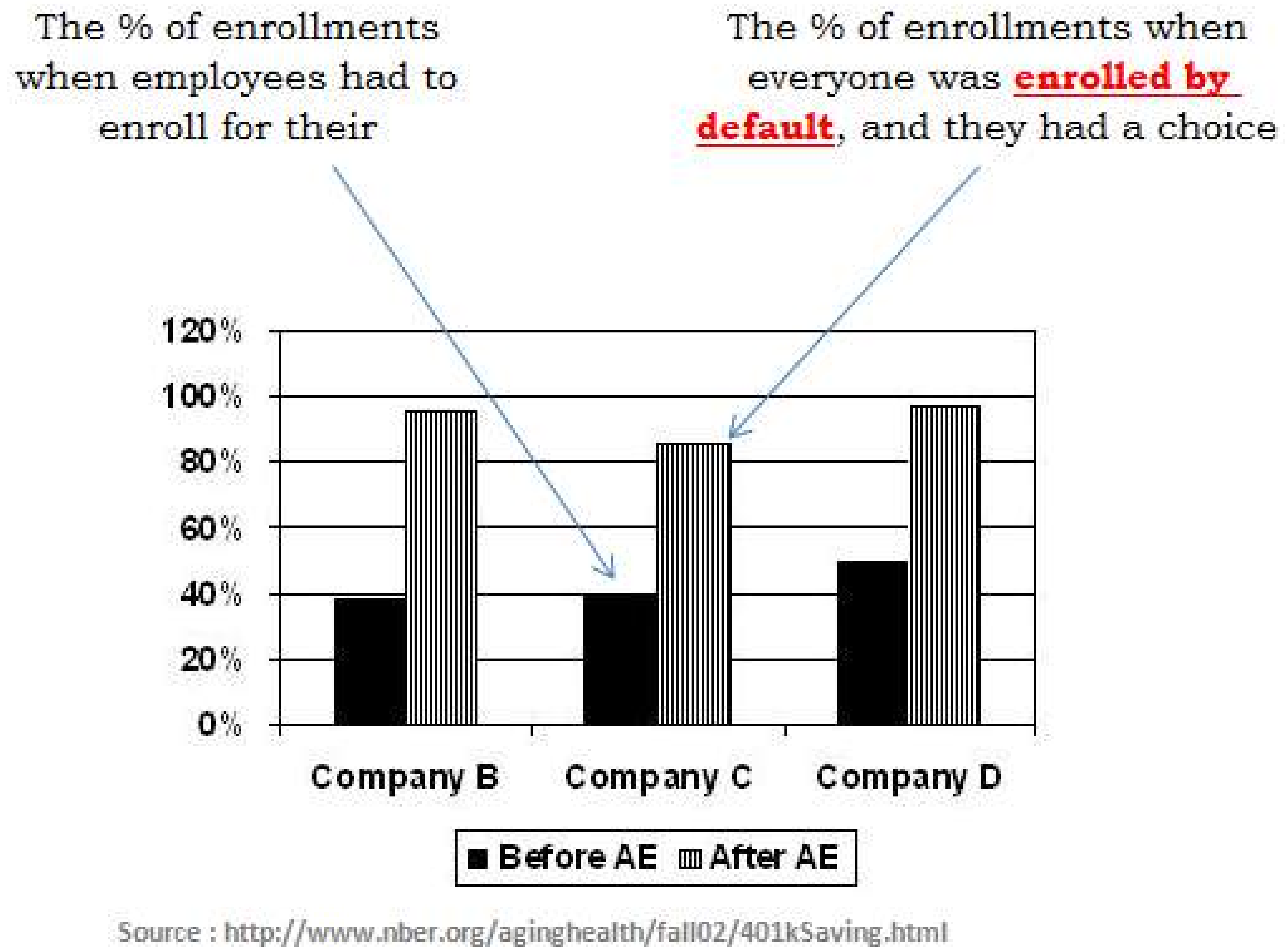
EPF does not earn a very high interest, but still it accumulates a decent amount. Now just imagine this,

Your employer tells you that they will not deduct that amount and you have to save money each month. It's fully in your control now.

You should feel great that you have EPF and some form of automatic saving. If you were given the freedom to choose the EPF, it would be a bad thing. Because most investors won't have chosen it.

Here is a similar study from US, where employees were asked to enroll for 401K program (similar to EPF in India) . However, the catch was that they had a choice to not opt.

When the enrollment was made a compulsory thing as a default choice, with an option to opt out if one wants, the enrollments more than doubled. Why did it happen? Because enrollment happened automatic !



So coming back to EPF example, Will you save money equal to your EPF each month, if it were not taken out of your salary automatically?

Are you really confident that you have the determination and commitment and control over yourself to save that money month after month, year after year without fail?

Are you understanding what I am trying to tell you here? The point is, YOU are your own enemy when it comes to saving. Take your manual judgment and your decision making out of saving each month. Let it happen on its own, automatic.

My personal Experience

Around 6 months back, my wife wanted to start a recurring deposit.

She started a recurring deposit of Rs 15,000 per month for 1 yr period. After 8 months, when she checked the bank accounts, she could see the 1.2 lacs in the deposit account. Suddenly she felt – "How this money did came there?".

The point is – it was automatic saving. It all happened in the background and didn't give her any scope of judging the decision again and again. She always saw her salary minus 15k in her bank account.

All her expenses, shoppings, indulges, bills had to happen out of the money which she saw in her account and it happened.

The expenses fit themselves in the amount available. It's the nature of money, and I will share more about it in sometime.

Don't trust yourself for saving money

Don't trust yourself, when it comes to systematic saving. Your intelligence can be your big enemy.

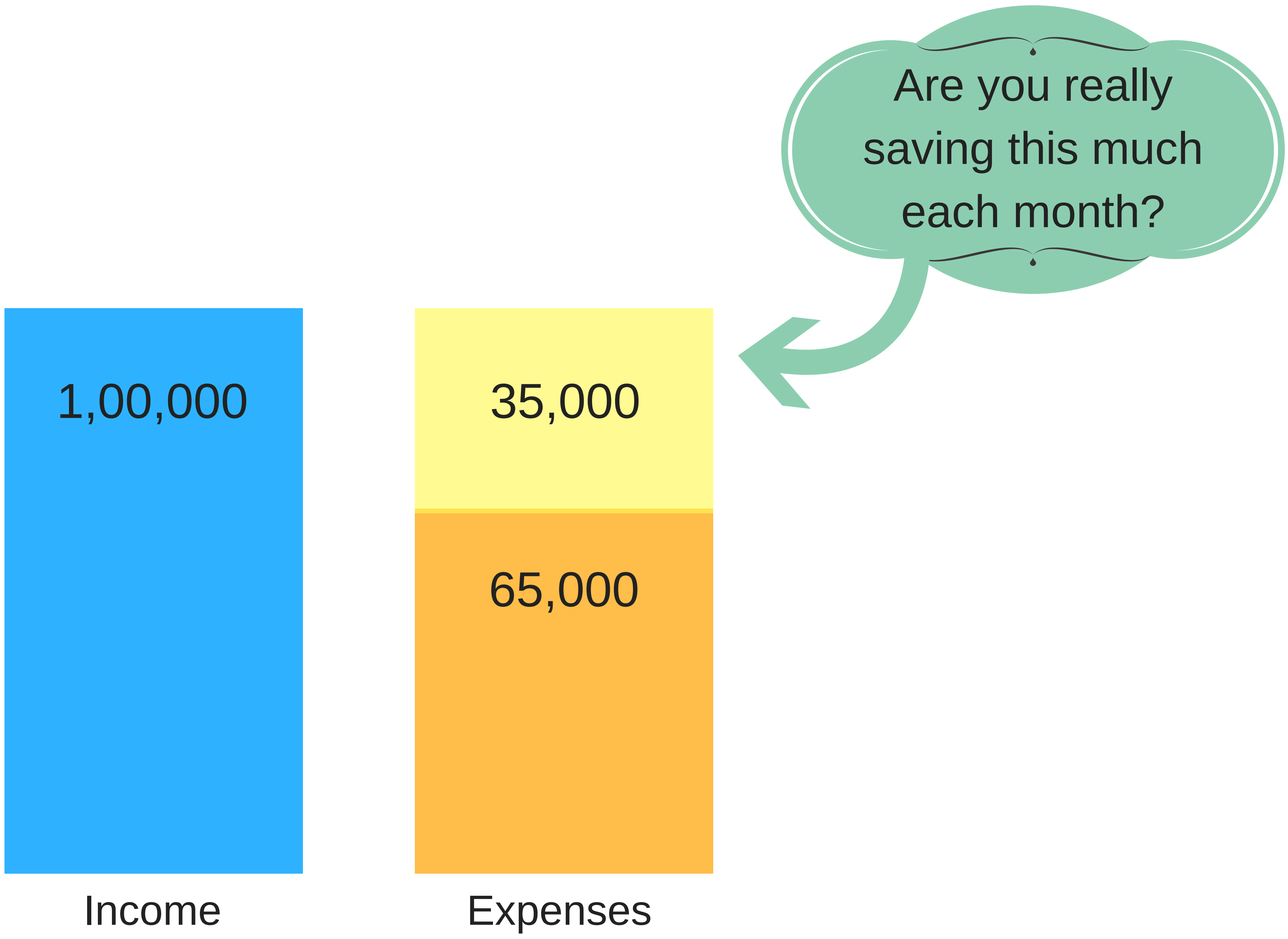
If you decided that each month you will carefully set aside some part of your money yourself, after all the expenses are done, then it's going to be a tough time for you.

Do this simple exercise

Take a sheet of paper (or open an excel sheet). One the left side write down your income each month and one the right side, write down all the expenses per month.

Now subtract your expenses out of your income, and you get your monthly surplus. So each month after all your expenses are made, you should be saving that surplus amount. Correct ?

Is that happening? **Did I hear NO**



Why does it happen? Why are you not able to save the money equivalent to your surplus each month?

MONEY is like flowing WATER

Have you ever wondered why you are not able to save enough money, even though your salary has kept increasing in last many years. Your expenses keep on matching with your expenses.

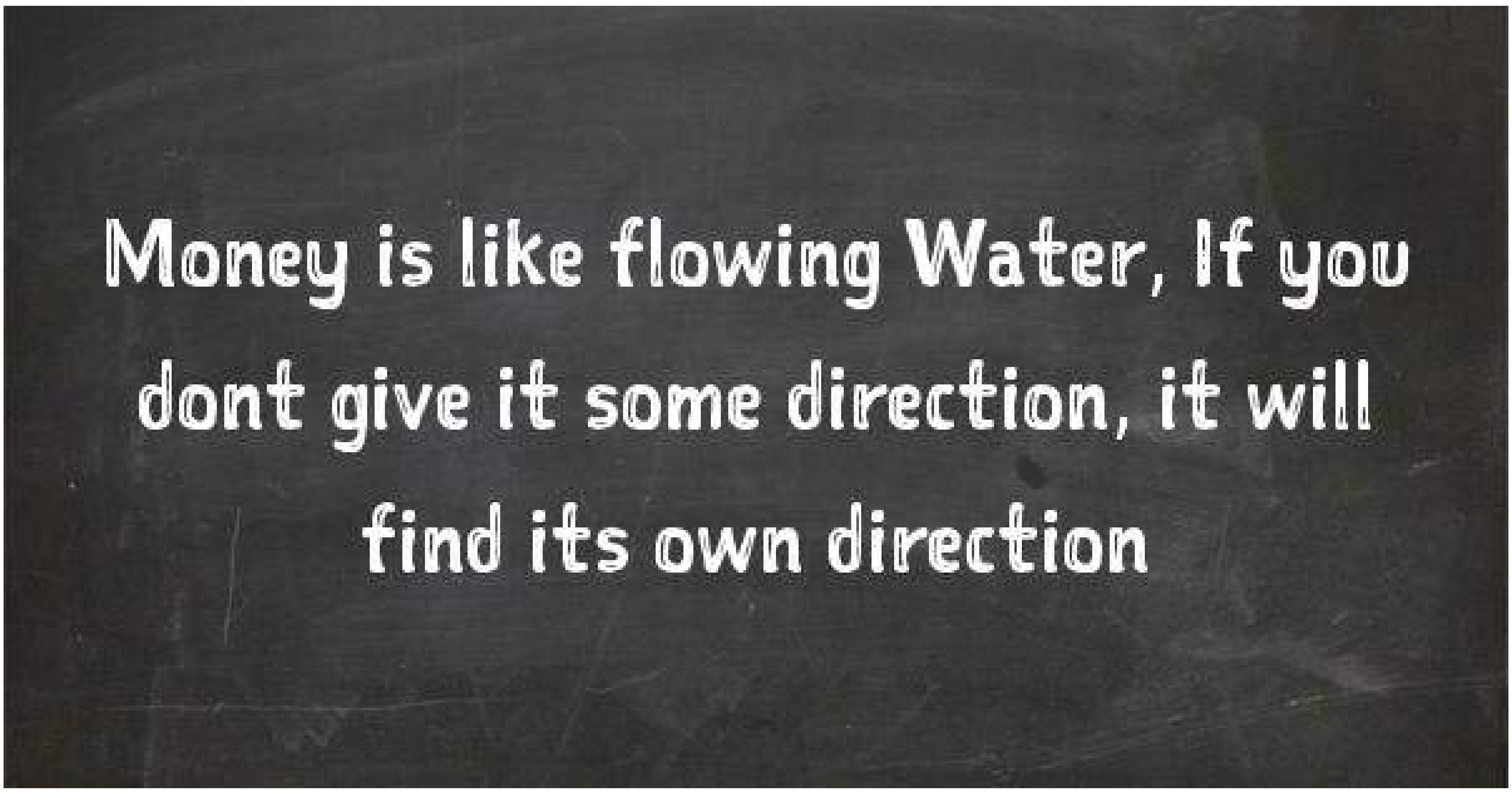
Even if you are saving some money, are you reaching your full potential? I guess NO

Why?

It’s because money is like flowing water. If you do not give it some direction, then it will find out its own direction.

When you do not automate saving money, then all the money will get consumed into “something”.

Life will keep throwing various kind of expenses, desires and requirements, and if money is easily available in your bank account, then trust me, you will always come up with strong reasons why you can't avoid those expenses.



Some of our clients get shocked when they fill up the datasheet we send them. The most common complain is – "I am not saving anywhere close to what my income – expenses is showing up", where is it all going?

The answer is – "Its getting consumed into things which looks important and urgent in short term, but in reality they are not"

My friend real life case

Few months back, I was talking to one of my close friend. He told me how he is not able to save anything by the end of the month. He was very confident that its very tough for him to save anything. After all, if he had any surplus,

why it's not there at the end of the month?

I asked him a simple question – "If his income increases by Rs 1,000 per month. Will it remain in the bank account after all his expenses?"

This one single question was a game changer.

He told me that he is very sure that even if his income increases by Rs 1,000 per month. His life would be same, it will surely get consumed somewhere.

I told him – "In that case, if your income drops by Rs 1,000, your situation will be same"

So why not set aside that Rs 1,000 in the starting of the month itself, and see less month in the bank account. Trust me, your financial life will figure out something, it will adjust. It will surely try to fit it.

And that's exactly what happened. I helped him in starting his first SIP of Rs 5,000 per month.

Just few days back, the first auto debit happened. I can almost guarantee that by the end of the year, these Rs 60,000 which was getting consumed somewhere, will "automatically" get saved in mutual funds.

So what is the worst case?

Ok fine, your financial life is really in bad shape & you can't save even a penny. Let's say, you show some courage and start a recurring deposit of Rs 1,000 per month, even though you know you will need that 1k later.

What is the worst case?

You would need that money back in some time again? Right ?

Solution – It that happens, then break the Recurring deposit and use the money …

Or you could start an SIP of Rs 1,000 and incase you needed it, you can always redeem it and take back your money.

But you know what, you will not take it back. You will not redeem it. Because like most of the investors, you are lazy when it comes to money. Its easier to adjust rather than take that pain to go to the bank and sign that paper for redemption.

We humans take the path of least resistance. You don't know how amazing human laziness can be for your financial life. Ask those who bought IT stocks and never cared to think about what to do with it.

Its only their laziness, which has made them millionaires, because they still hold the stocks

Most of the people are living with this myth that they will not be able to save even a penny by the end of the month. It's not true.For 95% investors it's a self created illusion. They have just not tried enough in a right manner. Let me share with you this in detail

Income – Expenses = Saving

For most of the investors, the default equation each month is "Income – Expenses = Saving" .

This equation looks very natural and logical. First you take care of expenses because they need to be handled NOW, and then if something if left, you will save it.

This is how any normal person will think like. But thats the root of the problem.

If you are not able to save enough money each month, I am ready to bet that this is the equation which is destroying your financial life. Let me guess how it looks like ..

Each month, you must be earning some money, then you take care of various expenses, some fixed and some random surprises and if you get lucky, you must be having some surplus money in bank account each month.

But wait, The money is still in your bank account. It's still "easily available". You decide that you will do something about it very soon. You decide that once it becomes a big amount, you will create a FD out of it.

Next month, again you have some surplus and more money got accumulated in your saving bank account.

Suddenly in the third month, your spouse tells you that she wants to upgrade the washing machine. After all, anyways its Diwali time and she deserves it.

And why not? After all, you have the money available in your bank account. What's the problem then?

Your timing is also perfect, the thought of upgrading the washing machine has come up just when Flipkart sale is round the corner. I am sure it's a coincidence.

No , it's no coincidence.

The point is – the money found its own direction and that's because you didn't gave it any direction beforehand.

For a moment, think what would have happened if the additional surplus was not available easily. It was there in a recurring account or was into SIP in some mutual fund or ELSS (locked for 3 yrs).

It's hard to imagine that you would have said – "Lets stop our RD or SIP in mutual funds and upgrade the Washing Machine".

Can you see how everything changed in both the situation?

Or imagine you would had created an FD out of that money before hand for paying the school fees for your kid at the of the year. Would you break your kids related FD to upgrade the washing machine? Generally not.

I am not against the expenses

Trust me, In no way, I am judging the urgency of your needs or desires. They might be genuine and very much reasonable. Please go and upgrade your washing machine, if it's really needed.

I am not even against taking a loan for that, but just assure that your requirement is genuine and not a made up one.

Just 1 yr back, I bought a sports cycle out of impulse and you should have met me just before I purchased it.

I would have convinced you that I need the cycle more than I need oxygen. Plus, I had the money with me at that time. Today I am not using it enough to justify my buying decision.

I can tell you – this false belief of “I need it so much” and the availability of money in your bank account is such a deadly combination.

So what do you do ?

Change the equation to “Income – Saving = Expenses”

Few changes in life give a new direction to life. Everything changes.

Trust me, this is one such change if you really understand it well. If you decide to change your saving equation to “Income – Saving = Expenses”, it can drastically impact your financial life in positive way.

Here is now you implement it.

- Find out what is the minimum amount you think can save each month. Is it 10%, 20% or 30%. Take a lower amount in the start, else it won’t be sustainable in long run.
- If your salary arrives in your saving bank account on date X, then, setup a recurring deposit or a SIP in mutual funds on date X+2 or X+3
- Trust automation, it will do wonders for you
- And in worst case, if you really need the money, you can redeem it back and use it or stop the RD or SIP.

If you can take this first step, then you have already won the big part of battle. Other things like great returns, advice, controlling risk, finding best financial product and all that will be taken care later.

But the first step it this – changing the equation

If you can spare 20 min, you should watch this amazing video by Shlomo Benartzi, on the topic of Saving for tomorrow.

You will understand the impact of automatic saving in a better way in this video

Click below to watch the video

https://www.youtube.com/watch?v=gzcw_02ZB1o

And you don't have to compromise

Don't confuse automatic saving with compromising on your expenses and fun. We are not asking to stop eating out or cut on your entertainment in life.

A lot of investors live in this myth that financial planning is all about compromising on your desires and spendings. No its not.

It's all about giving a meaningful structure to your financial life and exploring various possibilities to make your financial life awesome. That all.

I would love to hear what you think about this idea of changing the equation. Do you think that this single thing is really a very important parameter to live a good financial life? Please share your own saving habit in comments section

Now .. lets move to next article

9 ultimate checklist to know if your financial life is on track or not?

ARTICLE

7

Let's quickly see today what I call as a good checklist to find out if your financial life is on track? Are you doing well? When can you say that your financial life is an ideal financial life?

What are those parameters?

- Is high income good?
- Is having low expenses great?
- Is having 50 lacs in saving's great?

A lot of investors do not even know if they are doing good, bad or just average.

I know its very subjective to say if someone is doing well or not and no one other than you should make the final judgement, but still lets look at some high level points which will should be present in a good financial life. Atleast you can get a sense of how you are doing on few parameters.

Lets see how many of these are true for you….

1. You have positive surplus each month

The first indicator I think is very simple and very important – "Are you left with a positive surplus by the end of the month or not?".

Its as simple as that. Unless you are left with some surplus (income – expenses), it makes no sense just to brag about your salary itself. What will matter is if you are having a good positive surplus each month or not.

And I am talking about a decent surplus, like 20-30% at least. So if you are earning Rs 80,000 a month, but you are left with just 2-3k by the end of the month, please don't say you are left with surplus.

It should be at least 15-20k, because this is what will help you in building your wealth. If can surely say that you earn a lot and spend like a king and enjoy life like anything.

Well thats great and its surely a great thing. But not having a surplus is surely a big negative point.

Did you pass this check or not?

2. Your networth is going up on yearly basis

Is your networth increasing on yearly basis? Are you getting wealthier in totality over years or not?

- Are you wealthier compared to 5 yrs back?
- Are you wealthier compared to 3 yrs back?
- Are you wealthier compared to 1 yr back?

I am not saying that be highly rigid about 1 yr. It's totally fine if your graph is a bit down for few months or last 1 yr, but as a general rule, it should be moving up over the years (especially if you are young and moving towards your retirement)

If the answer is YES, then fine – you are doing great, else there is something you need to fix. Your networth would keep going up and up in two cases.

First is when your investments are doing well and the interests and returns you earn on it add up, this happens mostly in later part of your life, when money already have reached to a level and now the compounding helps it growth further without your suppose.

The other case is when you keep investing out of your surplus each month and its very important in initial years of your life, because only when your net worth reaches a respectable level, you will be able to feel the power of compounding and its effect on your net worth ?

Did you pass this check ?

3. You are not heavily dependent on loans to pay your bills?

If I take away your credit cards with the condition that it will be returned to you only after 3 montsh, will you panic?

I am sure many investors will panic and start wondering how they will manage now. Note that said "heavily dependent" and not "heavily using".

Personally I use credit card a lot and frequently, but you can take away my credit card and never return to me and I will not even care for a minute (after I block it).

However, some people are so dependent on credit card, like its oxygen for them. Apart from credit card, a lot of people get into this cycle of

- Need money for some purpose
- Take personal loan
- Keep paying the EMI to clear off the loan
- Need money for some purpose
- REPEAT !

This is a very unhealthy sign in your financial life and you should just not be doing this because its messing up your credit report and it will cause you insane amount of trouble getting future loans

Did you pass this check?

4. Are you protected by external risks which will destroy your wealth

In technical language, I mean to ask if you have taken life insurance, health insurance, added life insurance if you have home loan or not.

Imagine, that you are saving money for your downpayment of your dream house, but you dont have a health insurance (here is a checklist on how to buy health insurance) and suddenly some accident occures which required hospitalization, what is going to happen?

All your down payment money which you accumulated will just disappear and you will be back to square one, wondering how will you achieve your house goal now?

If you didn't take sufficient life insurance and you have a home loan EMI, and you are gone!, then your family will either have to pay the money from somewhere or vacate the house.

As per a rough calculation, if a male aged 30-35 yrs earning 10 lacs a year, wants to take sufficient life and health insurance, he can get a 1 crore worth of term plan and a 5 lac health insurance for around Rs 20,000 a year easily.

That's just 2% of his yearly salary. I think you should do the math, and judge if its worth covering these risks or not.

By the way taking your life and health insurance is a one time task. We suggest you head over to Coverfox and leave your details there if you are interested in purchasing health insurance.

Do you pass this check or not?

5. You will be able to handle sudden surprise expenses without external help

Do you have enough resources to handle surprise expenses or any unplanned expenses? Imagine following scenario's

- Your father needs 75,000 by tomorrow
- You spouse needs Rs 1 lac which will come back after a 1 month.

Are you in a situation to arrange this money instantly (atleast 2 months of salary) or not?

By instantly, I don't mean that it should be lying in your saving bank account, but can you atleast arrange for this amount yourself without any external support or not is the main question.

Many people I know will have NO as the answer, because they either have locked the money in financial products because of tax saving or they just don't have it.

So this point actually tests how you have managed liquidity in your financial life.

Are you able to pass this check or not?

6. You are investing a minimum of 10% of your income consistently

This is related to the first point. But still lets give a better framework to it. Are you investing atleast 10% of your income consistently or not? Ideally it should be maximum you can afford to invest, but lets give a number which looks possible for everyone.

So if you earn Rs 50,000 per month, you should atleast be saving Rs 5,000 a month, that too consistenly.

Please dont say you started a recurring deposit of Rs 5,000 few months back, BUT later stopped it because your kids school fees had to be arranged. That does not qualify!

I think any investor has to first get learn and experience what it feels to regularly invest and next comes the conversation of mutual funds, generating high returns and all that.

Thats why, I think once you start your career, you should atleast open a recurring deposit and let it run for a year. First see how the wealth accumulation looks like, and how does it feel your wealth growing.

This will give a good base to start your wealth creation journey.

Anyways, Did you pass this check or not ?

7. You are not over-leveraged beyond the danger levels

What percentage of your income goes into paying EMI's?

The higher it is, higher is the leverage. And beyond a level, its highly dangerous.

Imagine a family whose total income is Rs 1 lac a month, but they are paying an EMI of Rs 72,000 and managing everything else in the rest amount.

Imagine what all can go wrong with this situation?

A lot of people commit themselves to too much debt which looks managable in that moment, but in long term they are a big pain.

Double Income, No kids families with too much debt

The best example I can give are double income couples, who take the loan considering that both husband and wife will keep earning and the incomes will keep rising.

However few years down the line, if wife stops working due to the new born kid (most of the cases), it becomes very tough for them to manage the EMI, and other expenses.

What is the problem here?

They planned for the "best case" and not the "worst care". So when you plan your loans, the future looks rosy, everything looks perfect – but life is not like that.

You have to consider all angles possible and in advance think about all things which can happen in general and then position yourself towards it.

As a thumb rule (which obviously does not make sense in every situation) is that one should not be paying more than 40% of their income in EMI. Keep a lot of breathing space in between.

This is not applicable to you, if you are highly adventurous.

Did you pass this check or not?

8. You are earning real return in positive number

Are you earning positive real return on your investments? Which means that your post tax returns are beating inflation.

Are you earning positive real return on your investments? Which means that your post tax returns are beating inflation.

It makes no sense to earn 8% in a fixed deposit, out of which 30% will be deducted as tax (if you are in 30% tax bracket), and left with 5.5-6% return at the end of the day, whereas prices of all things are going up by 9% inflation.

So when you tell yourself – "I have invested in FD", in reality you have only earned a positive absolute return, but a negative real return.

Its exactly like, you can buy apples for Rs 150/KG near your home, but you went to that favorite shop 5 km away here you get it cheaper at Rs 135, only to realise later, that you spend Rs 40 in petrol.

So as a good practice, keep limited amount in saving bank, fixed deposits (especially if you are in higher tax bracket) and more and more in asset classes which will give you higher return (with high volatility, not risk) like Equity mutual funds, stocks or real estate.

Did you pass this check or not?

9. You are on a high level clear what you want from your financial life

This is one parameter which I like and its not related to numbers.

So here is my question to you – "Do you have clarity on where you are headed in your financial life?"

You have been working from last many years, and you are saving money properly and everything is in place, but what is your game? Where are you headed towards?

Let me explain you with an example

When I called one of our clients from Bangalore, just few days back – he told me he is headed towards creating his ONE crore networth in next 4-5 yrs and he is already 40% done.

I loved this, because what he has done for himself is that he is kept all the clutter out and he is highly focused on what is wants out of his money. He knows his game !

- So are you headed towards becoming “Debt free” and working towards it?
- Are you headed towards buying a house in next 5 yr?
- Are you headed towards building a regular income of Rs 40,000 per month in next few years?
- Are you headed towards spending 50% of your income each month and enjoy your life to fullest without worrying for future?
- Are you headed towards setting up a business along with your job?

So whatever it is, it has to be very clear. Dont go in silence when I ask you where are you headed? A lot of investors face this problem of not knowing what are they doing, why are they doing it, what they want to achieve ultimately, everything is vague and very unclear. Dont be like that.

Are you able to pass this check?

How much did you score?

Out of these 9 points, I would like to know how much did you score and if you are happy with it?

Where can you improve and whats your plan towards it? Do you think this is a good checklist which you should look each year once and ask yourself about it.

Now .. lets move to next article

4 early life mistakes which investors should avoid at any cost

ARTICLE

8

We see most of the investors having a complex and bad financial life mainly because they have done a lot of mistakes when they started their financial life, which I think should be minimized by learning from other investors mistakes.

So we are listing down 4 common mistakes which most of the new investors make when they start their financial life.

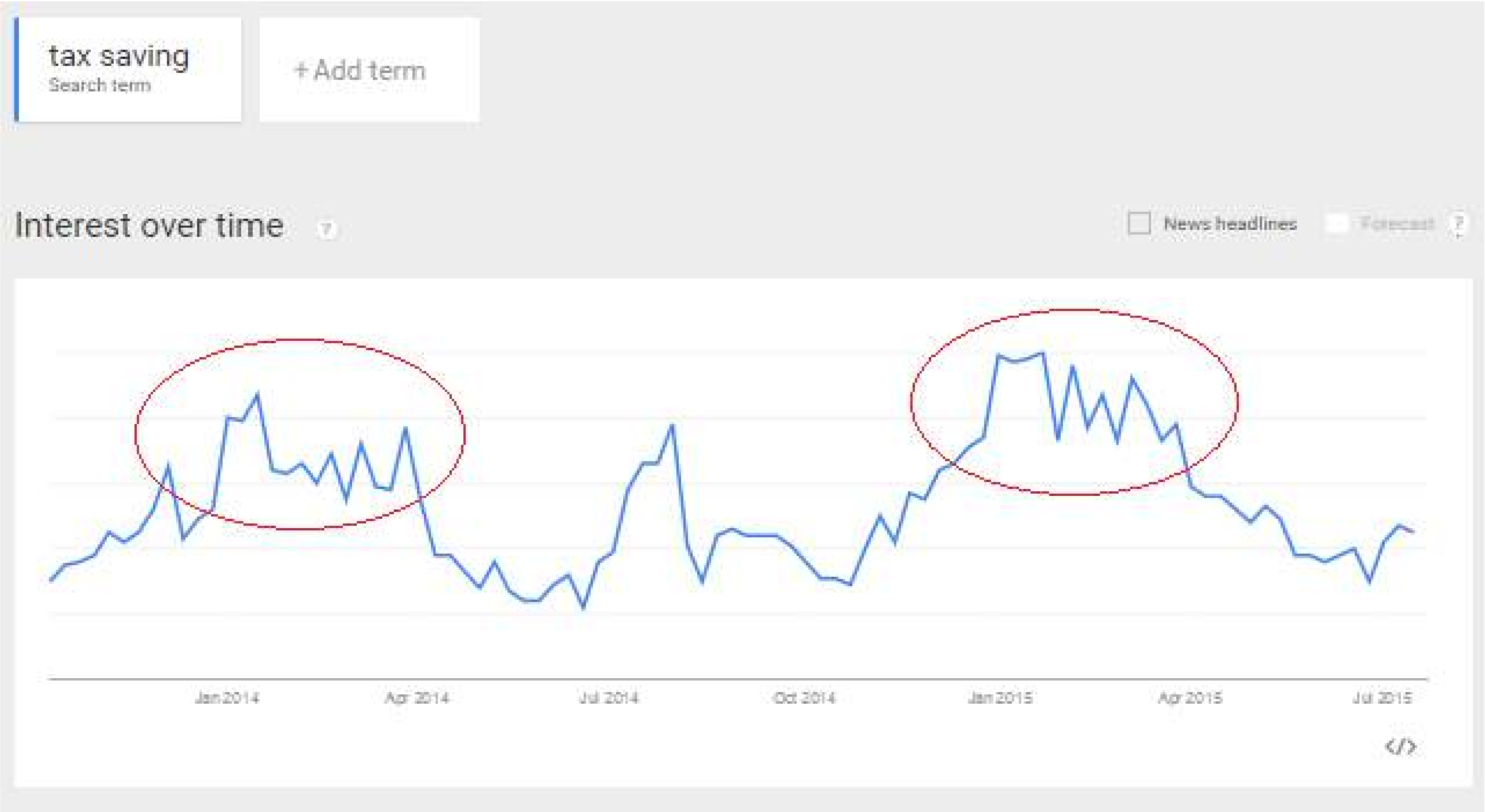
Mistake #1 – Buying products only for "saving tax"

I have experienced the power of "tax-saving" season in an investor's financial life.

When I was into my first job, the cafeteria and the reception area was filled with my employee's sitting with some agent or advisor with various kind of forms all over the table.

The tax season was on and all the people were busy "arranging for the investment proof" and not investing their money. Especially the new employee's who had no idea about anything and they followed the herd to save tax.

Below is the google trend showing you, how most the people starting thinking about the "tax saving" only in the month of Jan/Feb/Mar when they got emails from their employers. The search trend clearly shows that.



Only after many years, people realize that they have not done great justice to their money and invested mainly for instant gratification of saving tax. If you are a new investor, I suggest do not get carried away and only think about saving tax.

I know tax saving is important and one has to do it, but do it meaningfully.

Explore what all options you have and which one them will align well with your long-term goals and then invest in those products.

Mistake #2 – Waiting for the "right time" to invest

When we work with our clients, we observe that one of the biggest regrets, they have is that they didn't start their investments early in life and lost the valuable time.

A person in India spends close to 20 yrs in school/college and most of the students have seen a lot of struggle around money, because of which all their early life, they suppress their desires.

They never freely spend money on anything and keep waiting for that D-day when they will have no restrictions around money. The first salary is nothing less than a big jackpot.

The first few months when they see a lot of money in their account, is the time of celebration and fulfilling all their wishes they had from years. There is nothing wrong about splurging, spending and enjoying it all.

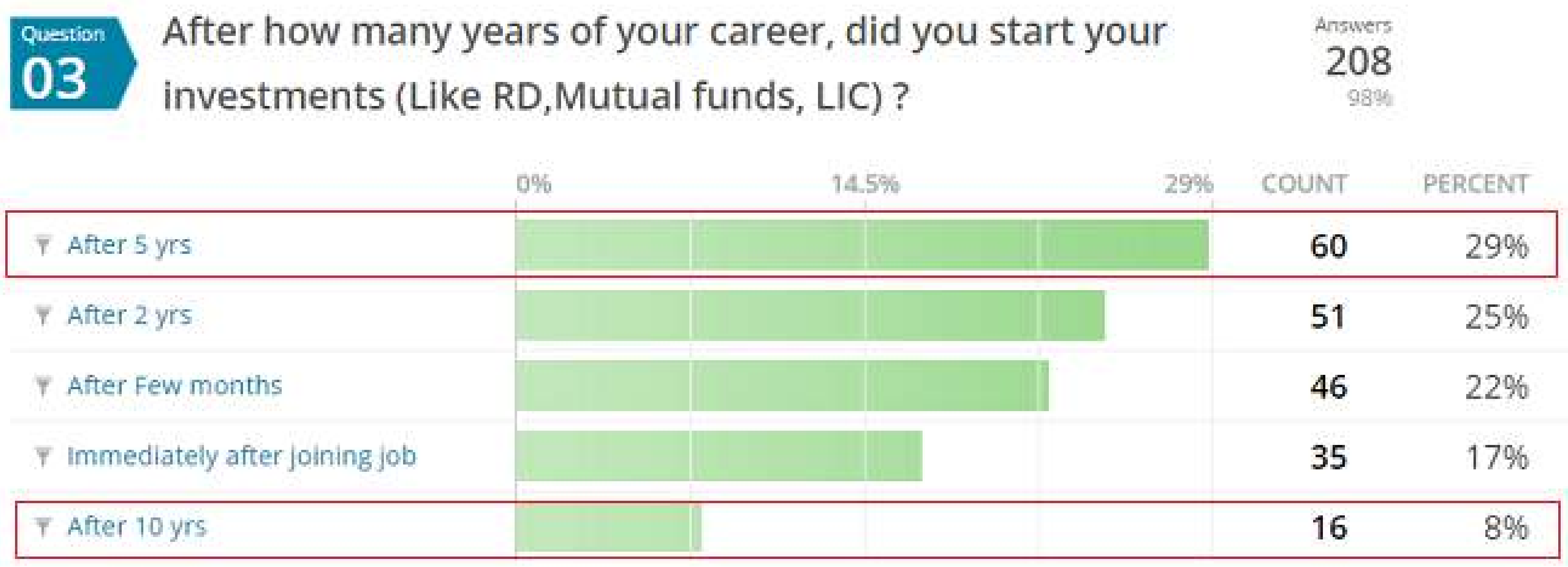
But some people extend it over many years and over-do it. When it comes to investing their money, they say that they dont save enough after their expenses and once their salary increase, they will invest then.

In short, they keep waiting for the “right time” and it never arrives. Because the nature of money is such that, the more you earn, the more you will spend and your lifestyle will keep changing its shape to fit in your salary.

1 out of 3 investors wait for 5 yrs before making first investments

I ran a survey on this topic, which was taken by 208 investors and as much as 37% of investors said that they made their first investments after 5 yrs of their career.

Think about this , around 1/3rd investors wait for 5 yrs before they make their first investment. Thats quite high. If you see the same survey results below, almost 8% investors didn’t invest anything for first 10 yrs of their earning life.



This makes them loose valuable time, and for many years they do not accumulate any wealth and get into the mode of living on paycheck to paycheck.

Even if they had started a recurring deposit of Rs 2,000 per month, even that would be a great thing, because they are atleast getting into that habit of saving some money regularly and later its just about increasing it.

So if you have just joined your first job, I would suggest start a recurring deposit RIGHT NOW, not for a big amount, but just Rs 500 atleast.

Mistake #3 – Getting high on debt, early in life

Debt is not a problem in itself, if you handle it carefully and responsibly. I do not come from a class of people, who suggest that one should not take loans or avoid debt 100%, because thats not possible for a majority of people and its not practical in today's times.

However, rore and more people are embracing the EMI culture and we are turning into an EMI nation.

Everything is available on EMI ranging from gym memberships to Mobile Phones, from vacations to jeans to even flight tickets. Because of EMI, one can afford anything and everything.

So most and more people are buying not so important things TODAY, for which they have to pay in FUTURE.

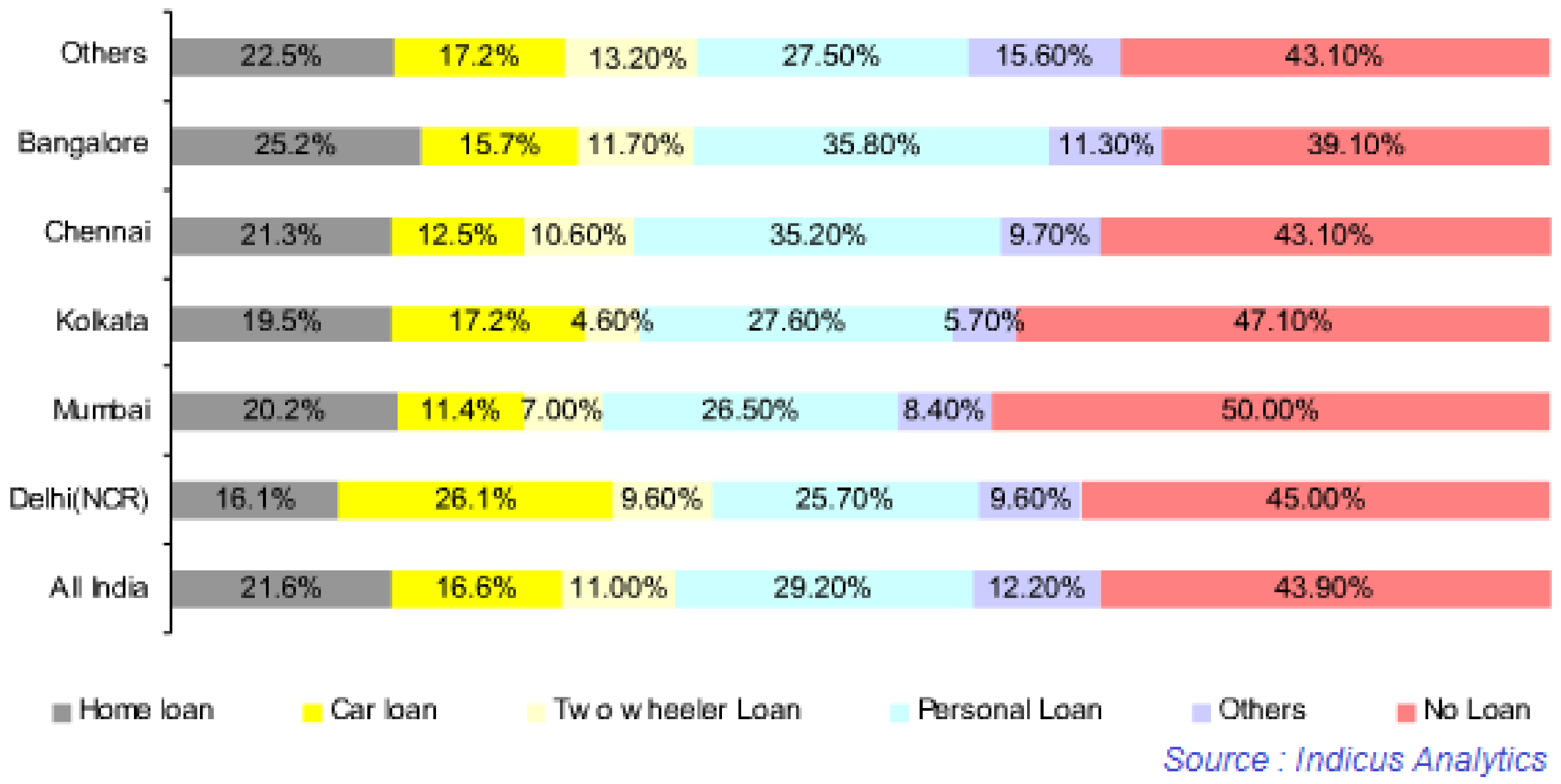
Are you getting my point?

This is a perfect recipe to get into the never ending debt cycle. There are many investors for whom EMI payments is going on for years and years. For many years, they have never consumed 100% of their monthly salary themselves.

Below is a bit old study by Indicus Analytics on how leveraged are urban Indians, and you will be surprised to know that around 61% of residents in Bangalore have some or the other kind of debt. For Mumbai its 50% . Below is a snapshot of their finding's.

How Leveraged Are Urban Indians

- *How much of loans do urban Indians take? What kind of loans? How many actually take loans of any kind? Here are some answers....*
- *44% do not have any loans at all. Banglore has the higherst presentation of loans of any kind - about 61% of residents being in debt.*
- *Mumbai, surprisingly has only 50% of its residents in debt.*
- *This is however explained by the lower portion of card and two wheelers in the city.*



So if you are young, try to see that you control your desires beyond a point else you will get into huge trouble later in life.

Use the credit card and personal loans only and only if you really need it and you have no other options of borrowing and even then pay back the money as soon as possible.

Mistake #4 – Over relying on relatives, friends and parents for your financial decisions

Parents, friends and relatives can bring in a lot of experience and life lessons for us. But a lot of youngsters instead of learning about money, prefer to hand over their overall financial life to their parents.

Parents have seen more life then their kids, but then times have changed a lot compared to last 1-2 decades and the many rules don't apply today.

Also their way of thinking about risk, opportunities, returns etc might differ from you. Hence its not always a good idea to over-rely on parents advice.

Mr Anand shares his view about this point in one of my old article

> **" The times have changed so we have to change with the times. In most of the families, it is the ego of the parents which is finally ending with the suffering for the children. Parents feel that the children are incapable of handling money or they may get spoilt if the money is in their name.**
>
> **Also in some families it has become a question of pride saying – My children are so obedient that they are handling over their income to us.**
>
> **The so called elderly, experienced people do not want to learn the new things and change and their beliefs are passed on to their children also. If we look around many Government employees, we can easily make out this. They are afraid to tell the children about the investments."**

Relatives and friends role in your financial life

Also a lot of investors are influenced by their relatives and friends advice.

A lot of them turn out to be life insurance agents who want to take advantage of the relation to meet their business targets.

Out of 100 people I have come across, 95 people surely have an LIC policy sold by their relative, relative friend, friends relative, parents friend, or someone close.

As per our survey, 1 out of every 4 investors financial life is messed up because of their relatives and friends who sold them some financial product or advice on something and they could not deny them.

We recently found that one of our client who recently joined job is paying close to 40% of his yearly salary in 6 life insurance policies.

When we enquired more, we found that it were taken by his father for him 3 yrs back, and now as he has started earning, his father has passed the premium paying responsibility to him.

The policies were sold by his father's sister son' who was behind his yearly targets

I would suggest learning things in the start of your career and not over relying on advice of your friends/ relatives and even parents.

You could do many things like read personal finance books, attend workshops on money (we have next workshop in Bangalore on 2nd Aug, 2015) or just surf internet and ready various things.

How should an investor start his financial life at the start of his/her career ?

When a person joins a job, its a special moment in his life and a very crucial point. Taking good care at this point will be helpful for his whole life and many years worth of mistakes will not happen which happens with millions of people.

Hence below is a very crisp checklist of what a new investor can start with.

- See how much term plan you need and take it
- See that you buy a good health insurance policy
- See that you have started a recurring deposit or SIP in mutual funds for a minimum amount you are sure will not stop for next 5 yrs
- Keep 2 months worth of expenses on the side in a saving account which you generally do not touch
- Make sure you are meaningfully saving your taxes
- Hire a good CA or Financial advisor if you feel you need handholding

Wish you best of luck for your financial life. Would like to hear your views on this topic

Now .. lets move to next article

The Biggest reason Why you will not be able to save enough for your retirement ?

ARTICLE

9

2014 has started, and I wish you all a Happy New Year!. We are into the 4th week of our Investors Bootcamp and I recently brought up a very important point there, which was, "What is the that one thing which stops you from saving for retirement?".

When I dove into this topic and heard the responses from some of our Plan F participants (senior participants), I came across a simple reason, which can really destroy someone's hopes for a comfortable retired life.

I was late to realise that I was very late

When I ask someone, "Have you starting saving some money for your retirement ?", I hear a "NO" and the justification for it is – "I still have a lot of time, so why hurry? I am just 26 right now".

I say – “Fair Enough, makes sense”

And then I put this question to the same person 5 years later, and the answer is – “I still have lots of time, so why hurry? I am just 31 years old”.

I still say – “Makes sense, at least for now”.

But you know what? There comes a time, where you suddenly realize that “Oh my god, its a bit late now”, because all the time you were thinking – “I will do it later” and never realize that its getting late.

Remember, “Someday” is code for “Never”. When you have 30-35 years in hand for a goal like retirement, that goal is so distant that you feel it is idiotic to plan for it right away.

You feel, “let the right time come”, but you do not know what the right time is going to be. Is it when only 20 years are left? Or is it when 10 years are left? Or when only 5 years are left?

This is exactly the same situation as when you have to provide tax investment proofs to your employer. When you have 20 days in hand, you feel there is a lot of time. Then 10 days pass and you feel “It’s just few hours of work, I will do it very soon”.

This procrastination continues, and you keep convincing yourself that whatever time is left is more than ENOUGH.

Then suddenly, when there is “just enough time left”, something else comes up unexpectedly – some important work surfaces, or you have to go somewhere, or you catch fever and you eventually miss the deadline.

Now you are thinking, “I should have started early; I lost time, thinking there is enough time ahead”.

You wait for the “Right Time”

Unsurprisingly, you repeat this behavior when planning for your long-term goals, especially ones like retirement. We put off thinking about it because the retirement event is so distant in the future that it sounds comical to even plan for it now.

So, we wait for the “right time”, but never declare that “right time” to ourselves – it’s just a concept in our head that never gets real.

Ask any 25, 30, 35 or 40 year old about their retirement, and they will say – “I still have enough time ahead”, let me think about other important things right now”.

Then they turn 45 years old, things get serious and they “start” considering doing something about saving enough money.

This is the first time, they realize – “I think its high time now, I should make a start towards my retirement planning”.

Again 2-4 years pass, they are now touching 50 years, and then the PANIC mode kicks in, because they can see very clearly that they will run out of money in their retirement.

It suddenly becomes clear to them that time has flown and that the “right moment” to start saving money for their retirement was years ago. They have taken care of most goals in their life, but they have forgotten to protect their own retired living.

All the time when they could have really taken risks and could have grown their wealth has passed. Now they just want their money to be safe and this is obviously a situation where you can only get sub-optimal returns.

At this point they have no choice but to live out a life of regret. Even if they do not wish to depend on their kids, they still have to.

30-30 rule to retirement

In my 2nd book – “How to be your own financial planner in 10 steps”, there is a full chapter on retirement. While writing that chapter,

I was stuck at one place where I had to show the reader, the flaws in their default thinking about retirement planning and explain to them that they should start planning while they were young.

After a lot of thinking, I came up with a rule called "30-30 rule of Retirement Planning".

The rule states that an average person works for 30 years and then, after retirement, lives for another 30 years (just a benchmark number).

Imagine you are 30 years old. You will work for next 30 years (till you are 60) and then you will live for another 30 years (till the age of 90). For the first 30 years, you will earn and consume the money. For the next 30 years you will not earn, but will still consume money.

Right now, I imagine you are earning, but it is still tough to run your life – there is no surplus money left, you are still not able to achieve so many things.

If this is the situation right now when you are "making money", what about those 30 years, when you will not earn a penny?

You earn for next 60 yrs, not just 30 yrs

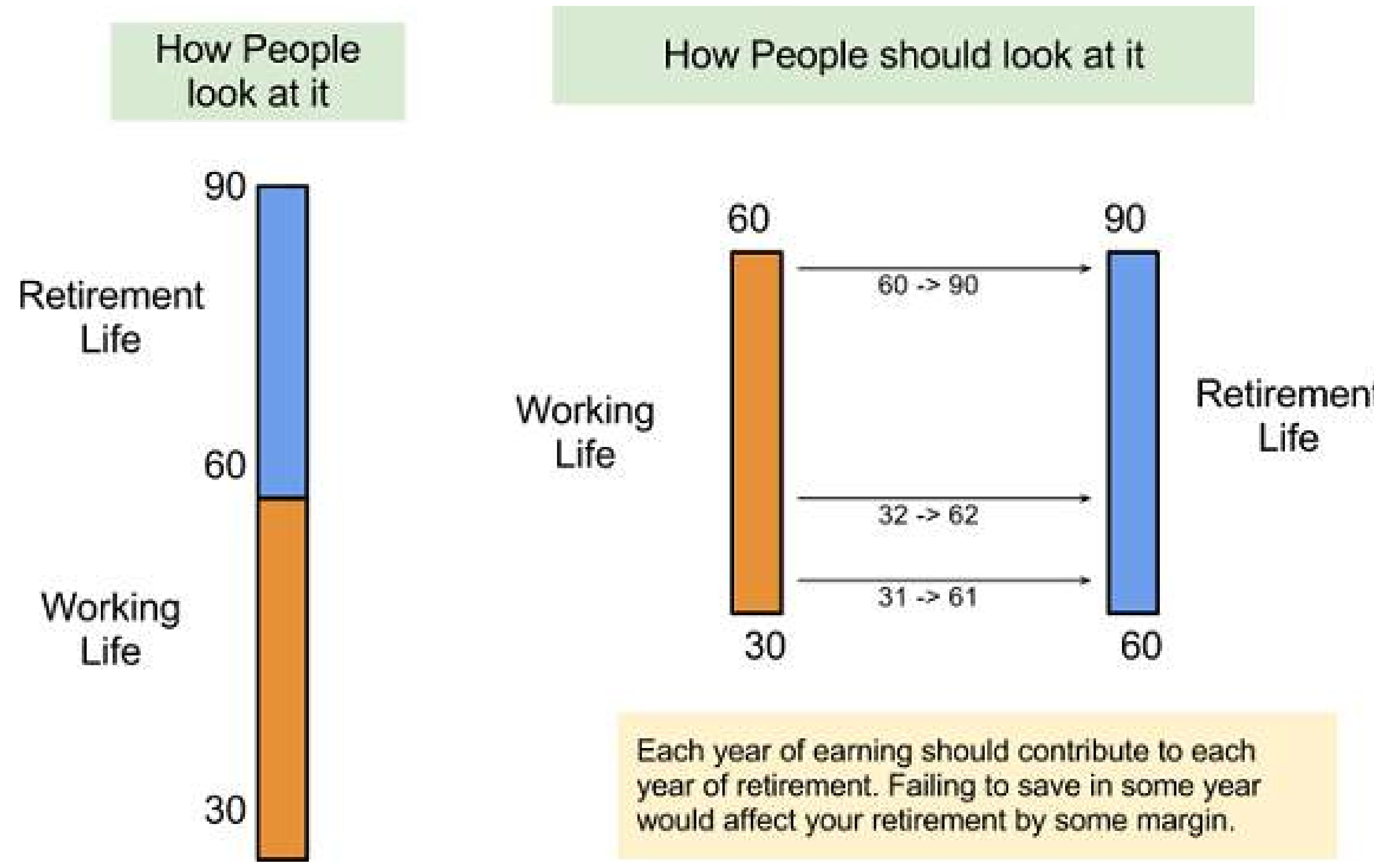
I know all this sounds terrifying, but you have to realize that, at any cost, you have to earn for the next 60 years of your life (30 years of working life + 30 years of retirement).

So now lets look at your 60 years in two segments of 30 years each – the first 30 years is PHASE A (earning and consuming) and next 30 years is PHASE B (not earning, but still consuming).

Now Map each year of this Phase A with Phase B and what you earn in this year X (2014), some part of this money has to be saved for the respective X + 30 year (2014 + 30 = 2044).

What you earn in year 2015 has to feed you in 2015 and 2045 (+30 years). Only if you save each year, will you be able to fund the companion future year, which will be exactly after 30 years.

Look at things like these.



So it's very clear that if you lose the next 10 years, then the pressure of retirement saving will build up on the next 20 years of your life.

If you lose 20 years of your working life and do not save anything for retirement, then the last 10 years have to shoulder that burden and you will have a punishing time ahead.

Benjamin Franklin once said – "You may delay, but time will not". You are probably heading for disaster if you are living in this myth that you will save a lot later when the time comes. It never happens.

So sow some seeds right now for your retirement.

Buy a piece of land, start planning for a second home which you will use to get rental income, start transferring at least 10% of your income each month solely for the goal of retirement, build an additional skill so that you can earn more in the future, marry a working spouse and don't blow your money each weekend on that movie which you knew was not worth it!

Start taking small steps

You have to ensure that by the time you turn 40, you should have at least a small retirement corpus – this should be your first milestone.

Are you all set to save enough for your retirement corpus? Are you sure you will not get trapped in this "right time" thing ?

Now .. lets move to next article

The Threshold Point – a simple way to achieve your goals

ARTICLE

10

There is so much you need to achieve in your financial life and you are stressed! Correct?

I have seen investors getting overwhelmed due to the pressure of financial goals in their financial life. You have one life – in which you have to cram multiple financial goals.

A house, a car, a corpus for educating your children, a regular stream of money each year to pay for school fees, vacation funds, occasional large expenditures, funds for your retirement and several other items which are too numerous to even list here!.

Out of these – some things you want immediately, and some you label as your long-term goals.

However when you keep thinking about these goals and amount of money you need to accumulate in your financial life, you get worried, stressed and feel lost.

You doubt if you will ever be able to achieve it and that demotivates you and then you just ignore handling your financial life and go with the flow! – leaving everything to fate! However that's not the solution!

what's the solution?

I can't give a solution, but I can suggest you something which we practice a lot of times when we deal with our financial planning clients.

Let me share with you that simple yet powerful concept which Nandish Desai came up with in our early years of handling clients.

Years back – we noticed that a lot of clients financial life was so messy and confusing that it was unplannable! Also they were so overwhelmed that we could not do their planning the usual way.

We needed to suggest them some plan of action which was lighter and which looked more achievable to them.

So to those clients, we asked to slow down (listen to this powerful 16 min audio on slowing down recorded by us personally) and ask them to forget about all their future goals.

This is because many investors are not able to make a powerful play for their financial goals with empty pockets. To play for your financial goals powerfully you need to first cross or reach your THRESHOLD POINT. Yes! – That's the concept I am going to unveil today.

The concept of threshold point helps an investor to lighten his worries and to be more focused.

Now, what is this threshold point?

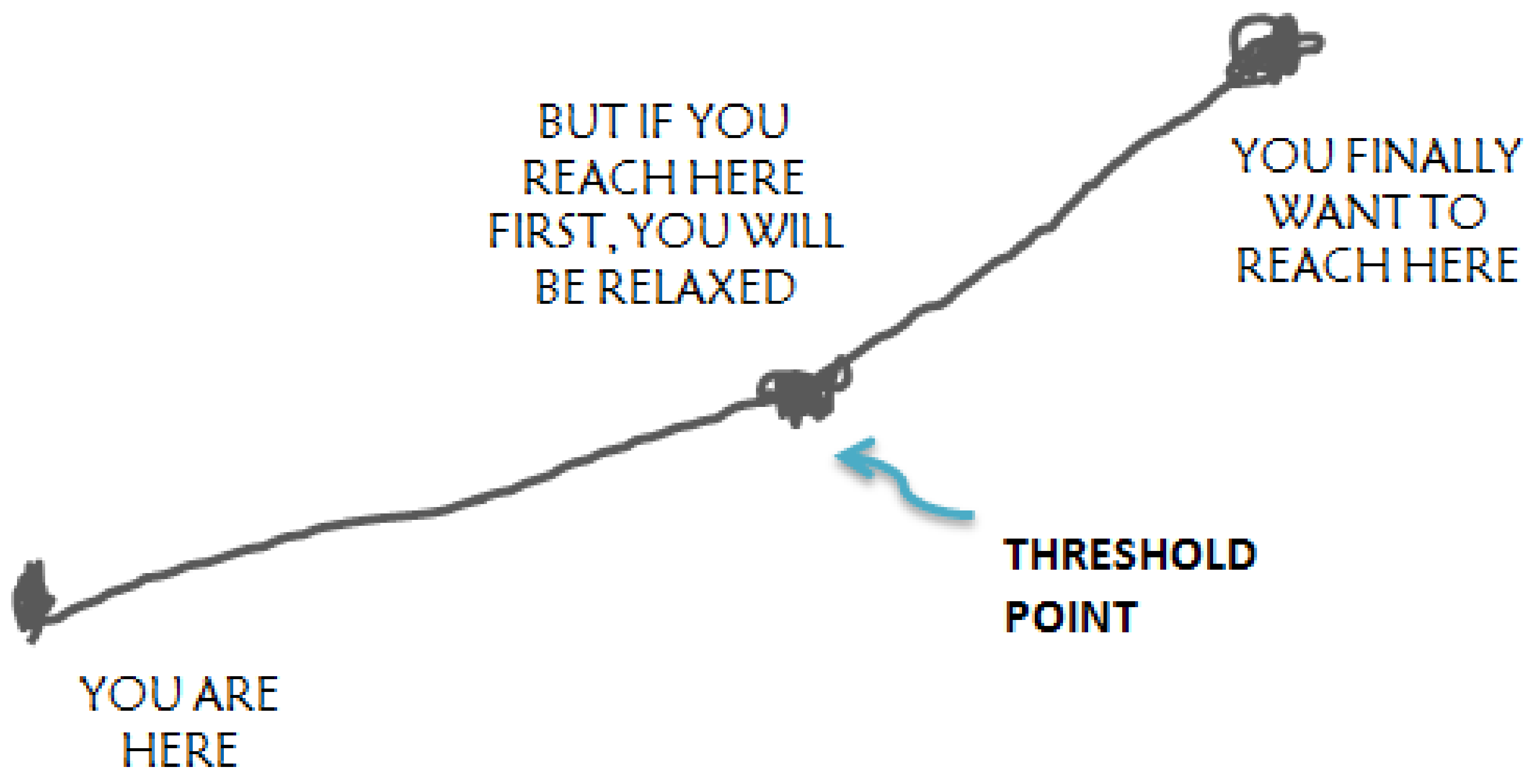
The threshold point is the milestone, which when reached in your financial life, gives you a strong sense of achievement.

You feel like you have taken that first step and you are a winner in your own eyes. It's not the final achievement, but a mini-battle that you have won.

A threshold point could be generating some lakhs of rupees, having a loan free home, achieving an income level, getting debt free, or combination of these.

All your energy has to be focused on reaching that threshold point. Everything you do in your financial life has to be driven by just one motive in life, and that is reaching that threshold point.

If you have to spend money on something, you have to ask first – "Will spending this money help me move towards my threshold point?"



You need to get obsessed with your threshold point so much, that naturally you will achieve it much faster than you had planned.

And when you reach your threshold point in some years – you then play a much bigger money game.

The threshold point gives you a sense of some freedom, some relief and extra dose of energy.

Some Examples of threshold points

Example 1 – Ajay's Story

" My friend Ajay is unmarried and lives in Varanasi. He was anxious about his future prospects because he does not want to get into a regular job, because he is kind of moody person and leaves his job the moment he does not like it. This creates problems in his cash flows.

While he wants to do lots of things such as buying a home, buying a 2nd home, saving enough to roam around the world etc., he told me he does not think it's POSSIBLE to achieve all this. The truth is he was overwhelmed and could not think what he should do next ! .

I asked him to describe his ideal situation – one that would remove all this worry. A situation that would make him feel more at ease and help him plan his financial life ahead in a better fashion.

He said that if he were to start receiving a regular income of Rs 10,000-12,000 per month without working – he would feel far more relaxed. That's it. That was his Threshold point.

Threshold point – Generating Rs 10,000-12,000 per month income

This is something he now needs to focus on. We found out that if he could generate 20 lakhs in a few years, he could put it all in a Fixed Deposit and get an interest income which will act as the regular income.

It would take few years, but once he would reach that point, he would be a winner in some sense. He has already saved quite a few lakhs, and is now on his way to reach his threshold point. He now travels by train, rather than by air, because that takes him closer to is threshold point.

He does not spend more than what is required on clothing and saves every extra bit and puts it back in his bank account – all of which takes him closer to his threshold point.

Example 2 – Tarun and Reema from Pune

This couple (Names changed) approached us to avail our financial planning service. We looked at their financial data, their financial goals and their exact situation.

They were worried about their future goals like retirement, educating their children etc.

Their net worth was less than 3 lakhs and their goals were big-ticket goals.

Threshold point – To generate first 15 lakhs

First, we asked them to eliminate their future. Yes, our future is an illusion that human beings live in. A lot of investors are either worried about their future or they regret their past mistakes, but they are never fully in the present year.

I told them, as an investor you can't step into 2014 or 2012 – you are in 2013 and that is a reality. We then asked them to define their threshold point, an amount that would fill their pockets so that they would have the power to face big future goals.

The amount they came up with was 15 lakhs.

We simply asked them to forget everything and focus completely on their threshold point number, which was 15 lakhs. We then helped them to re-structure their cash flow and helped them to devise ways by which they would reach their threshold point soon.

Now in this situation they didn't had multiple goals which scared them, all they had was a SINGLE Goal and that was to generate 15 lacs.

Example 3 – Ramanna’s Story

Ramanna was employed in a big I.T. company in Pune. His aim was to start his farm – as he loved nature and his dream was to run a big venture related to it.

But that would only happen when he would have taken care of his expenses each month because starting something of your own is a big risk.

Which meant he had to handle rent, bills to pay, monthly expenses to incur at home etc. etc.

So he defined his threshold point and it was to own a home and also have sufficient savings to pay his regular bills.

Threshold point – A home and 60 lakhs corpus to get a regular inflated adjusted monthly income of Rs. 35,000 per month to start with

Prior to defining his threshold point, Ramanna was just a regular employee, but the moment he defined it, his mind started actively focusing on it. The song of “I want to achieve my threshold point” was playing constantly in his head!.

He was aware that he wouldn’t reach his threshold point very soon, and it would take at-least 10 years to get there. But now he was more focused and targeted.

He was sure if he could travel to the U.S. and work abroad for a few years, reaching his target would be a cinch. From that day, he became a superman at his workplace.

His commitment level at work increased because he expected to be moved to the U.S. office on the strength of his performance. He also explored other options to move abroad for a few years.

Within the next 2-3 years, he saved money and also managed to get an offer to move to the U.S. office due to his exceptional performance at work. This was 2001.

However, his savings were at that point not sufficient to make a down payment on his house. Undeterred, he moved to US, worked for a year, saved obsessively, and returned to India just to make a down-payment and apply for substantial loan.

He took the risk, because getting to the threshold point was his obsession by now.

There was no other option, he wanted it any cost. Over the next 8 years, he earned enough money, saved enough money, lived frugally, constantly worked towards his threshold point.

He made sure to communicate about his future vision and goals to her better half when we was getting married.

He made sure he didn't do anything stupid which would open new streams of expenses in his life, which will make it difficult to stick to his plans of leaving the job and starting something of his own. So at the end of 10 yrs, he had 2 houses in Pune, one without any loan and the other with a small outstanding loan (thanks to dollars he earned and powerful savings).

He came back to Pune, sold one house (which fetched him more money) and kept it all into a Fixed Deposit with quarterly interest option and the other house was for self-consumption. He is now free of debt, has no rent to pay and his interest income takes care of his expenses.

He had arrived!

What is your Threshold Point ? Have you ever thought about it ?

If you are low on net worthh or you are a new investor, instead of setting huge financial goals, start to play for your threshold point.

This will reduce your stress levels and will help you to enjoy the process of wealth creation.

When we do financial planning for some of our clients, a lot of times we avoid giving a very long term plan to them, because we know the plan will sound unrealistic.

A plan has to be realistic for any investor to own it. Then we help them define their threshold point and help them plan for that.

We tell them, go achieve that threshold point first and then think ahead. Don't waste your time and energy in worrying about future for now. The same way, you need to think of your threshold point.

Now .. lets move to next article

7 Incredible reasons why you spend more money each month & How you can control it ?

ARTICLE

11

Wow .. Today I am going to talk about your SPENDING habits and what governs it.

Spending money is a critical part of anyone's financial life and pretty much define's how our financial life looks like.

Spending more is pretty much a reason why we go to our work, because at the end of the day, money has to change hands, be it now or later.

In a way its a beautiful creation of this world. We have some great things in life today because we have spent money on it and bought it.

While I can keep talking about the best parts of spending , today I want to cover why we spend "more" and why we sometimes go beyond out set limits.

Most of the investors financial life today is highly screwed mostly because of their spending habits and the way they deal with their expenses, and many fall into the trap of “living on paycheck month after month” .

So Today I want to pick few reasons which force us or makes us spend more money than we should . Lets look at each point in detail and yes – grab some coffee ��

Reason #1 – Because you don’t use CASH

Yes – This one simple thing can urge you to spend more.

The whole payment system has transformed totally in last 10-15 yrs in our country. There was a time when you carried cash every time you went to market to buy something.

You knew how much you will be spending before hand, carried exactly that much money with some small buffer amount and bought the stuff you wanted.

Be it Milk , Vegetables, Grocery, Petrol or anything else. It was simple transaction. Exchange money and get what you want.

Then credit cards and debit cards happened. They arrived as “convenient” ways to make payment and this convenience came at a big cost.

Paying by Cash is emotionally painful. While cards gives you convenience, it also takes away that emotional feeling which you get when you pay by CASH.

When you pay cash, you take out the money, count it, can think about it and it leaves your wallet and you “feel” that something parted away with you.

This is not the case with credit or debit card.

This can be clearly seen in online shopping. A lot of people buy things on impulse using their cards online, the bought items arrive and you take it because you mostly have no choice.

Compare this with paying cash, you think you want something, order it with cash on delivery and then let some time pass. In this option, you have enough time to think back on your decision simply because the money has not yet left your wallet (with cards, it's already gone) .

This is exactly what happens in real life too, people who buy things on cash on delivery often change their mind and reject to buy things because now they think they no longer need it. Read the report below

> " Cash on delivery is the most inconvenient payment option. It allows customers **too much time to change their mind**," said K Vaitheeswaran, the founder of Indiaplaza.com.
>
> Indiaplaza.com, which sells books and electronic goods, was the first to introduce the payment method more than a decade ago.
>
> It realised in about a year that cash on delivery was "painful". **Rejection rates are at about 45%**, partly because there is no upfront cash commitment, according to Vaitheeswaran.
>
> Source – Economic Times

Cash discourages spending

While this might not be consciously visible to you and many will deny this, but as per various studies, its shown that cash payment discourages spending, while using credit cards or gift payment encourage spending.

Below you can read one of the studies on this topic.

> " Priya Raghubir, PhD, of the Stern School of Business at New York University, and Joydeep Srivastava, PhD, of the Robert H. Smith School of Business at the University of Maryland, College Park, asked participants to read various buying scenarios and answer questions about how much would they spend using cash versus various cash equivalents.

> In the first study, 114 participants estimated how much they would pay using various payment forms for a vividly described restaurant meal.
>
> The results showed that "People are willing to spend (or pay) more when they use a credit card than when using cash," the authors wrote.
>
> They attributed the difference in spending behavior to the way cash can reinforce the pain of paying.

Have you ever realised that when you use cards for payments, you are too casual about the actual bill amount, because you can pay any amount at that moment without worrying about it.

Also you generally don't see the money leaving your wallet at all, the bill comes after a month and by that time, it's too late to think about it in detail and your only job it to pay that bill. It's just another bill and nothing else.

You can read this awesome report on cash vs cards payment and do listen to this short audio on this matter.

https://soundcloud.com/abc_rn/excerpt-talking-shop-going-cashless

I am not saying that stop using cards. Do it wherever you feel its applicable and you can't control things, but "cash payment is a pain" is highly overrated thing.

You can very much use cash for various payments in today's time exactly like you did it few years ago.

In fact you can take out cash from your account in start of the month for all the pre-planned expenses and then use cash for it.

Note that there can be some reasons like cash back and reward points offered on cards because of which you can use the cards, nothing in that.

The point I just want to make sure is that using cards can change the spending behaviour in people and you should control that.

Reason #2 – Because you don't make a list of items you need

Me and my wife shop all our grocery from DMART, a retail chain mostly in all the big cities in India.

We once went there to buy "few grocery items" which were roughly 6-8 in quantity, and when I came out of the store after 45 min,

I had a bill of Rs 2,800 in my hand with two big bags in my hand which had tons of things we shopped inside.

I didn't feel much about it at that time, only to realise next morning that once again we bought many things we either don't need or we bought it in high quantities than required.

So what happened when we went to the store without a predefined list of items ?

There was a chain reaction of "We need that also" and "Lets keep this too, as its going to finish soon" and then one items led to another and then we went to clothing section and then utensils sections and we could see so many things which we need WANT.

We went there without a purpose and the whole world was open for us to shop, mix this with the convenient method of payment (card) and you don't have to feel the pinch at the same moment. It's a deadly combination!

The other problem is that you buy things on the name of "lets try this once" and also buy things in quantities larger than you need.

I once bought peanut butter, just to check why people in US love it so much, but I didn't love it and only consumed it once, thank god my wife finished it by mixing it in curries instead of raw peanuts !

Did you use the lists many years back while shopping ?

Go back 15 yrs in life and think about those times when you mother handed over the small piece of paper which had those 10 things written down along with quantity.

It was easy then, you went with the list to shop , handed over the slip to the shopkeeper and waited there for 10-15 min and that was it.

Good that my wife still does that most of times when we do the monthly grocery shopping.

My wife has actually take written down all the kitchen ingredients (109 items) in excel sheet , taken many print outs and every month she checks what is needed and what is in stock.

While we still buy few things which are not in the list, but it's very small percentage.

You can see the same list of 109 items on the next page

List of Grocery Item to be Bought for the Month

No.	Item	Quantity
1	Poha	
2	Suji	
3	Tur Dal	
4	Basmati	
5	Patla Poha	
6	Vermicelli	
7	Tea	
8	Masoor	
9	Matki	
10	Rajma	
11	Chana (Brown Small)	
12	Sugar	
13	Kabuli Chana	
14	Moong Dal (Yellow)	
15	Vatana (White)	
16	Vatana (Green)	
17	Akkha Moong(Green Usal)	
18	Moong (Green Khichdi)	
19	Salt	
20	Rice Flour	
21	Maida	
22	Sabudana	
23	Groundnut	
24	Besan	
25	Jaggery	
26	Imli	
27	Atta	
28	Coffee	
29	Saffola	
30	Ghee	
31	Garam Masala	
32	Sambar Masala	
33	Chicken Masala	
34	Pav Bhaji Masala	
35	Goda Masala	
36	Chhole Masala	
37	Kashmiri Mirch	
38	Mirch Powder	
39	Haldi	
40	Jeera	
41	Hing	
42	Rai (Small Red)	
43	Methi Seeds	
44	Kasuri Methi	
45	Udad Dal	
46	Khada Garam Masala	
47	Dhaniya Powder	
48	Jeera Powder	
49	Papad (Suhana/ Haldiram)	
50	Rasna	
51	Dryfruits- Kaju, Badam,	
52	Custard Power (Mango	
53	Til	
54	Kanda Lasun Masala	
55	Dalchini	

No.	Item	Quantity
56	Tejpatta	
57	Pepper	
58	Dagadphool	
59	Schezwan Masala	
60	Manchurian Masala	
61	Mangrela	
62	Ajwain	
63	Jayfal	
64	Bada Elaichi	
65	Chhota Elaichi	
66	Cloves	
67	Scotch Brite	
68	Drainex	
69	Good Night	
70	Bathroom Freshner	
71	Idli Rawa	
72	Harpic	
73	Marie	
74	Murmura	
75	Handwash	
76	Plax	
77	Shampoo	
78	Hair Oil	
79	Vim Drop Liquid	
80	Shaving Cream	
81	Vim Bar (Small)	
82	Wheel Blue Bar (Small)	
83	Dettol	
84	Tide	
85	Nirma	
86	Phenyl	
87	Toothpaste	
88	Cinthol	
89	Razor	
90	Ketchup	
91	Tissue	
92	Post It	
93	Harpic Flush Tablets	
94	Majic Cubes Maggi	
95	Padelon (Kala Namak)	
96	Sabja	
97	Dabeli Masala	
98	Paneer Tikka Masala	
99	Chawli	
100	Black Udad Dal	
101	Sanitary Pads	
102	Corn Flakes	
103	Pasta Sauce	
104	Oats	
105	Milk Powder	
106	Boost	
107	Soya	
108	Maggi Masala	
109	Chiwda Masala	
110		

When you go shopping without a pre planned item list, it's almost sure that you will buy things you really done need. If Rs 3,000 is enough to cover your actual requirement, you will spend Rs 6,000 just because you don't go with the list.

While I am not saying that you should totally shift to this kind of shopping, at least try it 2-3 times and see if you can stand it or not.

Reason #3 – Because you buy things on on short term excitement

This is mostly for the big purchases (anything above Rs 1,000) . It can be that juicer, the bigger TV, clothes, weighting scale, or even bigger car and house. Most of the people don't spend enough time to understand if they really need something or not. This is how it typically works

- You come across something
- You are delighted by looking at it (and there is also a sale going on)
- You come across a reason which justifies you wanting it.
- Buying stuff is easy anyways (net banking debit card or credit card)

And after a week, that same thing is lying at your home unused or used once or twice. Most of the wardrobes are over stuffed by things which was bought on an impulse, because it was on Sale or because they thought they needed it (but in reality they don't need it)

It's extremely critical to understand today that the whole world is trying to make the buying process extremely easy for buyers today and tries to lure them with EMI's (which makes things look affordable)

Let the excitement settle down

The solution for this is to make sure you WAIT for some time, before you buy the stuff. Let some time pass by and let that instant emotion die down. You came across that great shoe online, where you get 40% OFF, that too with FREE home delivery and anyways your credit card is pre stored on the website – All you need to do is login and punch the CVV number and thats all – You just bought the stuff which you 100% want, but mostly don't NEED!

I will share my own 2 dumb mistakes I did recently. First I bought a costly bicycle last year, because I so wanted to get into cycling. I joined 2 online clubs, researched a lot on cycles and within 24 hours bought one which I have to admit I hardly used. It still needs my attention.

Next I bought a little bigger size TV recently, which I wanted and needed (I watch lots of TV), but later realised that I should have bought a much bigger one, because now I can't find much difference in the size I earlier had and the new one which I have now.

I feel I could have avoided both the mistakes, if I waited for 2-3 days and let that impulse die down. If only I had written down 3 reasons why I badly need it,

I could have saved myself from the blunder I did, because I know I would not be answer myself on why I need those things strongly.

Reason #4 – Because somebody in your family/friends also have it

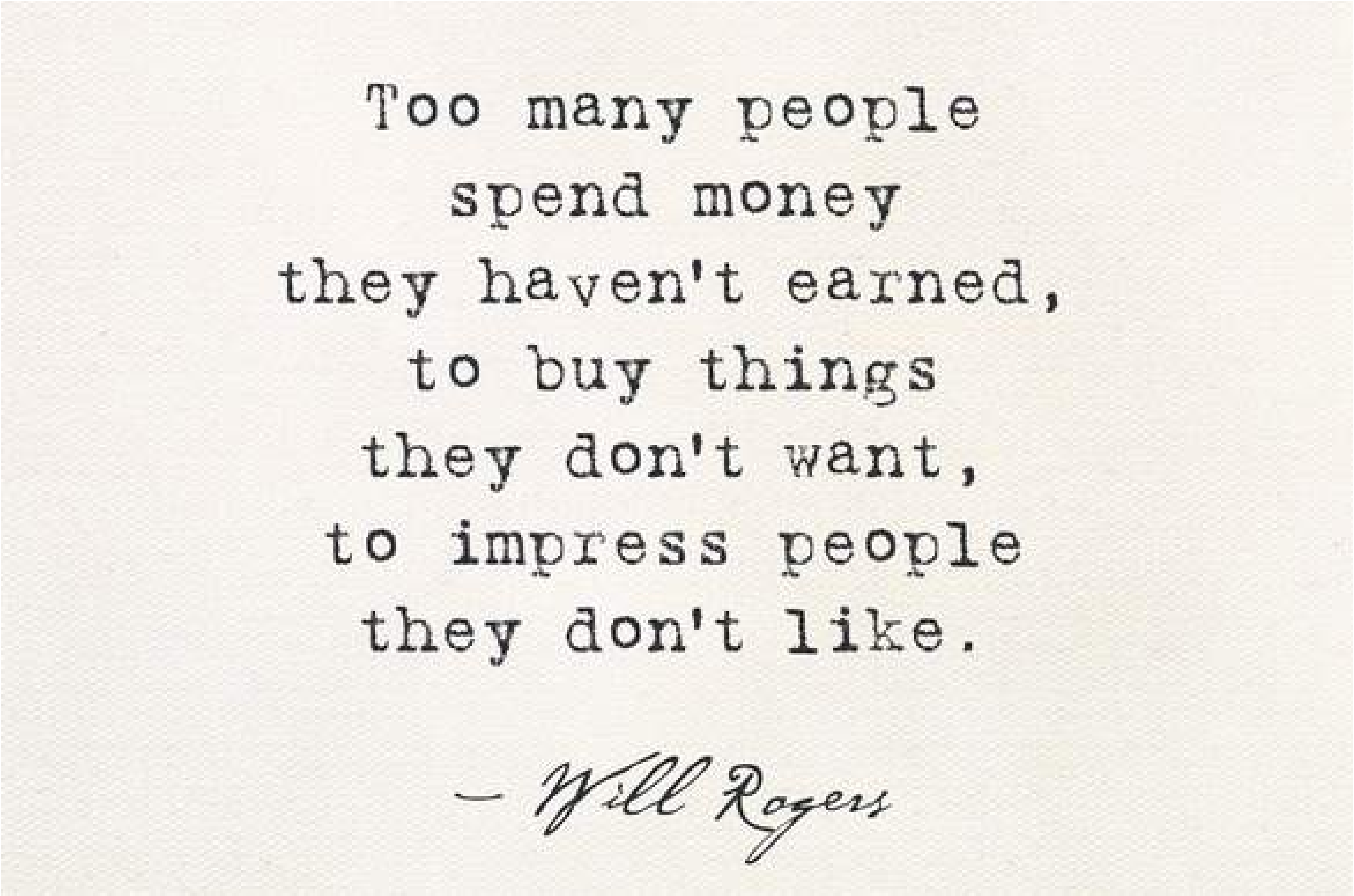
I seriously cant speak a lot on this, because it looks so stupid to even think how people buy things just because others have it and not because they need or want it. There are two things here ..

First is Peer Pressure , Just because friends in your group have something, you feel the pressure on you to have the same thing in your life so that you can be equal to them. If their kids go to school A , you also want your kid of go to school A , not school B . If they drive a 10 lacs car, you feel a bit uncomfortable having a Rs 4 lacs car.

The One sided Pressure most of the people feel

Most of the times, this pressure is just one-sided . It's in your mind and not in your friends mind or even your relatives mind. True friends and people who care will never judge you with what you own and compare it with themselves.

If they do, it's better to let them go out of your life.



This peer pressure is clearly visible when it comes to giving gifts to friends/relative and spending on others when they visit you. Just because "they" put Rs 501 in the envelope, next time you can't put less that, and god forbid if you put Rs 1,001 , now its their turn to "gift" you next time when its their turn.

If you read a book called "Linchpin" by Seth Godin, you will love the way he talks about how the world has become a place of transaction , where no real "gift" or "favor" exists in this world.

Even if you truly gift something to someone without expecting anything , still the other party know it does not work that way. Some day they will have to return the favor !

Apart from the peer pressure, at times there is purely the act of "looking good" and wanting to show off ..

People spend purely because they want to stand apart, because they want to attract some eyeballs and their ego's are pampered just because others are talking about how great your "stuff" is , not YOU ��

Reason #5 – Because money is "available"

I know this would sound strange to many , but a lot of spending happens because there is money available in the pocket.

However stupid that sounds, there is huge element of truth in this. Just because you have a lot of money lying with you, all the reasons to spend money seem justified to you.

Many expenses will suddenly appear “unavoidable” . Have you ever been into a situation when the supply of money was restricted for months and months ? Did your life move on peacefully or not ? Did you find reasons to postpone or avoid expenses or not ?

Always remember a very important point about money ..

“Money is like flowing water, if you don’t give it direction, it will find its own”

Always make sure you define a purpose for your money and allocate it for some goal in life, so that you know what is it going to be used, this is important because next time when you have some low priority expenses coming up, you know you can’t touch the money allocated for some higher priority expenses in future.

I have beautifully explained this in one of my books written by CNBC

Not just label the money, but let it leave your bank account and get invested in some financial product. By default make it tough for yourself to use it (not so tough that you cant use it at all) .

Example

To give you an example, imagine you earn Rs 80,000 per month , after your EMI and other commitments, you are left with Rs 20,000 saving per month. One thing you can do is let it be there in saving bank account and let it grow over time . After 3-4 months, you will have 60-80k in your account and more coming up in future.

At this moment, you are not that happy with your 4 yr old car and your friends are upgrading to a better car and now a small “wish” is seeding in your mind that even you deserve it (I am assuming your old car is still good enough) .

In few months, you will surely make your mind to upgrade your car because you have the down-payment ready in your bank account and you also have capacity to pay the EMI for the car !

Compare this with the situation when you have already defined that the extra 20,000 will go into a recurring deposit for next 3 yrs , so that you can accumulate around 7-8 lacs in 3 yrs which will be used for your house renovation, or kids school expenses or some vacation you are looking forward from last many years.

Once you define that and let your money leave your account each month, you virtually don't see anything lying in your bank account and your tempt to use it for your car up-gradation will die down.

This point is so powerful, that I even decided to answer one of the questions on quora.com , which is below.

What is some money advice I can learn in less than 10 minutes, which will help me become rich?

Read Quote of Manish Chauhan's answer to What is some money advice I can learn in less than 10 minutes, which will help me become rich? on Quora

Understand that I am not against upgrading your lifestyle, you have to upgrade some times when life demands it and when you really deserve it, but most of the people upgrade things not for themselves or for some strong reason, but just like that because they want to show it off or just feel a temptation. Upgrade your life responsibly if you have to, its tough to downgrade it later ��

More Availability of Money and What you can Buy

You can notice that India has changed a lot in last 10-15 years in terms of availability of things we can spend on and even in disposable income lying around. There is a lot of money which can now chase a big amount of things, so naturally the temptation of buying things has gone very high.

I can say with confidence, that your most important expenses today form a very small part of your overall expenses and the big part is on things you don't need for survival.

So whats the solution ? If you are someone who is left with money each month after your expenses, make sure you list down your goals in life, list out how much money you need to invest to achieve those goals and start your SIP's in mutual funds or recurring deposits and let your money chase those financial goals .

Reason #4 – Because somebody in your family/friends also have it

I love this point and this is something you can relate to easily. A lot of expenses look small in nature or a very small ticket size, but when you look at them on a monthly or yearly basis, they turn out to be a big one.

Something which costs Rs 200 might look a non trivial thing at that moment when you are spending on it, its effect on your monthly budget will not look big.

But this is not how it happens in real life, you do the same thing 7-8 times and that means few thousand rupees which does not even register in your mind.

Take an example of online shopping of clothes or gadgets…

While doing on transaction, it would be few hundreds or thousands, which does look big, but if you add up all the expenses by the month end or in a quarter, you will realise it was a major one which you didnt even considered while you were trying to recall where exactly your money we

Watching Movies and Eating Out – The silent expenses

Now – I am a real movie buff (I have even started watching Marathi movies and they are so awesome) and we also eat out quote often. These two expenses are might not look quote big if you focus on it just one time.

You feel you so much deserve it and that's why you are earning so much money, But these can go over board and turn out to be a big number (at times 10-15% of your take home).

You need to keep an eye on it and I am not talking about a mental calculation, but actually writing them down for a month and seeing the real numbers. It might turn out to be a big surprise .

I did exactly that for the month of October 2014. I originally thought that my movies + eating out + snacking expenses should be somewhere around 3,000 and my grocery + veggies expenses should not be crossing 3,500.

But when I actually wrote it down for each day for the month of Oct and saw the real numbers, I was shocked to see that my movies + eating out expenses turned out to be more than double of what I originally thought, on the other hand, my grocery expenses was so less (seems like that month the grocery expenses actually were very less for some reason, as we just 2 of us).

Below you can see the exact numbers

	Eating Out	4379	Expected = Rs 3,000
	Movie	1230	Real Number = Rs 6,626
Total	Eatables	1017	
	Vegitables	139	Expected = Rs 3,500
	Grocery	1330	Real Number = Rs1,469

So what you should do ? Truly speaking – I don't think one should restrict themselves on spending on things which add up to their quality of life and if you truly enjoy it.

You can surely spend money on things you truly wish and cut down on things which are waste or does not add much to your life. Ramit Sethi calls it as 'Conscious spending' and you should read his article on this point.

So just be a bit alert on things you are spending on and when it starts going over the roof – take charge of it and control it. Dont be over fanatic over controlling each bit of it, it does work in real life.

Reason #7 – Because of 'Enjoy today, Pay Later' trick

The last point I want to cover is EMI option of payments. The option of payment in installment is a powerful tool to make people believe that they can afford a stuff and because the EMI amount fits their monthly income, most of the people buy things much more than they need or can afford.

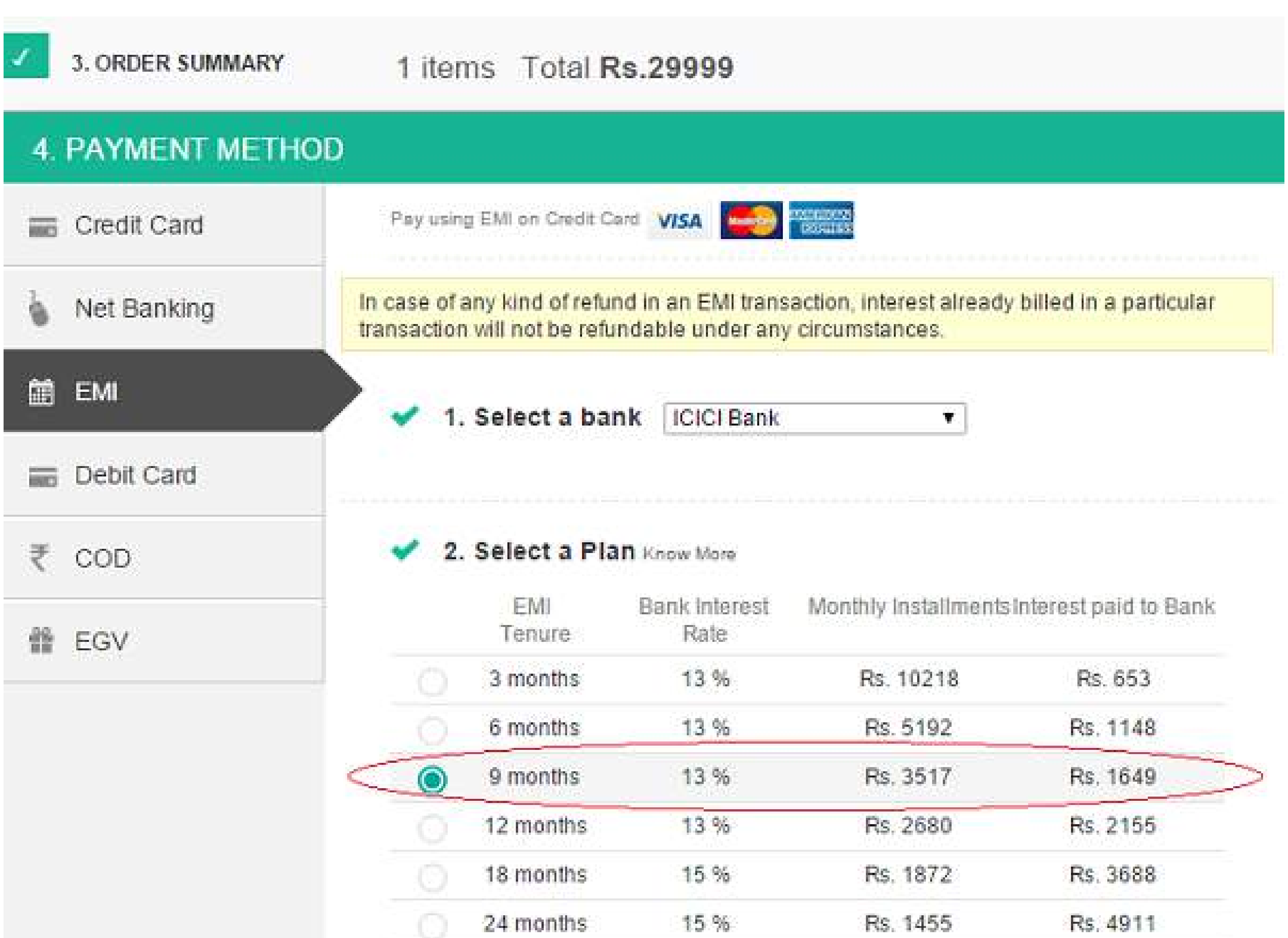
EMI option in payments is nothing less than a revolution which has driven the consumption levels to insane levels.

Everything you can imagine today, especially in online shopping, where you can buy literally anything on EMI and bring it inside to your "affordability zone" by just choosing "Buy on EMI".

If you look at an example of flipkart, I add Moto X smartphone which costs Rs 29,999 in the cart for buying. Now for someone who has a salary of Rs 30,000 per month (A lot of youth lies in this category) can't afford this phone because its equal to one month salary.

How EMI option changes the whole equation of affordability

They can purchase it without any issue just because they can buy it on EMI option and suddenly they will just have to cough up Rs 3,500 per month. While this looks really amazing to some people, this is how the debt cycle start for most of the youngsters new into job and then they get trapped into it for many years.



Here is a report from Livemint which talks about the way companies use EMI options

> " EMIs (equated monthly instalments) aren't new to Indians, but it's a strategy that companies such as Apple Inc., Gold's Gym and others are increasingly adopting in a bid to beat the sluggish economy, convincing customers to overcome their reluctance to spend too much money and to go ahead and splurge on an iPhone or a fitness club membership.

> Clearly, India is turning into an EMI nation.
>
> A range of items are available—cellphones, sunglasses, jeans, vacations, hair transplants, gym memberships—as companies seek to drive consumption in a weak economy.
>
> And it seems to be working, most evidently in the case of the iPhone, once a rarity, but suddenly more commonplace in urban India. IndiGo and Jet Airways (India) Ltd, two of India's largest airlines, are the latest to announce the availability of air tickets on three- or six-month instalments.
>
> Although the schemes have been on for a year, the firms' recent promotion through newspaper advertisements helped persuade dithering customers, especially since fares have surged 25% in the holiday season

Hence, its important to make sure you don't fall into the trap of EMI's for those things which you absolutely don't require and cant afford.

So how to spend optimal money ?

Expenses are important element of your financial, if you earn a lot , its of less use if you also spend a lot , because what ever is left at the end of the month goes into creating your financial wealth in long run. Its important review your spending pattern, various categories you spend money on and talk with your spouse, parents about it and try to optimize it. Review each thing and see which of those expenses can be reduced or eliminated or shifted to some other category.

At the end of day we all earn money primarily to spend it on things, but at times things get out of control and does not fit into what we had originally planned.

What are your thoughts about this article ? Please write down your comments by clicking here

Now .. lets move to next article

How prepared are you for these 4 bad situation in your financial life?

ARTICLE

12

Are you ready for bad phase in your life which might come anytime ? How prepared are you?

We should not be pessimistic in life and always look forward to think positive, but that does not mean, we should not be prepared for bad times. Bad things happen in life and you must have seen many bad things happening in others lives .

We don't prepare for these bad times, because we have somewhere believed that we are more lucky or privileged than others (if you don't agree, ask yourself what are changing of your accident, and you will surely say , much lower than 95% of other people on earth) .

Are you ready for these 4 situations ?

When something bad happens in our life (or financial life) , we suffer , our families suffer , lots of confusion arises (and many times we are not there to fix it back) and if we are alive , we regret about not preparing for small things which could have eased the situation.

So lets see how much prepared are you ? I want you to not just read, just keep asking at every point if its true in your financial life or not ?

Situation 1 – What if you die ?

Someone asked me few months back to not use such direct words, but unless I do that, no one reads seriously. Now ask yourself

- Does your family know how to take out money from your bank accounts ? Do they know your ATM password ?
- Will they be able to access everything you have in your head right now from passwords to remembering how much money you need to get back from a friend, to where exactly your whole net-worth lies?
- Will they be able to arrange for next 1 yrs of expenses if you are gone ? What about next 30 yrs ?
- Have you prepared a blackbox emergency kit for your family ?

Situation 2 – If you loose the job ?

I want you to imagine you lost your job right now at this moment. Now – Can you pay your next 6 months EMI ?

Will you have the guts to take your family out for late night movie and a nice dinner costing 3k Or will you tell them – "Its a flop movie, we can watch on laptop ?" .

Can you sleep well after you are rejected in your new interview ?

Will you be able to say – "Sorry, I am forced to take this job because … ". What if the job does not match your liking, will you still have that power to say NO to the next job ?

Now your answer for all these things can be YES or NO , and its a clear indication of how well prepared are you for these situations. Its time to think about it ?

Situation 3 – If you need Rs 5 lacs suddenly ?

Lots of people I know cant arrange Rs 1 lac given some emergency situation,can you ?

If yes, then what about Rs 5 lacs ? If I give you 24 hours or 1 month deadline, then can you do it ?

Have you been preparing for this kind of nasty situation in your life ? Now why would you need 5 lacs ?

There can be many things which can happen like – some medical emergency situation in family , or because you found your dream home and have to make down-payment.

So, If you cant arrange for 5 lacs, then ask yourself how much you can ? 3 lacs ? 1 lac ? Rs 50,000 ? The good news is that you don't need 5 lacs at the moment, but the situation can come anytime ? Start working on it .

Situation 4 – If you were to be hospitalized ?

If you were to meet an accident and hospitalized, things would still be in control, if you are conscious, because you can guide your family on what is to be done and from where to arrange for money and where are your health insurance documents, but Imagine you are unconscious and cant communicate to your family –

Does your family know how to arrange for few thousand rupees to start with ?

Do they know where is your health insurance card or how to access your emergency fund ? Do they even know the name of your health insurance company, how about the TPA phone numbers ?

Have you ever stored an ambulance service number in their mobile or your mobile which takes not more than 1 min exactly ! ?

Do you have any black box kit prepared for your family which has some useful information for them in financial life which makes their life easy ? In my 2nd book – "How to be your own financial planner in 10 steps" ,

In the last chapter, I have discussed this matter at length and also told the importance of documentation for a stronger financial life, do order it right now, just takes few hundreds bucks !

Are you getting Ready now ?

You don't have to feel overwhelmed because you are not ready, A lot of others are also in the same position, you are lucky to realize this now and have lots of times on your side to work on it.

Do not look for perfection and strive to complete 100% of what is asked, but at-least identify core issues in your financial life and situations which you feel you should be ready with ?

By the way, how many months can you survive without a job ? Tell me in comments section and how you feel about it ?

Now .. lets move to next article

5 signs which proves your financial life sucks and you are screwed up

ARTICLE

13

Is your financial life going well ? Are you on the growth path or on the verge of disaster very soon ?

Your financial life might be in trouble , but may be there is some more time left before you really take charge of your financial life and really do something about it, else it will crumble and you will be destroyed beyond recovery.

I see lots of people who are not in agreement with the fact that their financial life sucks and they really need to take giant leaps.

Somewhere they are comfortable with the whole situation and keep expecting that "somehow" their financial life will improve.

So, I am giving you 5 simple indicators, which you can look at and decide if you are headed towards financial disaster or not.

The more these indicators are true for your financial life, the bigger is the problem and you need to get really serious about it. If none of these indicators are true for you, then congratulations ! , you are mostly in good situation.

Sign 1 – You cant live for 3 months without a job

The first and the biggest sign of disastrous financial life is that you cant live for few months if you do not bring money on the table through your job or business.

If you have been earning for few years now, you should at-least have a year worth of income saved with you, but that's not the case with many people.

Their monthly expenses make sure they are left with nothing at the end of the month. Worse , many people have negative cash-flow and they are piling up debt each month to survive.

These people are mostly dependent on credit cards and keep using them whenever they are in a "crisis" situation. Credit card should be held for benefits + reward points and not because its a survival tool for you.

Ask yourself, how many months salary have you drawn till date in last so many years and how many worth of salary you have saved till now ?

If you cant survive for more than 3 months (or 4-6 months), you are in big trouble.

I asked this same question on my facebook wall few weeks back and I got responses like "6 months", "3 months" , "10 yrs" and all kind of numbers.

So better look at your number of months. Do not focus on income alone, because income is not same as wealth.

Sign 2 – You find it tough to get a higher paying job

Your job/business is the means to bring money on the table each month.

Every year or in few years, ideally you should be able to move one ladder up and command a high salary because over the years you will gain experience, add new skills and would be more wiser/knowledgeable.

However if you cant move upwards in your professional life, the amount of money you will bring back home will not increase and if that's the case, you are in trouble.

Ask yourself – Do you see yourself earning 10X of your current salary some day in future like next 5-10-15 yrs or not ? Are you dead scared of loosing your job and never be able to find another ?

Do you feel that you have reached a level in your professional life, where if you loose your current job, you will find it tough to get the same salary job somewhere else?

If that sounds your case, you are in trouble financially because your biggest asset is your earning capability and not your this year pay package only?

If it sounds your story, its time to find out how you can increase your skills and take better jobs in coming times, don't wait for the last moment, it takes few years to hone your skills!.

Sign 3 – You are paying back EMI's for depreciating assets

There are two kind of debt – good debt and bad debt. Any debt which helps you build assets and grows in value overtime is better (I am not saying, go for it, but its just better than the bad debt) .

The bad debt is mainly the debt which is used for CONSUMPTION purpose. You use it and its gone.

Examples are personal loans, consumer durable loans, credit card debt or even a car loan(especially the car, which you really don't need, you can do with a two wheeler,

I am not talking about the car which are really require and cant live without), then you are paying an outsider on a regular basis, without building any assets for yourself.

Its like – you are doing the job to help others squeeze money out of you.

If you are doing this, better stop it now and see how you can change your direction, you still might have the time to come back on track.

Sign 4 – It has been 5 yrs working, but you have nothing worth called "ASSETS"

ou have worked for 5 yrs in job, now even if you had saved 2 months worth of salary each year, you must have had 10 months worth of salary with you saved today? Is it there ?

You must be having some investments in Fixed Deposits, or some gold, or some mutual funds or at-least a small part of your future house down-payments which you are fantasizing?

Is it with you or you have blown up ? In my 1st book – "16 personal finance principles every investor should know",

I have explained in the first chapter on how early start of your financial life can break or make rest of your financial life. Grab it and read it.

Ask yourself, how much you can show off for the last 5 yrs of earning ? Just add up all the salary you have drawn in last 5 yrs (lets say at 4 lacs per year, its 20 lacs in total 5 yrs) , how much you currently have in assets ?

Even if you have saved 3-5 lacs, I would say its fine. But if you are still trying to locate where has all that gone, its not a good sign. Remember, how do you start your financial life can be an indicator for your whole financial life.

Dont neglect first 5 yrs of your financial life because it matters a lot.

Sign 5 – You like to spend a lot of social functions !

Most of the people with worst financial life in India are too much social in nature (not vice versa) . They keep spending on all the useless social functions either due to society pressure or by choice.

Examples like – “How can I not celebrate my child’s 10th Birthday with a grand party, all relatives are looking forward for it” or “I have to gift something worth to this friend/relative, because reasons reasons reasons.

Social functions in India are one the largest wealth destroying activities, which are not comparable to anything.

Don't get me wrong, I know you need to celebrate marriage, birthday, anniversaries and that’s important part of life, but when it stops being celebration and becomes showoff and obscene display of imaginary status (which others know very well that you are faking), its utter non-sense and destroys your financial life.

Please stop it

I know current young generation does not believe too much into showoff and useless social functions, but due to parents pressure and mindset, even children have to kneel down at times and cant avoid these social spending’s even if they hate it from core of their heart.

Ask those children, who are struggling to buy a house because they do not have money and their parents blew up 30 lacs on their wedding to invite 800 people (500 of them you meet first time in your life and they eat maximum ice-cream at food counters) .

What a joke !. A small bold decision would have made so many lives easy! .

It would be good idea for you to write down how much % of your income till date, have you spent on social functions (which you could have avoided) in last 5 yrs.

If its more than 2% , I am sorry for you.

I must mention that all the views are my personal based on my ideologies, If you don’t agree with some point, You are equally right and much as anyone else.

The points are general in nature and might not be 100% true for every person case.

Take some bold step

I can tell you from my experiences – Most of the people have bad financial life and they do not do anything about it, because its not affecting them in short term.

Every additional bad decision does not hurt their next day, the food will still be on table, the next movie will still be watched and the small Sunday outing will still happen, but how long if you continue having these 5 signs in your financial life?

In our 3rd book – "11 principles to achieve financial freedom" written by Nandish, the coach helps a guy in changing his mindset about his financial life and helping him think like a pro in his financial life,

Its an amazing book I would say which no investor should miss.

You need to take some massive action, some really bold step, it has to be 20 times stronger than what you have in mind, you have to really upset few people in your life and have to embrace discomforts for few years.

Just a tiny "try" will not help. Imagine you get a deadline from your employer that you can only work for the next 5 yrs and then you will not get any job in whole world for next 3 yrs, how will you prepare for this situation?

That's your game plan now !

Now .. lets move to next article

Are you following these 6 rules of great financial life ?

ARTICLE

14

Everything in life has basic ground rules, which we should never forget. You can consider these ground rules as the pillars of your decision making activity. Even our financial lives have some ground rules to follow in order to have a great and enriching life.

Over the last 5 years of writing this blog and having interacted with thousands of people, I can clearly conclude that more than making right decisions in financial life, you should focus on avoiding bad decisions.

I have seen so many people who have been careful, not messed up things and their financial life quality is really awesome. They have not lost wealth due to foolish mistakes and live a clean financial life overall and while they feel lag behind others,

I can say they are ahead of others in many ways. Yes – They have not taken awesome decisions, but the best part is they have not made terrible mistakes either. Lets explore more on this today

6 pillers of great financial life

Now I am going to talk about 6 areas of financial life which are like pillers. If you are clear about these ground rules and start some serious work on all of them, your overall quality of financial life should go up. But having said that, its a long term activity !

1. Rule of Earning

"Do not depend on a single income. Invest and create a second/ third source of income"

So many people just never focus on this. A person in a job has just taken it as his fate, that his only source of income will be his Salary. For him alternate source of income other than his salary is like a distant dream which he can only see, but could not achieve.

The same happens with a businessman at times. He depends solely on his business income. Why? Why not also have some other passive income from other non-core business area.

Atleast start thinking in that direction ? Lets Explore some extra income source.

I dont say, it need to be some grand income, but lets make some start atleast, if not in action taking, atleast in thinking about it,

I personally tasted some passive income from my first book royalty, while it was not a big one (opposite to what people think) , it atleast gave me some good feeling.

Other than our business income, I had some source of income from other stream. Thats important ! . It can be a small income, not a grand one . Thats okay !

Whatever is your specialization, you must be god gifted into some or the other thing in life, start sharing about it with world by writing about it, you never know when you start making fans for yourself and it might bring some opportunity to you in life.

Nandish has written a nice piece of "Giving your Gifts to the world" on our Jagoinvestor Wealth Club, check it out .

If you are damn good about something , why not offer consulting or accept freelance projects in your own capacity.

Forget all that, at minimum, If you are a person who comes home early, why not take some tutions to make few extra bucks. Its not about earning a little more, its about the habit of creating an extra income.

You never know when, in the future when you might have to look at it seriously! . So the point is, go ahead and put a small seed in your head about "Creating Alternate income" .

2. Rule of Spending

"If you buy things that you do not need, you may soon have to sell things you need"

People are over spending. There is no doubt about this. Just look at your own expenses & write them down.

Question each of your expenses, do you really need them? Is it out of necessity or just a desire which you can avoided altogether or atleast minimized?

The answer will be in front of you. If you have not yet tracked where your money is going and if you are our special member at Wealth Club, you might want to download this Budget Template.

One of our Bangalore clients told us last year that he has seen a lot of his friends, who buy a car on the first day of getting the job! and mostly they dont need it.

Its either to show off, or just that short term desire of own it, without thinking about long term aspects of it. Its just unplanned!.

Then there are people buying 25 shirts, when they only need only 12.

There are people, who don’t have the `haisiyat` of driving an Alto Car, but they have bought a Honda City just to show off !

It just violates the rule of spending!.
Slowly but surely, this will take them towards disaster. It will come as surprise (to them) one day. Spending is a core activity of your life.

You earn so that you can spend it, nothing wrong with it, but there is a difference between spending and over-spending. Understand it today to make your future more robust.

3. Rule of Savings

"Do not invest what is left after spending, instead spend after you save/invest”

This is directly related to rule 2 above. If you do not control your spending, you can never be able to save much and then you will never be able to give your best for your wealth creation.

Fix this clearly & prominently in your head. For most people the formula is

Saving = Income – Expenses

If you rely on the natural flow of life, you can never save. Life will give you all the reasons why you can only save amount X .

At times Nandish tells me – “Manish , you know what, if you do not define the purpose for your money, money will find its own purpose” .

This is very strong point , for a moment, just slow down and think about it. you will realise what it means. You need to control the flow of money and you have to create that flow yourself.

I just ask to most of the people to do this 1 min experiment. I tell them – “Imagine your employer says that from next month, you will get a salary cut of 10% and all you will get is just 90% in your income.

For most of the people, will they not be able to live the same life as they lived till now ? If the answer is YES , then why are they waiting for ? Why not give that small salary cut to yourself as your gift to your financial life.

You will enjoy this salary cut in coming years. trust me.

So your next task today is tell your family, yourself and your relatives that from now on you will be living on just 90% of your salary – PERIOD! .

Start doing it and slowly you will see that magically – you will be able to manage things – Try it! It works! .Your assets , your net worth , and every bit of wealth comes from those tiny savings you consistently do for years.

That's the most important ingredient part of your wealth creation. If you do not focus on optimizing it, nothing else will work out!

4. Rule of taking Risk

"Never test the depth of the river with both your feet"

There is a very thin line between risk and calculated-risk. Calculated risk is the risk which is taken after due thought, and by accepting the future consequences and a thought full evaluation of how the odds are stacked.

If you invest a big sum of money in stocks, just because markets are going up and you do not want to miss the train, and just because that guy on CNBC said you should , then you are taking a risk. You will not be able to sleep at night for sure.

However if you look at the current market and tell yourself that – "Markets have not moved up from last 5 years, and this kind of situation in past have been proven to give great returns in next 5 years and you are economically ready to loose up to 30% of your money, and thats why you choose to invest in stocks, then its a calculated risk! .

You have put some reasoning , thoughts and accepted the downside of that decision and hence you are taking that risk !

Taking risk is not a bad thing at all. It's the only thing which can help you grow at exponential rate. Those who don't take risks, just die a simple life most of the times.

The best things in the life are on the other end of the Risk , its on the opposite side of it. So take risks, but always make sure they are calculated one ! .

Over the long term, one an average, you will do great. Its proven already, I am just reminding you!.

5. Rule of Investing

"Do not put all your eggs in one basket"

Warren Buffet is not a very big fan of diversifying. All the money he has today, comes from stocks, but there is one simple rule he has followed – **"Put all your eggs in one basket, if you know you are an expert of that basket and closely keep an eye on it".**

Most of us are not like Warren Buffet! . So lets not copy him. What if you have put most of your money in one single asset class or a property or a particular branch of a bank? or just a single stock.

Things can go wrong, and when it goes wrong, you will cry out loud, but no will will be able to help. You will be helpless and will regret like anything.

As a best practice make sure that your wealth is not in a single place.

Remember that portfolio diversification is mainly a tool of minimizing risk, not for maximizing returns, so don't ask a stupid question like – "Will diversifying my money to different places increase my returns?" – The answer is "It might… or it might not!

But properly done, it will surely minimize the risk of losing your wealth in future." .

6. Rule of Expectation

"Control your expectations, and control your happiness – they are same thing"

One very dedicated reader of this blog – Pattu, who teaches at IIT Chennai, told me once that he does not expect equity to give him more than 8% of returns in long term and he always invests his money in equity, assuming that he will get 8% or better in long run.

Anything more than that would be a bonus for him. I am sure that he must be happy all his life and will never be disappointed with equity returns.

In financial life, we expect agents to work in our favor, we expect financial products to give us amazing returns, we expect financial planners to charge less, but give an awesome experience (Like we give to our paid clients) ,

we expect life insurance companies to pay our family, even if we make some mistake while disclosing some important information, we expect our credit card to forget the penalty for in-case we don't pay on time, we expect government to decrease the tax rates.

If you look, we are an "expecting" machine in our life. I can say from my tiny experience of life till date, happiness and expectations are just the two different words for the same thing.

If you want to get in control of your happiness level, just control your expectations in life. Stop the expectations from others, better control yourself and your expectations, because thats all you can control. not others.

Practice these 6 rules in your financial life

If you can master these 6 rules in your financial life, your quality of life will improve. Each decision of yours should originate out of these 6 piller rules.

What do you say? Which rule did you like the most?

Now .. lets move to next article

1 small trick which can drastically increase your saving rate each month

ARTICLE

15

Do you want to save more money each month?

Today, I am going to reveal a secret trick which will help you to increase your monthly investments by some margin. This trick is more of a psychological shift in the way you think about money, emergencies and how much should you invest.

However this is applicable to only those who are already investing some money on a regular basis each month.

Lets start …

You might be thinking that my secret is nothing but making your savings "automatic".

But no, it's not the case. Making your investments "automatic" is just the first step, but there is something else which will take your savings to next level.

Let's get into it!

Here is how most people invest their money

- They earn a salary
- They spend money on their regular expenses (Rent, Grocery,Movies,travel)
- Some money is left at the end of the month
- and finally, a partial amount out of that is invested

Did you see that last line?

Only "partial" amount is invested of the left over savings at the end of the month is invested, not FULL.

Lets dig deeper on this …

Take a sheet of paper (or open an excel sheet). Write down the total income you get in a month on the left hand side, and on the right side, mention all kind of expenses you have.

Put Rent, Groceries, Maid expenses, Travelling, Eating out, movies and what not.

Now add up all the expenses and find the total expenses and deduct it from the total income you get each month. You will get your Monthly Surplus!.

This is the amount you are left over each month and you should ideally invest this whole amount.

Below is a template which you can use for the calculation

INCOME

Total Income in Hand (Self)	
Total Income in Hand (Spouse)	
Any Other Income	
Any Yearly Bonus	
Total Income	

EXPENSES

Rent	
Groceries Expenses	
Milk Expenses	
Vegetable Expenses	
Domestic help Expenses	
Electricity/Water/Paper/Cable Bills	
Travelling/Petrol Expenses	
Internet/Phone Bills	
Entertainment	
Eating Out	
Health Related Expenses	
Lifestyle Expenses (clothes,shoes,etc)	
Children Education Expenses	
Insurance Premiums (Life + Health)	
Investments (SIP/RD/PPF/NPS/Chit)	
EMI (Home + Car + Others)	
Other Insurance Premiums	
Other Expenses not covered above	
Total Expenses	

What is your Monthly Surplus?

Are you saving that much each month?

What is your monthly surplus?

Will you start a Recurring deposit for that amount or start a SIP?

I guess the answer is NO .

As an example, if a person is earning Rs 1 lacs per month and their expenses is around Rs 60,000, their monthly surplus is Rs 40,000 per month.

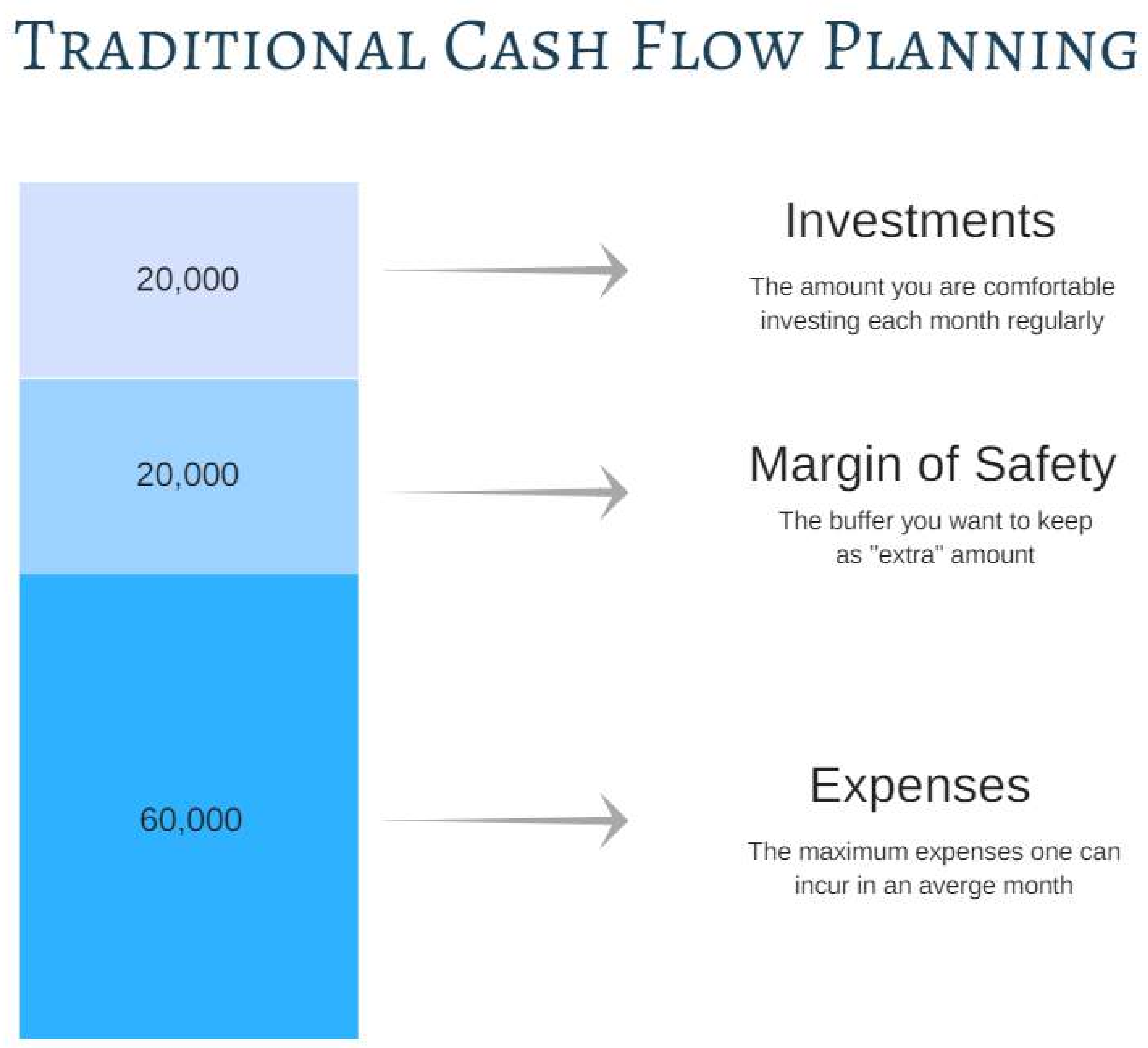
But this person will probably invest only Rs 15,000-20,000 per month on a regular basis. They will keep the rest as “Margin of Safety” amount which they might need, because what if they suddenly need it?

> This term, margin of safety, is an engineering concept used to describe the ability of a system to withstand loads that are greater than expected. [4]
>
> Imagine you are building a bridge. The maximum weight for a fully loaded commercial truck is around 80,000 pounds (36,000 kg), but any decent engineer will build a bridge that can safely carry vehicles weighing far more. You don't want to drive an 80,000-pound truck across a bridge that can only hold 80,001 pounds. Just to be safe, the engineer might build the bridge to handle 5x the expected weight, say 400,000 pounds. This additional capacity is known as the margin of safety.
>
> Source : http://jamesclear.com

Margin of safety is a simple concept, it's just an "extra buffer" for "what if things go wrong" kind of situations.

This is called as traditional style of cash flow handling which is very intuitive and natural way of thinking. We all do it and it feels right!

But there are some problems with this approach



But there is one big problem

While this traditional method looks very natural, there is one big issue with it. Here it is !

Once your investments are set, you feel a sudden excitement that now your investments are in shape, but because you have left a big margin of safety (the extra buffer), your expenses will automatically expand and eat away your margin of safety.

The mere availability of the buffer money will create various short term demands in your financial life and you will use that buffer each month.

Suddenly you will start ordering various things online (most of the times things which are not required) , your eating outs will increase, upgrading your phone will appear within your budget etc.

Supply creates its own Demand – Economics 101

The availability of money will create the demands in your expenses and almost all the time you will justify them. So from Rs 60,000 expenses, you will see that automatically it's reaching Rs 80,000 .

And after some time you will be used to Rs 80,000 per month expenses.

Just imagine, if the person had starting an Rs 30,000 SIP and left just Rs 10,000 as margin of safety? Can you see that here the person still has margin of safety and invests 50% more amount each month?

What about Rs 35,000 SIP and just Rs 5,000 as margin of safety?

Welcome to 10% margin Cash flow Management System

This is the crux of the system.

We all feel that we need to keep a big margin of safety because in our mind things will go wrong. And they will!

There is no doubt that things can go wrong in some months and some unexpected expenses can come up which can really disturb your regular investments and that's why most of the people leave a big buffer between expenses and investments.

However, lets deal with the reality.

Most of the times these emergencies are not real emergencies and if we didn't have enough margin of safety, we would have justified them as "not important" expenses !

Also you should not depend on your monthly cash flows for emergencies and have a separate fund which can be touched incase a real surprise expense comes up. I call this new system as "10% margin Cash flow System"

10% margin Cash flow system

Here is how you design this cash flow system

> **Step 1** : Write down all your expenses and make sure you put realistic numbers, neither less nor very big.
>
> **Step 2** : Calculate 10% of your expenses and that's you margin of safety. If your expenses are Rs 40,000 per month, then your margin of safety is Rs 4,000
>
> **Step 3** : This margin of safety amount is the only extra money you will keep with you each month apart from your expenses, and even this money should be auto invested in a liquid fund, which can be redeemed on a short term notice of 24 hours.
>
> **Step 4** : Make sure that before you start your actual investments on monthly basis, you create enough emergency fund which can be 3X of your monthly expenses size. Any sudden surprise expenses which are outside of your regular expenses list will be taken care from this emergency fund and not your monthly surplus.

Step 5 : Set up your investments in a automatic mode (like SIP in mutual fund, or a recurring deposit or a combination of both) for all the money left other than regular expenses and 10% MOS (margin of safety)

Here is how it looks like

Taking the same example of Rs 1 lac income, the guy has Rs 60,000 expenses in total. His margin of safety is Rs 6,000. Rest amount left is Rs 34,000

For the first month, he puts this full 34,000 in a liquid fund. If any additional money is left from the 6,000 MOS then he puts that in emergency fund, else he can spend it.

For next 2 months, he puts 68,000 more in liquid fund and his total liquid fund amount is around Rs 1 lacs +

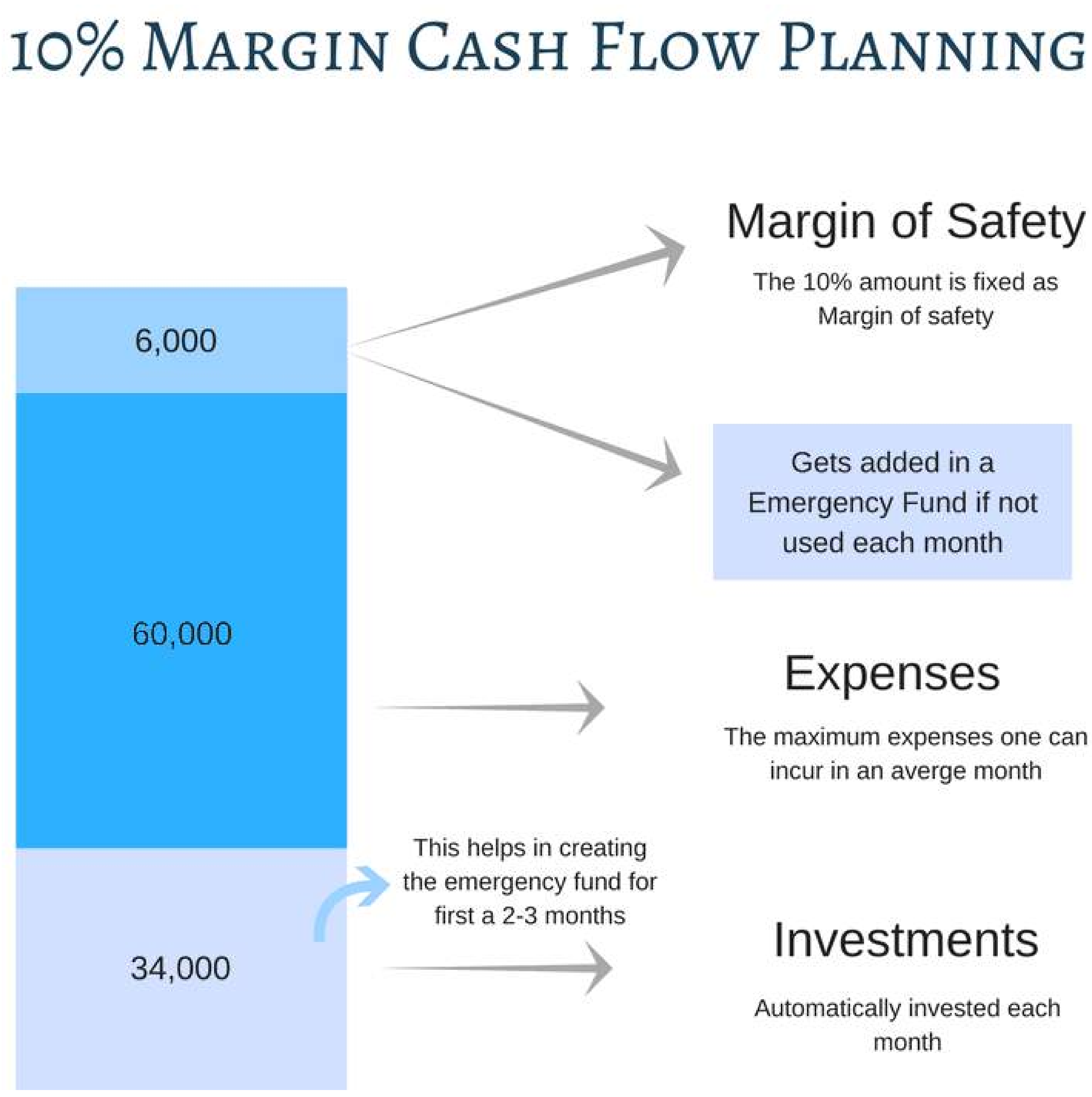
Now this guy will set up his SIP of Rs 34,000 per month.

Now imagine what happens in 4th month

In 4th month, here is how it looks like

- Rs 34,000 SIP is executed and the money gets invested (make sure the SIP date is in start of the month)
- Rs 60,000 is the regular expenses
- If there is any need of extra spending, then Rs 6,000 extra is already there (most of the months should be like this)
- If for some reason, some surprise expenses comes up, you redeem that much money from liquid fund and use it.
- Repeat !

Can you see how the whole game changes here ?



I hope you got the whole idea of this new model now.

You can always withdraw the money if real emergency arises

I tried this concept on one of my friend last year. I asked my friend if he will be able to do any SIP?

He said "NO".

His expenses were almost equal to his income. However I said that he should start a small Rs 5,000 SIP. He said that he will not be able to because he is not left with any money at the end of the month.

My simple solution was – **“Withdraw the money in a month, if you really need it”**

His SIP ran for next 12 months

He finally started his SIP with a lot of reluctance and the SIP ran for 12 months straight ! with 1-2 withdrawals in between. However my friend was proved wrong.

The mere unavailability of money made sure that he had to fit his expenses into this “visible income”.

So don’t worry and dare to start a bigger SIP then you can handle, in worst case you can always STOP it , you can always redeem some money back if you need it.

But in my experience in most cases, people are able to handle bigger investments each month compared to what they imagine.

Let us know if you liked this article and if you are going to implement this new model of investing?

Do you really think this unconventional way of cash flow management can bring different in your financial life?

How can we help you more?

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LIfe Insurance

Health Insurance

Workshops

Financial Planning

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