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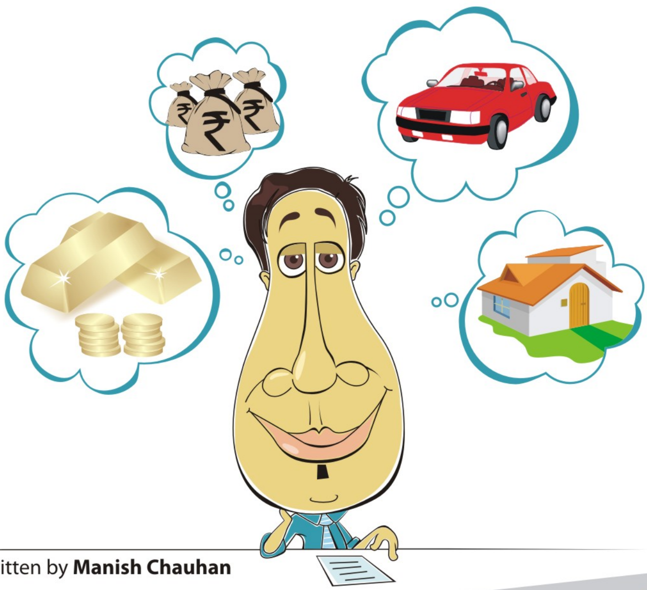
JAGO INVESTOR

Change your relationship with money



Written by **Manish Chauhan**

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JAGO INVESTOR

Change your relationship with money

"Jago Investor - Change your relationship with money" is exactly what the name suggests. It's an initiative towards shaking investors out of their financial lethargy and getting them to take productive action. This book also aims to reorient the way in which people perceive money management. With the help of simple stories and parables, it changes your perception of 'money management' from a complex chore that only financial wizards can master to a simple, commonsense exercise that you can easily undertake.

Every chapter in this book is based on personal finance principles, which when applied can make your financial life full of power, freedom and abundance. It is not written to engage a discerning reader or show-case the author's knowledge; this book is written to help you take action in your financial life.

Jago Investor is a veritable manual or guide on how to live an extraordinary financial life. It will show you exactly how to change your relationship with money and make your financial life simple; it will help you to understand the guiding principles of personal finance and bring about a change in your financial situation; it will guide you towards making your financial life more organized.

In a nutshell, it will help you shift gears and start on an exciting journey of wealth creation…the only plea that runs through the book is that you must JAGO and take action!

Bestsellers 18

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Financial Products will change...

Personal finance tools will change...

Financial planning models will change...

Strategies RARELY change

and

Principles NEVER change!

This book is based on principles of personal finance.

Acknowledgement

To most readers, a book often appears to be the creation and handiwork of just one person – the author. If the book is appreciated, all the credit goes to this one person. But let me tell you that there is no way that this book could have become a reality, without the support of many people. I would like to take this opportunity to thank each of those people here.

I would like to start by thanking all the readers of my blog. Over the years, my readers have approached me with thousands of queries, appreciated my advice and enabled me to learn from their doubts. They have given me the opportunity to help them in myriad ways. Each question they asked, each suggestion I have offered and all the feedback that I have received, have contributed to the creation of this book. So, they are the first ones whom I would like to thank for making this book a success.

I would like to also thank Nandish Desai, my teammate, who has guided me all along and contributed substantially to some chapters. Without his inputs, this book might not be what it is today. He has given me deep insights and extraordinary motivation and I will never forget how he has pushed me all along to give my best.

I would also like to thank my teachers, my parents and my wife for all the support they have given me, especially at times when I needed them the most. I would like to say big thanks to Joanna Punjabi for editing this book and giving a polished look to each line; she has done a wonderful job and it has contributed greatly.

Lastly, I would like to thank Network18 for publishing this book and showing confidence in my work.

Manish Chauhan
Financial Coach

Preface

"A man's reading program should be as carefully planned as his daily diet, for that too is food, without which he cannot grow mentally."

– Andrew Carnegie

There is a lot in Andrew Carnegie's statement. The first thing to note are the words "reading program". It is missing in the area of personal finance. Ask yourself if you have carefully planned your personal finance reading program or not. How many books have you read so far to develop mastery in the area of your personal finance? If you want to achieve that mastery, this book can be your first step.

Having this book in your hands is akin to making a commitment to grow your personal finance acumen. I can say this from my years of experience as a blogger. I am very clear that if you carefully plan your personal finance reading program, it will bring about that BIG change which you seek in your financial life. At some point, when you are reading this book, it will look straight into your face and wake you up; it will show you the missing elements of your financial life.

Most people graduate from college and go in search of their dream job or venture. Many a times, they do get that dream job and start earning money that can make their life comfortable and exciting. Getting a dream job was all they planned for. But getting a well paying job is not the end; it is just the beginning.

People get caught up with various big and small experiences that they encounter in the first few years of their career; they have no idea that managing money is as important as earning money. Lack of direction leads to either accidental growth in money or it invites unavoidable bad experiences in money management and investments; some forced learning also takes place in life when one buys various financial products from friends and relatives. **All this can be avoided if you carefully plan your personal finance reading program.** This book can act as an action guide to you. It will help you make strategic choices, which can take you from where you are to where you want to be in future.

While you read this book, you may experience some tremors under your chair; the tremors are asking you to take some action in your financial life.

Right about now you may feel the first tremor: I have some good news and bad news for you…

The good news is that you are your own boss when it comes to personal finance; the bad news is that you are your own boss when it comes to personal finance. The one person who is coming in between you and an extraordinary financial life is YOU. While reading this book you will realize how you do that to yourself. But this book will also teach you to become more financially accountable to yourself.

There are only two outcomes for investors: either they reach their financial goals or they don't. The book will act as a passive coach towards ensuring that you reach your financial goals.

Money is considered one of the most emotional subjects in the world. Money as a subject is never taught to us in schools or colleges and has a very limited space in our overall education system. But on the other hand, it is something around which our life revolves and evolves. Yet not much light is thrown on this subject.

It is said that when it comes to money, we all belong to the same religion. Money has the element of oneness in it. If the subject belongs to all of us how can this book belong to me.

This is your book, not mine; you own it. Read it as you want to, think whatever you want to think, make notes all over it… Just remember, you are spending your valuable time and energy reading it. Make that time and investment pay by taking some action that will mobilize your financial life to the next level.

That would be the best ROI you can receive from buying this book!

Manish Chauhan

Financial Coach

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Over the last couple of years, I have come across thousands of investors who wanted that one secret for wealth creation; that one secret which can change their financial lives. Everyone is looking for that magic formula which will transform their wealth creation process. Sadly, there is no single thing in life which can make it happen; but one thing comes very close. And I am going to share that open secret with you. I call it an "open secret" because its not hidden; you're probably aware of it…you just have to recognise it, that's all! That secret is "Start investing early". In the next few pages, I want to make you aware of the power of early investing and the impact it can have on your financial life.

These days, common Indian investors are worried about how to save money to meet financial goals. These could be the finances required for their child's higher education, a nest egg for retirement, the money needed to buy a house... or any other big ticket dream on the horizon. When they think about the amount of money they would need after 10-20 years to fund a particular goal, it scares them! It starts to look like a daunting and unachievable task. For example, a man who is 30 years old today would require several lakhs after 20 years to fund his child's graduate + postgraduate education. The big figure could be anywhere between 40-50 lakh, who knows! If you consider all the expenses you have to shell out right from your child's primary school till she completes her college degree and add to that living expenses, it can total up to an amount which might literally give you shock. Think about it.

So what is it that this common investor should have done to make the whole process of wealth accumulation much, much simpler? Many think that the answer lies in some "hidden" knowledge or a big secret or just plain luck. While all of these may be important, they are not the key! The key to accumulating wealth is unbelievably simple - just start investing early in life. This doctrine is so powerful that it sometimes even discounts the mistakes or stupidities you make in your financial life. It's such a "common sense" thing that it is not visible to the common investor, they just overlook this simple fact.

Are you procrastinating?

A lot of people procrastinate, some by choice and some due to ignorance. They always think that starting with a small amount would not make much of a difference, when they aim to accumulate great wealth. They feel,

"How much can saving of few thousands per month impact my goals which require lakhs and crores!"

Imagine a person who wants to accumulate 2 crore by the time he retires, 30 years from now. He may not be motivated to save Rs 1000 or Rs 2000 today as it looks too small to have any impact on that BIG goal. He can't see the power of small investments and how these can contribute to his final goal of accumulating Rs 2 crore. But let me show you some examples, which may look unbelievable to a common investor. These examples will motivate you to read further and find out what you may not know yet. Then we can move deeper into the ocean of "early investing" and "the power of coumpounding".

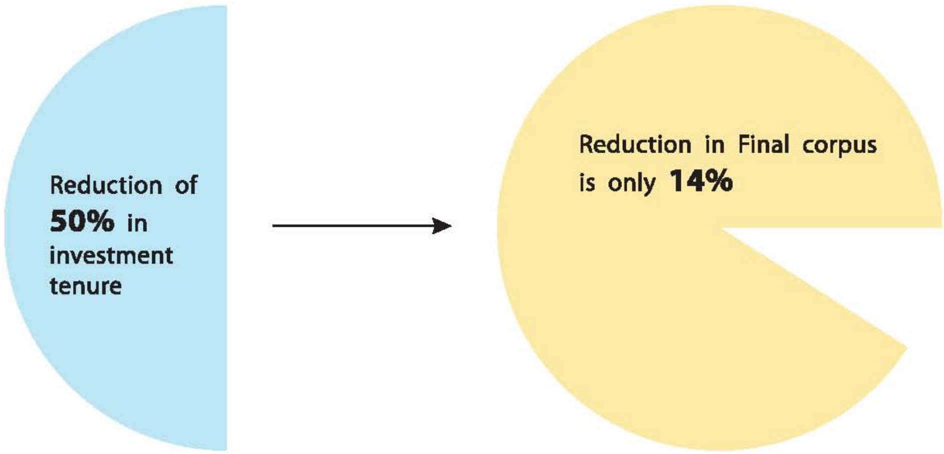
Example 1

Imagine two friends Ajay and Vijay. Vijay invests Rs 1,000 per month for 30 years at 12% per annum, whereas Ajay invests Rs 2,000 per month for first 10 yrs at 12% and then just lets it grow for next 20 yrs . And Ajay is going to accumulate 45 lacs at the end of 30 years although he has contributed a total of 2.4 lacs during the first 10 yrs .

Vijay will accumulate only Rs 36 lakh, despite investing Rs 3.6 lakh over the 30 year period...

Even though Vijay invested more than Ajay , he was not able to accumulate more money than Ajay. This is simply because Ajay contributed more at the start.

Example 2



Suppose you have 30 years in hand and you decide to invest a certain amount every year, in a financial product that gives you a 12% return. You will collect a certain amount – principal and interest – after 30 years.

Now, let's say you reduce the investment tenure by half – from 30 years to 15 years, and allow the money to grow in that same financial product which gives you a 12% return for the next 15 years. The amount that you collect after 30 years – principal and interest – will be only 14% less than it would have been in the first case...where you contributed for all 30 years.

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[1] Assuming that the interest is compounded monthly

Example 3 :

Investment required per month to generate 5 crores in **35** years, assuming a 15% return

Investment required per month to generate 5 crores in **25** years, assuming a 15% return

The above examples might have opened your eyes wide to what early investing can do to your financial life. Now let's explore why this is possible...

From here on, whenever I refer to investing and compounding in this chapter, I will be assuming a capital of Rs 5,000 per month invested for a period of 30 years at a rate of interest of 12%, unless I state otherwise. I have chosen the rate of 12% as a benchmark because it is considered a standard return for equity over the long term. In case you don't understand all this, don't worry; just skip it and move forward. Don't let these assumptions create a block towards understanding the examples that are coming up.

Time in hand is like a powerful sword

When we coach people with regard to their financial life, we notice something: The biggest reason why their financial life is in a deep mess is not because of their lack of knowledge or their lack of earnings. In fact, most of them earn well and are pretty smart. They are all successful at what they do. The biggest reason is that they have lost that part of their financial life which could have created magic - "the starting years". It all boils down to not having taken action early in life. Time is that one weapon which, if present in your financial life, increases your chances of financial success greatly. You can call it the **"Bramhastra"** of creating wealth.

> "Start investing early. If you don't, you are committing a crime which you will pay for all your life..."

I see a lot of people spending too much time worrying about money and wondering how their financial goals will be acheived. They spend so much time on things which matter so little - like "which is the best stock to invest in" or "which mutual fund should I put my money in" or "which policy gives the highest returns". In doing so, they are lost in the confusing world of personal finance and deviate from the only solution they should have implemented long back in their lives, which is starting to invest early!

When we start earning, we are generally single. We have less responsibilities and have ample ways of cutting down on our expenses. We are in a position to save a substantial part of our income. We usually have some years in hand before we get into a marriage and all the responsibilities that come with it. Instead of using that precious time and opportunity, a lot of us waste it thinking that we can always start saving later; perhaps when we have more money or when we get a job that pays better. But sadly, life is not like the 'Saas bhi kabhi bahu thi' serials, whose structure can change every week or with every episode.

Tell me frankly, how different has your life been from what it was last year or from how it was the day when you first started procrastinating over your saving and investing plans? Life does not change, it's we who have to change and take bold decisions. We always have some reason or the other to not save or make the effort to start investing early. Remember that 5 or 10 years lost at the start is a crime which will haunt you for the next 40-50 years. Don't commit this crime!

Creating long term wealth is like growing a tree

Have you ever planted a small sapling? One month after you sow the sapling, it may not look any different; but you will notice some changes after 3 months. After 2 years, it will probably have grown to a good size. Yet it would not be big enough to repay you by giving shade and fruits. When you see the same tree after 20-30 years, it will be so big that it's hard to believe that it started out so small. But to help it grow to that point requires a lot of patience, hard work and belief that it can happen.

Growing wealth is somewhat similar to growing a tree. We start small and keep investing for the long term. We may not be able to invest a lot in the beginning but we can increase our contribution when we earn more or start saving more, as life progresses. However, nothing compares to starting early in life.

> "Early investing is very much like growing a tree..., If you take good care of it at the start, it will take care of itself later !"

How does money grow and multiply?

Before we figure out how money grows, I would like to share with you an example which I call **"Fire in the Jungle"**.

Have you ever heard news of a whole jungle catching fire and everything getting burned down? Now imagine how it might have all started... Do you think someone went from tree to tree, burning each one down one by one? I don't think so! Perhaps one can go from tree to tree and bush to bush and set fire to each one, one by one, to get the same effect, i.e. a jungle on fire... but you don't need to work so hard! All you need to do is to make sure is that you fire up some of the trees to a self sustaining level so that the fire catches on and spreads to other parts of the jungle. There will come a point when it would be idiotic to burn up more trees because by the time you burn a single tree, hundreds of trees would be catching fire on their own! It's called **"compounding"**.

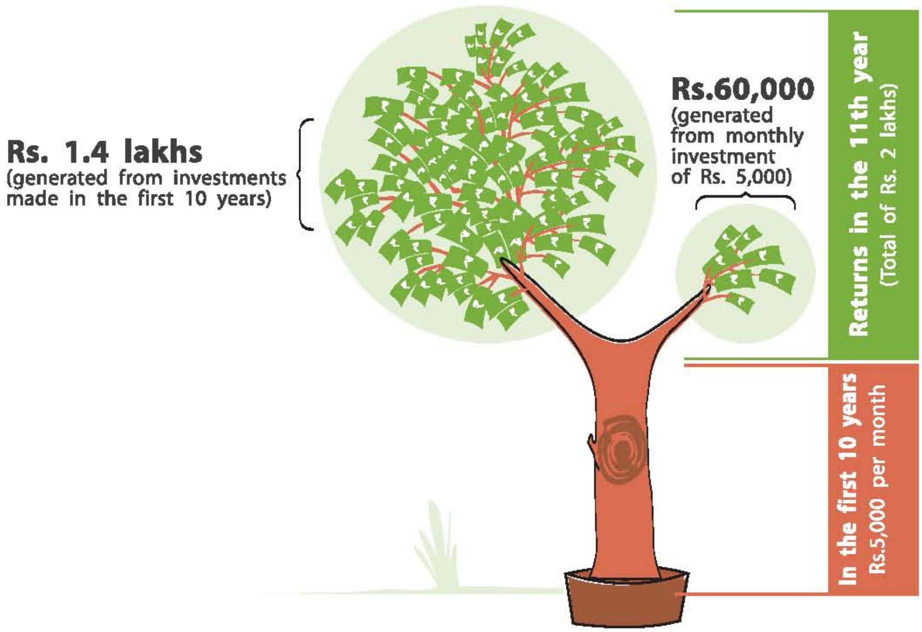
What on earth has this fire in the jungle to do with growing our wealth and starting early in life? It has a lot in common. The investments made in the early years of your life are the same as spreading a fire in the jungle… after a point, just like the fire compounded itself and spread so vigorously, your money will also grow to some extent and then the returns generated on it will be so great that your contributions will look small in comparison. A lot of investors miss this part and never act on starting early!

So now can you tell what makes money grow? The answer is "Money itself"! And obviously, we also need to help it to grow by investing it. When you start investing, your money starts getting accumulated and every year it starts generating returns which are added to the investments. While that return is a small amount in the starting years, over time it keeps on accumulating and then the interest per year becomes really significant.

Let me show you how…

Suppose you start out by investing Rs 5,000 per month for 30 years. In the last year (the 30th year) you will invest 60,000 from your pocket. However, the return for the 30th year itself would be Rs 18 lakh. Just imagine that! And guess what, out of this return of Rs 18 lakh, which you get in the last year, 12 lakh comes because of the contribution that you made in the first 10 years and the remaining 6 lakh comes from the investments made in the next 19 years.

It's critical to understand why this has happened. Imagine your wealth as a Money-Tree, which was small when you started, but grew bigger in size over the years. At some point, branches begin to emerge and grow in all directions. Coming back to the example, your wealth at the end of the 10th year will grow to Rs 11.6 lakh. So visualize your Money-Tree; it has become bigger and it's worth Rs 11.6 lakh at the end of the 10th year. What happens after 1 more year, i.e. the 11th year? How much more will be added to this Money-tree? There will be 2 kinds of additions. The first one will come from you, which is Rs 5,000 per month or Rs 60,000 per year. The other part will be the return generated on the wealth that has already been accumulated. This turns out to be around Rs 1.4 lakh. So the total addition in the 11th year will be Rs 2 lakh, out of which only Rs 60,000 was due to your contribution and the remaining Rs 1.4 lakh was generated by the existing wealth itself. Now, if you consider these two branches, the branch which is a result of returns generated from the existing wealth will be much much bigger than the branch which you contributed afresh. I guess you got my point here.



Now, if you fast forward to the 29th year, your corpus would increase to Rs 1.56 crore. In the 30th year, you will add another 60k from your pocket, but your own wealth will add a 12% return to it. And that would be close to Rs 18 lakh! You can actually skip contributing that 60k in last year and it won't really be missed. The best part has happened already, which is the accumulation of wealth in the early years!

The take-away

You will agree that the money you invest early in your life has a drastic effect on the money you accumulate over the years. This is true for long term investing. But if there is no "long-term", there is no time for "compounding". Time is a great ingredient and everyone has a good amount of it. If you loose time at the start, you lose wealth. So, it's no wonder that they say "Time is money"!

Investing early lowers your burden later

I want to convince you that early investing is the best way to make sure that you are not burdened later in your life ... Here's an example…

Ajay, a 26 year old software engineer from Bangalore, has recently started his career. He has around 30 years in hand till his retirement and he wants to accumulate a good amount of money, which can fund his needs and aspirations. He has decided to accumulate a minimum of Rs 3.5 crore by the age of 56. Towards this end, he has a "plan". I will call his plan OPTION 1 and it's the most obvious way anyone would think.

Option 1

Assuming, very logically, that his income will keep increasing as he progresses in his career…

- Ajay decides to start by investing Rs 5,000 per month for the first 10 years
- Thereafter, he will invest Rs 15,000 per month for the next 10 years
- And finally, he will invest Rs 50,000 per month for the last 10 years.

Using the above plan, he will be able to generate around 3.5 crores in 30 years. We are assuming a standard long term equity return of 12% CAGR.

This seems like the most intuitive way to formulate a plan. Do you agree?

Now, let's look at the other options he has to reach the same target.

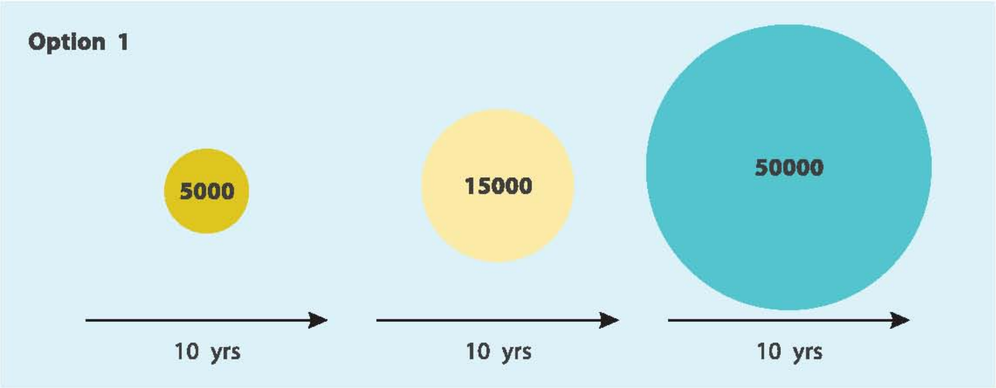
Option 2 :

He can invest Rs 10,000 per month for all 30 years. In this case, by increasing his initial investment amount in option 1 by Rs 5,000 per month for the initial 10 years, his situation changes to a level where he can continue with the same investment amount and not increase it later.

Option 3 :

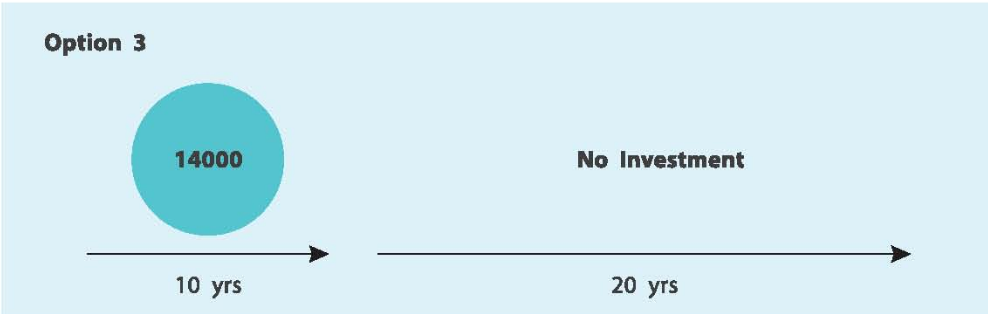
If he invests Rs 14,000 for first 10 years, he does not have to invest any further. In this case, he is investing Rs 9,000 more than he planned to in option 1. You can see that this extra investment of Rs9,000 in the starting phase is so powerful that he does not need to invest anything for the next for 20 years. So, an investment of Rs 9,000 extra in the first 10 years can replace his old plan of making future payments of Rs 15,000 per month for 10 years in between and Rs 50,000 per month for the last 10 years (as per option 1). You will appreciate from this example that a greater contribution in the start helps him to accumulate the same amount of money without any later contributions.

What this tells us is that if one contributes more in the start, it's equivalent to investing a lower amount initially and gradually increasing in future years.



OR

OR



In a nutshell, if you look closer, you will realise that investing more at the start gives you the freedom to invest less in the future. So, if you want to invest for 30 years, the investments that you make in the first 15 years will make up a significant portion of your whole corpus; contrary to popular belief, it is not the investments that you make in the last 15 years. Your investments in the last 15 years will, of course, add to the corpus, but the contribution will not be as significant. For example, if you want to invest Rs 5,000 per month for 30 years at the rate of 12%, you would accumulate around 1.76 crore. However, if you only invest for half the tenure and leave the money to grow for the remaining 15 years, you would still amass Rs 1.51 crore, which is 85% of the final corpus.

> "Early investing gives you the liberty to reduce or stop your investments in the future, without compromising much on the final results"

You can also increase your investments by Rs 830 per month (i.e. from Rs 5,000 to Rs 5830) and invest only for 15 years and you will still make the same Rs 1.76 crore at the end of the tenure (provided you leave your money to grow for the interim 15 years).

Early investment and returns required

Suppose you and your friend decide to race for 20 km. Your friend decides to pace himself by running at a steady rate of 4 km per hour. Accordingly, he will complete the distance in 5 hours.

However, you are more relaxed at the start and decide to run at a pace of 2 km/hour, thinking that you will cover up for this slow start later. You keep running at a pace of 2km/hour for 3 hours and cover a total of 6 km. Now you decide to increase your pace. But imagine the situation. You have just 2 hour left and 14 km to cover. It's a situation where you have to run at a speed of 7 km/hour. It might not be impossible, but it's certainly not easy! Your chances of winning come down considerably. Many things can prevent you from achieving that pace in the last 2 hours - you may get a cramp, you could meet with a small accident while running so fast, you could get exhausted... Overall, your task is rather challenging!

What could you have done? If you had decided to run faster than your friend at the start, at say 5 km/hour (while your friend ran at 4 km/hour), you could have completed 15 km in the first 3 hours. Then even if you jogged at a speed of 2.5 km/hour for the next 2 hours, you could easily have won. It becomes much simpler than the previous situation. Even if you wanted to rest for 30 minutes, you could afford to do so and still complete the rest of the race at a speed of 3.4 km/hour. Or you could alternate between jogging and walking towards the end. This leisurely pace would be possible only because of the effort you made at the start.

Your financial life is no different. It's a race. If you are happy with what you have acheived in life, you have won the race. If you contribute more at the start, things become manageable at the end.

And, each and every opportunity or chance to save more or contribute more, means a lower burden later.

Now let's look at how this applies to wealth creation...

Suppose you and your friend start your careers at the same time and have 30 years in hand before retirement. Your friend starts investing Rs 60,000 per year in an avenue that delivers a 10% return. He would collect Rs 1.62 crore at the end of 30 years. Now, let's say you start investing the same amount per year but 10 years later, thinking that you will apply some smart investment strategies which give you a much higher return. Even if you get a return of 20% on your investments year after year, you will still have less money than your friend in the end. And that's despite somehow managing a 20% return on your investment…to achieve which you need to be an investment NINJA!

However, your friend's life will be a lot easier... getting a return of 10% is almost 10 times easier than getting a return of 20%!

If you are a conservative investor, early investing is more than necessary…its critical. You should see early investing as a "strategy" rather than a "fact" for your investments.

Investment table

Formulas scare everyone. So, I'm putting down a table as a ready reckoner for how much you can generate by investing some amount for several years at different rates of return: namely, 6%, 8%, 10%, 12% and 15%.

Table 1 : A one time investment of 1,000 for X number of years at R%.

It's very simple to use this table. If you want to invest 1 lakh in an FD which gives a return of 8% and your investment tenure is 7 years, run one finger down the column titled 8% and another finger across the row titled 7 and they will meet at 1,714. Now that's how much Rs 1000 will become in 7 years at 8%; so, Rs 1 lakh will become approximately Rs 1,71,400.

In the same way, if you consider a mutual fund which says that its overall return was 12% per annum for the last 23 years, you can quickly see that Rs 10,000 invested in that mutual funds would have been worth 135520 (13552 x 10) or around Rs 1.35 lakh after 23 years.

One time Rs 1000 invested for X yrs at R interest rate per annum

	Interest				
Years	6%	8%	10%	12%	15%
1	1060	1080	1100	1120	1150
2	1124	1166	1210	1254	1323
3	1191	1260	1331	1405	1521
4	1262	1360	1464	1574	1749
5	1338	1469	1611	1762	2011
6	1419	1587	1772	1974	2313
7	1504	1714	1949	2211	2660
8	1594	1851	2144	2476	3059
9	1689	1999	2358	2773	3518
10	1791	2159	2594	3106	4046
11	1898	2332	2853	3479	4652
12	2012	2518	3138	3896	5350
13	2133	2720	3452	4363	6153
14	2261	2937	3797	4887	7076
15	2397	3172	4177	5474	8137
16	2540	3426	4595	6130	9358
17	2693	3700	5054	6866	10761