Money Management Tips

IFE Academy
Education Simplified

INVESTORS FINANCIAL EDUCATION ACADEMY

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Approach Financial Planning like an athlete

Choose a coach | Seek financial advice

1

If you feel, you can't do it on your own, seek an expert to guide you and keep you motivated. Set goals and explore your options.

Start your training | Implement your plan

This is the hard part, there'll be sacrifices in the short-term but you'll be better off in the long run. Be committed and dedicated to your plan.

2

Time to Compete | Experience market ups and downs

3

You'll win some and lose some, but you'll learn from every effort you make. Be prepared for some bad times but keep going and never ever give up.

Adjust your training | Review your plan

Things change. But have your goals changed? Your plan to succeed must move with you.

4

Gold Medal | Comfortable retirement

5

Achieve your personal best and enjoy the benefits of all your efforts.

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About this book

There is a lot of complexity in the financial world, but some of the most important habits of successful investors are pretty simple. Building a plan and sticking to it, saving enough, making reasonable investment choices, and being beware of tax, may lead to investing success.

Successful investors reach their goals over time, by identifying the right things to do, and by doing those things over and over. Saving money regularly is the most basic behaviour. The power of investing is to build wealth and achieve long-term goals in the proven time. It is very much required to develop the habits that will help to control the urges and make more thoughtful, deliberate investment decisions – ultimately becoming a more successful investor.

We have compiled the basic steps to achieve financial success. We hope you would find them useful.

Happy Reading!

Rs.40/-

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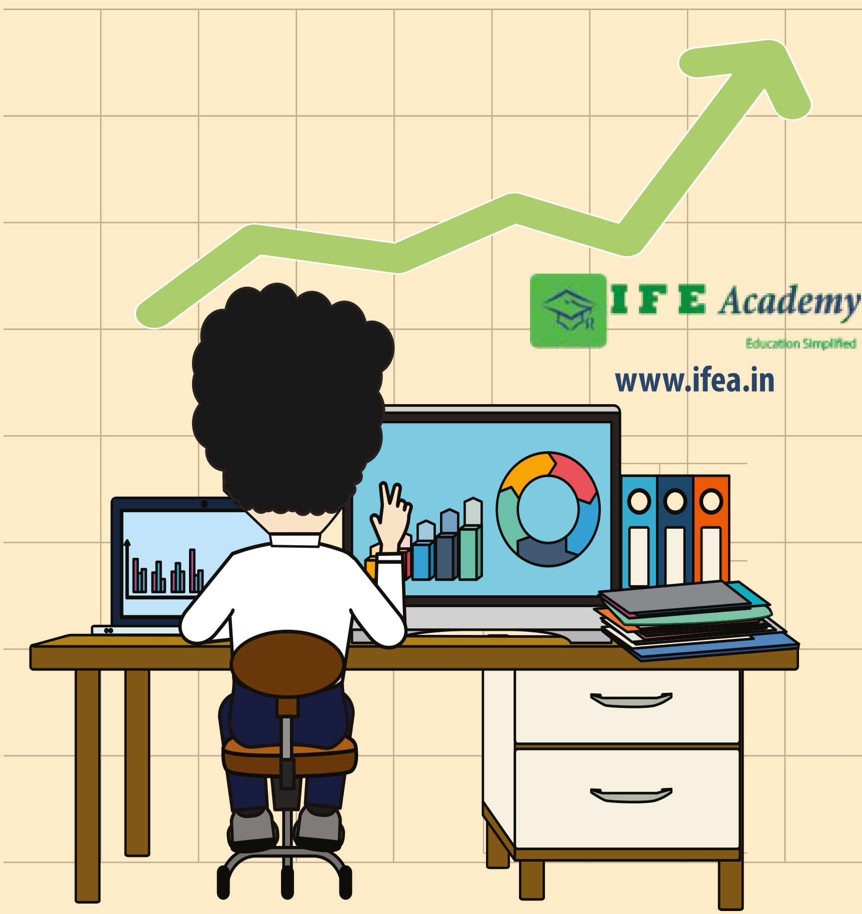
Contents

What is Financial Success?

Financial Planning is not just a plan that keeps track of earnings, savings and expenses; but also a way to help us to set a goal. Financial success is nothing but how to reach your goal effectively.

The term financial success is to achieve security, physical comfort, free time and peace of mind.



Tips to Achieve Financial Success

1 Spend less than you earn

This is one of the basic yet the hardest rules to attain financial success. Put a habit of spending less than your overall earnings, this will help to reduce over-expenditure and risk of debt.

2 Learn about Budgeting

It is good to have a budget for everything you spend or work to keep an eye on unnecessary expenditure.

3 Credit Card Debt

It is another simple of obstacle in attaining financial success. Though credit card debt helps, if it is not cleared off in time, it can be a burden for us.

4 Investment Plan

This is another best way to increase the chances to achieve financial success. Identify the right investment to increase your wealth.

5 Retirement Plan

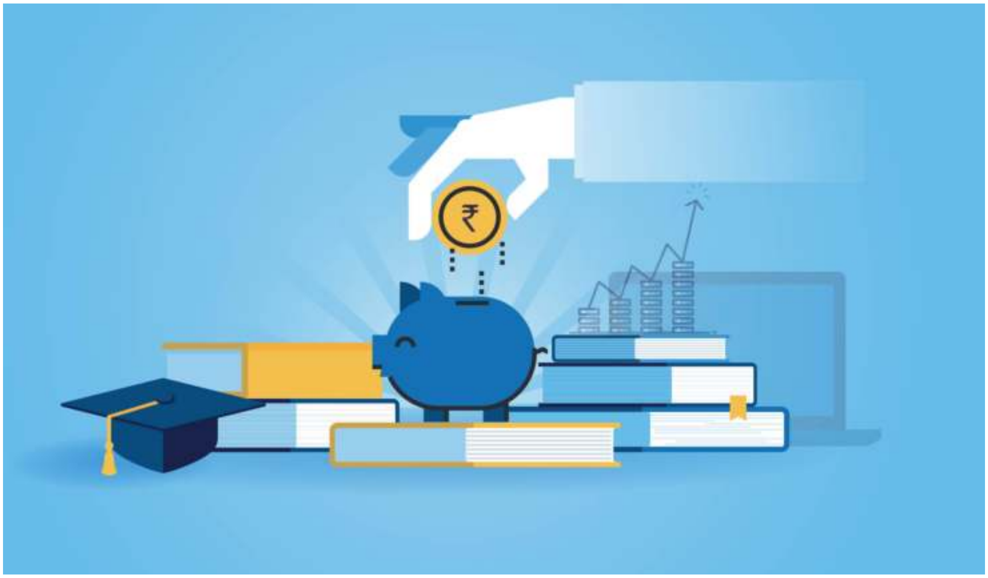
One of the important aspects of financial success. Choosing tax advantaged products would help in maximising the return.

6 Insurance coverage

Get insurance coverage for you and your family, which will be very helpful at any mishap.

1

Pledge to change how you feel about money



The first and most important step in developing and following a financial plan is to examine your attitudes about money.

Are you ready to accept responsibility for changing your financial situation? Do you believe that you can and will change the way you make financial decisions? Can you identify at least one benefit you hope to gain by changing your money management behavior?

You are definitely ready and able to start your path to financial wellness; if you are also willing, take the pledge!

2

Get Organised

After you make your pledge, it's time to get financially organized. Once organized, you will see your whole financial picture. Proper planning and discipline will help you make choices that will lead to sound financial management of your finances. Start with your financial record keeping such as your income and expenses. All papers associated with your income and expenses should be kept in a safe place. Next consider organizing your investment documents. This may include Deposits, Shares MF, Property documents. Once you have your finances organized you can feel good about moving forward and taking your next steps to financial health.

3

Set Financial Goals

Setting financial goals is an important step to financial health. Before you set your goals, follow the SMART rules.

Goals should be Specific, Measurable, Achievable, Realistic and Timely.

S = Specific; Completely pay off housing loan of Rs.30 lakhs in 10 years.

M = Measurable; Set aside 20% of monthly income to pay off the loan on a monthly basis.

A = Achievable; I can achieve this if I cut back on my expenses, my cable TV and my cell phone bill.

R = Realistic; Instead of eating out or gym membership and I would carry home food and use the park for walking.

T = Timely; I will save Rs.1 Lakh in 3 years for family vacation.

4

Set Short, Mid and Long-term Goals

When establishing your SMART goals, you may want to break them down further into short-term, mid-term and long-term goals. Goals will differ in the length of time needed to achieve them. Short-term goals are priorities that can be accomplished within one year. Mid-term goals are priorities that can be accomplished within two to five years. Long term financial goals are priorities that may take more than five years to accomplish.

Notes:

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5

Managing major purchases

Do you have a major purchase coming up like a new car, a home or possibly even a new television? No matter what you are thinking of purchasing, planning, preparing and managing a major purchase is part of achieving financial health. Prior to making a major purchase review the following:

a. Financial goals – Make sure you have included your major purchase in your goals and plans to pay for your major purchase

b. Budget – can your budget support this purchase?

c. Cash flow – Do you have any cash to put towards your major purchase?

d. Accessibility and availability of credit – Are you in a strong enough financial position where you will be granted credit with reasonable terms?

Notes: ____

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6

Track your spending

While most individuals find tracking how and where their money is being spent tedious, it's critically important to achieving financial health.

You should track your spending for a minimum of 30 days before developing a budget. If you don't it can be difficult to really determine what your monthly expenses are. We recommend that you track your spending until you feel completely comfortable with knowing where you money is being spent.

There are many ways to track your spending. You can use a notebook and jot down every time you spend money. Another option is to keep all receipts, and then later sort and track them in an excel file or in a daily calendar. Either way, the first thing you need to determine is where your hard earned money is going.

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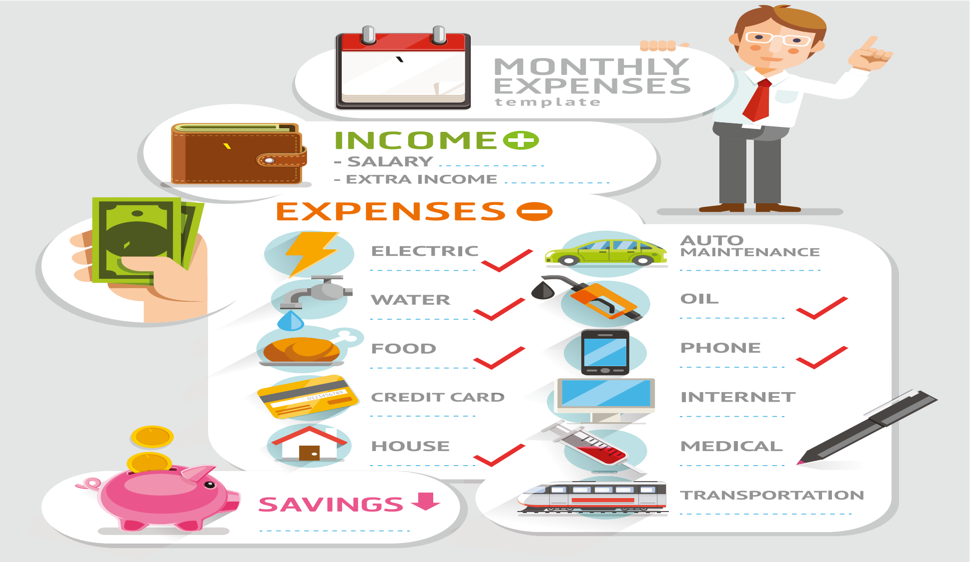
Create a Budget



A budget is the most powerful tool you have for managing your money and achieving financial health. A well-constructed budget is something that everyone could and should have.

A budget shows you the flow of money in (income) and out (expenses) of your household. A budget will also enable you to see how you are managing your money over a specific period of time. Perhaps most importantly, it details how much money you have, how much money you need to live and how you spend your money. You should plan on developing a budget and revise, revise and revise as your financial life changes.

8

Reduce Spending

Reducing your daily, weekly and monthly spending is crucial in achieving financial health and an instrumental step to successful budgeting. You would be amazed at how much you can reduce your spending just by tracking what you are spending your money on.

Once you have determine what you are spending your money on, decide on where you can cut back to help support your new financial plans. There is an abundance of ways to reduce spending and here are just a few:

- Bring lunch to work
- Plan your grocery shopping and meals around sales

- Look for coupons that make sense to your family. Don't buy something you don't use or eat
- Cut back on cable and cell phone plans
- Turn off the lights when not in the room.
- Unplug appliances and electronics when you're not using them.
- Consider refinancing your mortgage and life insurance
- Keep up with scheduled auto maintenance to prevent costly issues later Consider public transportation or car pooling
- Shop for clothes during sale to find the best deals

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Determine your Net worth

Determining net worth can help you measure your progress over time. The more you can save, the greater your net worth will be. Net worth is determined by subtracting your liabilities from your assets. Liabilities include major expenses and debt. Periodically evaluating your net worth can also help you in making financial decisions.

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Pay down Debt

There are two schools of thinking when it comes to tackling debt. One method is to concentrate on paying off the debt with the smallest balance first (never forget to make required payments to all debts, of course). After that balance is repaid, you can then apply that payment to the card with the next smallest balance and continue the process until all debts are satisfied. This method can be very rewarding because you see progress quickly.

The other popular method is to first concentrate on repaying the debt with the highest interest rate. This method will save you the most in interest charges over time. Regardless of the method you choose, be patient and persistent.

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Watch out for the warning signs

Sometimes we don't see the signs of financial trouble until it is too late. However, knowing how to recognize the warning signs may help save you from having your debt spiral out of control. Some of these signs may include:

- Paying your bills after the payment due date
- Missing your credit card or loan payments altogether
- Relying on overtime to cover your debt related expenses
- Borrowing from family members to make your monthly debt payments
- Skipping one credit card bill to pay another
- Transferring balances from one credit card to another
- Ignoring your credit card statements
- Not having set a side money in your monthly budget to pay off your debts

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Eliminate unnecessary Credit Cards

The truth is there is no “correct” amount of credit cards to own and use. When determining the impact on credit there is no one size fits all type of answer. The credit scoring model looks at the number of credit cards you have, but always in comparison with other information on your credit report. The best number of credit cards depends on your ability to manage your debt and credit card payments. You can tell if you have too much credit by looking at and analyzing the following:

a. Debt to income ratio

b. Do you have difficulty managing credit cards?

c. Is your credit utilization too high?

d. Do you have too many cards?

e. Is your mix of credit healthy?

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Start a Savings Plan

Reaching your financial goals requires a strong commitment to saving. That is one reason saving is an essential part of achieving financial health. You should plan on committing to a 30% savings plan.

If you are having trouble establishing a nest-egg, don't despair. The following are some simple ways to boost your savings:

1. Pay yourself first - spend whatever is left after saving.
2. Cutting back where ever possible
3. Even consider a part time job

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Protecting your Assets

One of the best ways to care for your family and achieve financial health is to be sure that you are prepared. The following are four critical policies to review and consider to help ensure protection for your family if something were to happen to you or another member of your family:

1. Life Insurance
2. Review your health insurance policy and ensure there is adequate coverage
3. Disability insurance
4. Auto policy

Health Insurance for your finance

Ask yourself this: How long would your money last if you were suddenly unable to work, even if it was just for three months?

The most important assets you have are your health and your income. Just as you insure your house and your car, you also need to protect your health and your ability to earn money, for yourself and your family.

While income protection usually won't replace your full salary, insuring your earning power can still mean financial security if events take an unforeseen turn.

Tips for Asset protection

Find out what you've got. Keep track of any existing insurance policies.

- **Get full cover.** Think about all the different kinds of insurance available – from vehicle, house and contents cover to health insurance, income protection insurance and life insurance – and decide which ones you need to protect your financial security.
- **Get expert advice.** Talk to a qualified insurance adviser who can provide advice about your (and your family's) insurance requirements.
- **Read the fine print.** With any insurance policy (whether it's one you've had for years or something you're thinking about taking out), read the fine print and make sure you understand exactly what you are and are not covered for. Also find out exactly what it's costing you. Shop around for a policy that suits your needs and provides value for money.

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Securing your Financial Future

You work hard for your money and your money should work hard for you. Investing is one way to potentially grow your net worth.

Prior to investing you should think about your tolerance of risk. We all want our money to grow big and fast, but how much risk are you willing to assume? Before you invest, do your research and comparison shopping. If you have access to a financial planner that you can trust that is probably a good start. If not you should compare before signing on your future financial assets.

And whenever possible take advantage of employer-sponsored investment plans such as PF/NPS. These can help you prepare and secure your financial future.

Building Financial assets through investing

Think you have to be rich to invest? Not necessarily. Some of the most successful investors start small and watch their money grow over time. Investing can be a great way to strengthen your finances over the mid to long term, so you can enjoy a financially fit and comfortable future. It's easy to get started, but it's also important to understand the basics of investing first. This will help you to make wise choices and avoid getting into financial difficulty.

How much risk can you take on?

All investments involve some level of risk, although some more than others. In investing, risk is the likelihood that your investment may go down in value and that you may lose money as a result. Generally speaking, if the expected return from an investment is above average, the risk associated with the investment is usually above average. The lower the likely returns, the lower the level of risk. This is called the 'risk/return trade-off'.

There are ways of managing your investments to reduce the amount of risk to which you are exposed, including:

- Diversification, that is, spreading your money around and investing in different types of investment or with different fund managers
- Taking a long-term view and investing your money for longer periods of time to reduce the impact of short-term ups and downs (volatility) on your investments.

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Types of Investments

What kinds of investment are there?

There are four main types of investment (called 'asset classes').

- **Shares:** These can be 'direct' investments in companies listed on the Stock Exchange, or 'indirect' investments in mutual funds, which hold shares in a selection of companies.
- **Property:** This can be a 'direct' investment in property assets (such as houses, offices or factories) or an 'indirect' investment in a REIT, which holds assets in a selection of properties.
- **Fixed interest (bonds):** Fixed interest securities, such as bonds, are issued by companies or governments.
- **Cash**: Investments in short-term, interest-bearing products, such as term deposits.

Which investments are right for me?

- To work out the types of investment that best suit your needs, you'll need to identify a few factors that are unique to you and your financial situation, such as:
  - What you want to achieve from your investments
  - How long you want to invest for
  - What level of risk you are comfortable with (and can afford to take).
- These are some of the factors that will help determine which types of investment would be right for you. A financial planner can assess your circumstances and help you choose an investment mix that best suits your financial needs.

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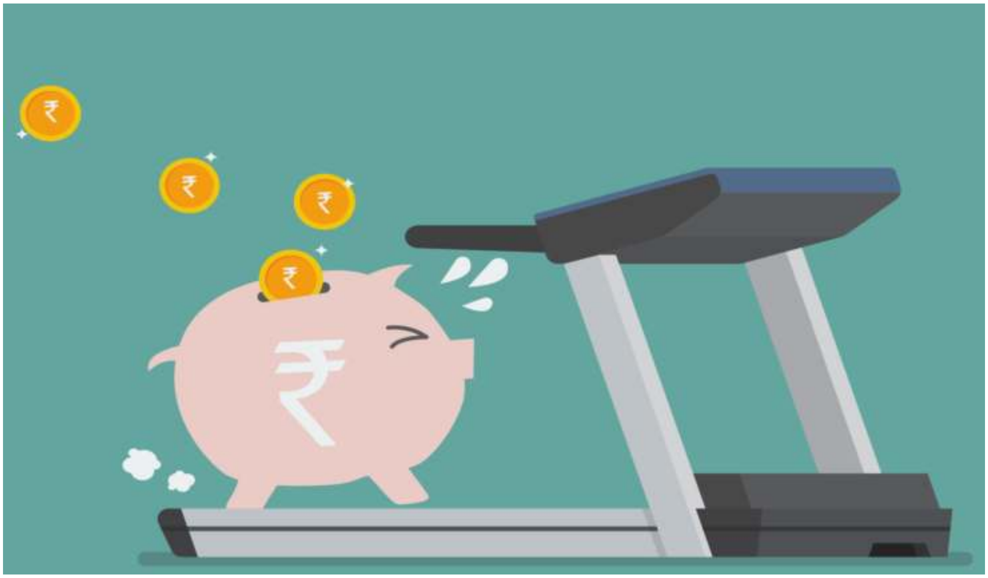
Financially fit Retirement



- **Work out the retirement budget:** Work out how much money you will need to have a comfortable retirement with the financial flexibility to allow you to live life to the full. Budgeting is as important during retirement as at any other time in the individual's life. Think about all the potential sources of income.
- **Retire out of debt:** Aim to be debt-free as soon as you can so that you can begin financial preparations for retirement.
- **Be realistic about investment returns:** Never assume that a year or two of high market returns will continue indefinitely. The same goes for market declines.
- **Use automatic deductions** from the payroll or through saving account for deposit in mutual funds, NPS, or other investments.

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Financial checkups

Achieving financial health doesn't happen overnight. It takes time and commitment and that is why a periodic check-in and make sure you are on track is beneficial. It's easy to let things fall by the wayside once you have established a routine, but things change.

Plan on reviewing what you have put in place every 3 months. You do not need to spend a great deal of time, but a quick review can be quite helpful. If you experience a job promotion and your income has changed for the better, this is a great opportunity to check in and update your financial plan.

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Top ten tips for financial fitness

Your financial future is in your hands. We hope that the following tips will help you to kick-start your financial fitness.

1. Remember, you are responsible for your money. Keep a budget, review it regularly and make sure you include a plan for regular savings. By knowing what you earn and what you spend, you'll know where you stand and where you're heading.
2. Don't spend more than you earn, and only borrow what you can realistically afford to repay.
3. Map your financial future, including how you plan to fund your retirement.

4. Keep records of all your financial transactions together in one place – from bank statements to investment statements. Check your statements regularly, and talk to your financial institution if there are any inconsistencies, or if there is anything you don't understand.
5. Protect your assets. Make sure you've got adequate insurance – to cover your belongings, your income and your health.
6. Understand the basics of investments, including superannuation. Remember that high returns generally equal high risk and only take on a level of risk that you feel comfortable with. Do an annual 'health check' on your investments.
7. Know the cost. Know what your financial products are costing you – ask questions if you don't understand the fine print and shop around to find the products that best suit your needs. Don't sign up for anything you don't fully understand.
8. Be cautious. Be wary of investments offering a high return with little or no risk. If it sounds too good to be true, it probably is!
9. Get expert advice. Seek professional and qualified financial advice when it counts (eg. buying a house, planning for retirement, insurance, investing and tax issues) and get a second opinion if you feel unsure.
10. Educate yourself. Take the time to teach yourself more about finance and don't be embarrassed to talk about money with people you can trust.

Notes

Notes

SAVING SMART

IS AN ART

Aim to save at least 20% of your gross income.

DIVERSIFY

your portfolio

e.g. Savings, PF, NPS, Equity

HAVE ADEQUATE

INSURANCE

You should protect what you have worked hard to build.

USE A COOLING-OFF PERIOD

REWARD

YOURSELF

There's no fun in saving a lot of money but not enjoying life while you do it. Plan and take an affordable vacation.

Are you not sure, whether your purchase is an impulsive buying decision? Cool off and think about it in 3 days time. If you don't want it any more, **you don't need it.**

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Successful Investor Secrets

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1
Start with a plan

Look for investments that will help you achieve specific goals.

Consider both the risk and return components of your portfolio.

2
Diversify widely

One of the main goals of investing may be to ensure you have a mix of assets that are likely to perform well at different times – helping you survive any downturn in a specific market or industry sector.

3
Watch your tax

A ' buy & hold' strategy can help you minimise Capital Gains Tax. LTCG rate is lesser than STCG rate. Also you get Rs.1 lakh exemption.

4
Market Timing Risks

Attempting to time the market can be both difficult and dangerous to your portfolio.

5
Don't panic

When share markets retreat, smart investors don't sell long-term investments based on short term volatility. Instead, if you continue to invest during a market downturn, you may be able to buy high-quality investments at a lower price than you could if you waited for markets to recover.

6
Protect your assets

A smart strategy is to ensure you maintain a sizeable cash reserve, and put in place appropriate insurance such as Life insurance and Health insurance. Having appropriate insurances in place can help prevent the need for a 'fire sale' of your investments if there is an emergency.

About IFE Academy

IFE Academy was established in 2011 as a Not-for-Profit entity to promote Financial Education. IFE Academy conducts Investor Awareness Programs across the country with the support of other market participants. www.ifea.in is a comprehensive website on Financial Education. It has various sections such as Videos, Puzzles & Games, Financial Calculators and Library. It gives a holistic view on financial education combining various aspects such as Savings, Investments, Credit, Insurance and Pension at a single place. IFE Academy periodically publishes Investor Educational materials and distributes it to general public.

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