

Simple Financial

Tips



A General methodology and an introduction to different types of investment



IFEA

Investor Education Simplified

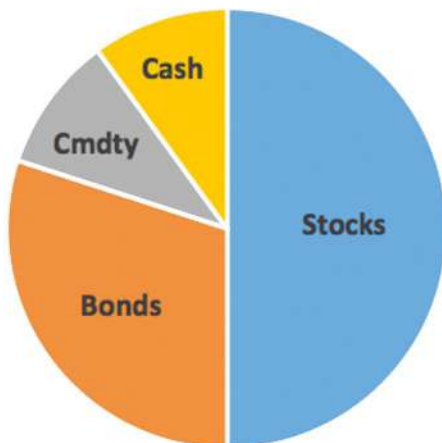
Basics of Investment Terms & Concepts

Below are summary of some basic principles you should understand when evaluating an investment opportunity or making an investment decision. The better you understand the information you receive, the more comfortable you will be with the course you've chosen.

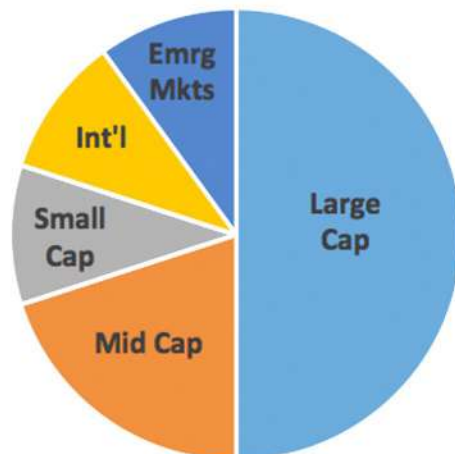
Asset Allocation and Diversification

This is one of the most important of all investment principles, as well as the most familiar. Consider including several different types of investments in your portfolio. Examples of investment types (sometimes called asset classes) include stocks, bonds and precious metals such as Gold. Cash also is considered an asset class, and includes not only currency but cash alternatives such as money market instruments. Individual asset classes are often further broken down according to more precise investment characteristics (e.g., stocks of small companies, stocks of large companies, bonds issued by Corporate or bonds issued by Govt. of India).

Example Asset Allocation of a Typical Investment Portfolio



Diversification within the Stock Allocation



Investment classes often rise and fall at different rates and times. Ideally, in a diversified portfolio of investments, if some are losing value during a particular period, others will be gaining value at the same time. The gainers may help offset the losers, which can help minimize the impact of loss from a single type of investment. The goal is to find the appropriate balance of different assets for your portfolio given your investing goals, risk tolerance and time horizon. This process is called asset allocation.



Within each class you choose, consider diversifying further among several individual investment options within that class. For example, if you've decided to invest in the Pharma industry, investing in several companies rather than just one can reduce the impact your portfolio might suffer from problems with any single company. A mutual fund offers automatic diversification among many individual investments, and sometimes even among multiple asset classes. Diversification and asset allocation alone can't guarantee a profit or ensure against the possibility of loss, but they can help you manage the types and level of risk you take.

Investment's risk and return tradeoff

For present purposes, we define risk as the possibility that you might lose money, or that your investments will produce lower returns than expected. Return, of course, is your reward for making the investment. Return can be measured by an increase in the value of your initial investment principal, by cash payments directly to you during the life of the investment, or by a combination of the two.

Money Loss



Lowest Return



Higher Risk
Higher Return



There is a direct relationship between investment risk and return. The lowest-risk investments for example, Bank Deposits typically offer the lowest return at any given time. The highest-risk investments will generally offer the chance for the highest returns (e.g., stock in a Mid-Cap company that may go from Rs.150 per share to Rs.900, then down to Rs. 25). A higher return is your potential reward for taking greater risk.

Investing for growth and investing for income

As you seek to increase your net worth, you face an immediate choice: Do you want growth in the value of your original investment over time, or is your goal to produce predictable, spendable current income or a combination of both?

Consistent with this investor choice, investments are frequently classified as either growth or income oriented. Bonds are generally income oriented whereas stocks are growth oriented. There is no right or wrong answer to the "growth or income" question. Your decision should depend on your individual circumstances and needs.



Bonds - Income



Stocks - Growth

Power of compounding on your investment returns

Compounding occurs when you "let your money ride." When you reinvest your investment returns, you begin to earn a "return on the returns". A simple example of compounding occurs when interest earned in one period becomes part of the investment itself during the next period, and earns interest in subsequent periods.



Are You Paying Yourself First? The Money Habit That Can Boost Wealth

It may seem unrealistic to talk about paying yourself first when you're faced with so many other financial obligations. Yet, while it's critical to pay all your bills on time, planning for your future can't always take the back seat. If you're having trouble finding ways to pay yourself first, try taking these steps to get into the habit:



1. Figure out how much you can afford, If you take a close look at your expenses, you may find that even small changes in spending habits, such as bringing your lunch to work or making less frequent trips to the salon, could create big savings over time.

2. Set a personal payment goal, If you know you can only pay yourself a small amount right now, look for opportunities to increase these payments in the future. Determine how much of your monthly salary you need to set aside to meet your financial goals, such as paying for a vacation or saving for a college education.

Then, find ways to make changes that will impact your expenses in the long-term. If you decide, for example, that you can manage without premium cable channels, update your plan the next time your contract is up and put the difference toward your savings goals.

“If you know you can only pay yourself a small amount right now, look for opportunities to increase these payments in the future.”

3. Create a savings strategy, Once you’ve found the money you need to pay yourself first, it’s important to find a smart way to save those funds until they’re needed. You can start by moving money into a savings account once a month, before you pay your other bills.

There are two easy ways to do this. One, split your direct deposit so that an amount or a percentage goes directly into your savings account before you can spend it. Or, set up an automatic transfer for each payday, regularly sending money from your salary account to your savings account.



Salary Account

Savings Account

This can help you get used to managing living expenses with what looks like a smaller pay check, when actually you’re building up your own savings.

Transfers can be set-up, modified, and cancelled by you as needed. The most important part is to stay consistent and to treat the money you've saved as if it's off-limits, except for its intended purpose or a true financial emergency.

You may not immediately see the benefit of paying yourself first, but don't get discouraged. If a financial emergency arises, this strategy can help you weather the storm. Ultimately, paying yourself first is about putting yourself first, which helps make sure you're prepared for whatever's yet to come.



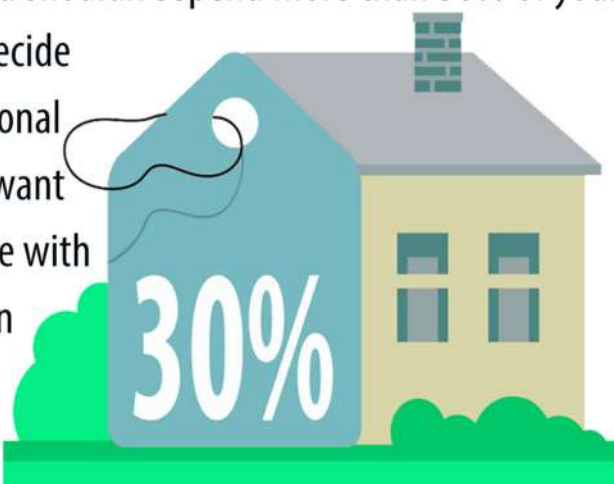
Simple Financial Planning Tips

Learning to balance all of your financial obligations with your short and long-term goals is an important skill. Our tips shall help young people who are starting their financial journey to achieve financial success in the future.

Don't spend too much on Rent

It's easy to spend too much on rent especially if you live in a big city. According to one longstanding rule of thumb, you shouldn't spend more than 30% of your income on housing. The amount you decide to spend on rent depends on your personal financial situation and the things you want to do with your money. Choosing to live with parents can be a great strategy that can help your finances in the long run.

Once you're ready to live on your own, be sure that your housing costs don't jeopardize your long-term goals.



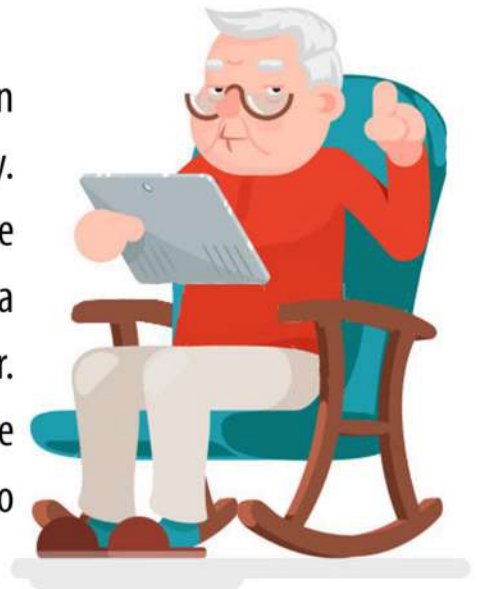
Don't carry forward a balance in credit card

It is all too easy to build up a big pile of credit card debt. A dinner here, a shopping there, and before you know it, the minimum payment on credit card balances takes a significant chunk of your salary. Then the interest charges add up, further sapping your ability to save toward your goals. The best way to use credit cards is to make timely payments, and don't carry a balance from month to month. If you find yourself relying on credit cards for essentials or to cover unexpected expenses on a regular basis, it's time to review your spending and create your emergency fund.



Save for retirement

Putting off saving for your future is a common problem. Another obstacle is lack of money. Many young adults feel like they can't save enough to make a difference. But saving even a little bit matters, especially early in your career. That's because time is on your side. You have plenty of years for the power of compounding to work for you.



Don't invest too conservatively for long-term goals

Without an appropriate level of exposure to stocks, you will likely need to save far more money to reach your long-term goals, leaving less room in your budget for anything else you want to accomplish.

While stocks have historically offered the opportunity to get the highest return of the 3 main investment types stocks, Fixed Deposits/bonds, and short-term investments that doesn't necessarily mean you should invest only in stocks. Holding a diversified mix of stocks, fixed deposits/bonds, and short-term investments could reduce the level of risk in your portfolio and potentially boost

returns for that level of risk. An appropriate investment mix is one that balances the considerations of risk tolerance, investment horizon, and financial situation. Just remember: If you're saving for retirement, you probably won't touch your money for 30 or 40 years, so what happens in the market this month or this year is much less important than what's likely to happen over the coming decades.



Financial Rules of Thumb

A rule of thumb is a rule or principle that you follow which is not based on exact calculations, but rather on experience. We have summarized a list of some solid, useful financial rules of thumb to follow. While everyone's situation is different, these serve as a good starting point.

Budgeting: The 40/30/30 Rule

This is a popular rule for making your budget. The 40-30-30 rule puts 40 percent of your income toward necessities, like housing and bills. Thirty percent should then go towards paying off debt and wants such as dining or entertainment. Finally, thirty percent of your income can be allocated to Savings for Goals.

There are also variations to this rule, like the 80-20 rule, in which you use 20 percent of your income for financial goals and then spend 80 percent on everything else. Those percentages help create a balance between obligations, goals and splurges.



Retirement: The 10% Rule

This is probably the most traditional rule of thumb when it comes to saving for retirement. Save ten percent of your income towards retirement. It gives people a simple number to work with.

Saving and Investing

The 6-Month Emergency Fund Rule

You should have six months' worth of savings on hand in case of an emergency. It keeps you from having to make desperate decisions that can set you back.

The Age Rule for Stocks

It's often said that one must use the '100 minus age' approach as far as investing in equities goes. So for a 30-year-old, 70 per cent of his investible surplus should be in equities, while the rest in debt. As one ages, the allocation towards equities falls as it is considered more volatile than debt. It could be a good way to begin but over time, allocation into equities will depend on the tenure of your goals. It gives you a general idea of what your asset allocation should look like, based on your age.

Life cover

You should ideally have a life cover which is at least 10 times of your annual income. The actual requirement may, however, depend on one's age, goals to be achieved, financial dependents, accumulated wealth, etc.

The most cost-effective way of buying life insurance is through a pure term insurance plan. It is a low premium, high-cover protection plan where the premium goes entirely towards risk coverage, i.e., to cover the mortality risk. Therefore, on surviving the term, one doesn't get anything back as there is no savings portion of the premium.



But that should not deter someone from buying a term plan as risk cover through life insurance as it is one of the basic necessities in one's overall financial plan.

Most of these rules are “tried and accepted” methods for planning your finances. But, it has to be personalized based on your situation. These rules are a good starting point, but to really stay on top of your finances, research and personalized planning is a necessity.

Benefits of Term Insurance



Financial Independence is within our reach!

Financial Independence occurs when you've saved enough to support you for the rest of your life without needing to work for money. You might choose to work for other purposes such as passion and purpose but you no longer need an income to meet your expenses.

Attaining financial independence requires discipline and limitation of wasteful spending, especially on non-essential items. It's a myth that financial independence can be achieved only by wealthy, it all depends on developing good money management skills.

Achieving financial independence is an ongoing process; it's a behaviour pattern that must be practiced consistently. Here are some tips for achieving financial freedom:

Increasing your value increases income

Improving your skills and being better at your profession will pay you more for what you do.

Choose your lifestyle

It is always advisable not to spend all your Income on Lifestyle. Also, never use debt to fund your lifestyle; the use of credit to fund a particular lifestyle will only move you backwards. Conduct a careful analysis of where most of your money is spent and you may notice there are expenditures that are unnecessary and can be removed from your list. This is all about gauging what's important enough for you to spend your money on. You can use our **financial calculators at www.ifea.in**.

The screenshot displays the homepage of the Investors' Financial Education Academy. At the top left is the IFEA logo with the tagline "Investor Education Simplified". To the right is the site title "Investors' Financial Education Academy" and a search bar. Below the header is a navigation menu with links for Home, Getting Started, Financial Planning, Life Events, Financial Products, Financial Calculators, Quiz & Puzzle, Games, Videos, and Library. The main content area is titled "Financial Calculators" and features a sidebar on the left with a list of calculator categories: Compound Interest, Savings Calculator, Goal Savings Calculator, Pay off Credit Card, Mortgage, Child Education, Retirement Savings, To Invest or To Pay off debt, Buy or Rent, Budget Estimator, Insurance Need, and Investment Recovery. The main area contains nine calculator tiles, each with a title, a brief description, and a "More..." link. The tiles are: Compound interest, Savings Calculator, Goal Savings Calculator, Pay off Credit Card, Mortgage, Child Education, Retirement, To Invest or To Pay off debt, and Buy or Rent. A red banner on the left side of the calculator grid reads "making Good happen" with the subtext "for the ones we love That's life insurance".

Review financial decisions carefully

Before making any financial commitments look at your financial situation holistically, for example, instead of buying something you really want on credit, rather save for it. It's better to save for the items you want to buy, it's delayed gratification but much cheaper. Start a Systematic Investment Plan, to fuel your dreams.

Cost of delaying Investment decisions

Most people defer financial decisions. This applies not only to decisions on how and where to make the investments, but also to review periodically how their investments are performing. Did you know that there is a real cost to this behaviour?

Let us understand this with an example:

Age	30	40	50
Amount saved Monthly	Rs. 8000	Rs. 10000	Rs. 20000
Years saved	25 years	20 years	10 years
Amount invested	Rs. 24 lakhs	Rs. 24 lakhs	Rs. 24 lakhs
Investment Value at the age of 60@ 10%* assumed return	Rs. 1.06 crores	Rs. 76 lakhs	Rs. 41 lakhs

*Generally, investments made in Equity or Equity related products generate better return over long term.

It is evident from the above example that we can achieve our financial goals with small and steady steps. It gives the investment sufficient time to grow.

A large balance in the savings bank account built up over time, investments that mature but are not reinvested, believing that there is a right time to invest and waiting for that level are some signs of delaying investments.

The consequence of postponing investment decisions is that money will be not be utilized to its full potential. We will miss out on the benefits of compounding that being invested for the long-term brings to our investments.

If we are not in the habit of investing our surplus money regularly and reviewing our investment portfolio, then we are likely to miss opportunities to make better returns. Our requirements from investments are also likely to change with time. If we don't do a periodic review of our investments and their fit to our current needs, then it is likely that our needs and goals will remain unfulfilled.

Simple tips:

1. Start now with what you have however small the amount may be.
2. Start with simple products and seek help to make the decisions.
3. Automate your investments as far as possible so that you are not required to take action each time an investment has to be made.

Timely Insurance saves Money:

Life Insurance premium depends on a lot factors such as age, health, gender etc. The premium goes up as we age and it quite common that we develop health issues as we age. It is better to get the Life Insurance when you are young. You would end up paying less for the same cover.

It is advisable to sign up for a health plan when you are younger and healthy. By delaying health Insurance you might not get the cover for some of the pre existing diseases later on.

Other areas where you can save money:

- Compare the features and costs offered by different banks, brokers and depository participants and select those that give a quality service-cost mix.
- Update your investment records with the correct address and currently active bank account so that interest, dividend or redemption cheques reach in time.

- Make sure that you claim all the tax benefits you are eligible for. To the extent your tax liability comes down you have additional savings. Look beyond section 80C and discover additional tax benefits such as NPS, Health Insurance offer.



It is never too late to correct a wrong decision, especially where it concerns money.

