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Presents

Prudent Personal Finance eBook

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Prologue

Dear **Reader,**

Having this ebook in your hands is akin to making to a commitment to grow your personal finance acumen. I am very much sure that if you carefully plan your personal finance reading program, it will bring about the BIG change which you seek in your financial life. At some time, when you are reading this book, it will look straight into your face and wake 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.

Money is considered one of the most emotional subjects in the world. Money as a subject is never taught to us in school 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.

This is your ebook, 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.

We, PrudentFP are pleased to present to you Prudent Personal Finance *free* ebook – ***Change your behaviour towards your Financial Life,*** written in a simple and easy to understand a lucid manner as possible.

A Wish you Happy Reading and make a simple Financial Life!

Warm Regards

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Chapters (Click on the Chapters)

Chapter 1

Investment in Financial Literacy!

We fail to realize that in life, it's not how much money you make, it's how much money you keep. We have all heard stories of lottery winners who are poor, then suddenly rich, then poor again. They win millions and are soon backing to where they started. Because, they tend to focus on the word "literacy" and not **"financial literacy."**

Why people in financial mess

So when people ask, "Where do I get started?" or "Tell me how to get rich quick," they often are greatly disappointed with my answer. I simply say to them **"If you want to be rich, you need to be financially literate."**

Illiteracy, both in words and numbers, is the foundation of financial struggle. If people are having difficulties financially, there is something that they cannot read, either in numbers or words. Something is misunderstood. The rich are rich because they are more literate in different areas than people who struggle financially. So if you want to be rich and maintain your wealth, it's important to be financially literate, in words as well as numbers.

Today, doctors, CAs, MBAs, lawyers and other professionals are facing financial challenges because they leave institutes without financial skills, millions of educated people pursue their profession successfully, but later find themselves struggling financially. They work harder, but don't get ahead.

What is missing from their education is not how to make money, but how to spend money-what to do after you make it. It's called financial aptitude-what you do with the money once you make it, how to keep people from taking it from you, how long you keep it, and how hard that money works for you. Most people cannot tell why they struggle financially because they don't understand cash flow. A person can be highly educated, professionally successful but financially illiterate. These people often work harder than they need to because they learned how to work hard, but not how to have their money work for them.

A Journey of hard-working people

The story of bow the quest for a Financial Dream turns into a financial nightmare. The moving-picture show of hard-working people has a set pattern. Recently married, the happy, highly educated young couple move in together, in one of their cramped rented apartments. Immediately, they realize that they are saving money because two can live as cheaply as one.

The problem is, the apartment is cramped. They decide to save money to buy their dream home so they can have kids. They now have two incomes, and they begin to focus on their careers. Their incomes begin to increase. **As their incomes go up...their expenses go up as well.** And the No. 1 expense for most people is taxes.

As a result of their incomes going up, they decide to go out and buy the house of their dreams. Once in their house, they have created liabilities as housing loan. Then, they buy a new car, new furniture and new appliances to match their new house. Ail of a sudden, they wake up and their liabilities column is full of mortgage debt and credit-card debt.

They're now trapped in the rat race. A child comes along. They work harder. The process repeats itself. More money and higher taxes, also called bracket creep, a credit card comes in the mail. They use it. It maxes out. A loan company calls and says their greatest "asset," their home, has appreciated in value. The company offers a "bill consolidation" loan, because their credit is so good, and tells them the intelligent thing to do is clear off the high-interest consumer debt by paying off their credit card. And besides, interest on their home is a tax deduction. They go for it, and pay off those high-interest credit cards. They breathe a sigh of relief. Their credit cards are paid off. They've now folded their consumer debt into their home mortgage. Their payments go down because they extend their debt over 30 years. It is the smart thing to do.

I run into this young couple all the time. Their names change, but their financial dilemma is the same. They come to one of my talks to hear what I have to say. They ask me, "Can you tell us how to make more money?" Their spending habits have caused them to seek more income.

They don't even know that the trouble is really how they choose to spend the money they do have, and that is the real cause of their financial struggle. It is caused by financial illiteracy and not understanding the difference between an asset and a liability. An asset is something that puts money in my pocket and a liability is something that takes money out of my pocket. This is really all you need to know. If you want to be rich, simply spend your life buying assets. If you want to be poor or middle class, spend your life buying liabilities. It does not know the difference that causes most of the financial struggle in the real world.

Power of CHOICE

In reality, the only real asset you have is your mind, the most powerful tool we have dominion over. Just as I said about the power of CHOICE, each of us has the CHOICE of what we put in our brain once we're old enough. That is the main reason people want to live in a free country. We want the power to choose. Financially, with every rupee, we get in our hands; we hold the power to choose our future to be rich, poor or middle class. Our spending habits reflect who we are. Poor people simply have poor spending habits.

You can watch movies or hear songs all day, or read sports and star dust magazines, or go on various blogs, chats and social media sites or **a class on financial planning.** You choose.

Most people choose not to be rich. For 90 percent of the population, being rich is "too much of a hassle." So they invent sayings that go, "I'm not interested in money." Or "I'll never be rich." Or "I don't have to worry, I'm still young." Or "When I make some money, then I'll think about my future." Or "My husband/wife handles the finances." The problem with those statements is they rob the person who chooses to think such thoughts of two things: one is time, which is your most precious asset, and two is learning. Just because you have no money, should not be an excuse to not learn. But that is a CHOICE we all make daily, the CHOICE of what we do with our time, our money and what we put in our heads. That is the power of CHOICE. All of us have CHOICE. I just choose to be rich, and I make that CHOICE every day.

Invest First in Financial Education

Most people swim around daily on Google in search of "FREE solutions." Two hours, later, they step back from the screen wondering where time has flown. What got produced? What is the tangible outcome? Only research. NO action that can lead to financial results.

Here they are wasting their time in small instalments and they are not even aware of it. Always remember, NO capital is getting generated from these activities. NO wealth is getting generated. There is NO increase in their bank balance due to it.

Most people simply buy investments rather than first invest in learning about investing. To help make profitable financial decisions, it is necessary to understand the basic purpose of investing. We should a long view on our wealth. We should not subscribe to the "Get rich quick" mentally most lottery players or casino gamblers have. We may go in and out of stocks, but we should, firstly long on education. If you want to fly an aeroplane, you have advised to take lesson first. I am always shocked at people who buy stocks or real estate, but never invest in their greatest asset, their mind. Just because you bought a house or two does not make you an expert at real estate.

The ultimate goal of improving your personal financial literacy is to make smart money decisions and improve your financial well-being.

Financial knowledge and awareness can help you take mature decisions on every topic of personal finance from your expenses, savings, budgeting to using plastic money wisely. Each of these decisions has an impact on your finances overall and hence the ability to make good financial decisions is very important.

So how do you improve your personal financial literacy?

1. Start by building up your financial awareness – you can read good personal finance websites, newsletters and read the financial newspapers.

Warning: there is a lot of noise out there, choose only that information Channels that give you impactful information.

2. If there is something you want to understand about a product but don't have anyone whom you can ask, you can always do an internet search on the product and read up on its features. But be sure to access the right information from a website which verifies its information, such as a news website or an independent research website. Avoid reading personal blogs as these are simply an amalgamation of people's opinions and may or may not be based on fact.

3. Speak to your unbiased Financial Planner to give you an honest view on whether a particular financial decision is the right one to make or not.

The more information you gather, the more you will have on hand to make an informed financial decision. Every single informed decision you make will go towards making the most of your financial plan.

"Want to build your wealth to achieve your life goals, first, build your knowledge"

Chapter 2

Are you Victim of Procrastination?

We, often don't find the time for their personal finance. Surprisingly, I have seen those people who are worked in our Finance and Accounts department; even they are not serious about it as they believe they don't have time, it is real for them. They have plenty of valid reasons to prove that they really don't have time. People can't seem to find an un-interrupted half-hour during which they can work on their personal finance in an entire month, for some an entire year.

If you look around, you are connected to everything that can help you elevate your financial life. It's all here. It's all available. A few keystrokes away.

The so called 'busy' people have no time for their personal finance but they somehow find time to be on chats, cricket, and other media sites. I always told people, here you are wasting your time in small instalments and you are not even aware of it.

It's time to identify such unproductive activates and take action with regard to your financial life. A lot of what you do with your time has a direct connection with what you do with your money.

Typical Scenario

Then somewhere at the end of the year, around February, when they receive an e-mail from their employers requesting them to submit their documents for tax savings, they wake up and remember their financial lives. But wait, it just makes them stir a little, it does not lead them to take any action, because the deadline is still 10 long days away! If the 25th February is the last date for submission of documents, most people start collecting their documents and arranging rent receipts bills, 80C documents etc. only on the 24th February. And some even call agents because now they want to "invest". Can you imagine the scenario? It's actually come to a situation wherein "Giving proof of investments" is much more important than **"Making sensible financial decisions."** It's too late plan for things!

Now all mutual funds and ULIP agents etc. are ready to take charge and sell you anything and everything which can save your tax. That's exactly what many people want. At the last moment, they have no choice but to invest, so that they can "save tax". I can't imagine a scenario where someone says, "Wait a minute, let me just pay the tax and leave my finances the way they are because it's better to not get into something which I don't need". To many, such person would appear extremely idiotic and might even become the news of the day! Read: Tax saving is not Tax Planning!

Waiting for "urgency"

Everything "just happens". Things are moving on each passing day in our financial lives too. We buy an arbitrary insurance policy for the sake of tax savings. When we have to near financial goal like child's education, or a car or house, it is then that we start thinking about how to generate the required money by sifting through our existing investments. We break FDs, withdraw cash from banks, redeem some part of mutual fund holdings and something even go in for a personal loan from their company or banks, if possible if things still do not fall into place, we just postpone the whole goal itself by a couple of years.

But all this leads to unnecessary stress. In today's world, where life has become nothing beyond going from home to the office and back, we just ignore our financial life. We have started taking actions in our financial life only when we reach in that the stage of "urgency or emergency". Sounds familiar?

Then we can say in desi language as ***"Akal badam khane se nahin aathi, balike thhokar khane se aathi hai".*** It's would be seemed true for those who are procrastinating in their financial life.

A lot of people procrastinate, some by choice and some due to ignorance. They always think that they have always tomorrow to do action for this.

Important Tasks

An important principal of time management suggests that we must take sure that we complete the important tasks, which are still not urgent, rather than delaying them. We have many things in our financial life which are very important but not "urgent". So we do what we are best at: We postpone them! This could be purchasing term insurance, starting an SIP, making 80C investments, filing tax returns etc. All these tasks are important but not urgent until some point of time. Once they become extremely urgent, that's the time we wake up and take action. It's very obvious that you cannot pay much attention to detail or undertake thorough research when you have reached the state of "urgency".

Unless you have a **"want-to"** attitude towards changing your financial life, things will not change drastically. You are just expecting to have an awesome financial life by chance. It will never happen without your help but it could be by your choice.

Conquer procrastination

The good news is that you can win your war against procrastination; it's possible. You can always start small; taking small actions one at a time. Most of the time your mind makes all your personal finance tasks looks big and scary. We think of numbers and complicated calculations; we think of graphs and pie-charts when it comes to personal finance. So we procrastinate. Personal finance is not about numbers, it is about YOU and the relationship you share with money!

When we imagine creating a personal finance to-do list, the longer we push it into the future, the more frightening it appears in magnitude. Which financial planner should you trust? How can you find the right products? You can see that objects in the mirror of the future always appear larger than they really are. This is a time to take little actions. Only then will they seem like fun further than chore. When we start seeing personal finance as a game, we start enjoying the process and then it's no wonder that you stop procrastinating!

Conclusion

Here**, 'ACTION'** is the ultimate answer.

Make small promises to yourself regarding how you will handle your financial life. Set aside just 1 hour this coming Sunday, after lunch, to have a look at your policies, investments, financial goals in life... and see if you are on the right track or not.

Consider paying for advice as an investment, rather than just another monthly expense. Get the best advice at the best price.

Just start with one thing... you know what it is... it's the thing you're thinking about right now.

Chapter 3

Change Attitude towards your Financial Life!

People at large go around in circles when it comes to their financial life. They are unable to crack the code that will make them financially successful. They are frantically seeking out right secondary source of income; they are busy searching for the financial right products which could give the highest returns in the short term that will help them achieve financial freedom; they are in search of new jobs and explore new means sources of income. When people realize or rather are confronted with the fact that their actions suggests that they don't really want to succeed in their financial life, they get very depressed. They blame the agents, they blame their circumstances; they blame others for not having the right level of financial literacy; they blame to government financial policies or general budget. They start believing that there is something wrong with their financial life and ultimately then, as fate would have it.

Myths about money

But there is nothing wrong with them. Your financial life is driven by your beliefs more than your commitments. It is important to see what beliefs, thoughts and feelings are dictating your financial life and how you can change them so that you get fully aligned to the financial life you desire.

The fact is that most of what you believe about money is not true. Some beliefs got downloaded from your parents, some from family, some from friends or colleagues and some from the society you live in. You feel trapped.

You need to realize that your un-serving money beliefs block your financial success. When you were growing up, your stories and beliefs about money were also growing up with you. You heard a number of times from your elders that money doesn't grow on trees. You heard it takes money to make money. You heard that money is the root of all evil. You heard that money is power. You heard that time is money. You heard that beggars have no choice. You heard that more money equals more problems.

That's all you heard and saw about money all your life. All that they need to do is stop complaining and tune into new beliefs about money. It's time to you to step forward and question these beliefs. It's time to de-program your beliefs. It's time to re-programme your beliefs and then really get into massive action. Anyone can do it.

Building wealth requires a passion and a strong personal commitment. Wealth is created brick by brick, just as plant grows inch by inch. That's how investments grow in your life. This will ensure financial success.

If you don't like the way things are in your financial life, change them! You're not a tree. Yes you can take action; you can change your direction; you can bring a shift in your financial life. Many people have done it and it is possible.

"Want To" Attitude

An old proverb says "You cannot change anything unless you change yourself". Any day you can wish to take charge of your financial life and change it. You can elevate the levels by shifting gears. Any day you wish to you can open a new book or get on personal finance blog that will open your mind to new financial knowledge and insight. This becomes possible when you having a strong **"WANT TO"** attitude towards financial life – that little extra passion.

I always suggest that before they start working on their financial life, they must have strong "want to" in their personal finance. This is simple, yet most people overlook this simple fact. They have put all the correct ingredients into their dish called "financial life" but a small pinch of salt is missing; and that's right **"want to".**

Let's begin with **"want to"** attitude and it becomes possible when you bring about change in the choices you make that impact the financial results in your life. Any day you wish to, you can start taking action on your finances. Any day you wish to, you can start the process of change. You can either do it immediately or wait for the right time or the right moment or after you handle a few emergencies or after you have the right bank balance. It's an important **CHOICE** you make.

Your choices can make or break your financial results. You can sit with a financial planner and map out your financial year... which properties to buy, which ones to sell, what investments to make. This can bring a new momentum to your financial life. Now, on the other hand, you can also choose to do nothing about your financial life. You can choose to stay busy with your routine life and let it move and take shape on its own. You are 100% responsible for all your current financial circumstances.

You have created these by your own choices. Reading this article is a choice you have made. If the idea of bringing a change in your financial life is uncomfortable or sounds like too much of work, you can remain the way you are, with respect to your personal finance, waiting for your starts to change their position, waiting to get into take-off mode in your financial life.

The choice yours to make. **"The fault is not in the stars...but the choice you make".**

Chapter 4

Take small steps. But make a start!

When we ask people to take action in their financial life, they simply delay doing so because they want get big results and big change to take place in their financial life. Remember that bigger is not always better; bigger is just bigger. They don't want to begin with small actions. They believe that they will take action at one go. This leads to procrastination and that time would never come for them to take action in their financial life.

But still, most of the people who make promises to take actions but forget them within a short spell of time and break them very easily. For instance, they promise: "I will lose my weight by 25 kgs in a year" or "I will quit smoking in next 3 months" or "I will save Rs 2 crores for retirement", and so on. These are all wonderful promises and very inspiring and they have to make these promises for them to move forward in life. These intentions just evaporate or at best, they start working towards those promises but then, in between, they abandon the same by whatever reasons.

Let us see why this happens and how we can make the situation better by changing the way we look at them.

Take small actions

There is an old Chinese proverb***; "It is better to take many small steps in the right direction than to make a great leap forward only to stumble backward."*** This in our opinion applies even to your "personal life as well as personal finance" exercise.

Here are some instances of how big action can be broken down into small actions:

As outlined that "I will lose my weight by 25 kgs in a year". It can easily be achieved by walk for 20 minutes per day, eat 1 less pizza per month, exercise on Wednesday and Saturday for 1 hour. Similarly, for quitting smoking in 3 months, have 1 less cigarette each day for next 15 days and thereafter keep reducing 1 every 15 days.

The same holds true for our personal finance as well:

Real Case Story

One of my friends has a goal coming up after 20 years-he wants to a have a substantial corpus of funds to spend on his child's education. To achieve this goal, he had to invest Rs 2,000 per month by way of SIP for the next 20 years. Setting asides a sum of Rs 2,000 per month may look easy enough, but at the end of the month, after all his bills were paid, he was already running low on funds and that Rs 2,000 felt like a big chunk of money.

Now, he managed to cancel his SIP for a month or two and then he began to lose focus. It started to look unachievable. So, he postponed his existing SIP till the next increment of his salary. Then, his wife intervened; as she made sure that she extracted Rs 100 each day from him and put it in a piggy bank. By the end of the month, she comfortably had a sum of Rs 3,000 to invest instead of Rs 2,000; all because it was easier to save Rs 100 per day than Rs 2,000 per month. This is an example of a taking small action in your personal finance.

Personal Finance exercise

Start giving your personal finance exercise half an hour of attention each week. Make small promises to yourself and complete what you set out to do as you can address some neglected things in the two hours that you have allocated to the task each month. If you take time to plan your day, you make it more meaningful and productive, just like as you give time to your relationships, they get better. The same formula applies to your personal finance. It needs your time; it needs your attention. Set aside just 1 hour this coming Sunday, after lunch, to have look at your financial life… and see if you are on the right track or not. Keep your financial life creative and simple. Think of what needs to be done to your personal finances and do it, little by little.

Conclusion

Remember, it is vital for you to step-by-step ascertain where you stand, in terms of your Income and existing investments, so that you effectively undertake your personal finance exercise which in turn would deliver you the objective of long term wealth creation along with capital protection.

In the **"Better late as never".** But, please learn from them and don't repeat the same mistakes again. Adopt the prudent steps while doing your financial planning.

Chapter 5

Working on Money Management!

Everyone knows well money comes from our Jobs and Jobs come to us our Education (most of the times). And our decision of what we get in Education, from where do that come?

Here is the root cause. Ask any MBA aspirants why he is preparing for MBA? What kind of answer do you get? ‘My friend is also doing it’, ‘What else can I do?’ and ‘Good money in MBA’. Same problem with Engineering and other Jobs. Then, they do ‘study hard, get good grades, and find a safe job or career’. They learn nothing about money because Money is not taught in institutes and universities. They focus on academics and professional skills, but not on financial skills. This explains how smart bankers, doctors and accountants who earned excellent grades in school may still struggle financially all of their lives.

Money Management

When I meet people with regard to their financial life, I 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 are not managing their money well which could have created magic- “***Effective system to manage money”.*** I came across T.

Harv Eker's Book **"The Secrets of the Millionaire Mind"** it ***says "Rich ople manage their money well. Poor people mismanage their money well".***

Perhaps, a lot of people have already been managing their money for years but not in a systematic way. If you want to get rich, focus on making, keeping, investing & managing your money you to get understand 'Money management System'. This Money management System is very simple to understand & implement. If you want Financial Freedom you got to follow a system for achieving it.

As a financial planner people I meet believe managing money will take away their freedom. They hate the idea of Budgeting and Planning. They believe managing money will not allow them to be free and enjoy life to the fullest. I have been implementing this "Money Management System" for over a year now & it has given me tremendous freedom in the area of money. Most of the people I meet say, ***"I will start managing my money when I have enough money".***

As a planner I tell them ***"if you aren't managing your money now then you may not have any money to manage in the future".***

The Single biggest difference between financial success and failure is how well you manage or mismanage your money. People mismanage money in different ways (By not having a financial planner in life, by not having a financial Plan in place, by not organizing their finances, by buying ULIPS, by not taking financial Literacy etc etc)

As per a famous Chinese proverb ***"Find a job which you truly Enjoy and you will never have to work after that".***

One should design their Financial Plan with a context to achieve financial Freedom. Having a Money Management System is equally important as having a financial. Always remember. The real secret of successful wealth management is that your financial future is truly in your hands.

Chapter 6

Test Your Spender Personality?

Do you know what your spender personality is? Many times, I have heard people say that that "don't earn sufficient money so that can save etc. and my income is so low, I could not even think about financial planning". On the flip side, some earn sufficient money, still they could also not think about financial planning and my discretionary expenses are so high. In the both cases, same personality emerges which is **"SPENDER PESONALITY".**

I advocate always ***"Incomes are always never higher".***

Let me give a hint!. Sameer earns a lot of money, but his financial life is not that great, the main reason is that he is too conservative with his investment and all his money lies in Cash in the Bank, that's all. This happens due to his internal design of being a "SPENDR". His life is all about spending and only spending their comes his spender personality because idle cash in hand or at bank always creates impulsive purchases. Let's more explore more on this.

1. Spendthrifts

The first spender personality is "Spender thrifts". People who fall in this category have an attitude that "Life happens now". They are akin to Punjabi folk song ***"khaao piyo aish karo mittro per dil kise de dukhayo no".*** (Let's go friends eat and enjoy, but don't hurt anyone) They will spend their money all over which makes them feel that they are "living" in life. They will buy expensive gadgets, jazzy mobiles, eat and drink out at expensive places and will make sure that they are not at all compromising on enjoyment. They aren't bargain shoppers; they are fashionable and they are looking to make a statement. The behaviour also affects their financial life; their savings are not so much as it can be because most of the leftover the money at the end of month is saved.

The simple rule of ***Saving=Income-Expenses*** is applicable for these people. Most of these people don't have much left in their bank account by the end of month and they wonder "Where does it all go"

2. Followers

The next personality is that of the "Natural Spenders". These people believe that life is about saving and for being prepared for the future. They are not exactly spendthrift, but they appear like spendthrift to others. They don't want spend carelessly but they have to spend it like ***"Main paise kharchta nahin, kharch ho jaate hain".*** (I don't intend to spend money, but it gets to spend) This behaviour also affects their financial life; and they spend in anything which likes to other people. You can also attach the word "Follower" with these people. They have believe to reason to spend is that my friend or colleague who might have a bigger home than us, a better car or more expensive LCD or mobile.

3. Illusory

The third and an interesting category are of "Illusory". They have great illusions, when it comes to taking spends, they will think that they are rightly take action and instead they will just spend and find all reasons in life for spending things. They read, talk and learn about everything, but don't apply it to their life in any way. I personally think that a lot of us are like that. There are even many my colleagues here who are learning things from months/years, but still they have not done anything with their learning, they just read and feel happy that they know something good, but where is the action?

4. EMI Spenders

In this category, EMI gives a lot of people the feeling that they can afford anything which comes their way. And there lies the problem! A sizable chunk of people believe that they need a bigger one (when they actually don't) and the easy availability of everything, in EMIs plays a large role in said belief. The EMI is such a beautiful concept, that even a person with salary of Rs30k can buy a helicopter! Why not? Just 9999 per month, for next 200 years! Does he need it? Who cares? He can afford it! The problem is not the EMI concept in itself. The problem is in us – losing our control on our spending and extending our affordability horizon to such great lengths, that we have everything in our life; but most of it is under debt.

5. Fantasy Spenders

The last category is really different one and fantasy system changes our "wants" into "needs". Our home and our car are the two classics example of this. Let's talk about the car. A lot of people a buy a car before home because the car adds to their comfort. I know a lot of people who can easily manage their life with a bike or without a vehicle, but have bought a car for reasons only known to them. There are just 2 people in the family, both have company transport, aren't really outgoing, but they have a car. Not sure why! The main problem again, is people buy cars that are much bigger and costlier than what they can afford and need.

Recognize your personality

So which spender personality is better than the other and how to make change in your personality? First thing is that there is nothing bad or good about having one of these spender personalities. These personalities get into us because of various reasons in life and it's not that easy to change them. What's important is that you need to be aware about your personality and how it's affecting your financial life. Try to find out how your spender personality can help in having a financial life which you desire.

Advice for Your Personality

Once you recognize yourself in one of these profiles and have put some thought into how you approach money, it's time to see what you can do to make the most of what you have. Sometimes making just small changes can yield big results.

Chapter 7

Careless spending is like a cancer!

In recent times, we have been spending like there's no tomorrow. There are enough reasons these days to convince yourself that "I can afford it". Now we have started spending like never before.

Most people do not save anything at the end of the month. They feel as if their life takes away all the money from their pocket by the month end. However, this is psychological effect. They could not adjust their needs and desires in life to what they earn. If their salaries are increased by 50% in 2 years, a bike gets upgraded to a car; a small car gets upgraded to a bigger one and a normal TV is replaced by plasma. **"Supply creates its own demand"** is a law of economics and it applies to personal spending too.

Note that saving money does not mean depriving yourself of all the good things in life. The only thing that we have slowly started going the American Way, i.e. ***spending more than what we can earn.*** We are a nation which saves but we do not invest properly. As per my understanding, two major convenient modes of payment (diseases) are responsible for careless spending i.e. credit card and EMI disease.

Forcing a Credit Card

For the last couple of year, we have been using too many credit cards and in the wrong way. Imagine you are paying cash every time you buy something you really do you need. When we are using credit card we buy unwanted clothes and unnecessary gadgets. Research shows that we feel less guilty when we pay with our credit cards than we do while paying in cash. When we use cards, we don't see money going out; there's just a consolidated bill once a month. Nothing can be done (or undone) then. You just pay up the amount on the bottom line.

Why have we all suddenly shifted to plasma TVs instead of the old TVs we have used in our childhood? Of course, technological changes should happen and we should always move forward, but buying a plasma TV just because it looks cool does not make sense at all, especially, if you haven't planned for your retirement or taken care of all the important goals in life. If it's really your need, then go ahead. I would encourage it. But most of the time, people buy it just to keep up with friends and relatives. Once your other priorities have been met, you can go in for it. But it should not be at the cost of something more important. The credit card company never knows how much your expenses amount to or what your future goals are or your risk appetite is or what future plans you have.

Affordability of EMI

Similarly, the EMI system has changed our "wants into needs". EMIs are available on everything from international vacation to a pair of jeans! All is that it cut a big piece of debt into smaller chunks, to make us believe that we can afford it. If the EMI amount is more than you can afford it, just increase the tenure by 3 times and voila... the product just got affordable! You have to pay only Rs 2,000 per month instead of Rs 6,000 per month. If it still looks unaffordable, increase the tenure a little more. It's human nature. The problem is not the EMI concept in itself. The problem lies in the numbers. The lower the number; the more affordable it becomes! However, this is not true! Actually the more you reduce the EMI figure, the longer the tenure, and accordingly the higher will the total cost due to all that interest you have to pay and extending our affordability horizon to such great lengths, that we have everything in our life; but most of it is under debt.

I’ve heard horror stories of people who have bought homes and are crying today. They have moved into more fancy homes, but the quality of their life has drastically decreased. They suffer from stress because now even small things in life which gave them happiness look unaffordable... all because that 3 BHK flat’s EMI have to go through next month.

This leverage available today has created a new mind set- ***“buy now, pay later”.*** Unlike our parents and grandparents, we are spending money which we haven’t even earned. We buy house, cars, bike, jazzy mobile, vacations etc., and then pay the cost for the rest of our working lives. In some cases, it might make sense, but a large section of society just lives beyond their means.

Conclusion

There is nothing wrong in buying things on EMI or through credit card, as long as you know what you are doing, and then only if you really need it. Don’t run after everything you can get on EMI and credit card, and don’t drown you in so much debt, that it gets tough to come out. Save a good amount for down payment and take debt only when buying something becomes inevitable. An early Start in saving today will make you wealthy overtime. Spending is important but don’t make it hobby. It’s like a cancer. It will not hurt you immediately, but kill you some day.

Chapter 8

Spend Time while buying financial products!

Spend at least as much time researching a stock as you would choosing a refrigerator. - Peter Lynch

We tend to ask colleagues for a reference to persons who could provide us the financial product that we want to invest in. We also are chased by individuals who would specialise in selling a particular product. It could have insurance, tax planning products, mutual funds etc. In most events there is significant mis-match between what we want and what we get.

On the flip side, Most of us here, where they buy products because it come from their friend, colleague, brother-in-law, sister-in-law, father's friend etc. This happens a lot with young guys yet to start working, and their fathers have bought policies for them and then delegated the premium paying responsibility to them once they start earning, it's a real "burden of legacy".

Consider the case of Sanjay Tiwari who bought a ULIP from his brother-in law who had just taken new agency of Max New York. He was mis-sold to him on his common effective statement as "You have to pay premiums for just 3 years and then you can stop paying any time after that." Fortunately, this case had a happy ending, because the investments he made from the policy proceeds did very well. He admitted to having bought ULIPs "without knowing what it is." Many like him buy financial products without researching them thoroughly and oblige their personal relationships; they end up doing research only when they see a loss on their books.

Why does this happen?

Low Awareness: Financial awareness is very low in our country and that's the reason we do not understand products and how they can fit our requirement, Agents put a picture of a product in such a way that it looks the best product for us.

Competitive environment and Sales Targets: There is lot of pressure on agents and manager to show performance and sell products to meet their targets because of which mis-selling happens.

Last minute "Tax Rush": People in India do not plan their Investments in Advance and hence at last moment they buy product just to save tax and which does not fit their requirement, and sellers take advantage of this.

Not ready to pay for Advice: We rely on **"free"** advice most of the time. This is in our culture & our genes, it seems. If we can get idiotic products like, ULIPs, NFOs, endowments polices etc. from one of our relatives or someone known, then why pay someone for advice?

Short vision: People tend to invest in equities and mutual funds for short span of time. They look at unrealistic returns at short term. No one is ready to settle below 20-25%? 12% is abusive to them, & makes them feel like they are cheated.

What can we do and should do?

If you see your past behaviour – You might have spent very less time in buying a product and maximum time worrying and cribbing about the product later. However all you need to do is spend some more time at the time of buying and nothing later. All their life Indian investors take decisions on the basis of trust and relationships.

We now, need to take responsibility of what we are doing and make our own decisions. So the only thing we can do is to educate our self to the level where no one can take advantage of our ignorance. Once you come to a level, where you understand importance of things in investing and managing your money, then no one can mis-sell you the products.

Note that the major tactics to lure investors are used by agents following fancy words:

- **High Dividends declared by Mutual Funds**
- **Premium can be stopped after the first 3 years**
- **This fund has returned 40% annual return in last 4 years**
- **ULIPs offer guaranteed returns**
- **I will give you 10% of Cash back on premiums paid**
- **Money doubling in three years**
- **You can get Free Insurance and Tax Benefit**
- **Low NAV of a NFO from mutual funds**

Conclusion

Don't Take any product just because it look good or is recommended by someone known. Most times, plans and products come from one of your relatives. STOP IT PLEASE! A simple NO might hurt your relations with said person, but it will save you, your hard-earned money, rather than waste it on idiotic products, which you'll regret for life. It's just common sense that there are better advisors and consultants than your relatives or closes ones, unless they themselves are known and respected in the field (of finance).

Do your research and do some study, it does not take more than 1 hr to search the net and read about it, or ask some knowledgeable person whom you trust about the product. 1 or 2 hrs to study can save you pain of years, so don't be lazy, when it comes to money no one is yours, it's only you who can save you from mis-selling.

So finally avoid the trap, ask questions, and doubt everything!!

Chapter 9

Define Purposes before Set your Goals!

Most people have not really thought through the purpose of money in their lives. They are too busy in making, spending and worrying about it. While asking these people in the affluent middle-class, the so-called mass affluent, what is the specific about the purpose of their money in their life? They tend to talk about things. They usually come back with such comments as to buy a dream car or house, pay for the children's college, have an Rs2 crore net worth at retirement or travel the world etc.

But these specifics are not purposes. They are merely goals or ways to spend money once it's acquired. Each goal is tangible, temporary, easy to set, and easy to change or drop. Such goals also are what many people give as the reason for investing.

A purpose, on the other hand, goes much deeper. It's not an end. It's a direction you would like to take over the long haul with specific goals serving the milestones along the way to help monitor your progress. Purpose sets the context within which priorities are determined.

To provide a better sense of understanding the difference between purposes and goals, we set the example, if you are in New Delhi, and your purpose is to head east, Mumbai could be a goal. Once in Mumbai, you still can go farther east. Similarly, if your purpose is to become wealthy, having Rs 10 crore could be a goal. And once that goal is attained, you can set higher goals.

It’s vital to have both goals and a purpose or vision. So, you have to understand that why you want to have money comes first. Once that’s clear, it becomes the context in which to create a meaningful financial plan with set goals and priorities. Putting purpose first makes decision making much easier.

For example, if you want Rs3 crore in your retirement plan at the of age 60, that’s goal. If you want to be free from money worries by retirement age, that’s the purpose. To have well-educated children is a major purpose of money. A related goal within that context could be to save the money necessary to send your children to college.

So, purpose and goal are interlinked, which makes it hard to make out a difference between the two. Purpose, which is all about direction, is that something that influences goals. Unlike goal, purpose is broader and deeper. Our goals may be the set of our sail, but at some point in time we need to decide where we are sailing to.

To be truly fulfilled we need to have a purpose in at least 3 areas behind our goals viz. vision, security and peace of mind. Vision, of course, being the most important. All goals need a destination. This is why I can't say enough about the importance of our vision statements. Taking the time to write a vision statement forces us to have a purpose. Without a purpose we are just wandering aimlessly through life hoping something good will happen.

Take a classical example of a couple having a good amount of life insurance and disability insurance. They have a healthy emergency fund. They have a balanced investment portfolio, invest monthly and automatically. In fact, it may be quite boring. Yet it gives them a great deal of peace of mind and comfort knowing that with each financial decision they make, they are becoming more financially secure and that is the real reason behind their financial goals.

Purpose endures and is much more than a goal. It establishes the context within the financial planning process takes on its meaning.

"I finally know what distinguishes humans from the other beasts": financial worries. – Jules Renard

Chapter 10

Get-Set Returns for your Goals

Most people invest for getting great returns and some try to get that thorough insurance policies. People ask me which stocks will rise in the next week, which mutual fund scheme is providing the highest return etc.? Is it time now to invest in Gold or whether the stock market will move up or down? Are there any schemes which double our money in the next two-three years, etc., etc?

Ask yourself what is the fundamental requirement - getting returns now or making investments for your life & goals ahead. The sole objective or goal in life cannot be just making lots of money; it should actually be meeting one's goals on time.

If that is the case, the right question to ask yourself ***is "What is my required rate of return & where do I invest, which will help me achieve my financial goals easily and comfortably?"***

What are your Goals?

Do all of us have some financial goals? Yes, we all do. These may include buying a nice house, second house, car or big car, going on vacation or world tour, getting a better regular income, funding your children's education, a retirement free from money-related worries, etc. What do you think would happen if someone comes to you and tells you that all your financial goals in life will be met with a 100% guarantee, irrespective of how much you earn, no matter what happens!

Then do you think you would still carry on with your investments? Would you still worry about buying the best mutual fund and not the 3rd best one? Would you still shift your investment to a new financial product for the extra 1% return?

No, you wouldn't. I am sure that you would then concentrate on how to achieve your goals faster rather than on how much returns, product names, fancy strategies… You would start thinking at a different level and that would result in a simple financial life! Your only concern would be how to achieve your financial goals fast and as easily as possible.

Now, the question that crops up is what rate of return I require to achieve my financial goals. Am I using the right word "rate of return" to reach my target amount? Surely not! Rate of return means we are talking about just nominal return as we don't consider the effect of inflation. For example the 9% earned in a bank fixed deposit is nominal return. But this is not the correct way of measuring return. The return calculated after considering the effect of inflation is the right way to measure the return and is known as the real return.

Real rate of Return

Let's understand "Real rate of return" assuming your investment has made return of 8% (nominal return) and the average inflation that year was 10%, the real return is a negative 1.81%. Which means actually on maturity you did not make any money; in fact your money has lost value due to inflation. Inflation is a silent monster and it erodes the value of your money if you don't invest wisely. So consider the effect of inflation while measuring your returns on maturity.

Setting of Returns on your investment

Setting of returns involves careful study of few factors:

- What is the present value of goal?
- What is the time-horizon of goal?
- What will be inflation factor over the years?
- What should be the periodic investment towards the goal?
- What product mix we have to take?
- What risk is involved in return?

Once you are clear about your goals, you start investing towards them and get set rate of return on your investment and you realize that your financial life is unique; you stop comparing it with that of others.

Imagine this: You start investing Rs. 5,000 per month towards your child's education. You have been advised that if you make 10% year on year, in 20 years you will reach the target of approximately Rs. 50 lakh. Now suppose in a particular year, your mutual fund gave a 21% return, but your friend's mutual funds gave 34% return. This will definitely make you think that your fund performed poorly compared to that your friend. But you know that you are still on your path and have outperformed your own benchmarks. You have made better progress than expected. On the other hand, if your funds gave a 5% return and your friend's mutual fund gave a negative 10% return, you might be a bit relaxed and happy about the fact that at least your mutual funds performed better than his. But the next moment you will come back to your own financial life and feel that whatever the case, you have underperformed your target of 10% each year.

In both cases, it will be about YOU and YOUR GOALS first and only then will you see it in perspective. If you don't have any goals and targets, the only benchmark you have is comparison with others. Then you start looking at your friend's return, the best funds in India and the average in the category in which you have started. While all that is fine and required, to some extent, the only point I want to make is that after setting goals and linking your investment to them, your financial life becomes simpler and you have less things to worry about than getting higher return.

In the above example, the per-year-comparison was just for illustration. You should not be worried just because your mutual funds didn't perform well during one particular year. You would be better off considering the returns over a longer time span. In our example, you could check if your funds have given 10% yearly return for a 3-4 year time frame before you get judgmental. Always look at the performance over the long-term and conjunction with your goals.

Chapter 11

Investment is not Financial Planning

The first step not making investments but planning for everything and then executing it.

People concentrate too much on Buying the Excellent Mutual Fund? May be people do not understand meaning of **"Best Mutual Fund".** So let me declare what is meant by best Mutual fund: The best mutual fund for you is the Fund which suits your requirement and has ability to help you to achieve your Financial Goals without risking your money.

If you are planning for your Retirement and saving a decent amount of money every month then all you need to do is to see the ultimate return that is close to 12-15% CAGR, which is achievable in long term if you just invest in mutual funds through SIPs. In that case how does it matter if you invest in higher rating as "Five star" Mutual fund or lower rating as "One star" mutual fund? I am not saying that you should not try to find good Mutual funds but shift your focus from "buying the best mutual fund" to "Buying a Mutual fund which will help you achieve your goals".

I have seen many people pinging me about their investment plans or decisions to take Term Insurance or Investment plan through mutual funds for next 10 yrs through SIP. Perhaps they've done a good job of building a portfolio of mutual funds. I would like to congratulate them on their decision and action. They are ahead of most of the other people.

But is it enough? Is that all? Is that the initial step everyone should take? The answer is NO!!

Though, they are investing regularly but without any objective and it leads to unplanned investment.

Unplanned Investment

Let's take a scenario, Sunil starts a SIP with a mutual fund and now he is happy that he has been investing finally. He invests for 2 yrs and markets have gone up and down and at the end his investments are at same place where he started. So there is no appreciation in value. He decides to take half the money out of his investments and uses in buying a car which was his plan from many years. A market finally starts recovering, but as usual he realizes very late that this is the time to put money in markets (as all the general public realize this very late).

He starts his SIP again and now continues this for some years. He periodically takes money out of his investments on many occasions e.g. to meet unexpected expenses, for his vacation and his child education costs and so on…

What is wrong with this approach?

He started an investment which was a good idea but Sunil jumped on the second step of the ladder. He had no predefined goals and hence no clarity on investment plans- No idea of how investment should be divided for different financial commitments and not investment as per risk-appetite and goal's importance.

Like Sunil, a lot of people have gone directly to the second level and skipped the very first basic level, which is Planning!

What is Planning?

Planning your finances can be boring, but it's vital and most crucial part of financial planning. A person who gives much time to planning things has higher chances of achieving it. Make investment is second step. So, the first step was to plan for things. Investing is part of financial planning, but it's not even the most important part.

Planning things in advance reduces doubts about certain things, provides clarity in financial life and hence reduces a lot of issues.

Financial planning is about helping you to figure out how to make all of the pieces of your financial life work together to meet your goals. Knowing your goals is the first plan that why are you investing; what is the goal associated with your investment; Is it buying home? Buying Car? Vacation after 3 years, Retirement, Child marriage? etc.

Planned Investment

This time, Sunil knows "Planning is everything" and has to plan how to make proportionate investments for his financial commitments. He identifies his goals and how much money he would need for each. If he needs to save 10 lacs for his Daughter's Education in the next 20 yrs. He can invest Rs 2,000 every month through SIP in some good mutual funds which has good track record over long term. He can try PPF + Equity Diversified funds OR he can try Mixed of Balanced Funds if he is not big risk taker. In this case, he has to do just follow the Plan, Just invest 2k every month consistently and review his Fund performance once every year. If he starts getting bad, shift to some other good fund. Just imagine how easy and comfortable this situation is! If he can little more risk he can do that but not too much.

Now he exactly knows that, there will be no distraction in between by equity markets going up and down or any other factors because in the beginning itself he has factored in all the possibilities. In short, now he has a clear path and he knows how fast or slow he has to walk on it. At the end if he keeps on walking on it the way he planned Success is guaranteed.

Conclusion

It is evident that Financial Planning is not all about getting great returns and about finding the best Insurance and mutual fund for yourself. But in reality they are small components of Financial planning and the core of it is something else. It’s a personal thing and totally relevant to you and to your needs and your Financial Goals. It’s about having a predetermined plan or strategy to make use of whatever money you have in a hassle free way. Getting great returns or doing just better than average and just investing are not a very significant part of Financial Planning but achieving goals while taken proper steps as envisaged under proper guidance of a Financial Planner.

Chapter 12

How to get prepared for Emergency Fund?

In your daily financial life, you never expect the unexpected emergency situations. Emergency situations – When something unexpected event comes up in the form of job loss, significant medical expenses, home or auto repairs etc. Suddenly there can also be some trip, some eating out, some expenses related to the kids school or something you've never dreamed of. You were not mentally and financially prepared yourself for these unexpected events and every time they happen, it's like a pinch on your shoe! You didn't think about it and now it's in your life.

Typical Scenario

You must have ever heard something like – "I had planned to buy a car for the last 3 years and I have been saving it regularly with discipline, but in between something urgent and unexpected cropped up as my car servicing had to be done urgently or my brother/ sibling asked me more money this month or my daughter had to see a doctor last week and now suddenly this month budget's gone for a toss!" Eventually, you would break your FDs, or liquidate your mutual funds investments and stop the SIP for few months until back to get normal.

Why does this happen?

Most of the people don't plan anything. They just go with flow. And some people do any kind of planning; even their planning fails at some point of time because of a very simple and over looked factor in financial life, which is "unexpected expenses". A lot of people do not believe in it because for them emergency situation is something which will never happen to them. They tend to think a real emergency is really rare.

How much should be set aside?

Most experts agree that you should keep between three to six months worth of your living expenses set aside in your emergency fund. Depending on your specific situation and whether or not you have children, carry substantial debt and types of insurance coverage will determine what amount is best for you.

The reason you want to have three to six months of expenses saved up is that the most common reason for the need of an emergency fund is due to a sudden loss of income. If you or your spouse loses a job you still have bills to pay and it may take a few months to find suitable new employment.

How to create emergency fund?

If you currently don't have an emergency fund or find it difficult to save money the key is to start small. You have to realize that accumulating one month's worth of expenses will take some time, let alone three to six months. If you set your immediate goals to be small and manageable you will have a better chance in reaching them.

The best way to get started would probably be through your bank. Open up a new savings account if you currently don't have one and begin to save with this first. The next step is to get into the habit of making regular deposits into this account. Whether it is weekly, bi-weekly or monthly, create a schedule and stick to it. Once you make saving automatic you won't even have to think about it.

Where to keep your Emergency Fund?

You should start with a savings account because it is simple to use and generally does not cost anything. The convenience factor is what is important when to begin with. As your account grows you intend to find an account that can earn reasonable interest so that your money does work for you. The next best option to look into is recurring deposits.

It is important to keep an emergency fund in a place that will fairly have liquidity so that you can get to the money quickly in the event of an emergency. You should not to have this money tied into stocks or mutual funds because the volatility of the market could cause you to lose money over the short-term.

Top reasons to have an emergency Fund

If, you have done that and have a good practice to maintain an emergency fund, it will protect your family in case of job loss and provide reserve for any health or other family emergencies. It will give you also the ability to pursue attracting investment opportunities as they come along. It will keep you from losing money since you won't need to sell other investments during down markets and helps you negotiate lower prices on major purchases. Last but not the least, it will reduce stress which will increase health and well being and eliminate numerous marital arguments.

Conclusion

The real reason for having an emergency fund is to make sure that you do not disturb your investments which are already started and automated. The real reason for having it is, so that you have dedicated funds which you will break before reaching out to your other goal oriented investments. Think of it as a layer between your real wealth which you want to grow over long term and money which you want to use in emergency situation. If nothing happens, you can always use up that buffer for your other expenses or goals, it's like a bonus for you.

Chapter 13

My parents never did financial planning?

Our grandfathers, fathers and Uncles have come from a very different time when there were no choices other than LIC polices and FD's. The education was cheap, no competition got exists, every one's desires were limited and people were happy with their limited environment. They were lived in joint families and every member of family was ready to get financial help for his family. There was no major impact on their lives from inflation and taxes. In those times, Fathers generally did not handle money in right way because of lack of knowledge and a different attitude. Hence, they had absolutely no clue about financial planning.

Modern Times

Things have changed today and now we are in a different world which has added pressure, high expectations from life, Education needs lacs today, the costliest one is for the kids these days, forget adults. People are eating out more, people are spending more, choices are more, want more (not need more and to achieve all that we need to grow our more smartly. Buying simple FD's and Endowment policies will Kill you some days without letting you know.

In today's world most of the fathers and Uncles have no idea how to take investing decisions. It's a new and different world now compared to their days. They have not much idea of how things should happen in today's world.

Most Parents today do not understand how to take investing decisions in today's world and environment. Trusting them with this skill can be very costly in today's world. There is no harm in evaluating if they should take it in their hand or not. Be bold!!

Time to Change

Why are you letting your Father take the decisions? What's the reason for it? Is it respect and just because he is the oldest one you know in your family and he has seen more life than you? Do you think it makes him better investor and decision taker than you or someone else? It's not right!! May be he is totally not suitable, Respect and "experience" is fine, but you can't just let them take decisions just no these two criteria. It's dangerous.

It might look rude but believe me, your parents will go some day and all of it is going to come at you some day and not knowing a lot of things that time will be a horrible situation. You don't know how to invest, where to invest, you not knowing the rules of investing, you don't know where you took insurance from, when it maturing, etc is. It's like starting all over again. It can be painful; you are always dependent on your parents then. It's a bad thing.

As we discussed earlier , today's world needs better way of handling investing decisions and a better psychology , A person has to be more updated these days than what our Fathers were in their days .

You may also not be aware of where your parents are investing your money! They might not tell you about it or they may forget to tell you where the documents are kept, when is the maturity of some products and issue like these which look small but can become very major when some bad things happens. We are not saying that parents did wrong at their time, we are saying that the same thing may not work today!

Counter Scenario

On the other hand, we have Father or elderly relatives who are really good; they are experts in field of direct stock investing. Understanding financial planning and have good experience of investing with today's environment, it's always advisable to take their help or at least the guidance in many cases. At the end you have to decide if your parents are the right ones to take decisions for your money or not? It's a personal evaluation to be done.

Financial Freedom

Most of the youngsters still are dependent on their nearest friends and colleague for whom their parents do not do investment planning. They invest as their friends invested but before doing that they should have investigate the whole thing and understand the objective of investments. In today's world, they would definitely have to very proactive and take charge of their financial decisions. They should not depend upon their parents / close relatives for proper financial advice. Instead they should do their own homework and get financial planner's advice and take actions after considering all advices. We have also to understand that parents will not be able to change themselves, so we have to make sure we educate them and change things. We should always involve them in discussions and also educate them. They are helpful while setting goals and exploring unthought-of issues in every goal setting, but the final decision has to be yours only. it's like ***"Suno sab ki , karo mann ki" .***

Chapter 14

Onus of Investor

Do you know that majority of problems in your financial life are purely because of psychological reasons? We are all human beings and are prone to think irrationally at times thereby taking wrong personal financial decisions. Behavioural Finance is the area of finance that combines psychology and finance together and gives you an insight on why a common investor makes mistakes in his decisions.

Today, we are going to discuss **on "What should an investor be responsible for?"**

We buy an insurance policy arbitrarily because the agent was really persuasive or some uncle (or dad's close friend) happened to be an agent and sold us a policy to secure our future. We buy mutual funds, because the poster on the road showed us a fortune and an opportunity not to be missed! Our decisions are based on our friends' recommendations and what we see on television or read on the Internet and newspapers. We keep buying or investing for all the wrong reasons - like pressure from an agent (who is personally related to us and want to cash on that personal touch), a perceived need to save tax etc. And at the end, we call it our "portfolio". Now you could give excuses that the agent was so really persuasive, sold you the policy or you had to oblige your agent uncle. But, in fact the agent has not sold to you, you have bought it. The onus to buy or refuse lies with you.

Just revisit your portfolio and ask yourself how much of it is because of your purposeful planning and meticulous thought? How often you sat down, studied investment products, compared with other similar products available and then shortlisted the one that is the most suitable for you?

Let's imagine a scenario, which will give you a brief idea on "Onus of Investor".

Scenario 1: Ajay does not understand much about investment, but still without blinking an eye he invests Rs. 10,000, Rs. 50,000 or Rs. 1.00 lakh in Insurance or Mutual Fund.

Scenario 2: Now, Ajay goes to the vegetable Market and buys half-a-kg of tomatoes at Rs. 20 a kilogram and each tomato he selects with such care thinking that he has to buy a quality product and not what the seller selects.

If you look at both the scenarios, you will notice that the same person Ajay does not care at all when he is investing in Mutual Fund or Insurance.

Why does it happen?

Truly speaking, the investor doesn't think much when investing in Mutual Fund, but he thinks a lot when he is buying tomatoes, because he understands tomatoes. He does not understand Mutual Fund at all. So investor devotes his time on things which he understands.

What is the Onus of Investor?

Onus of investor is very simple to understand. If you again draw a parallel with the doctors, the doctor doesn't only give you the medicine for your ailments but also tells you that you must change your attitude towards life, you must go for a walk regularly, you must not worry so much, you must do this, and you must do that. It's the responsibility of patient to follow the advice of the doctor rather throwing the onus of treatment on the doctor. The same way, the financial planner is like a financial doctor. He tries to influence the attitude of investor to bring in them the correct attitude.

These attitudes can vary. They can be one extreme like there is no tomorrow, enjoy today **“Kal Ho No Ho”** kind of a person and on the other end there can be a person who thinks that money is too much below his dignity. Even that attitude is quite detrimental to the financial well-being of a person. So the investor should remain away from greed and negligence. He should follow a self-discipline balance approach towards his financial life.

You only have to do a very few things right in your life, so long as you don’t do too many things wrong.” – Warren Buffet

Remember, an investor who never takes risk will never gain anything. His goal of financial well-being will be very small. If you decide to keep liquidity and put all your money into Bank savings account, then definitely you have avoided all risks, but at the same time you have forgone all the upsides which are possible. So it will be the onus of the investor (You) to adopt a correct attitude towards risk, to weigh the risk against the rewards and then take a correct decision. So in all aspects, a financial planner would serve a very important role in assisting you in making right financial choices.

Financial Planner will Educate You

Financial Planners will make you understand reasoning behind every suggestion he offers. He will make sure that you agree and understand everything so that in future you can take similar decisions yourself. Has any Mutual funds advisor told you why SIP is better for you Or Why You should expect great returns in long term from Equity? Has Any Insurance Advisor or agent told you what are the important things you should be aware of before buying a ULIP? Or why you should avoid Endowment Polices for Long term wealth Creation? We doubt there are many of them giving any genuine information.

Financial Planner wants to make your Financial Life Better

Financial Planner's goal is not limited to insurance planning or Investment Planning. In fact a Financial Planner is trying to make your overall Financial Life better and paving a smooth financial path for you, on which you can start walking. Your overall financial life is made up of different components like Insurance Planning, Investment and Retirement planning, Child Future Planning, and Tax Planning etc. A Financial Planner will take care of all these avenues.

Most Indians are totally clueless about financial planning and only in recent years there has been some awareness about it. Most of the people try to fix their finances on their own without accepting that they are not competent enough to do it and they need a professional. Don’t you go to a Doctor or Lawyer or any other Professional and pay them? Then why not hire a Financial Planner? Go Get One!! So onus is on you to make the right choice

Conclusion

So, now we have come to the end of PrudentFP ebook on Personal Finance, but it is beginning for you. Indeed, we do hope this ebook has been a useful read for you – and congratulations once again for taking an interest in improving your personal finances and getting your financial life in order.

We are sure that most of you have not taken your own financial life seriously till now because you feel that it a tedious job but actually it is one of the most important part of your life.

Please remember; Financial Freedom is an ongoing, lifelong process that takes decades of commitment in order to receive the final pay-off. But once it is achieved it will ensure that you have sufficient income every month to make your day to day expenses.

You might be 25 today, so what? You need to plan for your financial life at this very moment. This is because you have sufficient number of years to save money for your improve financial mess and it is most likely that you would achieve your all financial goals. And even if your age is around 45 – 50 and have not thought about financial planning, you should start it immediately otherwise you might not be able to achieve your retirement and other goals and hence you might have to work a little bit longer than you would have thought off.

So, the key to a successful financial planning is to start early in order to make the most of your financial life!

If you have any queries, please feel free to write to us at sureshcfp@gmail.com or simply contact us.

Warm regards,

Suresh K Narula,CFP^CM^

Founder & Principal Financial Planner PrudentFP

"The value of an idea lies in the using of it." *Thomas Edison*