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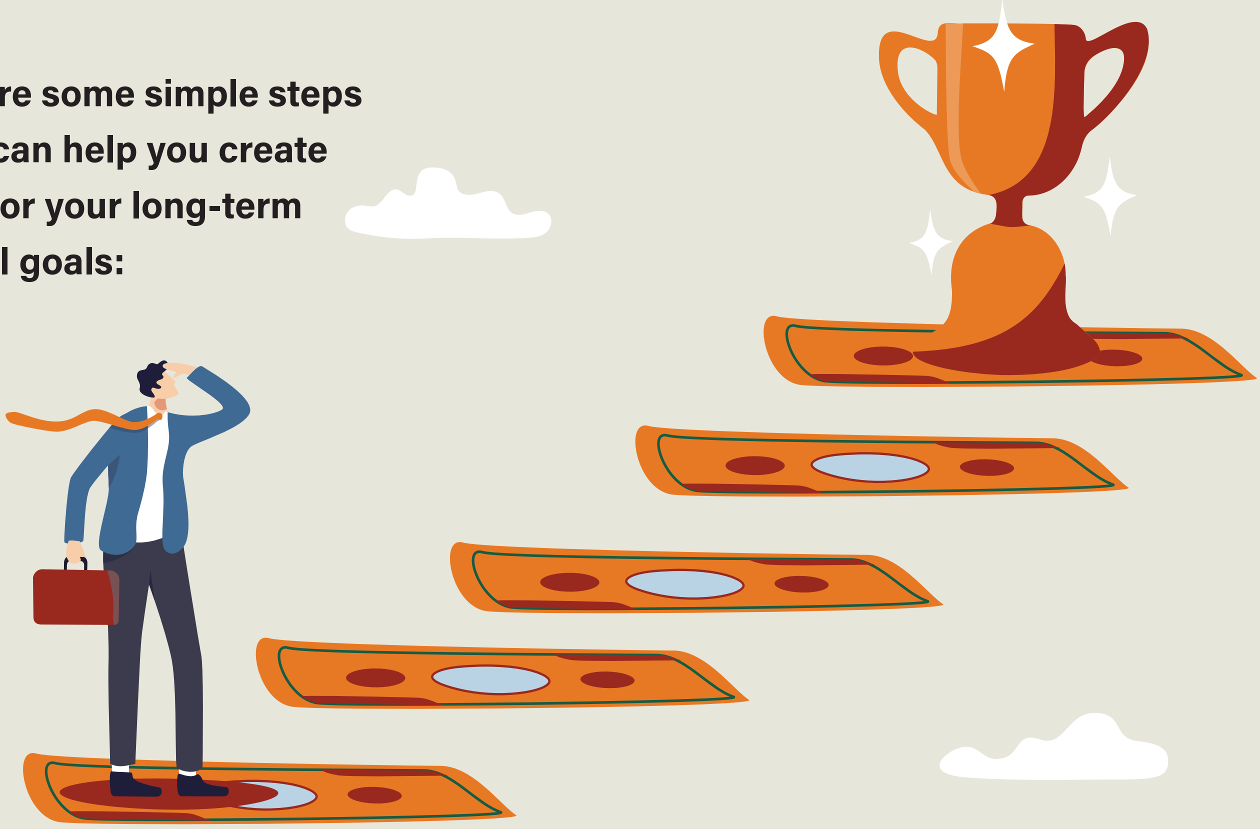
Investments at Your Fingertips

Your Money Guide To Retire Wealthy

The Seven Simple Steps For Long Term Wealth Creation

Here are some simple steps that can help you create wealth for your long-term financial goals:



1. CREATE YOUR MONTHLY BUDGET

This is the first thing you should do if you plan to build long-term wealth. If you haven't yet created a monthly budget, you must do it now. Until you are not aware of how much you are earning and spending, you won't be able to plan properly for the long term.

So, calculate your monthly income, list down your expenses, including the utility bills, tuition fees, loan EMIs, eating, shopping, etc., and evaluate what's left with you to save or invest.

2. SPEND WISELY

While creating a budget, keep in mind that it's crucial to plan your spendings as well. There is an old financial proverb that says, "If you continue to spend on things you don't need, you will soon have to sell things you need".

It doesn't mean that you should hide away your cash and not spend it on something you like. But you need to know where it makes sense to spend and where it's better to hold yourself. Your focus should be to invest the maximum amount for your future.

3. CLEAR YOUR HIGH-INTEREST DEBTS

High-interest debts are not suitable for your financial health. If you have taken a personal loan or you have unpaid credit card bills, try to clear them first before making any investment. It's because you will not earn as much from your investments as you would pay interest on these debts.

Clearing these debts will also provide you peace of mind. You will be able to invest a significant sum of money every month, which you would have otherwise paid as EMIs.

4. CREATE AN EMERGENCY FUND

A sudden emergency can derail your entire financial planning, and you could even lose all that you have accumulated till then. Hence, it's imperative to plan for the contingencies and build a separate emergency fund.

This will ensure that you don't have to touch your savings or investments if an emergency arrives. You will always have a safety net on which you can fall upon.

5. DON'T FORGET TO BUY INSURANCE

Sometimes your emergency fund alone might not be enough to tackle certain situations. For example, what if you get diagnosed with a life-threatening disease and require prolonged treatment? Will your emergency fund be enough to cover pre and post hospitalisation expenses?

If your answer is negative, you must buy insurance plans to get financial coverage against such situations. Apart from the health and life insurance policies, you should also procure insurance plans for your costly assets such as car, home, etc.

6. TRY TO INCREASE YOUR EARNINGS

You might think that you're earning enough. But there is always room for more. You can try to increase your earnings to have even more money to save for your future.

You can try your hands at some part-time work. If you're self-employed, you can increase your income a little more effort. If you're a salaried professional, you can make yourself eligible for raises and promotions.

7. INVEST WISELY

The last and most crucial step to creating long-term wealth is investing your money. We cannot emphasize enough the importance of investing in wealth creation. Let your money work for you, and you will see the magic after years.

While investing your money, it's crucial to create a diversified portfolio. You can choose from many investment vehicles, such as stocks, mutual funds, real estate, commodities, and fixed-return avenues.

Though these steps are simple, it will require discipline and consistency on your part to follow them for a prolonged period. If you feel any doubts regarding where to invest your money, you can take the help of a professional investment advisor.

Keep An Eye On Inflation

Saving money poses the same challenges as earning it. Many acknowledge the fact that the value of money declines with time. It means you can no longer get the same number of goods for Rs. 100 that you used to get a few years ago.

This reduction in the value of money with time is known as inflation. And a popular way to beat inflation is to invest.

But what do you mean by beating inflation?

Beating inflation means earning higher returns on investment than the economy's inflation rate. If the price of products and services increases at a higher rate than the rate of return on your investments, the returns are null and void.

Let us understand this with the help of an example. Suppose you invest Rs 5,000, and the rate of return is 4% for a year—the value of your investment increases to Rs 5,200. But the economy's inflation rate for the year is 6%. The inflation rate exceeds the return on investment, thereby cancelling out the returns you earned.

HOW TO BEAT INFLATION IN INDIA?

When attempting to beat inflation, one of the best strategies is to invest in instruments whose returns are likely to be equivalent to or more than the inflation rate. Investors must perform detailed research on their risk appetite and financial goals before picking the best investments for inflation protection.

"Do not put all your eggs in one basket" is a good piece of advice for investors. Some investments that seem to provide high returns, such as equity-oriented ones, always have higher risk levels. Therefore, keep in mind your goals, risk tolerance, horizon, and inflation rate when selecting your investments.

Here are some investment options available in India that can help you beat inflation and grow your wealth.

1. EQUITY-ORIENTED INVESTMENTS

Stock market investments

Stock markets witness many ups and downs and volatile situations in the shorter term. But in the long term, they can beat inflation. In March 2020, Sensex dropped to approx 25,000 from around 40,000 in January 2020. But in 2021, Sensex crossed the levels of 51,000.

As of April 15, 2021, in 5 years, Sensex has given a return of more than 88% CAGR. The return from individual stocks may differ from the return from benchmark indices. These statistics indicate that the stock market tends to bounce back in the long run. Losses and risks even out. Therefore, investors who make well-researched and goal-based stock market investments can beat inflation.

Equity mutual funds

If investment in individual stocks is not your cup of tea, consider equity mutual funds. You can choose from different sub-categories depending on your requirements as an investor. As of April 2021, most equity fund categories have given 5 and 10-year returns of more than 10%.

2. DEBT-ORIENTED INVESTMENTS

Inflation-indexed bonds

The government of India issues inflation-indexed bonds intending to provide returns that beat inflation. The RBI supervises the bond on the government's behalf and uses index-ratio to alter the principal amount against inflation.

Debt mutual funds

These funds invest in individual bonds. Over 5 to 10 years, many debt mutual fund categories have offered returns between 7 to 10%. There are over 10 subcategories in debt funds with varying risk-return potential. The decision to invest in debt mutual funds to beat inflation depends not only on the returns but also on your goals and risk appetite.

If you are worried about inflation, you should tilt their portfolios towards financial instruments that are likely to do well when prices rise. You may want to pay attention to their financial situation and look at the performance of the economy as a whole. Additionally, you should analyze the risks you are willing to take before selecting investment instruments to find the best strategy for beating inflation.

25,000; 40,000; 51,000 (source – Times of India as of 22nd Jan 2021)

Golden Financial Planning Rules For Gen Z & Millennials

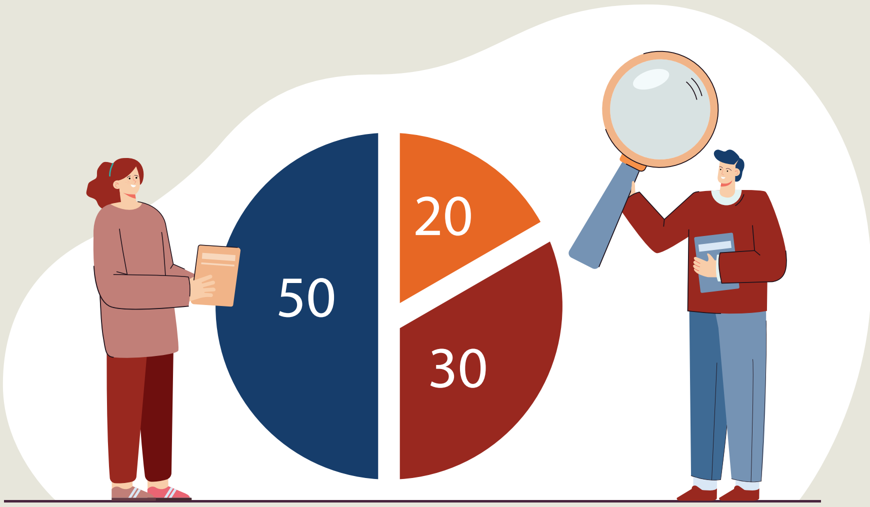
Investing your money is an integral part of personal finance. It can help you fulfil different financial goals and live a comfortable life. Millennials and gen Z have different approaches to money. These generations are not opposed to the idea of risk, as long as they see potential in a particular investment product. However, an instrument that seems high-risk may not always offer high rewards and vice versa. It is essential to be intelligent and prudent when investing your money in an ever-changing world.

HERE ARE A FEW IMPORTANT STEPS FOR MILLENNIALS AND GEN Z FOR INVESTING MONEY:

1. CREATE A BUDGET:

Creating a budget may seem like a thing of the past to keep a tab on their expenses. However, in reality, its relevance cannot be disputed till today. Budgeting helps you understand your relationship with money. It lets you be in charge of your money. Having a realistic budget in place ensures that you do not overspend. It also allows you to plan well for your future needs. This way, you can draft a better financial plan and ensure that you stick to it.

2. USE THE 30 – 20 – 50 RULE:



According to this rule, you must use only 50% of your salary towards your essential expenses like groceries, electricity, water, fuel, etc. 30% of your salary can be used for non-essential expenses like travelling, eating out, buying an electronic item, and more. Lastly, the remaining 20% of your salary should be used for saving and investing. Following this rule can offer millennials and gen Z a roadmap to follow. It can ensure that you always have adequate savings and investments, no matter your income, without hampering your preferred lifestyle.

3. RESEARCH AND LEARN:

The world is at a beautiful crossroads right now. Older investment options like mutual funds, real estate, stocks, and more are ever-present. However, newer investment options like cryptocurrencies, Non-Fungible Tokens (NFTs), etc., are disrupting patterns and rewarding investors with unfathomable gains. There are numerous possibilities to invest your money and earn good returns in this day and age. However, it is vital to not give in to peer pressure or follow a herd mentality. Instead, try to learn as much as you can about the various options in front of you. Invest in the instruments you understand and believe in. With easy access to information on the internet, television, newspapers, and even financial advisors, you can research to expand your horizons and then pick investments that align with your needs.

4. DO NOT FORGET TO DIVERSIFY:

Diversification refers to putting your money in different types of investments, sectors, or markets to distribute your risk and not concentrate it in one place. Diversification ensures that your money is invested in various instruments so that the profits of another can overturn the losses of one. Irrespective of the investments you choose, it is crucial to diversify optimally. So, if you invest in equity and cryptocurrencies, you can also invest in a Public Provident Fund (PPF) or a National Pension Scheme (NPS).

5. STAY CONSISTENT:

Staying consistent is half the battle won. Consistency helps you make small but gradual steps towards your goals. It is crucial to invest and save your money throughout life. If you struggle with continuity, you can consider options like Systematic Investment Plans (SIPs).

The sooner you start investing; the sooner you can reach your goals. Investing early in life also provides you with peace of mind and reduces your stress. Millennials and gen Z have the benefit of age on their side. Taking money matters into your hands right now can undoubtedly add to your advantage.

Prepare For The Ultimate Financial Goal – Retirement

Retirement is supposed to be the stress-free, enjoyment-oriented period of your life. You can, however, only enjoy a happy retirement if you are financially secure. An adequate retirement corpus is imperative to fulfil retirement dreams of travelling, taking up a hobby, relaxing with family, leaving a legacy for your children, and more. But how can you know how much you need for a financially secure retired life?

To determine how much corpus you need to retire, consider the following:

1. KNOW YOUR RETIREMENT TIME HORIZON:

The first step in calculating how much retirement corpus you need is to know how long you have until retirement. The official retirement age in India is 60 years. Nevertheless, you are not obligated to work until that age. You can choose to retire early. But early retirement means you will need more funds for longer post-retirement life, and the accumulation phase for your retirement corpus will be shorter. You will need to collect more money in a short period. Therefore, it is best to begin your retirement planning journey as early as possible, ideally in your 20s.

2. ACCOMMODATE INFLATION:

Saving for retirement is a long process, and inflation has a key role in its success. As you near your retirement, your expenses will grow and hence, your savings should ideally align to meet these high demands. Experts suggest considering a 6% inflation rate for retirement planners.

3. CALCULATE YOUR MONTHLY EXPENSES:

The second step estimates how much monthly expenses you will incur after retirement. This can be accomplished by linking the expenses to your current lifestyle and factoring in the inflation rate over the years. Take your present expenses and deduct any loans repayments or investments. However, be mindful that specific expenses like healthcare, insurance premiums, and emergency expenses tend to rise as you grow older. As an example, if your current monthly expenses are Rs. 40,000 and you have nearly 30 years to retire, your monthly expenses at retirement (based on 6% inflation) will be Rs. 2,29,740 (40,000(1+6%)^30).

4. EXPECTED RETURN FROM RETIREMENT SAVINGS:

During the accumulation phase, you are young, can take high risks and make high-risk investments like stocks. You have time to absorb and overcome losses until retirement. You can invest in stocks, alternative assets, real estate investment trusts (REITs), gold, silver, and other commodities during this period. However, your investment approach will be more conservative than aggressive during retirement. You would prefer low-risk, low-return investment options like Senior Citizens' Savings Scheme (SCSS), National Pension Scheme (NPS), mutual funds, fixed deposits, Monthly Income Schemes (MIS) of banks, etc. Hence, your investment return will likely be between 6-7% annually.

5. INFLATION POST-RETIREMENT:

Your retirement corpus accumulation phase is expected to last for five decades or more. In this period, the inflation rate will likely subside. You can consider a lower inflation rate of nearly 5% for your post-retirement phase, provided your retirement is more than two decades away.

6. CALCULATE YOUR RETIREMENT CORPUS:

Once you know all the factors above, estimating your retirement corpus is quick.

Retirement corpus = Annual retirement expenses *((1-((1+post-retirement inflation)/(1+post-retirement rate of return)^life expectancy after retirement)/(post-retirement rate of return- post-retirement inflation)).

= 27,56,876 *((1-(1+5%)/ (1+7%) ^25)/ (7%-5%)) = Rs. 5,18,38,484.

Given this example, if your expected monthly expenses during retirement are Rs. 40,000 with a 5% post-retirement inflation rate, 6% accumulation inflation rate, and 7% post-retirement return. You may need a retirement corpus as large as Rs. 5.18 crore, given you are at least 30 years old away from retirement and your life expectancy post-retirement is 25 years. However, this is not an absolute number, and the exact figure can alter given the change in variables.

Understanding how much money you will need for a comfortable retirement is important to ensure you can save and invest smartly in the present to fulfil your retirement expectations. You can also use an effective online retirement calculator to know your retirement nest egg requirements.

Start your retirement planning journey now.

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