Starting Early, Starting Right

A young earners' guide to money management

By freefincal.com

Author's note

- Dear reader, this e-book is a compilation of posts from the "young earner" category of my blog, freefincal.com. This is meant as a getting started guide for young earners to start their money-management journey the right way (hopefully).
- The main theme of the book is introspection. If we truly understand what we want, we can take the necessary steps to achieve our goal.
- This book will (might?) help you get started and lay down the foundations of money-management.
- Once you are comfortable about 'what to do' and 'how to go about doing it', you can consider reading the e-book on **DIY money management** available at freefincal.com
- If you think this e-book is useful, do consider sharing it with your friends.

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Money management with an expensive lifestyle

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Many people ask, “how much should I save each month from my salary?”. They are not looking for ‘dumb’ answers like, “invest as much as possible”;”use a retirement calculator and goal calculator to find out”; “have you thought about financial freedom in future?”

They are looking for a nice low percentage like 10%, preferably 5%, so that they can blow the rest free of guilt – ‘I asked in XYZ forum and they said 10% is good enough for start. I can’t do 10% right now. Right now, I am out of money by the middle of the month, but I will get around to 10% soon. I have time!’.

This the familiar refrain of so many young earners today. Perhaps it was always the refrain of young earners. Perhaps that is how it should be!

For many young earners it is a phase. Perhaps it is a necessary phase, perhaps not. Who can tell.

The trouble is, an expensive lifestyle is hard to cast aside. Especially when there are so many choices and so easy to spend.

I can think of two kinds of expensive lifestyles:

Type I Dominated by peer pressure; impulse buying; unhealthy socializing; habits that can not only kill, but also destroy a household etc.

Type II Dominated by passion, an inner urge. A hobby, a pastime that is more fruitful than work or ordinary forms of leisure.

Type I requires curtailing. There is no question about it. An unhealthy lifestyle today, pretty much guarantees an unhealthy lifestyle tomorrow, one way or another (assuming the person survives!).

Preaching will not work. All we can do is to propose an alternative pursuit: *watching money grow productively*

Perhaps if they see this happen, they might take to it and invest more. I cannot think of any other way such a lifestyle can be altered. We can give lofty presentations about power of compounding, cost of postponement, real return etc. but unless they realize the importance of disciplined investing, not much will work.

Type II is tricky. There is no question of curtailing it, unless the person has huge debts because of the hobby. What has got to be done. has got to be done and best done when young. Trouble is, many of these activities are quite expensive. Be it adventure sports, astronomy or photography, the equipment is do darn expensive. There can also be recurring expenses like travel, maintenance etc.

Perhaps a gear related EMI is inevitable for an young earner, but as long as it can be paid each month, it should be okay.

The trouble with this group is that they are always hungry for more! They have one piece of expensive equipment, soon get the hang of it and long for something more expensive!

If upgrading is done frequently, they will be no different from the type I guys.

Striking a balance is crucial. Yes, there are certain things that are best done when young – investing is also one of them!

For example, if you have an expensive hobby, consider investing for 10 months a years, spending the rest as desired. Some such arrangement in which investing is not left out of the equation.

It will take a couple of years to establish this balance, and that is fine. The desire to create such a balance should take us there.

When my wife wanted to take up astronomy and photography, we had to briefly interrupt our investment schedule. To ensure that we did not feel guilty about it, we researched about telescopes, binoculars, tripods and cameras for about 6 months before making the purchase.

They say postponement is one way of curing impulse buying. I agree, but I recommend productive postponement with a survey and comparison of product features. This way we can understand fine print, arrive at a good fit and get bang for the buck.

Many unmarried youngsters state that they have no investment objective. Although incorrect, it is understandable. If only they get to invest that 5% or 10% each month in a productive asset, they will watch it grow and gradually recognize the importance of watching it grow. If only.

A telezoom lens. We dont have one this big, but what we have is heavy enough for me! Photo credit: Ben Salter

On tracking and managing expenses

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A few days ago, I had requested readers to **suggest topics to blog on**. I will be taking up those suggestions in the coming weeks. Let us first look at what **Anand** says:

> *how about covering the other half of income-savings-investments? ie Tracking and wrangling with Expenses? I am keen to understand how an expert like you would log and manage expenses.*
>
> *I went from writing expenses (in a 100 page bound book !) by date – then throwing it away to logging all expenses categorised (eg: groceries, tax, utilities etc) and I noticed wastages and was able to cut down wastages…*

What struck me about his comment was the phrase, "other half of income-savings-investments". Tracking and managing expenses is a deeply personal topic and I think it is best for me to state, 'what I do' and let you critique it.

I have the account notebooks maintained by my great grandfather (would crumble into bits if I try to open it), my grandfather, and of course, my parents – using which I was able to write about, **Inflation in India: Some Real Numbers.**

My parents managed the expenses and tracked them until Jan. 2006. When my dad fell ill, I started to use his notebook along with my wife to track expenses. We used the so-called *envelope system* like my parents. We used plastic dabbas instead of envelopes because they tore often when we repeatedly checked if they were empty or not!

In the envelope system, each type of monthly expense – milk, vegetables, salary for paid help etc. – would be placed in an individual container at the start of the month. The idea is that the basic and mandatory monthly expenses are accounted for, at the start of the month itself. Only the amount in the container should be (theoretically speaking!) used for a particular expense. Each month we would try and keep some dabbas in different places in the house to see if that would prove lucky and reduce our expenses. No such luck.

In 2007, I switched from a notebook to a graphing software called Microcal Origin. I had never used Excel at that time. I still maintain that file, but do not write all entries.

Soon when I started making retirement and goal planning calculators, my emphasis shifted from "how are we spending?" to "how much are we investing?". That was a bit of a watershed moment for us. The goal each month was to invest as much as possible. Initially, I was not able to invest as much the calculators told me to.

Somewhere along the line, I realized that as long we invested enough, it did not matter how much we spent (without borrowing). That is when I decided to give up the envelope system.

The key, in my opinion, is to track investments. Not expenses and not definitely not returns (at least for the first few years). So I created columns in Excel where the monthly investment target for retirement and other long-term goal were listed for the current year. I decided to increase this investment amount by say, 8-10% each year.

Later on I developed it into a monthly tracker (download link below) which everyone could use. Here is a screenshot to illustrate my point.

Annual increase in investment 10.00% **Enter the total invement made each for this goal in the green cells**

S.no	Year	Investment		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug	Sep	Oct	Nov	Dec.
		Target	Actual (average)												
1	2014	43,413													
2	2015	47,754													
3	2016	52,530													
4	2017	57,783													
5	2018	63,561													
6	2019	69,917													
7	2020	76,909													
8	2021	84,600													
9	2022	93,060													
10	2023	1,02,366													
11	2024	1,12,603													
12	2025	1,23,863													
13	2026	1,36,249													
14	2027	1,49,874													
15	2028	1,64,861													
16	2029	1,81,347													
17	2030	1,99,482													
18	2031	2,19,430													
19	2032	2,41,373													
20	2033	2,65,511													
21	2034	2,92,062													
22	2035	3,21,268													
23	2036	3,53,395													
24	2037	3,88,734													

Retirement

I tried to beat the target as much as possible that it irritated my wife. At times we did not have enough to meet monthly expenses because I would have invested a large chunk of my salary as soon as I got it. Yes, 'pay yourself first', expenses = income – investments, and all that sort of thing. It worked wonders to my net worth.

Unfortunately, I was a little too obsessed about investing. For close to 5 years, I was able to invest like clockwork. Thankfully, much of that was during the sideway market after 2008.

Unfortunately, soon I witnessed **the perils of unexpected recurring expenses.** My mon broker her hip (read about **my experience with cashless mediclaim**) and required a daily attendent. This sent my cash flow for a toss. My investment schdule was severly affected and it took me quite a while to recover. Fortunately, the markets started to moved up around that time and all that "capital in the market" paid off big time. By December last year, I was able to catch up with my investment schedule.

My point is, first I was obsessed about tracking expenses. I got over that, but instead became obsessed about investing each month. I soon realised that life can make investing regularly difficult at times. Now I am a lot more relaxed. As long as I meet my target for the year, I am fine. Don't need to do it each month.

If you are a young earner, I suggest you do not track your expenses or spending habits (get rid of those budgeting apps). Instead, focus on your long term goals and how much you need to invest for each of them. Set your targets and do your best to meet it at least on yearly basis. If you do it on a monthly basis, you can engage in some guit-free spending faster!

You can use this monthly financial tracker for this purpose. This is based on the version that I use, but only much more neater! If anyone wants to build an app based on this, do let me know

Download the monthly financial tracker

Looking for books on personal finance? Know what to look for first!

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"I am beginner. What books should I read to learn the basics of personal finance and money management?", is a standard question asked in most forums.

The answer is not a list of books! The answer is not 'Rich Grandma. Poor Grandma!'

I love books. I love buying them, collecting them, being among them, smelling them, shelving them. Pretty much everything except reading them! Many who interact with me assume that I am well read and find it strange when I tell them I simply can't focus hard enough to read. So how did I manage? (assuming I do!).

I think asking for books, before knowing what to look for, is a waste of time. Books are informative, yes, but only those who know how to process that information can convert it into knowledge.

Process meaning, recognizing context, limitations, assumptions etc.

It is all about the key word!

Some say Google is a source of knowledge. Some say it is a source of information. It is primarily a source of noise which their bots cough up in under 0.5 seconds *in response to your search terms*. To quickly narrow down on the most relevant links the quality of the key words used in the search matter. If you type in too general keywords, the real gems would be obscured by pages who use 'SEO techniques' to figure higher in the search pages.

So it all about the key word. The right key word could get us the pages with right information and with luck it would pre-processed with useful perspective.

The question is, *how do I know the right keyword? How do I know what to look for? What book do I read for figuring out what books I ought to read?!*

My experience is that this happens by accident. In fact I suggest you create such accidents!

Don't ask vague questions, like what do I read!

Be specific when you post in online forums: I have XXX requirement and am looking for YYY. Ask a specific questions, you will get a specific answer (from at least a few people!).

Specific answers would be ripe with key words, which you can explore further.

If you don't know what you need, there are enough 'getting started' articles available online. These give you a list of requirements which can be modified to personal circumstances.

Sometimes specific opinionated comments to blog posts help!

Many years ago, when Jagoinvestor was a blog for DIY investors, Manish had written a post on retirement planning. I had made a comment (don't remember what I said).

Subra(money.com) responded (first interaction!) angrily. He said unless a person knows about building a *retirement basket*, *laddered annuities, income laddering,* they cannot claim to know about retirement planning.

I still have that comment stored in my old computer. For a person trying to find out more about retirement planning, Subra's comment was literally gold. It had all the keywords I needed to make specific searches.

Practically the post-retirement strategy posts that you see today (bucket method, inflation protected income etc.) originate from Subra's comment.

That is the power of the right key word. That is the power of knowing what to look for.

My search led me to Jim Otar's book: *Unveiling the Retirement Myth*

It practically gave me everything I was looking for. All the formulae for compounding and annuities. Understanding risk, volatility, importance of back-testing, asset allocation and much more. It was my one stop shop, as they say.

The same is true with creating Excel sheets. People ask me for books from which they can learn Excel from and I tell them I just Google. I knew what exactly I was looking for and hence could find it easily.

When it comes to personal finance, a desire to plan meticulously will tell you what needs to be done. That in turn will lead you to resources as to how that should be done. You implement, plan for the next step. Rinse and repeat.

As simple as that.

I think books ought to be treated as a means to an end. Be it pleasure or unprocessed information.

‘Passive’ income requires ‘active’ involvement!

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After reading well-spun yarn like ‘Rich Dad, Poor Dad’, many start talking about the importance of financial independence and passive income. There is no free lunch in the universe and there is no such thing called ‘passive’ income. A look at some well-known passive income ‘streams’ and what it takes to make them count.

Income from rental property

If you are earning rental income from ancestral property which you naturally inherited (without litigation etc.) then it is sheer luck. It is perhaps passive, but it unplanned. So does not count.

If you have purchased a property in the hope of generating income, would it count as passive?

If the property was purchased with a loan, then until it is closed out, there is nothing passive about the rental income. After the loan is closed, assuming regular tenants are available, the income is passive. So passive that the rental yield after (or before) taxes and adjusted for inflation will steadily remain close to zero.

The real cost of generating such passive income will be felt only years later, when the landlord does not want to sell the property and leave it as an estate to heirs.

Income from talent

You have a special talent (eg. writing, photography, baking) which is not (directly) involved in your day job. Perhaps you can derive an income from it, ‘on the side’? Would it count as passive?

Unless you are a J. K Rowling or an Uderzo, or Stan Lee, you cannot hope to generate continuous income from work done in the past. Perhaps you might have a large stack of unpublished material which could be gradually monetized. Those are lucky accidents. Does not count.

You need to work your talent continuously in order to derive regular income.

Source: Taxcredits.net

Income from blogging

Many people start a blog to make money. Which is like putting the cart before the horse. To make money from a blog, one needs to find a suitable niche (popularity is irrelevant. In fact rare niches are better). The blogger must have expertise in that niche(which is often ignored) , must blog frequently, be mindful of search engine optimization techniques, site speed, answer comments etcetera. Most important of all, the blogger must have the enthusiasm to churn out regular content.

Assuming all of the above is a given, there are many ways to generate income from a blog.

Google Adsense Big brother google has an ad program where readers will have to click on the ads for the blogger to generate money. This July,freefincal crossed 1.5L monthly page views(not spectacular, but decent). Suppose only 1% of those readers click on the ads (which typically point to 'best' stocks, mutual funds, term plan etc.) and if each click pays about 0.1- 0.25 USD, the monthly earning will be about 150-375 USD or about Rs. 10,000- 24,000.

If you are thinking, 'that is not bad', please recognize the effort it takes each month to make that much. If I took a break from blogging for a month, the income could drop significantly. If you think 'that is not enough', imagine the effort it will take to improve earnings. If you are thinking one can earn 'passive' income by setting up a website or a blog, think again. It may be possible for some niches and by some people. They are exceptions. but most people would struggle.

Hosting ads Once your blogs Alexa rank heads close to the 1,00,000 mark, advertisers will request you to host ads for a fee. I don't know about the rates (I always say no), but I do know that, they will not renew their contract if the traffic reduces.

Therefore, a site constantly updated with topical content is crucial for ad revenue. While writing such content, if there is a drop in quality, there could be a drop in readership!

Affiliate links This is the new menace. Affiliate links are everywhere. If not done right, it is a sure shot way to drive away the audience. Manish Chauhan recently learned it the hard way. Very few people can manage to sound professional while earning from affiliate links, which will take quite a bit of effort for such income to be significant. If you think, all you need to do is to write a 'review' with an affiliate link is that needs to be done, think

again. Very few people can pull that off.

Also, many do not realize that successful website owners or bloggers make a big chunk of money from offline activities. The website only serves for lead generation (more on this later).

NB. I don't host ads because that would make me feel like a fool. I say 'don't buy a pension plan' and Googles bot would serve up 'best pension plan' ads. How would you feel if you saw a distributor portals ad when I talk about direct plans every now and then. As for affiliate links, they just plain stink. How can I write a neutral review when I want to earn from the product? Of course, such meaningless notions are 'out of syllabus' for this post.

Income from financial instruments

I do not wish to discuss avenues like an **income ladder** (with FDs) or annuities which are used to generate passive income in retirement. That is a deliberate effort on out part to generate income from a corpus.

What about dividends from stocks, is that passive? Not really. You cannot close your eyes on the health of the underlying business. You may need to make tactical calls wrt those holdings. So don't think it is all that passive.

Passive income cannot provide you inflation protected income in retirement.

Income from network marketing

I could not believe how many Indian bloggers list this (MLM) as a valid passive income idea. Recipe for disaster.

Passive income is a misnomer!

Let us face it, there is no such thing as passive income unless we are lucky or extremely talent so that our work will stand the test of time. Standard ways or generating income are anything but passive. Call it a supplemental income if you will, but let us please not call it passive.

You don't need passive income!

All I need for financial independence is a large enough nest egg from which I will generate **inflation-protected income**

If I have to worry about maintaining a passive income source when I financial free, I am not really free!

Yes, we could all use a supplemental income. It requires effort and I willing to put in that effort to hasten my financial independence. After I am independent, such supplement income and the effort associated should be optional.

Personal Finance Essentials For Young Earners

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I am a 'zero' when it comes to personal finance! Where do I start? I would like to change my attitude towards money and my financial status. Please point me to a good blog or book.

If these statements reflects the state of your mind or if you know people who feel that way, here is a list of personal finance essentials for you or your contacts to work on.

Credits: This post is based on emails, comments on blog and in facebook group Asan Ideas for Wealth and encouragement from Ms. Charulatha Varadarajan.

Background

When I started my third post-doctoral assignment in a national lab, I was asked to automate (run via computer) a sophisticated instrument for measuring small magnetic fields.

It was a monster of an equipment and I knew nothing about writing code to automate instruments. I had to learn the coding from scratch. I tried reading books on how to master a programming language called 'labview'. I thought of attending training sessions for it.

I got nowhere. I decided to learn the language piece by piece. Instead of worrying about basic commands and learning them, I asked myself

What is the first step I need to take in order to operate the instrument?

I knew the answer to that (nothing more than commonsense).

I sought to write code for that step alone. I ignored all the 'basic lessons in programming'. I had a requirement and I sought a solution for it.

I searched for that online. I soon got an answer.

I then focussed on the next step, wrote an independent piece of code and attached it to the first piece and so on.

By the 3rd or 4th step the skeleton of the code was forming. I also learnt a decent amount of Labview commands that helped me complete future steps fast.

Soon I wrote a decent working code. It was far from optimal but got the job done without crashing the computer.

This experience immensely helped me in life,

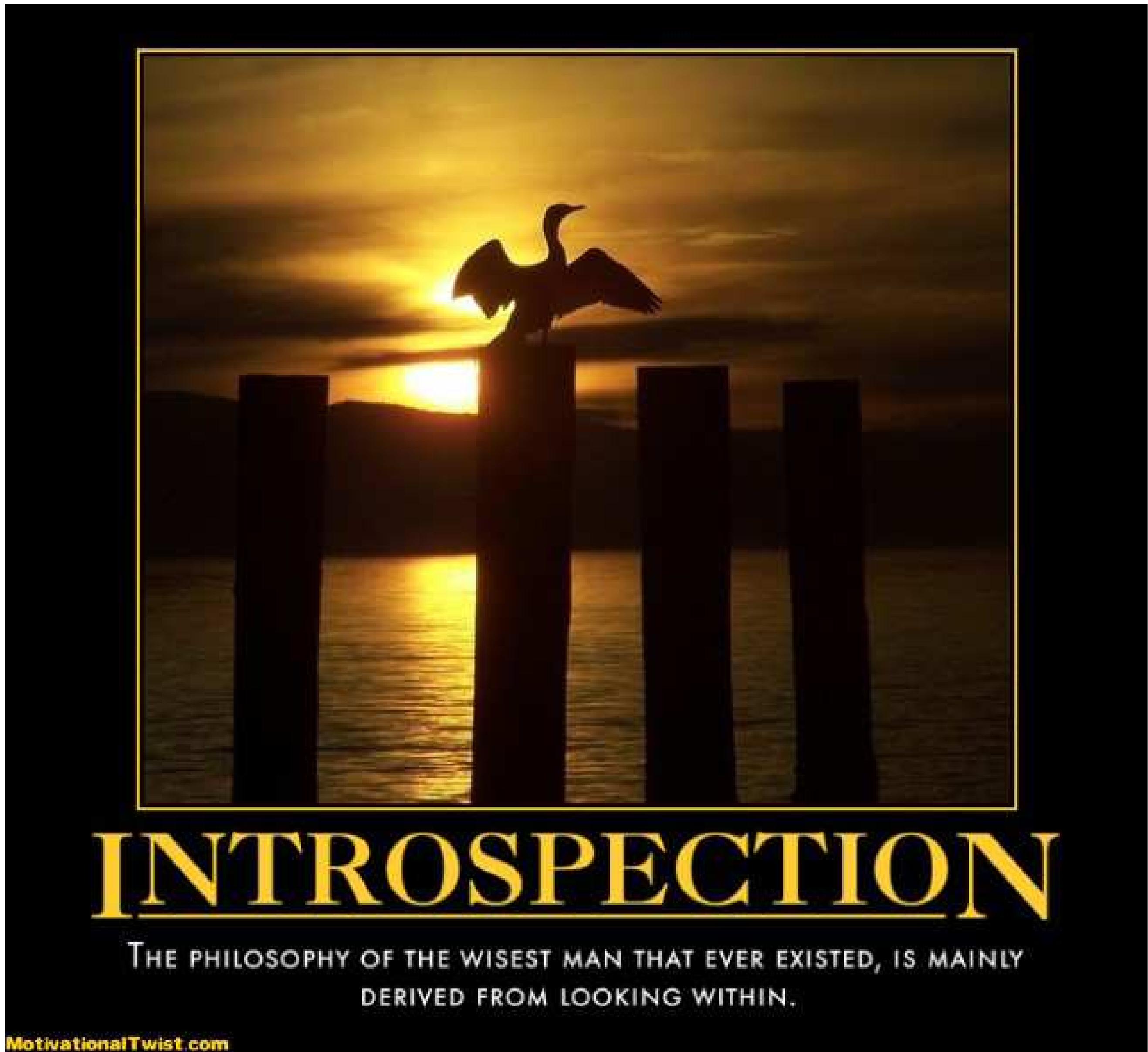
- when I was putting my financial life in order I just followed the same method outlined above,
- when I started making Excel calculators, I was a zero in Excel. I followed the same method.

In this post, I would like adapt this method to set down a list of personal finance essentials for young earners.

Shut yourself out

Don't worry about reading books on personal finance, blogs or the business channel. Stay away from all of them.

The answers lie within you! Yes you. You hold the key to financial control. No one else. Never ever, forget that.



Don't worry about reading books on personal finance, blogs or the business channel. Stay away from all of them.

The answers lie within you! Yes you. You are the key to your financial control. No one else. Never ever, forget that.

Find yourself a quiet corner

Switch your mobile phone, toss your i-pad or laptop aside. You will need to think about your life. The more you think the more action items you can list.

Solved Examples!

Here are a list of questions for you to think about. This is just get you started. Once you get the hang of it, the questions will form on their own.

1. Do you have money to handle a sudden expenditure? Say your bike is parked in the road and a truck rams into it. Do you have the cash to repair your bike?
2. What if you were sitting on the bike when the truck hit you? How will you manage hospital expenses?
3. What if you did not survive the above accident? How will your dependents manage monthly expenses? How will your children study?

4. Are you in debt? Owe someone or something(!) money? Pay EMIs for an appliance/gadget? Have a personal loan?
5. You manage expenses now because you have an income. Years from now, when your income stops, how will you manage?
6. Do you have a forthcoming 'major' expense this year, the next, 5 years from now?

How to get started: Young, unmarried, earner

Activity zero: Do not buy any product for tax-saving! Do not open a PPF account!

Activity 1: Scrap up all the money you can and put it in a bank account. Take a part of it and open an online fixed deposit. This will be your **emergency fund**. You will need an amount equal to about 6 times your monthly expenses or more. So don't stop until then.

Activity 2: Get yourself a mediclaim policy even if your employer offers you one. Ensure you cover your parents also. Get as high a cover as possible and increase it each year. Understand associated tax benefits.

Deadline: 10 days! One week to read about mediclaim policies and 3 days to get yourself one

Activity 3: Resolve to clear your appliance/gadget EMIs, credit card dues, personal loan etc. Scrap up some more money and prepay from time to time.

Activity 4: Start investing in mutual funds. If your total 80C deduction is below the Rs. 1.5 Lakhs limit, aim to invest as much as possible in ELSS mutual funds. Open an account with an AMC and invest as much as possible from time to time. Do not start a SIP in ELSS fund! Need help choosing a mutual fund, read this **guide**.

- Do not buy a ULIP
- Do not buy an endowment policy
- Do not buy a pension plan
- Do not buy a child plan
- Do not talk to your relationship manager!
- If you complete the above steps, you will not have money in your SB account! So your relationship manager will not talk to you!

Do the above, one after the other. You are sure to feel good about yourself. You could then act on your other requirements, read more etc.

How to get started: Young, married, earner

Activity zero: Do not buy any product for tax-saving! Do not open a PPF account!

Buy yourself a pure term insurance policy online for a sum equal to at least 15 times your annual income. If you can afford more, buy more. Make sure you buy it only for next 20-25 years. That is as close to your retirement age as possible.

Activity 1: Emergency fund. Same as above

Activity 2: Mediclaim Policy. Same as above. Include your wife and her dependents if needed.

Activity 3: Get out of bad debt. Same as above

Activity 4: Mutual Fund investing. Same as above

Activity 5: If you have kids, think about their future needs: education, marriage etc. and how you are going to

invest for those.

Read no books until you have completed these basic steps.

Read no blogs/magazines without a purpose.

The questions lie within you.

The answers lie within you.

Tackle one question at a time. Answer it. Act on it and move on to the next. This post only aims to sort the essential questions in the right order.

"Knowing yourself is the beginning of all wisdom."

~Aristotle

EPIC Inspirational Quotes

Notes on Financial Fortification

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Life insurance, health insurance, accident insurance and critical illness insurance are tailor-made fortification products that help a family tackle unpleasant and unexpected developments. Be it expenses due to hospitalization, or loss or decrease in income due to death, accident or a critical illness. I refer to them as fortification products because they protect the families long-term goals like retirement, children's education, marriage etc. They protect by minimizing the chance of redeeming the corpus meant for these goals. They protect by minimizing the chances of interrupting the compounding of the corpus.

Here are some thoughts on the fortification process.

Emergency Fund

A emergency fund is also a crucial fortification step but we do not have a tailor-made product for this and nor is it necessary. As long as we can find a way to replenish the emergency fund when it is used, where we put the fund is pretty much irrelevant. Of course the chosen instrument must be liquid.

The problem is the amount! (see below)

Pure Term Life Insurance

Those who realize a term plan is crucial either choose to seek a one Crore policy or worry about the **how much insurance cover is required**.

Unfortunately both approaches do not count for much because the insurer has an upper limit typically based on an individuals income and risk profile.

Therefore, I think it would be best to identify 2/3 insurers one is comfortable with, write to them with basic profile details and determine the maximum cover they are willing to offer.

Then write an action plan: How much should I allocate for

1. squaring off liabilities
2. inflation protected income and for how many years (perhaps until the kids are old enough to work
3. generating an inflation-protected sum for school fees (including training and coaching classes)
4. college fees
5. marriage expenses (if possible)

Use the Comprehensive Child planner to work this out: **How to plan for your child's education and marriage**

Remember: having a term plan is good but what if your nominee buys wrong products? So prepare an action plan and discuss it with your nominee

Understand how best the maximum eligible sum insured should be distributed among these buckets, write it down and discuss and give copies to your nominee and someone else you can trust. Be sure to include the name of a fee-only planner (see link on the top right).

Ask your nominee to contact the fee-only planner, if needed, as soon as you are ready to submit the claim. They should be able to guide through the claim-settlement process (for a fee of course) and allocate the sum into different buckets as per your plan.

Also see: **Things to do AFTER you take a term insurance policy!**

Health Insurance

Having a health cover is indispensable. However it is important to recognize that cashless claim is more of a privilege than a right. Reimbursement is a right. So do not be sure cashless will be approved. Meaning you need money – much more than 12 times monthly expenses!

Emergency fund is a long-term goal. It is an insatiable monster which needs to be fed constantly.

Read more: **How Long Should I Maintain an Emergency Fund?**

Print the necessary steps to be completed before and after hospitalization and store it along with the insurance policy and card. It would be better if the spouse and other members read it.

Accident Insurance

This is a must-have for professionals and those in the cut-throat corporate world.

The product is rather complex. The claim will be paid in full only for certain types of accident. All others would only get some percentage of the sum insured.

Also one does not need to suffer an accident to lose income. There are many other ailments which would render a person disabled.

How much accident insurance should I have? If I die, family expenses might decrease as I am no longer around.

If I am rendered disable, my family expenses are likely to increase and sharply. So an accident cover should be higher than a term cover.

Unfortunately this is rarely the case.

Getting an accident insurance policy for 10,20,30L is inadequate.

Not everyone will get high cover. It depends on the income and the kind of job

The bigger problem is that many insurers offer quite low cover. The max cover I have seen is 1 Crore from Tata AIG.

The only upside is that the price of sum insured of tens of lakhs is quite inexpensive.

Stay away from any group insurance policy offered by Banks.

Critical Illness Insurance

Again a complex product. You need to get critically ill (and not die within a month) *in a certain way.*

See more: **Critical Illness Insurance Policies: Do You Really Need One?**

Again the sum insured in most CI products is not as large as a term plan. But the policy is much more expensive than a term plan.

I would prefer to buy a CI cover if there is some history if CI in my family. But then again, do you stop with first cousins or second cousins? Search hard enough and every family will have CI case!

If all our investible surplus goes to insurance policies (that do not offer bonuses!) where will we have money to invest for our financial goals!

So we either buy all types of policies for low cover or avoid certain types of policies (CI or accident that is. Rest

are mandatory).

Alas either way it is not an easy decision.

Perhaps one could buy about 30L of accident cover, 30L of CI cover and get as high a term cover and mediclaim as possible, but the total premium would be close to 1L for a 30-something.

If we are lucky, don't get to use the CI and accident policies and the health cover rarely, we can focus on investing.

If we invest to the best of our ability in productive assets, hopefully we would have more than enough to handle unexpected big ticket expenses a couple of decades later. Building a rock-solid fortification takes time and luck. Lots of both

Pechersk Lavra fortification a system of walls, towers and other constructions built for the protection of the Cave Monastery in Kiev, the capital of Ukraine

Terms of reference for money management

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I had a chance to speak to the employees of a Hyderabad based mobile tech company. I wanted to build that talk around the terms of references needed for money management. I could think of three crucial objectives:

1. insurance
2. inflation
3. peace of mind

I was able to cover the first two points but could not get to ‘peace of mind’. In this post, let us try and discuss it.

Type ‘comfort zone’ in Google and you will find a series of articles and imgaes which will tell you *step out* of your comfort zone.

With respect to a career or achieving things, I fully agree. “We must find our comfort zone and leave it” (source unknown).

However, when it comes to money management, I think one needs to *stay well inside one’s comfort zone*, **after** recognising the importance of insurance and inflation.

For regular readers and personal finance aficionados, the first two terms of reference will be quite familiar. Nevertheless, let us run through them quickly.

Insurance

Emergency insurance*, life insurance, health insurance and accident insurance.

* with a cash stash

I have written enough about this and do not wish to say any further. If you are interested in knowing more, you can look at:

Notes on financial fortification

Inflation

The objective here is quite simple. Inflation devalues money. So when you have an expense in future, you need to ensure you have enough money to be able to afford it.

Factoring inflation is the key. How you choose to beat inflation is up to you.

You can either invest in equity and hope to grow your investments at a pace higher than inflation.

Or you can use fixed income (money-back policies, FDs etc.) products and invest more to compensate for a return lower than inflation.

Which bring us to ‘peace of mind’ or comfort zone.

Note: inflation has an impact on short-term goals as well. However, it is a bad idea to try and beat it with better returns. Too risky.

Use this tool to understand the importance of beating inflation with returns **and/or** with capital

Visual Goal Planner

There is more to investing than obtaining real returns

Peace of mind aka Comfort zone

Once you recognise the importance of the first two terms of reference, you need to choose instruments for implementation.

For insurance, the products are rather simple: pure term life insurance, medicalim, accident insurance policy, some rainy day money kept in SB account (for a start) should do.

Inflation is a tougher cookie to handle.

For people (like me) who were fortunate enough not to invest in any product *before* coming to know about inflation the choice is simple:

equity (stocks) is the only instrument with highest liquidity and potential to beat inflation over the long term (min 10 years)

The simplest way to get equity exposure is via an equity mutual fund where a firm collects money from individuals and assigns a person to manage it by selecting the right kind of stocks.

One can also buy stocks directly and manage them, but that is a tougher proposition, in terms of digesting emotional upheavals associated with our decisions and market movements. Choosing equity funds is a simpler and relatively less stressful option.

If you wish to beat inflation with fixed income, then that is your comfort zone.

The trouble is with people who purchased and got used to fixed income products before understanding the importance of factoring in inflation. They have developed a sense of comfort, without understanding the nature of the financial goals they are planning for.

It would be disastrous if they wish to remain in their comfort zone of fixed income. That is the point of this post:

The terms of reference should be considered in the order in which is has been listed:

1. Insure your financial life
2. Factor inflation for financial goals
3. Choose how to beat inflation within your comfort zone.

The plain truth is that most of us cannot beat inflation with fixed income, *even on paper*. We simply cannot manage to invest the amount necessary.

Hence, equity exposure is mandatory for most people. The amount of equity exposure can neither be too low (will not make an impact) or too high (too risky), but can be set to something comfortable (I like 60% for long-term goals).

The other debate is stocks vs mutual funds (or stocks+mutua funds).

As long as inflation is factored in, it does not matter you do, as long as you comfortable about it.

Personal finance is all about peace of mind, but with basic fortifications in place.

Building a comfort zone cannot and should not be done overnight. It will typically take a few years to decide comfortable equity allocation (including 0%), whether to choose mutual funds or direct equity or a combination of both.

A comfort zone must be built with introspection – on what we think will work. Not what others think will work!

DIY Personal Finance: How long does it take anyway?

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Every time there is an article that points out that direct mutual funds will return more than regular plans, distributors (whether they offer financial planning services or not) are quick to point out that fund selection and management takes times and effort and is *'not for everyone'*.

This is absolute bollocks.

Go to a bank or post office and you can locate a board that lists typical transaction times. Here is how long each basic step in financial planning will take.

Assumptions:

- You know that equity investing is necessary to combat inflation.
- You recognise the bad investments in your folio and have decided what to do about them. If not, spend a couple of hours over a weekend to sort this out.
- You dont have any debt except a home-loan. If you do, perform steps 1-8 below, clear your debt and then resume.
- You do not ask for product solutions in Asan Ideas for Wealth. Do that and the decision making time will at least triple.

1) Scrounge around for extra cash to set up an emergency fund. – **10 mins** to think about it and less than a few hours to implement it.

2) Follow it up by allocating at least 10% of your salary each month to this emergency fund until it grows to a decent size – **10 mins** to automate this process

3) Use **this** term insurance calculator if you are an umarried earner or **this** one if you have kids, to find out how much life insurance you need. This would take **20-30 mins**

4) Read **How to Buy a Term Life Insurance Policy** **(20 mins)**

5) Shortlist life insurers (do not ask anyones opinon. This is personal finance). Find out by either using their online calculators or by contacting them, how much insurance you will get for your profile. If this is more than what you need, you can always reduce. If this is less, return to step (3) and work out how best this sum insured can be utilized. **(over 2-3 days since there is correspondence involved. Not more than 30 mins a day)**

6) Apply for the policy, take the medicals and wait. A single policy is all that you need. If the premium is loaded, you will need to take a call on the sum insured. **(over 2-3 days)**

7) Read **How to Buy a Health Insurance Policy** **(20 mins)**

8) Shortlist health insurers (do not ask anyones opinon. This is personal finance). Take a call. **Max 2 weekends:** One hour in one weekend to shortlist and another hour the next weekend to decice. You have the week inbetween to mull over.

9) Use the **financial plan creator** to see where you stand **(one hour)**. Take another hour to introspect. Will your income grow as much as you dream? How are you going to balance your needs and wants. This is list issues. Solutions can be obtained over a course of time.

10) Decide asset allocation (% in equity and % in debt) for each of your financial goals. A simple cheat sheet to get you started. Modify after experience.

- Annual goals and goals less than 5Y away: no equity (choose simple safe instruments immediately)
- Goal between 5-10Y: 20-30% equity (conservative,5-6Y); 60-70% equity (agressive, choose for 9,10Y); above that (madness)
- Goal above 10Y: Max 60%-70% equity.

Use this as a thumb rule to get started on goal-based asset allocation. You can always fine tune later.

Spend a few hours over a week and then decide.

11) Decide on investment strategy: one portfolio for all long-term goals or separate. Either will work. Just that you need to think about it. **Read more** about this if you like. **Spend a weekend deciding, but not more**

12) How will the equity folio be assembled ? Same for debt. Aim for minimal no of investments. Too many ways to do this. Best to keep it simple:

One large cap fund and one mid and small-cap fund with no overlap

Debt folio: Use PPF for goals 15 financial years away. Use **short-term debt funds** for other goals.

Suggest you start with this. You can read more and add more later!

13) Choose instruments. With the guides available here(links on top right), it should take you **20 mins** to short-list equity funds and **2o mins** for debt funds. Worry about tax planning only now. It should be integrated with goal-planning.

14) Begin investing (over the course of **3-4 weeks**) in direct mutual funds of course!

14) Monitor only monthly investment and not fund performance each month (**10-2o mins**)

15) Monitor fund performance after a few years. I have a **post** on this. You can read it when you find the time. There is no flaming hurry.

Monitor only every few months (**10-20 mins**)

Photo Credit: BarkBud (flickr)

That is all there is to it. If needed add an accident insurance (same time as health insurance).

To summarize:

- 1 weekend for setting up emergency fund
- 2 weekends for obtaining life insurance
- 2 weekends for obtaining health insurance
- 1 weekend to access financial goals
- 1 week to decide asset allocation (few hours only)
- 1 week to decide investment strategy and assemble folio (few hours only)
- 1 weekend to choose instruments for goals with tax planning integrated into these goals.
- 1 month to start and complete all investments.
- All of the above can be completed in under 3 months or at best 6 months. Recognise that the total amount of hours you will spend will be quite small. When I say weekend, I dont mean the entire weekend – just an hour or so.

Then monthly monitoring of investments each week. Let me know if I missed any activity.

Here is a list of **'how-to' articles**. If you want more clarity on any of the above activities, let me know.

Review growth after few years. The review process will only take an hour.

Performing these tasks require only inclination. Confidence will help but it can be developed. Even those with no confidence and (self-procalimed) low grasping skills can manage to complete this by spending a few hours over an year. That is no small achievement.

The DIY investor can learn and implement, step by step. He/she can work and enjoy life as usual. The effort associated with DIY will not hamper their activities in anyway.

I am sure the IFAs and financial planners are, by now going,

- "if only it was that simple". Ignore them. It **is** that simple.
- "not everyone is capable of doiing all this". I agree. Such people are also incapable of seeing through those who offer financial services and select a 'good' planner or adviser for themselves. They would actually fare better with DIY if they gave it a shot.
- If they don't they will be stuck in a rut forever. Which is fine. We need such people to buy bad products, make short-term calls in the markets etc.
- DIY investing or paid advisory is not for everyone. It shouldn't be. If everybody did the right thing, who will you sell your gains to, when you need the money?
- The truth is, equity mutual funds sell only when the market picks up. Hand-holding helps only but only helps a few.

What about the investors? Does this look like too much work?

Whose life/money is it anyway?

Take it one step at a time and see where it goes. That is all that can be said. The rest is up to the individual.

Do you know your financial comfort zone, and are you in it?

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Type 'comfort zone' in Google and you only find articles that tell you to step out of it. So why am I asking you to step into it?!

If financial literacy was a course, it would have an extremely small syllabus:

1) Understand the impact of inflation and design a way to combat it.

2) Insure yourself (family) against unexpected events while you are engaged in the above.

That is it! There are other aspects, but there is no flaming hurry to get to them.

Some people choose equity to combat inflation, and some would like to use only fixed income products. As long as the latter group makes up for the lower return by investing more (which they typically don't), there is no problem.

It is **personal** finance, and it is immature to think what we do is superior. Question is are we doing, what we are doing after with a 360-degree view. This includes the realization that one will have to invest a lot more if only fixed income has to be used, which is not an efficient way to make money work for us.

If we can convince ourselves that we have considered all aspects of a problem, we can pretty much lock ourselves up in our comfort zone.

That said, I did not write this post to justify the use of fixed income instruments for long-term goals. I write this to address regular readers who are well aware about the need for equity investing.

Let my try and make my case with two instances.

1) In Oct. 2014, I met Subra for the first time at the IFA Galaxy conference. We were joined by institutional fund manager Yogesh Sundaram (yes, the guy who quotes Taleb in Subra's FB posts). He started to tell me about how XYZ stock is a multi-bagger and explained his statement with some metrics.

This was a couple of months before the release of the **automated stock analyzer**. So I did not understand what he was saying, but felt it would be impolite to interrupt. Subra stopped Yogesh, stating 'Pattu does not do direct equity'.

I apologetically started saying that I had (have) trouble understanding a business etc.

Subra stopped me mid-sentence and said, "If you are not comfortable, do not get into it".

Here was a man who started investing in stocks in school, before the Sensex came into being. His CAGR (sorry, **XIRR**!) is about 3 times of what I usually assume in a goal calculation.

He did not make a song and dance about 'how direct equity is the best wealth creator'. How it is better is than mutual funds, blah, blah, blah.

All he said was, *do what you are comfortable with.*

2) Dr. Uma Shashikant spoke about return on equity drivers at the Mumbai investor workshop on Feb 1st, 2015. Subra was seated next to me busily taking notes

She began her talk by saying,'although my thesis was on equity markets, most of my equity exposure is in mutual funds'. My stock portfolio is small and is mainly for fun and learning.

She went on to speak about ROE drivers with extraordinary clarity, seamlessly switching between qualitative and quantitative metrics.

If such a person, who is more than competent to pick stocks, chooses not to have a full direct equity portfolio, what does that tell us?

To me, it says loud and clear, ***do what we are comfortable with and focus on things that we love.***

That is what the title means: Do you know your financial comfort zone, and are you in it?

3) Take the case of the monk who runs AIFW*. All he does is, invest in two mutual funds (+ small direct equity exposure) completely disregarding star ratings and comments like 'Prashant Jain's funds are underperforming', 'Quantum is hold cash' etc.

He knows exactly where his comfort zone is, and is right inside.

- **Ashal Jauhari** who runs Facebook Group Asan Ideas for Wealth.

Ultimately it boils down to confidence. Do I have the confidence to ignore the rants around me and stick to what I am comfortable with (assuming I know what it is!)

So many people are searching for the best or optimal method that they have no idea what a comfort level stand for!

Many people have asked me, "should I invest in direct equity along with mutual funds?"

Personally I feel that I will not be able to shut out the noise if I invest in direct equity. Mutual funds are a much simpler and calmer choice for me, allowing to focus on things that I love. As far I am concerned **MDBSC** rocks! There are those who think that I (and other MDBSCers) are crippled by fear. Who cares! We have better things to do.

Some simple thumb rules that have worked well *for me*:

a) do not listen to anyone who says what they do is best or something must be done in a certain way. There are multiple solutions to most problems in life

b) understand the underlying idea and implement it in a way that you are comfortable with.

c) the simpler the solution, lower the maintenance!

The same argument applies to DIY vs paid advisory. Confidence is again key. Those who have it recognise that even rocket science is not rocket science and manage their own finances. Those who don’t have it better seek professional help.

It is all about finding one’s financial comfort zone and staying in it.

How to choose the right financial product

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"How to choose the right financial product suitable for my needs?" How I wish this question was asked more often! Instead, many investors (if not most), soon after they start earning, ask questions like, which is the best tax-saving product?, the best pension plan?, the child plan?, best mutual fund ? etc.

The right answer to the wrong question does not help much. An attempt to answer the titular question by focussing on personal needs –> deciding an investment strategy –> choosing a suitable *class* of products and then (only then) —> choosing the right financial product.

This post is meant for **young earners.** Request experienced readers to please share this post with their contacts.

Some self-explanatory questions:

- **How much can I set aside for investment/saving each month?**

A simple cash flow analysis: how much is earned, how much spent and how much is left, is enough to tell you this.

- **How much of this amount am I going to 'save' for short-term goals (less than 5 years away)?**

The benchmark for such goals is capital protection. That is, I will not use volatile instruments for such goals. This eliminates stocks, equity mutual funds, gold, ULIPS, all debt mutual funds except liquid and ultra-short-term funds.

Simple products like fixed deposits and recurring deposits will get the job done (tax liability and inflation can be ignored for short-term goals) for durations below 3 years.

One does not need a portfolio for such goals. A single financial product is enough.

If the return is fixed and guaranteed, liquidity is not an issue. The money can be locked in.

- **How much of this amount am I going to 'invest' for long-term goals (more than 10 years away)?***

Inflation is the primary benchmark for such goals. Reducing tax liability is the secondary benchmark.

Such goals require a portfolio. That is. it must contain a basket of different financial products.

Some of it volatile, but with high potential to beat inflation – stocks or equity mutual funds. The fact that gains from equity instruments are currently tax-free is an icing on the cake.

Some of it steady – they may not beat inflation, but lend crucial stability to the portfolio: fixed income products like **debt mutual funds are preferable to fixed deposits** because of lower tax liability.

Once we understand that both types of products are crucial for the goal, the next step is to **decide on the asset allocation for a financial goal.** That is, the percentage exposure to equity and fixed income should be decided. Say, for example, 50% in equity and 50% in fixed income.

Tax-saving options are available in both categories: Equity Linked Saving Scheme (volatile) mutual funds with a lock-in of 3 years and PPF (steady income) with a lock-in of 15 years.

The amount set aside for long-term goals can also include the amount to be used for tax-savings. For example, if two lakhs a year is to be allocated for long-term investments, 1.5L of that can be set aside for tax savings: 50% in ELSS mutual funds and 50% in PPF (that is in the same proportion as the asset allocation).

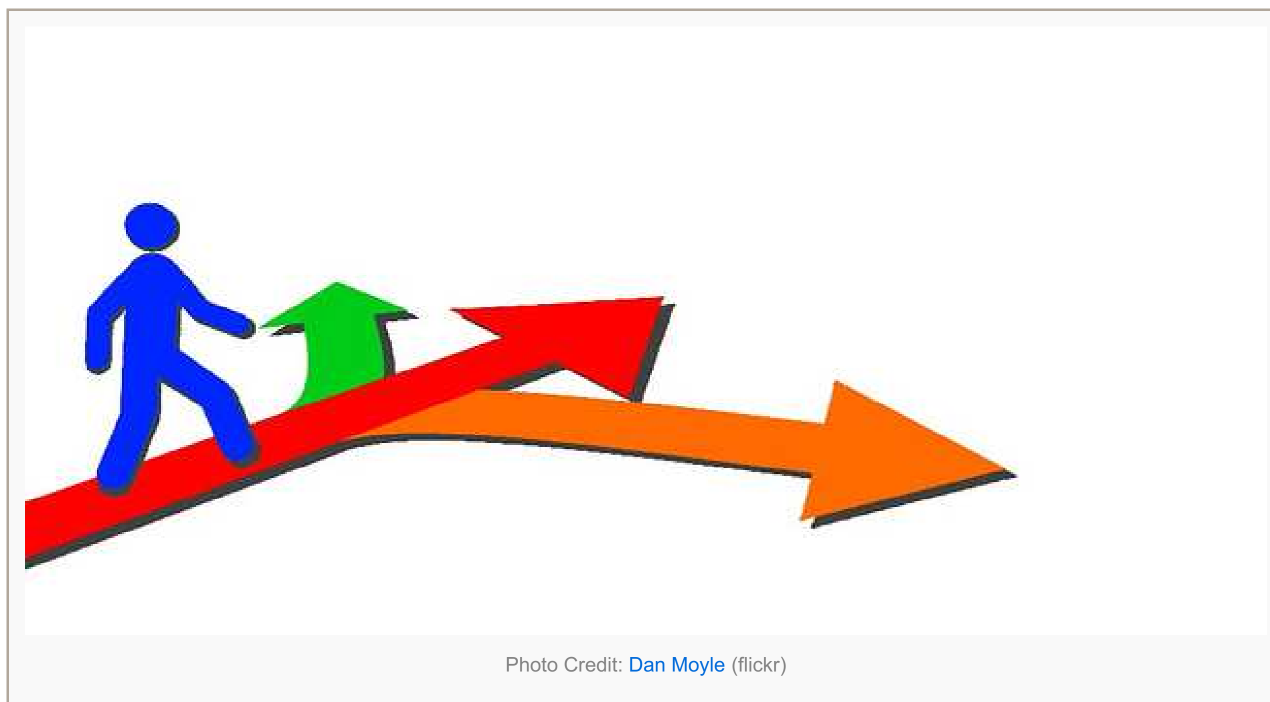

Photo Credit: Dan Moyle (flickr)

Key takeaway: Financial product categories are decided as per when the corpus is required. Choosing the right product category is the major step. Once there is clarity about this, it is so much easier to choose the product from that category. One product from that category can be a tax-saving product. There are several posts here on choosing equity and debt mutual funds. You can check them out using the search option.

Liquidity of a financial instrument is a key factor. An asset is an asset only if it can be liquidated at will.

Real estate is a big no-no because of this reason.

NPS is a bigger no-no because of this reason: **Do Not Invest Rs. 50,000 in NPS For Saving Tax!**

Anything that is difficult to liquidate at the time of need or in case of emergencies (emergency fund can help only so much sometimes).

All products discussed above are extremely liquid under normal circumstances (please don't quote the JP Morgan case here, please!)

(*) Planning for goals between 5-10 years can be a bit tricky. You could consult this post for some thoughts: **Planning for intermediate-term financial goals**

In summary, to choose the right financial product,

Understand the need –> write down an investment strategy –> Shortlist product *categories* that fit in this strategy –> Choose products from that category, including tax-saving products, inline with the investment strategy.

The Five I's of Personal Finance

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Which is the single most important trait that characterizes a DIY (do it yourself) investor?

1) I for Individuality

A person who rises above pigheadedness* and understands the steps necessary for wealth creation. *However*, once the basics are clear (asset allocation is all that is needed!), the person chooses a path defined by personal comfort and expertise.

Once a particular path/style (with a history of performance) is chosen, He/she does not care about what others do, or how others have done it.

It is unfortunate that for most people, volatility in returns is proportional to a vacillating temperament.

*Pigheadedness here refers to an obstinate love for fixed income products (FDs, endowment policies, ULIPS(?!) etc.) without recognizing the associated danger: investment disproportionate to returns.

How does one choose a 'path defined by personal comfort and expertise?'

2) I for Introspection

Questions to be asked first: Where do I stand today? where do I need to go? What do I need for the journey? What route would work for me? How do I reach my destination with minimal fuss?

Questions to avoid: Which is the best investment? What did others do/buy?

Questions to be asked last: Where should I invest? What do I invest in to save tax?

Related activity:

3) I for Inertia

Static (or bad) Inertia: When nothing moves

Someone who has trouble starting must recognize that personal finance is all about action and must act.

Dynamic (or good) Inertia: When it ain't broke, don't fix it.

Someone who is up and away towards their financial goals must not stop to worry about short-term market movements. If something is chuffing along nicely, *let it*.

4) I for Inclination

Perhaps should be number one in this list. Action should be fueled by the drive/inclination to change.

5) I for Information

Less is more: Inclination, Introspection and Dynamic Inertia thrive when the investor can distinguish between knowledge and information. A strong individuality helps in this regard.

Investment Options for Short-term Financial Goals

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Here is a list of investment options available for goals which are less than or equal to 5 years away. This is sourced out of my response to a thread at Facebook group, Asan Ideas for Wealth.

I think the first step in goal-based investing is to demarcate short-term, intermediate-term and long-term financial goals. For me,

Short-term goal </= 5 years

Intermediate-term goal 5-10 years

Long-term goal 10+ years.

This is in part based on the standard deviation observed for equity for different investment durations. For me,

No equity for less than 5 Years, unless the goals is a flexible ‘want’.

Not more than 20-30% equity for intermediate-term goals

Not more than 60% equity for long-term goals.

Let us now look at short-term goals in detail.

There are two kinds of short-term goals

1. Recurring (every few months, every year etc.)
2. Non-recurring.

Recurring goals

Recurring could be anything from a life insurance premium, school fees or a holiday every other year. You can use this **recurring goal calculator** to plan ahead for such goals.

Recurring deposits are the most natural way to save for such goals.

If one wishes to do away the process of opening and closing RDs, then liquid funds will do the job efficiently. You keep putting some money away for your recurring goals and redeem, when you want. The only disadvantage here, is that you don’t know how much to invest each month.

In a recurring deposit, the compounding is quarterly and you have clear idea of how much you will get post-tax. Sc you can deposit a sum accordingly. This is not possible with liquid funds. You may have to assume a 6% annual return and invest a little more than necessary, just to be sure.

There is no free lunch. Convenience comes at a cost!

Now that RDs can be opened and closed online, I like them better than liquid funds. Of course one needs to keep track of them and ensure the savings account has enough money on the RD.

Investor also have the option of investing variable amounts in RDs but I have not found the need for such instruments.

Instead of a recurring deposit, if one can afford to invest a lump sum for such recurring goals, arbitrage funds or equity savings funds (which invest in arbitrage +short-term bonds) can be used to get tax-free gains after 365

days, as per current tax laws. As long as return expectations are small (~ 6%), these should do fine.

SIPs in such funds can be messy from a tax point of view. Most of the units will be less than a year old (for annual goals) and will attract tax at 15%. This is still better than RDs or liquid funds for those in 20% and 30% slabs.

However, it is important to recognize that arbitrage and equity savings funds comes with non-zero risks and result in negative returns over the short-term. So do not use such funds for just a few months.

Non-recurring short-term goals

When the investment duration is short, there is no difference between risk and volatility. Volatility in an instrument has a pretty good chance of resulting in loss of capital as there is little time to recover. So it is important to tread carefully.

Low risk options

1. Fixed deposits and Recurring deposits from recognized banks. However, TDS and yearly declarations of gains as income will affect compounding. Best suited for less than or equal to 3Y durations.

- Liquid funds, ultra-short term funds, low duration income funds. These are funds with an average portfolio maturity of less than 1 year or so. Sensitivity to interest rate movement is typically small, credit risk is also small, provided the fund does not invest in low rated bonds – must look at the folio for this. Best suited for durations above 3Y.

Note: while investing via SIP, only units greater than 1095 days (3Y) will be taxed at 20% with indexation. Younger units will be taxed per slab. You can use this **Mutual Fund Capital Gains calculator** to figure out age of units and tax liability

1. Equity savings funds or arbitrage funds can be used for durations above 1Y. I will not expect more than 6-7% from these.

Moderate risk options

1. Debt oriented balanced funds which invest anywhere between 0-25% in equity maybe used for 5Y+ durations. It is difficult to estimate returns over 5Y periods and there is definite risk of capital loss. Over 7Y+, I will expect about 9% from such funds before taxes. Not recommend for important short-term goals.

High risk options

1. Equity oriented balanced funds which invest about 65-75% in equity is an extremely high risk option with certain risk of capital loss. If I have an expensive 'want', say a sports car in mind, I might take a chance for short durations with such funds. Definite no-no for important goals!

Obviously the same goes for pure equity funds or direct equity as well.

This is as far as my thinking takes me. Let me know if I have missed anything.

Young Earners Guide to Mutual Fund Investing

freefincal

This post is meant for young earners who would like to begin mutual fund investments at the start of their career. I write this following a readers suggestion (unable to locate the comment -apologies).

The contents of this post is subject to the following assumptions:

- The investment would be used for financial independence later in life and that no other goal is in the horizon.
- Basic fortifications like emergency fund, life insurance (if there are dependents), health insurance (for parents and self) are in place.
- The young earner understands the importance of equity exposure

There are several articles on what a mutual fund is, different types of mutual funds, how to invest in direct mutual funds etc. So I choose not to reinvent the wheel here.

Direct Equity vs. Equity Mutual Funds

I think there is absolutely no need for an individual (young or old) to invest in direct equity. Equity mutual funds if held onto for a long enough period of time, is more than likely to beat inflation and even give you a little extra after expenses.

Perhaps one can hasten financial independence with direct equity exposure but such a path is fraught with peril.

That said, in my uninformed opinion, gradually accumulating and holding solid large cap companies instead of chasing multi-baggers is a decent way to 'create wealth'. See this for more details: **Backtesting a three stock portfolio**

Naturally one must learn how to choose a solid business before taking the plunge. Since this would take a while, I suggest the following:

1) Start a SIP in a single large and mid-cap fund (here is a **simple guide to choosing funds**. A simpler guide is coming soon).

2) If you need to save tax, use an ELSS fund. You don't really need a PPF account. Just use ELSS + EPF + Term insurance premium (if applicable) for tax savings.

Personally I hate SIPs in ELSS funds (because getting rid of a poor performer would seem like forever). If you are okay with it, go for it. Just be sure to discontinue the SIP (and switch to another fund) after your EPF exceeds the 80C limit.

3) If you don't care for direct equity, then that is all that you need to do!

- As and when you get extra cash, buy more units Either in the ELSS fund (if you have not exhausted 80C limits) or in the large and mid-cap fund.
- **Do not monitor the value of your investment for 5 years!** Monitor only how much you invest (try this **monthly tracker**).

4) If you wish to get into direct equity, then obviously you must learn. There are many useful resources. I prefer: **tyroinvestor.com** and **stableinvestor.com** and the resources mentioned in them.

These are written by passionate youngsters who are learning on the fly and do not hold anything back. I would

prefer to learn from them any day compared to an 'expert' who runs a business.

We have a lifetime to learn and invest in equities. So there is no flaming hurry. Get the mutual fund investment going, learn in leisure and invest when you feel comfortable and ready.

Mr. Raghu Ramamurthy a patron of freefincal is 85 years young an active stock investor!

Stock investing requires capital. Perhaps a few years of mutual fund investing could provide the necessary seed capital for the stock investor …. perhaps. Do understand the risks in doing so.

DIY vs. Professional Help

While a young earner is best suited for DIY (do it yourself), taking professional help and then learning in one owns pace is also a fantastic idea.
Young earners are often under a lot of stress. So professional help could help calm nerves and enable them to focus on their career better.

I would recommend *starting a relationship* with a **fee-only planner**. If you can trust an IFA or web portal for investing, then that is fine too.

Either way the learning cannot be skipped!

Regular plans vs. Direct plans

If you employ the services of an IFA or use online distribution portals, think of the **trail commission that you can save in direct plans** as a fee for service or value adds.

If the features of an online portal are effectively used, then there is no need to lose sleep over being in regular plans.

DIY investing need not be 100% DIY. Someone who uses an intermediary for investments but handles other aspects of goal-based investing on their own (monitoring, tracking investments, **rebalancing** etc.) are also DIY investors.

Yes, direct plans would return more than regular plans in the long run. However, the gains made in a direct plan could be erased by seeking free lunch.

Using an IFA or a portal is better than going direct and asking portfolio suggestions at Asan Ideas for Wealth by providing (and therefore receiving) half-baked information.

Yes, I am an investor in direct plans and promote them every time I get an excuse. I also speak against free lunch every time I get an excuse.

More than time, effort etc. direct plan investing requires confidence. If you think you can confidently pick funds and manage your folio, go direct.
Else
1) either seek counsel from a fee-only planner and go direct or
2) go regular and be happy with your choice.

At the cost of repeating myself, either way the learning cannot be skipped!

Trust the planner or IFA. Do not post their recommendations in forums for 'double-checking'. A second opinion with an individual is okay but do think twice before messaging **Ashal Jauhari** for help!

Ashal: I think you should insist that people who ask your extensive help should donate to a charity and show you the receipt before you advice them.

Finally,

- Never ever buy mutual funds from a bank.
- Do not buy an NFO *because* it is an NFO.
- Do not buy/sell a fund because others are talking highly/lowly about it.
- Do not clutter your portfolio. Choose a **minimalist portfolio**.

To sum it up, choose ONE fund, invest with discipline. Do not look the folio value for at least 5 years. In the meanwhile learn about stock investing, if you must. Seek professional advice and not free lunch if you lack confidence.

Mutual Fund Investing: Do's, Don'ts and Myths

freefincal

A non-exhaustive list of mutual fund investing do's, don'ts and myths.

1. **Never buy mutual funds (or anything for that matter) from banks.** They don't care about us. All they care about is their commissions. So they will be happy to thrust just about any product (mutual fund, ULIPs, ….) down our throat without ascertaining suitability.
2. **Never buy mutual fund units in Demat form**. There is absolutely no benefit. Plain unnecessary.
3. **Never get swayed by star ratings**. Star ratings are for analysts who wish to rank mutual funds. They are not for investors. As an investor all we need to worry about is our portfolio health.
4. **Focus on net returns from an asset class**. The simplest way to focus on portfolio health is to find out the net returns from all our equity and debt holdings separately. That will help you identify the performers and laggards in the folio. Read more: **How to review your mutual fund portfolio**
5. **Never buy an NFO for NAV 10.** It is not about number of units. It is not about NAV. It is about rate at which the NAV grows (and falls!)
6. **Never buy an NFO if you are a new investor.** If we wish to buy an NFO, we must understand the nature of the product.
7. **Read Scheme Information Documents.** We must understand the nature of even established products. So reading the scheme information document is the best way to go about it.
8. **Stay away from antics like VIP and STP.** Invest as much as possible each month regardless of the state of the market. Rebalance from time to time and invest lump sums manually as soon as possible. As long as we don't need the money anytime soon, these things don't matter.
9. **The simplest way to diversify a mutual fund portfolio is by not trying!** Keep it simple. Stick to **minimalist portfolio ideas**
10. **A diversified portfolio is not meant to maximize returns but is meant to minimize risks.** It may underperform over the short-term.
11. **There is no definite evidence that index PE based tactical exits and entries will outperform a dull a boring SIP!** If we wish to time our entry and exit as per market valuation, let us understand that it is more for our emotional well-being. It may or may not result in higher returns. We can back-test all we want but making real-time calls is tough. If we get it right, it is down to pure luck.
12. **We cannot hope to remain invested in the 'best' mutual funds at all times!** Some funds will do better than ours, and some worse. All that matters is, are we investing enough for our goals and are we on track in terms of growth.
13. **A unified portal for investing in mutual funds is overrated.** Be it a distributor run portal or an AMC run portal (MF Utility), we do not need access to all AMCs at all times. We can't be changing funds and AMCs every year. Any mutual fund should be given enough time to perform (say at least 3-5 years). Mindless buying and churning will only harm the folio.
14. **Track portfolio volatility.** Keep a record of how much your mutual fund portolio loses or gains each business day. This will help you get used to volatility and to have perspective of market movements. This will also help you define a 'lump sum'. For example, if you stand to lose or gain Rs. 50,000 a day, a sum of Rs. 10,000 is not a lump sum in your mind. One lakh is, but you can divide and invest in over the space of a few days since you are used to gaining or losing a sum close to each bit of your investment.
15. **Can you justify the presence of each mutual fund in your portfolio?** If you can't, something is wrong about the way in which you are buying funds.

16. **There is absolutely no excuse to not switch to direct mutual funds!**
17. **Do not compare expense ratios when the portfolios are different!** Compare expense ratios only for direct and regular mutual fund plans. What matters is performance. Since the NAV is net of expenses anyway, as long as your returns are good, why bother?
18. **John Bogles and Warren Buffets ideas about index investing do not apply to Indian markets.** Perhaps they will down the line. I don't care. I am happy with my significant alpha. I rebalance from time to time and lock this alpha in debt. Perhaps active funds may not beat the index after several years, my portfolio would. That is all that I care about.
19. **Investing is not rocket science.** In rocket science, there is only one optimal path for a spacecraft to move from one point in space to another. In investing, there are multiple solutions to a problem and we no idea of knowing beforehand which is the 'best'. We need conviction to choose a comfortable path and stick to it. As long as we are moving in the right direction, nothing more need be done.

Would you like to add more to this list?

Minimalist Portfolio Ideas for Young Earners

freefincal

Investing for long-term goals is governed by the following tenets.
1) Beat inflation either by investing more and/or with adequate exposure to volatile but productive assets. Preferably 'and', not 'or'.
2) *Understand* the importance of containing volatility and that trying to maximise returns by being more aggressive is like trying to run a marathon like Usain Bolt.
3) *Knowing* how to contain volatility.
a) never ignoring debt. Not more than 50-60% equity exposure is needed for any long-term goal.
b) having the maturity to diversify the folio among productive asset classes and within each asset class
c) having the maturity to periodically shift gains from a performing asset class to a meek if not underperforming asset class. Also known as **rebalancing**.

I am convinced that investors, especially the **young earners**, must keep things as simple as possible and avoid portfolio clutter like the plague.

For most people, the best way to diversify a portfolio within an asset class is by not trying! If they don't know what they are doing, this is what happens:

Here are a few long-term (15 Y plus) portfolio ideas that are minimalist in nature. All of them are likely to produce a real-return to the disciplined and un-wavering investor.

Be warned that, none of them will work

- if you expect anything more than 12% CAGR (I prefer 10%) from the equity or equity-oriented component.
- if you jump up and down each time other funds do better than yours.
- if you think having more mid and small-cap funds will fetch you more returns because your goal is far away.

Minimalist Portfolio 1

- Single Large Cap mutual fund (60%) + PPF (40% only!)

Core and satellite principle be damned. Solid large caps will be relatively less volatile. Size of the fund does not matter as large caps are liquid stocks.

Minimalist Portfolio 2

- Single Equity-oriented balanced mutual fund

My favourite for the following reasons
1) Tax-free debt component.
2) Automatic rebalancing
3) Fund return = portfolio return. Goal tracking is the easiest.
4) Most liquid portfolio of them all.
5) The equity component could be diversified too

Minimalist Portfolio 3(a)

- Single Large and Mid-cap fund (60%) +PPF (40% only!)

For those worried souls who long for mid-caps. Some have a touch of small-caps too!

Fund size could be an issue. Larger the fund, the more large cap it becomes in nature.

Minimalist Portfolio 3(b)

- Single Large Cap mutual fund (60%) + PPF (40% only!)

or

- Single Large and Mid-cap fund (60%) +PPF (40% only!)

The fund in this case has exposure to international stocks.

Robust diversification. Solid long-term returns but with the short-term impression of being a laggard (diversification requires maturity)

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Down the line, a debt mutual fund can be added to the above portfolio to aid rebalancing. Initially, one-way rebalancing, that is shifting excess equity allocation (say 5% or more) to PPF is more than enough.

If you are starting to invest for all your long-term goals at the same time, a unified minimalist folio will do the trick. If there is a gap of a few years between the investment for each goals, you can construct separate minimalist portfolios for ease of tracking and rebalancing. A unified folio could also work, but tracking the corpus of each goal can be a pain.

Individual minimalist folios allow independent risk management. A 25 year goal is not the same as a 15 year goal. I would prefer to rebalance more often for a 15 year goal.

That is it. Don't chase after that hot mid/small/micro cap fund.

Keep it simple.

Avoid portfolio clutter like the plague

Consider a minimalist portfolio:

Turnkey mutual fund solutions to beat inflation

freefincal

"I understand the need to beat inflation and the need for equity in a portfolio. I understand that the mutual fund route is a simple and convenient way to do it. However, I neither have the confidence, *nor the time or inclination to create and manage a mutual fund portfolio. I also do not have the confidence or know-how to select a professional who will offer me unbiased advice".*

It is not hard to find such people. In fact, I might have even described you, the reader. There are several turnkey or "fill it, shut it, forget it" ways to have equity in one's portfolio for long-term goals.

Mature content warning: The following is meant for mature investors who understand that to 'get', one must 'give'. That both 'convenience' and 'optimization' come at a price.

Care for a push button solution? Photo credit: Sean Hobson (flickr)

When it comes to goal-based investing, two types of maintenance or monitoring is required:

1. the portfolio has to be monitored wrt the requirements of the goal. "Is it growing at the right pace?", "Am I on track?"
2. the instruments that constitute folio has to be reviewed and suitable action taken.

The first activity is intrinsically personal and has to be done either by the individual or by a designated professional. The main reason why most investors get this wrong is because they are more worried about the second activity.

The second activity requires, above all else, the maturity to 'do nothing' and patiently wait ignoring the noise that surrounds us. For example, when folks in AIFW are arguing about why Quantum Long Term Equity holding cash, we need the maturity to understand what 'long-term investing really means and 'do nothing' ignoring the star rating of the fund. Very few people can do this effectively.

It also requires some understanding how to construct a **minimalist portfolio** and how to choose funds. It is not

rocket science but does involve some reading and understanding.

The point of this post is to (reiterate) the simple fact that for those who do not wish to worry about activity 2, simple solutions are available.

There is no escaping from activity 1. However, I firmly believe if the second activity is well accounted for, the first becomes a breeze to handle.

Equity investing is all about faith and trust. Faith and trust that if the economy is to grow, and if the GDP is to grow, equity (or the underlying business) will have to be profitable. These profits trickle down to the shareholders in the form of an inflation-beating return. One must typically wait 'long enough' to get such a return without alarming fluctuations.

To see what I mean by low fluctuations, play around with this **Mutual Fund SIP XIRR Tracker**

If you wish to know how returns in mutual fund SIP are calculated, you can consult this: **What is XIRR?**

It may so happen that that market movers nowhere for several years and this may coincide when the last phase of your financial goal. Therefore, activity 1 is essential to take suitable steps.

There two simple turnkey solutions:

(1) Your portfolio gets broad market returns by simply choosing an index fund like Goldman Sachs CNX 500 Fund.

Or you even choose any Nifty or Sensex index funds. Stay away from ETFs.

A monthly SIP started 10 years ago in Sensex of Nifty funds would have resulted in an XIRR of 11-12%. Considering that it is tax-free and the fact that one does not have to worry about fund manager performance, I think it is more than decent.

(2) Your portfolio gets returns higher than the index by investing in other (direct plan) equity funds. This is known as a fund of fund. The fund manager uses a clearly defined process to invest in equity funds. The investor does not need to do anything except trust the underlying process.

There are many such fund-of-funds, but I am partial to one.

Mutual Fund Analysis: Quantum Equity Fund of Fund

Perhaps because the process is simple to understand. Mention about this fund and immediately someone will say,

- "but there two expense ratios involved: for the funds in the folio, and the fund of fund"
- "the gains are taxed like a debt fund"

If you want a turnkey solution with near-zero maintenance, you can safely ignore such comments.

A SIP in this fund since inception (Aug. 2009) has produced 18.8% XIRR *before taxes.*

If I were to redeem the investment today, considering exit load, short-term capital gain (at 30% slab), long term capital gain at 20% with indexation, the XIRR will be 16.1%.

For the same period, an index fund tracking the Sensex would have returned 12.8% (*before taxes*).

To me, Quantum fof seems like a pretty sweet deal, considering it is a professionally managed mutual fund portfolio and no monitoring is required on my part.

If you argue that excess returns above the index will reduce down the line, and therefore taxes matter, I would argue that long-term capital gains from equity would not remain tax free forever. The disparity between the tax

treatments will then reduce considerably.

A person who wants a turnkey solution can invest 60% of monthly investible surplus in this fund and the rest in EPF, PPF. Fill it, shut it, forget it.

PPF or ELSS? Where should I Invest to Save Tax?

freefincal

The primary stumbling block that prevents investors from achieving holistic fiscal health is mental clutter. Their minds are filled with the wrong questions. The right question is a prerequisite for finding the right answer.

One such wrong question, and the flavour of the season is: *Where should I invest to save tax? PPF or ELSS?*

I don't even know where to begin answering this question because the question is wrong at so many levels.

1) If asked at the end of the financial year, it often betrays ignorance and apathy about goal-based investing. Try telling the person to, list goals, decide on asset allocation and then incorporate tax planning as an integral part of a long-term goal, and they would often react like you have not understood their question, get all jittery and impatient.

The simple truth is most people do not know how to process information. It amuses me to no end that such people cannot get enough of information: they read every article, every thread in a forum, subscribe to every blog, but cannot extract actionable steps from them. Neither will they seek professional help for the same.

2) It is an apples vs oranges comparison. How can you compare a fixed income product locked in for 15 years with a diversified equity fund locked in for 3 years?!

Purely from the point of view of a lock-in, most investors fail to recognise that dependency on tax-saving products is likely to decrease as income grows, because the mandatory products like EPF and NPS will the cover more and more of the 80C limit. So it is better to prefer products with a minimal lock-in. This allows you to chuck the product down the line.

So ELSS is a clear winner from this angle. The 3Y lock-in is the smallest and it is the most flexible. However, the underlying asset class, equity, is not meant for 3-year durations!

3) One cannot think of choosing equity without **understand the nature of the stock market**. You can stay invested for 3Y or 30Y, the volatility will *never die down*. So investors have no choice, but to get used to it. It is important to recognise that you invest some capital to save tax, but that capital could be lost due to stock market fluctuations. Over 3 years, the probability of loss is so huge that one cannot offer a meaningful estimate of expected returns!

This means that ELSS investors should continue to use them as long as they need the tax-saving and shift future investments and invested corpus to non-tax saving equity instrument. Otherwise, it would result in clutter and improper goal planning.

Thus before choosing a tax saving instrument, it is important to understand the nature of the asset class and act accordingly.

Wait a minute, understanding market volatility would take a while. So let me rephrase that:

Thus before choosing a tax saving instrument, it is important to understand that it is important to understand the nature of the asset class and act accordingly.

In others words, invest in ELSS, but be sure to start learning more about volatile compounding!

What is the way out?

Most of us would need to use tax-saving instruments until we die. Retirement is a goal that would outlive us if we have a dependent spouse. So tagging tax-saving instrument to the retirement is the most natural solution.

Since beating inflation is practically mandatory for retirement, we would need adequate equity exposure (60-70%). Meaning, ELSS is a natural choice.

Instead of '**PPF or ELSS?'**, the question ought to be '**PPF or debt fund plus ELSS?'**

Since the retirement corpus will not get spent in one shot, most of the accumulated corpus in the debt part of the portfolio would get spent gradually over a few years. Since debt fund gains are tax only upon redemption and to the extent of the redemption, I like debt funds more than PPF. It is far more flexible, even though many (if not most) debt funds may or may not be able to beat PPF returns over a 15 year period, due to the nature of the bond market and of course taxation.

My point is, while PPF is certainly not a bad choice, it is not necessary for tax saving. The danger of low interest rates in future must be factored in – most people fail to do that. Esp those who compulsively invest the full amount! Read **why you should not do so.**

One can invest only in ELSS funds with the rest in a debt fund (non-tax saving) in line with a set asset allocation, say, 70% equity and 30% debt.

Not suggesting that this is a better way. Just pointing out that there are multiple solutions to practically all questions in personal finance.

Understanding that would require asking the right questions. In this case,

To which goal should I tag my tax saving instruments?, and not, *where do I invest?* If the goal is clear, the instruments would become clear.

Those who seek the 'best' solution are confused because of their refusal to realise that there is none. The moment we embrace the possibility of multiple solutions, we are clear that all we need to do is to choose one solution that impresses us – counterintuitive, but true.

Embrace it, we must, for multiple solutions is the law of nature.

- with inputs from facebook group, Asan Ideas For Wealth.

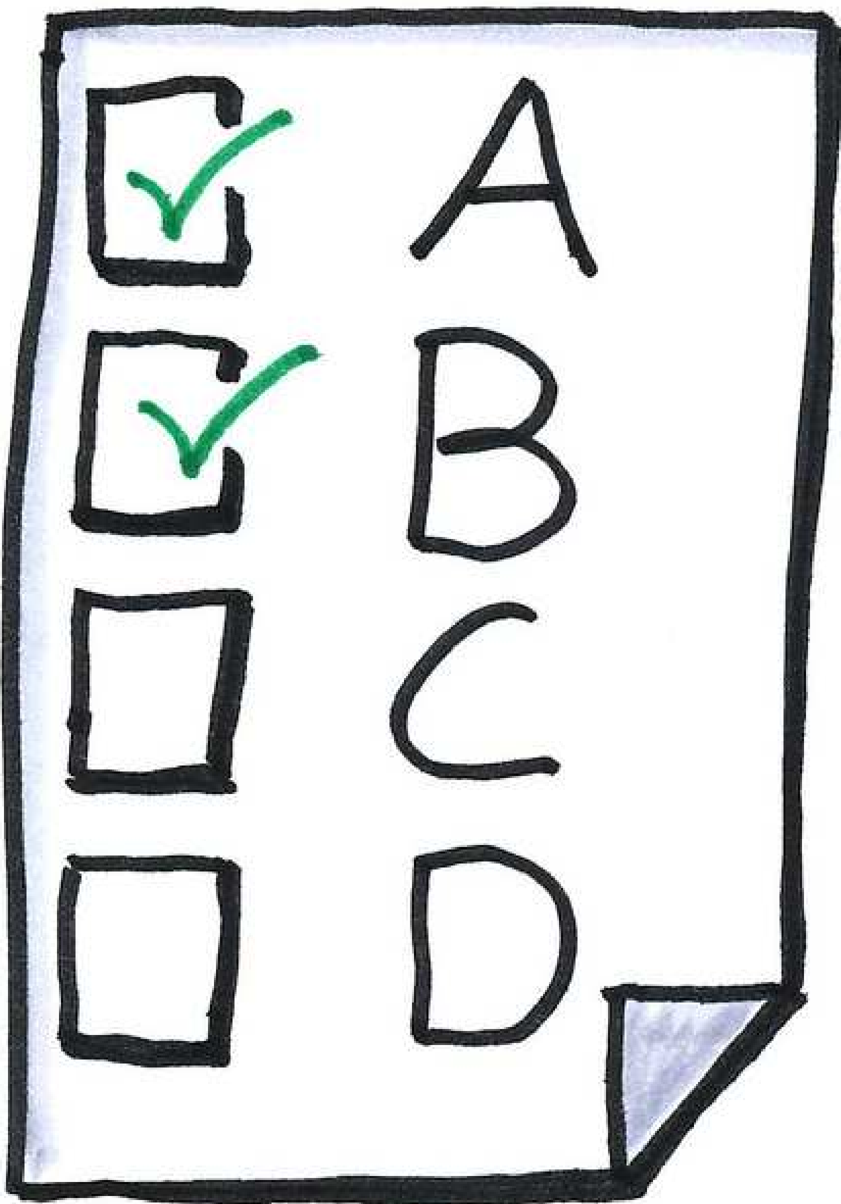

Photo Credit: Oliver Tackle

Young Earners: Do not invest Rs. 1.5 Lakh in PPF!

freefincal

In the previous post in the 'young earner' series, I had listed down a set of **personal finance essentials**. Two points appear to have caught the eye of many readers.

1. Do not open a PPF account
2. Do not start a SIP in an ELSS fund

In this post I would like to expound on the first point. But first, a quick look at the second.

Do not start a SIP in an ELSS fund because each instalment will be lock-in for 3 years. Instead, open an account with an AMC, and invest every few months, on market dips, *if possible*.

This way, you get used to market volatility (train yourself to invest on dips), take control of your investments and make manual investing a habit.

Initially, the tax-saving serves as a carrot. Soon it will not be necessary. You will be control.

Let us now talk about PPF.

When I wrote, 'Do not open a PPF account, I listed it against activity zero.

I meant a PPF account is not a prerequisite for investing.

- There is no hurry to open one.
- There is no need to include it as part of 80C deductions
- There is no need to invest to maximize investment in it.

Most people make the mistake of taking the benefits of a PPF account too seriously.

- 80C deduction
- EEE- taxation (investments, interest income and maturity amount are tax-free)
- Safety
- Rs. 1.5 L invested each year for 15 years gets you 43.5L lakh at a constant 8% interest

All these are great features, but are they relevant for your financial goals?

Focus on your goals and not on tax benefits Photo Credit: **ToolsStop**

A PPF account is suitable only for a goal which 15 full financial years away.

If we want to maximize the corpus for such a goal, we need at least 60-70% exposure to equity investments for such a goal.

Therefore, by focussing on 'maxing' our PPF account, it quite likely that we are not investing enough in equity.

When it comes to equity investing, time in the market maybe more important than timing the market, but

Time in the market **implies** *capital in the market*

That is, unless you maximize your invest in equity, time in the market is of no use.

Investing Rs. 1.5 lakh per year in PPF and starting a SIP for Rs. 2000 will most likely get you nowhere.

- If you need to invest Rs. 10,000 each month for a financial goal, 15 years away, invest about Rs. 3,000 in PPF and the rest in equity.
- If the goal is 20-25 years away (say, your retirement), invest only about Rs. 500/1000 (or less!) each month to PPF. Put the rest in equity. Remember your EPF (NPS in my case) will serve as the debt component.

In both cases, if your equity holdings increase in value sharply due a market surge, you can shift some gains from equity to PPF. This is referred to as one-way 'rebalancing'

This is not possible if you are in the habit of investing Rs. 1 lakh (now 1.5 lakh) each April.

Rebalancing is a method by which you reset your asset allocation. If you started with 70:30, equity:debt ratio and after a year it is 75:25, rebalancing is the process by which you reset the allocation back to 70:30. If after a year it is 65:35, you again reset to 70:30. Learn more about it **here**.

It allows you to shift the fruit of compounding to safer instruments, increase capital in the under-performing asset (in the hope that it will pick up soon!). You can check out the **rebalancing simulators** at freefincal.

If you use PPF for your debt portfolio, you can shift from equity to PPF. You cannot shift from PPF to equity.

This is not a serious disadvantage but one-way rebalancing is way less optimal than two-way rebalancing.

A debt fund instead of a PPF could do a better job.

In fact, with a volatile debt fund like a long-term gilt fund, it is possible to shift gains (when interest rates fall) to equity.

To summarize,

- Use ELSS, term insurance premium and your EPF contributions for tax saving under 80C.
- Open a PPF account with a financial goal in mind. Not because it eligible for 80C deductions or for investing Rs. 1.5 lakh each year to get tax-free returns.
- Find out how much you need to invest for the goal, determine the equity:debt asset allocation and stick to it.
- Never withdraw from your equity holdings or PPF unless you really have to. The whole idea behind financial planning is to avoid such withdrawals. So ensure your personal finance essentials are taken care of. The same applies to a loan against PPF.

To buy, or to rent, that is the question.

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When should I buy a house? Should I buy it as soon as possible, or should I wait for property prices to ease? Should I invest and then buy with it after some years? How important is it to have a property that we can call our own? Why can't I stay in rent forever?

A look at some of these issues sourced out of my comments from a thread at Facebook group Asan Ideas for Wealth.

I have received suggestions to make a rent vs. buy calculator. I believe such calculations are **problematic** since the only input that makes a difference is the rate at which property prices appreciate.

When I want to make a rent vs. buy calculation, I will always assume rate at which prices appreciate is higher than the rate at which rents appreciate (this is of course backed by history). So buying as early as possible will always win.

Besides there are too many factors that cannot be put on an Excel sheet – logistics, for instance: (drainage, water, location, proximity to work, schools etc)

So what do I do? Should I buy as early as possible? Or invest and buy later? Or stay in rent forever?

It all depends on your families present income and expenses and the rate at which they are likely to appreciate.

Buy asap!

The Thinker. Photo Credit: Brian Hillegas (Flickr)

If my income is decent, that is an EMI would be constitute only 30-40% of the post-tax salary, with expenses constituting 30-40% and the remaining 30-10% available for investment (10% buffer for emergencies),

and

if my income will appreciate at a decent rate, say 10% or more *and* my foreseeable expenses (as of now) will appreciate only in step with inflation,

I think it makes sense for me to buy a home today. I will keep my EMI going and focus on investments and perhaps prepay it in chunks.

There is a danger that because of the EMI, I cannot invest enough for the first few to several years. However, since I own the house, I can use it as an asset if I do not have enough for retirement. I can sell it and buy a smaller place and use the difference for sourcing a part of retirement expenses.

Of course, I may grow to love the house too much but that is a bridge I have to cross in the future.

Invest and buy later!

I can choose to do this either because I want to(!) or because my income is not expected to grow at a good pace. If I choose to buy now, the EMI will be 50-60% of my post-tax salary, which would be stifling.

Question is, will I be able to invest enough for the house? If I do this, what about retirement?

If I can only invest enough for the house, I am ignoring retirement planning. Even if that is okay (this would be the

case in the ‘buy’ option too), when will I be able to buy?

With something like equity, one can never tell and may have to wait 5+ years. What if property prices soar and the future EMI is pretty much the same as my present one, in terms of how it eats into post-tax salary?

There are absolutely no guarantees that the future EMI outgo will be lower than the current one. The only way to ensure that it will be lower is to invest more. To do this, one needs higher income again!

If I can reasonably expect my salary to grow at a good pace, I think it makes sense to buy asap and focus on investments rather than invest and buy later.

There are uncertainties associated with both approaches. I would rather take a chance with known uncertainties (my skill sets, qualifications, job security, ability to get another job) than with unknowns ones (market risk, inflation, property price movements etc.)

Of course, the uncertainties are linked, but we need to draw the line somewhere.

Rent forever!

There are many who believe owning a house is overrated. I agree, but with the proviso that it depends on ones life stage. If I was unmarried or married without kids, I won’t mind renting. If I was old with the kids staying elsewhere, I won’t mind renting.

If I had young kids to parent, then I would prefer a house of my own with as much space as I can afford. Kids need space to think and play the way they want. If you walk about in my house barefoot, your feet will turn blackish blue. My kid draws all over our floors and walls with crayons, sketch pens, you name it. I can’t do such things if I was in rented accommodation.

If I choose to stay on rent forever, I must consider that as an expense while planning for retirement. This means that the monthly investment required would be high. Can I afford to do this?

Of course, I can invest and buy a retirement villa upon retirement. This is not a bad idea at all. This means coping with landlords, which is down to dumb luck.

Today, I can afford the rent for a 3 or even 4 bedroom apartment in Mylapore. However, I cannot afford the emi for the same apartment if I choose to buy it. That says something about rental yields (from the point of view of the landlord) does it not?

So yes, renting makes a lot of sense. Especially when we can get a good deal in a decent locality.

If one has the mental frame to stay in rent for an indefinite amount of time (max. up to retirement) then it makes a lot of sense. One can then invest and wait. If there is an opportunity to buy a ‘good’ house without sacrificing comforts, then one can. This will work best when there are no expectations of when this purchase will be made.

If no such opportunity presents itself (a good, but unaffordable house now, remains unaffordable forever!), the investment sum can be used to buy a retirement villa or perhaps fund the rent post-retirement.

The trouble begins when I set myself deadlines: *I will buy after 3Y, 5Y, etc.* This can swing either way.

The EMI outgo could remain the same or you could even buy the place without a loan!

So I think open-mindedness with a plan for the worst case scenario will work the best. Like everything else in life, expectations can let you down.

Each option has its pros and cons. Whichever option I choose, I realise that it is important to invest in productive assets.

What percentage of monthly income should my home loan EMI be?

freefincal

How high can my home loan EMI be? What percentage of my gross monthly income can I afford to set aside for servicing my home loan EMI? These are questions that I have often seen in personal finance forums. When I recently saw it at Facebook group Asan Ideas for Wealth, I thought of discussing the issues with deciding a "comfortable EMI" amount.

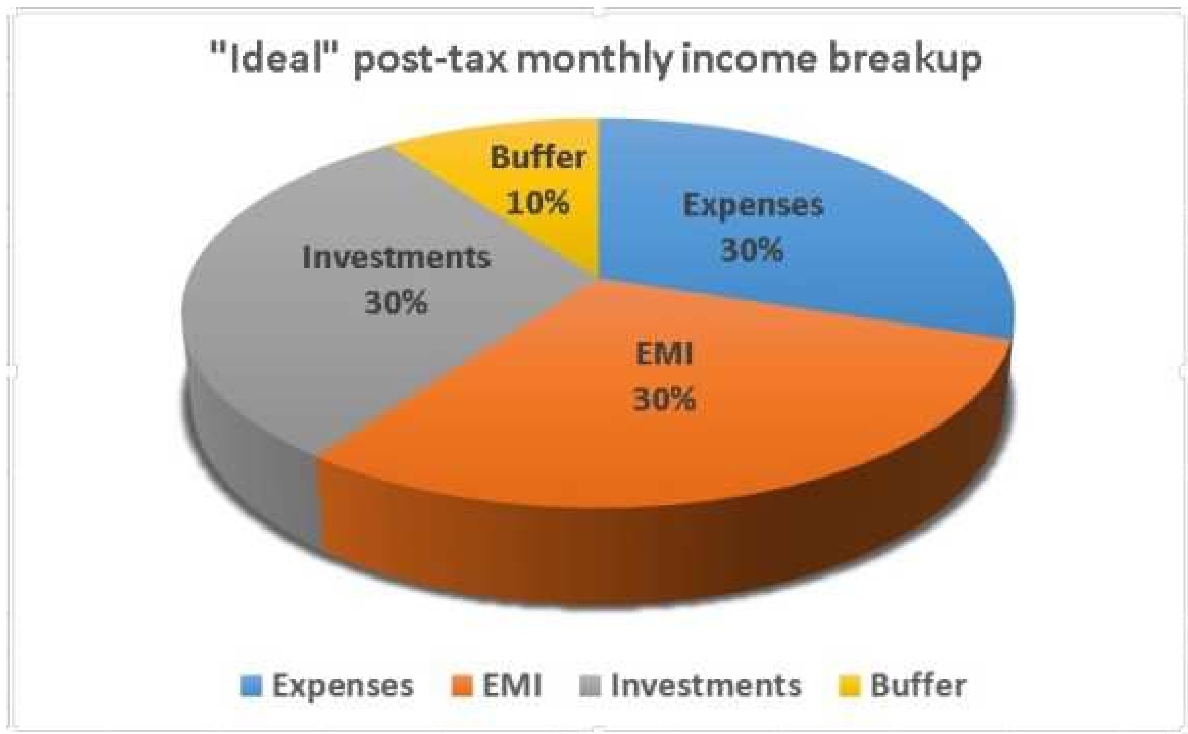
The house/apartment decides the EMI!

Simple is it not! We can think long and hard, search for thumb rules for a comfortable EMI. All that would get thrown out of the window when we actually decide on the property that we wish to buy. The property decides the EMI. The "comfortable EMI" rarely decides the property!

That comfortable EMI figure = 4o% of monthly income can easily get stretched to 45% or even 50% of monthly income if the 'right' property comes along.

Property purchase almost always affects investments

This is what I tell myself: *If I ever want to buy a property to live in, the EMI would be 30% of my post-tax monthly income. God willing, only 30% would be my monthly expenses, 30% would be my investments with a 10% buffer.*



Unless I buy property in the middle of nowhere, I cannot get my EMI to be 30% of my post-tax income. The typical EMI is anywhere between 40-55% of post-tax income. With expenses amounting to 40-45% for most people, there is little to invest. For many, at least initially, the only invest they make is the mandatory EPF contribution!

Renting is better than choosing a small house just to keep the EMI down. So the only way in which the EMI will not affect investments for long-term goal is to postpone buying the house until one 'settles' down in a career and until the family is complete. This way, the income would have hopefully increased.

However, the EMI would increase pretty much at the same pace too! In today's corporate world, no one 'settles'

down! There is no job security.

Buying early vs. buying late

Many advice to buy asap, clear the loan asap and then focus on investments! Both strategies – buying early or late – have disadvantages.

Buying early – pros (left) and cons

- Chance to get a good property 'cheap'
- Can live debt free sooner
- Comfort of owning roof
- Sense of accomplishment
- Done duty as provider
- Better to service liability when young and employable

- EMI would be too high for comfort
- Not be able to invest enough: retirement planning is the first casualty
- House would be too old at retirement for reverse mortgage
- Complications if we need to relocate
- Early retirement not possible if income does not increase substantially

Buying late- pros (left) and cons

- Clarity on where we would retire
- EMI likely to be manageable and hence loan can be serviced longer
- Reasonable net worth if invested right and clarity on financial goal planning.
- The property will not be too old at retirement. Reverse mortgage an option, even if not necessary.

- Not being able to buy the 'right' property
- Taking on liability in middle age
- Early retirement not possible if investments are affected.

Choosing between buying early and buying late is not so easy! Buying early make sense for those who are well paid, well qualified *and* employable regardless of economic conditions. Buying late makes sense for those who need to hone their skill sets with experience, so that they would be paid better.

One argues that the future is uncertain and therefore, it is best to buy early. From what I see, paying heed to an uncertainty wrt property ownership, results in an uncertainty wrt retirement planning.

Only a substantial income growth, combined with prudent investing with expenses at bay can bail out those who buy a home early.

Answering, *What percentage of my gross monthly income can I afford to set aside for servicing my home loan EMI?*, is not easy.

One must understand the impact of a high EMI on our long-term financial goals. This cannot be done with thumb rules.

Some questions to answer:

If I take on an EMI of X, will I be able to reach my financial goals? Can I make up for investing less now, later wher

my salary increases? You can use the **integrated financial planning template** to understand ‘where you stand’.

If you are already running a home loan EMI, use the **Calculator: Prepay Home Loan or Invest?** to understand if you should close out your home loan asap or let it run.

End note: It is said that delaying a purchase often provides a better perspective. This is true in my case. With time, the desire to own property has diminished and the desire to grow liquid net worth has grown. So I would recommend not rushing into the decision and understand the impact of a home loan EMI on long-term financial goals.

Simple ways to protect our online privacy

freefincal

As an offshoot to yesterday's post, **Non-intrusive term insurance comparison portals**, let us look at simple ways to protect our online privacy.

I am no expert. I write as someone who has repeatedly made mistakes in this area.

First, it is important to recognise that every business is out to get your email and mobile no. They are building themselves a 'lead list'. Their aims is to periodically, if not frequently, let you know about themselves so that, sooner or later you will 'buy'.

Second, after listening to Sucuri security speaking at Yoastcon, I understood the following:

It is not possible to be 100% secure online. All we can do is to eliminate the known risks. I think the same applies to online privacy.

Online privacy is perhaps a subset of online security.

Here are (in my uninformed opinion) some simple ways to eliminate known risks and nuisances when it comes to online privacy.

1) Have an exclusive email for online 'use'

Most of us have two emails: one official and one personal (there was a time when aseparate gmail account was considered prestigious!)

I think another email for online use will save us a lot of trouble. That can be used whenever we wish to buy from any online portal. We don't need to access it regularly, but would need it for activating accounts. The advantage is, promotional offers received will not come to our main email accounts. There are other benefits as noted below.

PS. please use your primary email to subscribe freefincal posts. I will protect it with my life

2) Beware of logging in via Social Media

Today social media engagement is crucial for the growth of a website. When you wish to register to a new service instead of filling up a registration form, it is tempting to login via Facebook or Twitter.

We must realize that when we do so, we install an 'app' in out Facebook or Twitter accounts. This 'app' can access our email, mobile number and can even post on our behalf.

The convenience of social media login need not be shunned because of this. The alternative email mentioned above will come in handy here. You can set this as your primary Facebook or Twitter accounts.

Apps that access only email are then okay. Nowadays apps can access mobile numbers also. Avoid any app that want to do this unnecessarily. I login to Goibibo via FB. They get my mobile number. That is necessary because I need SMS alerts about flight schedule changes.

If the App wants to post on your behalf, choose "only to me".

Taking a moment to read what the app can access will solve many privacy issues like email promotions and frequent telemarketing calls.

If you are uncomfortable, then the standard registration form wth only mandatory fields filled in, is the only way out.

Note: I use Facebook and Twitter apps for logging into the **DIY investors' forum**

FB app: Your profile information age, gender, language, country will be accessed by the app (**not me**) by default. I don't know about birthday.

Your email is not necessary and you can uncheck it. In any case, I don't know how to access that!

Twitter app: Will be able to see who you follow and read your tweets. Again I don't know how to access that. Don't want to either.

Freefincal has a FB comment plugin. It displays who you are at the blog. It also tracks how many times you used FB comments. **No other information is passed on to me.**

Google and Facebook have tonnes of private data and usage statistics which app developers and their clients (business's) can access to target products better. Entire organisations are engaged in building ways in which user habits can be tracked (legally!) from mobile apps. This will help build persuasive ads.

I advertised the workshop on strategic personal finance via facebook. It allowed me to select, age group, interests of the audience (mutual funds, stocks etc.) and their location so that ad would be fed to a relevant audience. The ad campaign was not that successful, but I could get a few 'likes' for **freefincal's FB page**

3) Beware of cookies!

Cookies are small files that are stored in your computer (mobiles too, I guess). They goal is to track your browsing habits and store your login profile.

Facebook and Google Adsense use this to serve "relevant" content in the sites that you visit, in your FB feed or on the sidebar.

I once read a story that a pedophile was caught because FB monitors chat messages. I was served up real estate ads and camera lens ads after I mentioned that on chat!

I visited a bloggers site and stayed there for about 30 seconds. Did nothing else. Just browsed.

Soon my Facebook feed had an ad that said, " You visited my site. Let us connect…"!!

So, if I am not mistaken, this means that a cookie downloaded from the site is in my computer, and is communicating with this blogger's FB ad campaign! That is scary!

There are a few ways to handle this:

1) In your browser's privacy settings disable "third party cookies". These are ones from websites other than the main domain.

According to firefox,

Third-party cookies are cookies that are set by a website other than the one you are currently on. For example, cnn.com might have a Facebook like button on their site. That like button will set a cookie that can be read by Facebook. That would be considered a third-party cookie.

Some advertisers use these types of cookies to track your visits to the various websites on which they advertise. If you are concerned about this, you can disable third-party cookies in Firefox.

Disabling third-party cookies in Firefox can stop some types of tracking by advertisers, but not all. Some websites (for instance, Microsoft's Hotmail, MSN, and Windows Live Mail webmail) use third-party cookies for purposes that are not necessarily privacy concerns, and disabling third-party cookies may cause problems with those sites.

2) Enable the "do not track" feature in your browser. Chrome says, some websites may still track and some

amount of tracking is necessary to plug future security holes in browsers and other products.

3) Choose “clear all cookies on exit” option and close your browser at least once a day!

4) Choose “private browsing”.

5) If you have doubts, locate a person who enjoys watching er … child unsafe ‘stuff’. I find them to be privacy experts!

4) Beware of offline threats!

Do not participate in raffles or lucky dips. There is no free lunch.

Think twice before divulging your email to others. Never give it telemarketers. Never enter it any form unless absolutely necessary.

I think it is okay if an authorized* call centre personnel wants your email or mobile for verification.

(*) Run by someone you have an account with.

5) Beware of snooping

Irritating by calls from your bank, reduce your bank balance. They will never bother you.

Two incidents related by friends (A and B) (hope you don’t mind) :

A was browsing through the pages of an online distributor and clicked on a product page. Had a look and closed the window. Shortly, there was a call from them if he wanted that product!

B was holding cash in a liquid fund waiting for a suitable time to invest. No one else knew about this. He got a call from the AMC saying that it was not a good time to shift to equity!

At the cost of sounding paranoid, I think it is safe to say that EVERYONE is snooping on us!

I don’t think this can be avoided. Can anyone comment on this?

6) Use your credit card sparingly

In this day and age, I think we don’t need credit cards. Call me primitive, but I see no benefit in using a credit card just for purchase points.

Credit companies are among the worst cold callers and emailers. I don’t have a credit card. My wife has one.

We use it sparingly. I typically pay in full, as soon as the purchase is made. If we make a big ticket purchase, we get a call from them, asking if we want a personal loan!

Card protection policies and health insurance policies is the new nuisance. When she recently got a new card, it came with a pin and has to be used like a debit card. I think, no CPP is necessary with such cards,

Come to think of it, there is no Card Privacy Policy. Credit companies could well be doing research with our card research statistics. Some even claim that such data could be sold to other businesses.

7) Other lessons I have learnt

1) Do not ‘unsubscribe’ SPAM*! It will lead to more SPAM. Simply mark it as SPAM.

(*) From totally unknown senders like Nigerian princes!

Unsubscribe emails only from known senders: banks, amcs etc.

2) Review your Facebook and twitter apps. Ever got angry with a friend who wants you to play a game?

Well, it is not them doing that. It is the game app. Ask them to review their apps and what they can do.

I was shocked to find that the 4shared app collects my birthday (something I hide), my friends list, my email and my profile!

Many times a Facebook app collects information that is not necessary.

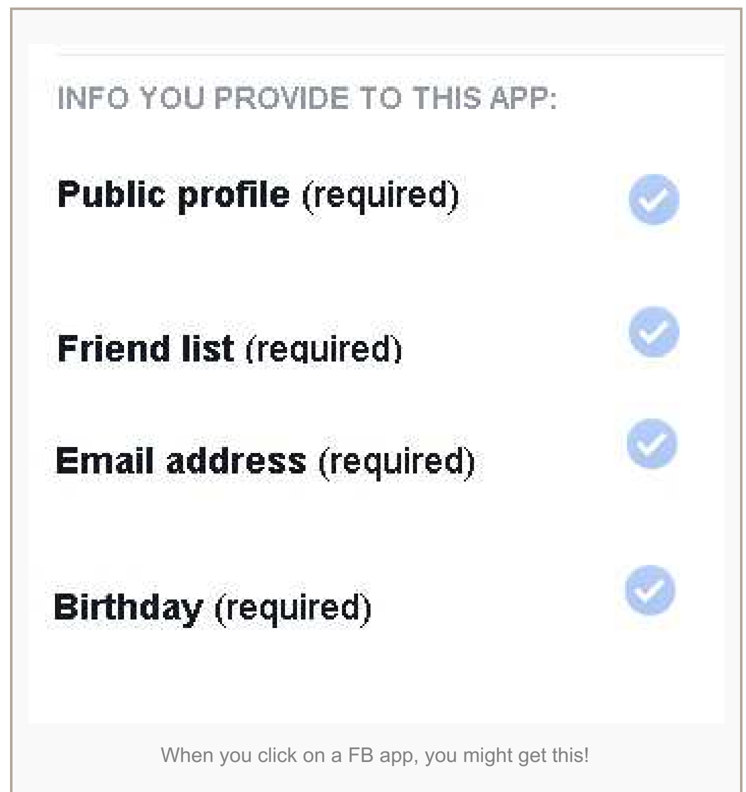
- The quora app wants to know my custom friends lists.
- The blogmint app wants to see my newsfeed
- I had an apps called Appypie and Addthis which took my email.
- Coursera can see my friends list
- Academia.edu is the worst app. It needs only public profile but collects everything else!

Facebook does not bother to say this when we install the app. We need to go to settings and check each of them to find out what is unnecessary.

8) Beware of what you share in social media!

Do I really need to know that my FB friend went to ABC restaurant or XYZ resort with his family? If I am not wrong, this is done with the geo-tag option in a smartphone?!

The FB page of the resort or restaurant tells me which of my friends have been there. What a fantastic way to persuade me to do the same! Similar things apply to several online purchases.



When you click on a FB app, you might get this!

9) Beware of your smartphone!

I don't have one, but I know some guys who make apps. They say:

- Beware of the apps in your smartphone. Many of them are silently recording your location, habits, even your files and passing them onto analysts. Who in turn tell developers how to target a demographic. Remove anything unnecessary or sparingly used apps.
- Disable the Wi-fi and GPS when not necessary.
- Understand what the app can do *before* installing it.

————-

It is no longer about us finding the products we want. It is all about the products finding us, before we even want it!

Should gold be part of your long-term investment portfolio?

freefincal

Should gold be part of your long-term portfolio? Does it help to have some exposure for the sake of diversification?

This is the second part of “asset allocation for long-term goals”. The first part which considered only equity and debt, can be found **here**

This post was made possible, thank to Balaji Swaminathan. He got me the source of monthly gold price from June 1995 onwards.

Link:

http://www.indexmundi.com/commodities/?commodity=gold&months=240¤cy=inr

If google has got it, Balaji can find it. He is the most intelligent web searcher I know. Probably why he does not post questions at AIFW! Why ask, when you know what to look for!

Methodology

- Franklin India Blue Chip is chosen as representative of equity
- Franklin India Income fund as representative as debt.
- These are among the oldest equity and debt funds in the market.
- A monthly SIP from 6th July 1998 to 5th May 2014 was considered (too lazy to update)
- The monthly gold price (per gram) was considered to be equal to the price on the NAV dates of the above funds. Have to make this approximation. Can’t be helped.
- Two different asset allocations were considered: One with 60% equity and another with 70% equity.
- The gold allocation in the above was varied from 0% to 40% or 30%. The rest is assumed to be in debt.
- The variation in monthly XIRR was calculated with the **XIRR SIP tracker**.
- The standard deviation in the monthly XIRR variations was computed.
- The final XIRR and the standard deviation are plotted for different gold exposures for 60% equity and 70% equity.

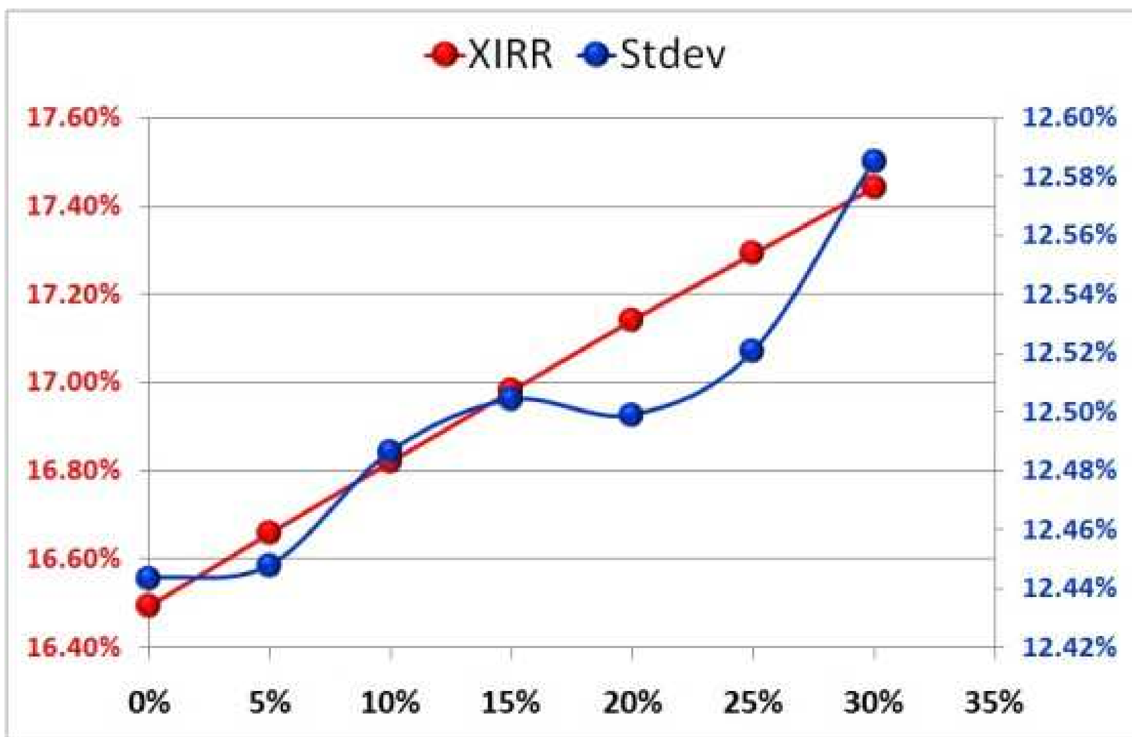
Equity exposure = 60%

The x-axis represents the exposure to gold.

Notice that with increase gold exposure, the XIRR increases (not by much, if you ask me) but the volatility (-standard deviation) also increases. There is a minimum at 5% exposure. It is worth the effort and stress especially when **gold is riskier than stocks**, is something for you to consider. No point in holding gold as far as I am concerned. Will just increase my stress.

Equity exposure = 70%

The x-axis represents the exposure to gold.



The case of holding gold is much worse here.

Conclusion

Stay away from gold funds or gold etfs. Do you see articles in the media now, suggesting you buy gold, when the prices are lower from the peak of the crash?

Think for a moment as to why. AMCs were busy pushing these products when gold prices looked liked it could never fall. Now when there is sideways movement, no one is saying buy them.

Gold is supposedly a hedge against inflation. Not exactly in terms of price movement. When the economy collapses, then **physical** gold will perhaps serve as currency. I don't think it has much value (other social, religious, traditional etc.) otherwise.

It is silly to stock up on physical gold and not focus on investing. What kind of physical gold should it be, is another question: jewels, gold bars etc.

Should I buy some physical gold each year to protect myself against economic collapse? Perhaps. As long as it not part of my investment portfolio.

A checklist and calculator for early retirement in India

freefincal

Here is a calculator and a checklist to consider if you wish to retire early in India. When I earlier asked " **Is it possible to retire early in India?**", many readers assumed that I meant early retirement is not possible in India. All I wanted to convey was that excessive portfolio volatility is not the answer to combat the high inflation in India.

I followed that post with a friendlier illustration on "**How much do I need to retire early in India?**". The message was still the same: when it comes to retirement, *safety first!* However, this was perceived more positively

Now I would like to discuss a simple checklist which might help readers assess their preparedness for early retirement. The calculator is based on the above illustration.

What is early retirement?

It simply refers to cessation of regular employment. The person could still earn from consultancy (part-time or full-time) or by other means, but that income is considered temporary and is not included in the retirement plan. That is, we are financially in a position to work if and when we please.

Retirement planning is counterintuitive! Very few realise that **earlier we retire, lower our retirement corpus!** So planning for early retirement with a 'low' corpus could well be easier than planning for normal retirement with a 'low' corpus (more on this later).

Before we look at the checklist, some dont's:

1. Get rid of the notion of a "safe withdrawal rate". If you must use the idea of a withdrawal rate, replace 'safe' by 'initial'. Use this calculator to see why I say so: **What Should Be Your Retirement Withdrawal Rate?**
2. Recognise the importance of "sequence of returns". A few bad years in the stock market can destroy a retirement portfolio. I have the had the privilege of studying some robust early retirement portfolios and the equity component has never exceeded 50%.
3. Even after you retire (early), you need to review the portfolio each year and determine if you can afford to stay retired.

A checklist for early retirement in India (perhaps anywhere)

1. Do I have an emergency fund which is at least equal to 12 months expenses, preferably 24 months? A part of it should be liquid and a part of it should grow in perhaps a ultra-short term debt fund for future use. The health of this fund should be reviewed each year.
2. Do I have a health insurance cover for all my family members, be they dependents or not. Preferably an individual health cover for each.
3. Do I need to continue my term life insurance cover after I retire? I think early retirees should continue and let the policy run its course, especially if it is an online policy.
4. Do I have enough money (call this C1) to allocate to fixed income assets so that I can receive an **inflation-protected income** for at least the first 15 years of retirement (years 1-15: called the first segment in the calculator).
5. Do I have enough money (call this C2) to invest in a reasonably aggressive portfolio (not 100% equity) so as to generate a corpus with which I can receive inflation-protected income for the next 15 years of retirement (years 16-30: called the second segment in the calculator)

6. Do I have enough money (call this C3) to invest in a reasonably aggressive portfolio so as to generate a corpus with which I can receive inflation-protected income for the last 15 years of retirement (years 31-45: called the third segment in the calculator)
    - Total corpus required for early retirement = C1 + C2+ C3. Use the calculator (link below) to play around with this. I have used 10% as the portfolio return for the growth of C2 and C3. This is not offered an input, but you can change it yourself easily.
    - This is just an illustration. An alternative but similar illustration can be found here: " **How much do I need to retire early in India?**"
7. Have I used reasonable inputs for expenses, inflation and return in the calculator?
8. Do I know what I am going to do after quitting my regular job?
9. Do I know how I am going to use any part time income that I might generate?
10. If I am going to travel or use funds for expensive hobbies, do I have a budget and a separate corpus or source for the same?
11. Does my early retirement plan depend on my frugality? Do I understand that frugality is a luxury?! We may want to be frugal, but life should let us.
12. Do I understand that life is uncertain, will not pan out like it does on an Excel sheet and that the best plans can go awry in an instant?

What do you think? Have I missed out anything?

Early retirement calculator

Here is a screenshot.

Early Retirement Calculator

Fill only green cells			
	First segment	Second segment	Third Segment
Amount needed in first year (expenses)	5,20,000	12,46,210	29,86,615
Interest rate on corpus	6%	6%	6%
Inflation rate	6%	6%	6%
Years payments are required	15	15	15
	First 15 years in retirement	Next 15 years in retirement	Next 15 years in retirement
Corpus for first segment	78,00,000	1,86,93,154	4,47,99,231
Amount initially required to generate corpus for second segment		44,74,992	
Amount initially required to generate corpus for third segment			25,67,379
		Total corpus initial required to retire early	1,48,42,372

Download the early retirement calculator

Updated: Thanks to feedback from Atul.

Do not let a retirement calculator get you down!

freefincal

If you have used a retirement calculator, you will know exactly what the title refers to! If you have not used a retirement calculator before, you are missing out on a wonderful opportunity to get all stressed up!

Freefincal has its origins in retirement calculators. I have a wide range of sheets, the most popular of which is the recently released: **Low-stress retirement calculator!**

Unfortunately, many still find this stressful enough:

- They feel that the corpus required for financial independence in retirement is unbelievably high.
- The monthly investment required, *even if we assume investments will increase in the future*, is still too high.

So many have asked me, "*what should I do?*", "*Does this mean I can never retire?*", "*Should I increase my equity exposure?*", "*Should I reduce inflation and increase return expectation*" and the like.

You are not alone. After I made my first retirement calculator, I punched in my numbers and was in utter dismay. I sent it to Subra, who said, "yeah! That sounds about right!". I started taking my retirement seriously that very day. Although I could not invest as much as I should, when I began, I soon was able to overtake my target, thanks to a combination of higher income and frugal living.

If you have same issues, here is what I think you should do:

Recognise the purpose of a retirement calculator

It is meant to shock you! It is meant to urge you to take your retirement seriously. If someone said. " *invest as much as possible for retirement"*, without using illustrations from a retirement calculator (such as this **slide show**), most people will not take it seriously.

Inflation before and after retirement is important to consider but is not the enemy. The enemy is reckless enhancement of living style (aka lifestyle creep).

So a retirement calculator, urges people (who bother to try one *and* take results seriously) to reduce unnecessary expenses and invest in productive assets like equity.

At any point in life, all we can do is to invest *what we can* irrespective *what we should*. A retirement calculator is a instrument that is meant to prod you in the right direction.

Living in the moment is important but cannot come at the cost of destroying the future.

What should I do if I cannot invest enough?

You cannot invest enough **today**, not forever. So don't lose heart.

Ask yourself, why?

Is it because you are spending too much?

If this is because of mandatory expenses, there is not much you can do. See if you can increase your income soon.

If this is because you are making frivolous expenses, the solution is obvious.

Is it because of liabilities?

If it is any loan other than a home loan, get rid of it asap.

If it is a home loan, there is no burning hurry to get rid of it, unless you want to retire early. If you invest right, your investments could earn more than the home loan rate.

Check out an illustration here: **Prepay vs. invest**

Use this **calculator** to find out for yourself.

There is no need to take an either/or stand. Begin investments and prepay in chunks. Recognise the time lost in pre-paying is more important than the psychological burden of a home loan.

Note to those who are thinking about taking a home loan: Factor in the rate at which your salary will grow. If it will only grow at a constant but steady rate (like for govt employees) or if it is likely to be volatile, try to avail a loan for only 50-60% of the real estate value.

Is it because you are not earning enough?

This means your expenses and/liabilities are too high. So this is not different from what we considered above.

Most of us wouldn't mind if our income increased. The problem is, that it is easier said than done.

Some of us can switch to higher-paying jobs with experience and some of us cannot. So suggesting that we try to increase income does not help much.

If you cannot invest as much as you should

1. It is not the end of the world. Do not lose hope. Invest what you can now. Try to increase investments each year, as much as possible.
2. Retirement is a unique financial goal. You do not need the entire corpus when you retire.
3. All you need is
    - One big chunk, large enough for you to provide inflation-proof income for the first decade in retirement.
    - Another big chunk which can be invested for a decade and will provide you income in the second decade of retirement.
    - This is still a large sum of money but not as large as standard calculators project. So you might be able to pull it off with a MARGINALLY lower investment(!).
    - What is offered in this post is not a solution but a small glimmer of hope for those who cannot invest enough.
4. The sooner you start investing for retirement, the higher can be your equity exposure, pre- and post-retirement. If you start early, you can continue to hold about 30-40% of equity investments even after retirement.
5. Standard retirement calculators do not factor in a strategy where you hold your corpus in different buckets of varying risk-reward potential. (see more about this **here**)
6. Thankfully so. Otherwise, investors will tend to become overconfident and take retirement less seriously. More importantly one cannot factor in such a strategy decades away from retirement.
7. If you are lucky to see a significant bull run for a few years, the monthly investment required *might* decrease.
8. If you can invest as much as the calculator says you should, please ignore this post and invest away. With luck, you might be able to retire early.