Financial Habits to Build a Strong 2025

In the financial world, it is of utmost importance to be aware of what an investor or individual must avoid, rather than merely knowing what to do or adopt. So, in this article, not only will we discuss financial habits to build a strong 2025, but we will also focus on what should be avoided, which will ultimately help you significantly

The year 2024 is at its end point and we, as investors, are but naturally both anxious and excited about what the coming months will bring in their wake. As humans, we often make New Year resolutions that we find suitable to start at the beginning of a fresh year and plan to follow throughout the year, such as focusing on health or developing new skills. Similarly, we also make financial plans and resolutions before the start of the new year. When money is involved, we never take things casually.

A habit is a regular practice, behaviour or routine that is performed frequently and often subconsciously. It can be a pattern of actions that becomes automatic over time through repetition. Similarly, financial habits are routines or behaviours related to managing money, formed through repetition and practice. These habits can significantly impact your financial health, either positively or negatively, depending on their nature. So, here is a lowdown on what habits will guide your investing sentiments:

Behavioural Traits

Spending to Impress Others

Many people fall into the trap of spending beyond their means to gain approval or admiration. You can relate to the example of how many people rush to buy the latest version of the Apple phone or any other device whether it makes sense to purchase at that point in time or not. This is mainly done to maintain their impression or status among others. Whether it's buying luxury items or indulging in unnecessary extravagances, this habit often leads to debt and regret.

Over Reliance on Credit

Nowadays, borrowing money from banks and NBFCs has become easier, and funds are credited within minutes thanks to digitalisation. This is in contrast to borrowing from friends and relatives, which was often a suitable choice before technology took over. However, this instant loan or instant credit is too expensive, not in terms of money but in the long term. When we make it a habit, like borrowing money every other month, it is not good for our financial or mental health. It's like a dark web where individuals sometimes get stuck, taking credit to pay off previous balances. The viscous cycle continues in a loop.

Living Beyond Your Means

One of the most damaging habits is consistently spending more than you earn. This often leads to borrowing money to sustain an unsustainable lifestyle, which then traps you in debt. Even if you're not spending money to impress others, spending more than you have by any means, such as using credit cards unnecessary even when you don't want and even when you have the capacity to pay in cash, can lead to problems. You might intend to pay it off by the due date, but then you will need to offset those extra expenses with your current consumption or sacrifice something else. Credit cards are not meant for lavish expenses but for emergencies, yet nowadays people often use them to support a lavish lifestyle.

Neglecting Personal Growth

Nowadays, people are spending to stand out among others, as for example, with expensive mobile phones, luxury clothes and luxury cars. Instead of focusing on material possessions, invest in yourself. Learn new skills, improve your work ethic, and build genuine connections. These are long-term investments that yield far greater returns than fleeting materialistic gains.

Procrastinating Financial Goals and Investments

People often neglect to start investing or fail to maintain discipline while investing toward their financial goals, such as buying a car, a dream home, and so on. Thanks to the SIP feature with automatic deductions from the bank account, many investors don't have to worry about forgetting to deposit their SIP amount. Otherwise, most investors would either forget to deposit their SIP amount or spend it elsewhere, only to realise later that they have spent the investment amount too. So, at the beginning of the new year, one should be disciplined and committed to their financial goals and must not procrastinate.

Loans into Investment

Nowadays, as we know, loans are available within a couple of minutes, and even bank representatives offer them upfront, saying, "You have a pre-approved loan offer; you can take it." When you say no, that you don't need it, they still insist, telling you, "You can take it at, let's say, 15 per cent and invest in equities, mutual funds, and other asset classes," and can earn more money from it, which is not a good idea. There are greater chances that you would pay more to the bank than you would have earned from any investments, and you also need to bear the monthly EMIs, which eventually create pressure on your monthly budget.

Financial Habits for 2025

Set Financial Goals

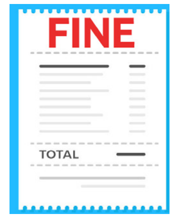
The first and foremost step in financial planning is to establish clear financial goals for 2025. Financial goals provide direction, motivation, and a structured framework for managing your finances effectively. By setting these goals, you define what you want to achieve—whether it's saving for a house, building an emergency fund, or planning for retirement. Your goals should be divided into short-term, medium-term and long-term, ensuring they align with your overall financial aspirations.

Let us assume that you are currently living in a rented apartment and planning to buy a house in the next five years. To buy a house also requires upfront costs, such as a down payment (typically 15-20 per cent of the property's price) and additional government charges. To meet these expenses, you need to focus on consistent savings and smart investments to grow your money over time while protecting it from inflationary pressures.

Create a Realistic and Innovative Budget

Creating a budget is of the utmost importance to ensure a regular flow of money towards savings, investments, expenses, EMIs, rent, groceries, and other necessities. Without a budget, you might end up overspending and eventually compromising on important priorities and expenses. However, making a budget is not as easy as it sounds. You need to analyse data from the past 12 months to understand where and how much you spend in different categories. Based on this analysis, calculate an average and also allow for a 10 per cent relaxation based on the intensity of the expense category.

For instance, if you spend ₹5,000 a month on groceries and vegetables, include a buffer of ₹500 (10 per cent of ₹5,000) to account for potential increases in spending. If the buffer is not used, you should invest the buffer amount. Buffers can be applied to variable expenses with different percentages depending on the category of expense, ensuring the monthly budget remains balanced. Fixed expenses, like rent and EMIs, remain constant and do not fluctuate monthly, making them non-negotiable and crucial to account for in your budget.



Charge a Fine on Yourself

Now that we have a financial goal and a budget based on historical expenses and our financial objectives, including some buffer, it is crucial to strictly follow the budget. To ensure adherence, you need to charge a fine on yourself if you fail to stick to the plan. If you are married, you can involve your spouse to help enforce this discipline if it feels challenging for you. For instance, if you spend more than the budgeted amount, including the buffer, you should charge yourself a fine, which could be either 50 per cent of the budgeted amount or 50 per cent of the budgeted amount plus the buffer.

Step Up the Investment Amount

Let's say you get a promotion this year and your earnings increase. In such a scenario, you should consider saving and investing more, either in proportion to that growth or to some extent, rather than spending excessively or indulging in a lavish lifestyle. The reasoning is simple—you were already managing your monthly needs with your current earnings. Therefore, instead of spending unnecessarily, investing becomes a smarter and more sustainable option.

Often, we plan to spend more as our income increases but fail to prioritise increasing our investments. However, if your rental expenses or other essential costs rise along with your earnings, it is perfectly reasonable to allocate funds to cover those increases. Additionally, if you receive extra income apart from your regular salary, you can enjoy spending some of it, but only after allocating a portion towards investments.

One Finance-Related Book a Quarter

Investing in financial education is a powerful habit that can significantly enhance your financial well-being. Start by committing to read one finance-related book every quarter, as it will deepen your understanding of essential topics such as budgeting, investing, and wealth management. Participating in workshops or webinars on personal finance can also be transformative, offering interactive learning opportunities and expert advice. Collectively, these steps will help you develop your mindset, view money from a different perspective, and manage your finances more efficiently.

Invest in What You Understand

Perhaps there isn't anyone in this world who doesn't want to make extra income or more income in less time. Generally, we think this way—that by investing in a particular asset class, we will get higher returns within a short period. However, we often don't take the time to understand how it works. For example, consider trading options contracts of the Nifty 50 or Nifty Bank index, which has become popular nowadays especially among new investors. Many financial influencers showcase their profits during weekly expiries, often using phrases like 'hero or zero trades'. This influences your mindset and provokes you to do the same without first gaining knowledge or understanding the mechanisms of how it works. So, keep it simple and invest in what you understand.

Conclusion: Make Your Dream a Reality

As we enter 2025, it's the perfect time to set new financial goals and adopt positive financial habits that will shape your future. By focusing on what to avoid—like spending to impress others, over-relying on credit, living beyond your means, and procrastinating on your financial goals—you can prevent the common pitfalls that achieve financial success. Instead, concentrate on building a solid foundation by setting clear goals, creating a realistic budget, stepping up your investment strategy, and continuously improving your financial knowledge. Remember, achieving your financial dreams is a process that requires discipline, patience, and consistent effort.

Whether you are saving for a new home, building an emergency fund, or planning for retirement, each step you take towards financial discipline today will lead to greater financial security tomorrow. Invest in what you understand, stay committed, and keep evolving your financial strategies. With the right mindset and planning, you can turn your dreams into a reality in 2025 and beyond.