Chapter 1 Money Order

- Think of Your financial life as a money box.
- A good money box is one that allows You to streamline Your cash flows. It builds in safety nets for preserving Your savings in the face of an emergency – typically a medical emergency, a job loss, or death of a salary-earning family member.
- Product choice becomes much easier if You understand **why** You need that product in the first place.

Chapter 2 Don’t stash that Cash

- The key to finding the money to save and invest is to have a good cash flow system.
- If You track down each expense meticulously two things will happen :
    - You get bored.
    - You get obsessive about money.
- The goal is to seperate out the money according to its function so that the brain is better able to map it.
- Give names to Your bank accounts(use three : income,spending and saving).Giving names to these accounts is important.A name gives something an identity and we hate to violate that identity.
- Putting a label on money prevents people from using it for any other purpose. This is called ‘mental accounting’ and it means that we like to separate our money into separate
- accounts according to intent, and dislike using it for any other use.
- Use Your Income Account as the sump for all kinds of money inflow that You get.Other than the interest earned in the other two accounts, rest of the inflow into Your life falls into one account – Your Income Account.

You are doing OK if :

- You have a three-account system that separates Your income, spending and savings;
- Your spending on living costs is no more than 45–50 per cent of Your take-home income.
- Your EMI paYouts are no more than 25–30 per cent of Your take-home income;
- Your savings are at least 15–20 per cent of Your take-home income.

Chapter 3 Emergency Fund

- Keeping money ready for an emergency is important. Not only do You not have to worry about the money when You need it but it also frees up money for long-term investments.
- The unwillingness to take risks also comes from this fear of not having the money when it is needed.
- This is the piggy bank You break only when You need the money for an unplanned emergency.
- A rough rule of thumb says keep aside six months’ living costs.

Where to keep this money?

- If You are banking with a bank that allows flexi-FDs that allow You to sweep out just the amount You need, rather than breaking the entire deposit, go for that. Else split Your emergency fund into smaller FDs so that You don't have to lose the interest on the entire deposit.
- Set Yourself a monthly target for Your emergency fund and keep crediting Your emergency account each month. Once You get to Your target, stop funding it, and we are ready to move to more long-term investments.

You are doing OK if ...

- You have six months' living costs in an emergency fund;
- You are a double-income family with no dependent parents and have three months' living expenses;
- You are a single-income home with dependent parents and have a year's living costs in an emergency fund;
- Your emergency fund sits in ultra-short-term or conservative hybrid mutual funds.

Chapter 4 Building Your Protection

- Getting a good medical cover is probably more important than buying life insurance – You're more likely to go to hospital with an illness or accident than die.
- You need a basic cover of 3- 15 lakhs per person.facilities, and the Rs 15 lakh number for metros and all the bells and whistles. For a nuclear family it makes sense to get a product called a 'family floater' that allows the insurance cover to whichever member of the family that needs it.
- Look at the online ratings (Mint) for choosing the right policy.
- Look at the policy as a three-part decision :

1. Price :
   You need to look at two things in price.
   - How does the price compare with policies from other companies right now and how does the price compare over the years? Your policy may cost the least today but may become the most expensive when You hit age sixty or seventy.
2. Benefits :
   You need to find a policy that gives You at least these eight benefits :
   - Ensure that You have a policy that does not have something called a 'co-pay' clause(Unless You are a senior citizen).
   - Check for a pre-existing disease clause.Check to see how long the waiting period is in the policy You shortlist. It is a good idea to disclose Your correct present and past medical history to the insurance company when You sign up for the policy. Else they will have a tool in their hands to refuse Your claim. And, believe me, they use it to refuse claims on very flimsy grounds.

- Check if Your policy has a ‘disease waiting period’. Look for a policy that does not have a waiting period on diseases or coverage.
- Check if Your policy has sub-limits.Look for a policy with no sub-limits.There are two kinds of limits on room rents - either by price or by category.
- Check for exclusions. Dental treatment, pregnancy and cosmetic surgery are standard exclusions. It is a good idea to get a list of all that is excluded in Your policy You buy.
- Ask how much of the costs before and after hospitalization the policy will cover.Check the exact amount and time the policy will cover.
- Ask for a list of ‘day-care’ procedures that don’t need You to stay for 24 hours in a hospital.Check the details of the day-care clause.
- Look at the ‘no-claims’ bonus feature.When You don’t make a claim in a year, You get rewarded by the insurance company. It does this by giving a ‘no-claims bonus’ (NCB). The usual way is to raise Your cover by 10 per cent for the same premium.

3. Claims
   Ask the agents these questions on claims :
   - How many claims does the company settle.More than 95% of the claims should be settled.
   - Look at the claim-complaint data and look for a policy that has less than thirty complaints on every 10,000 claims made.
     Be careful of firms that give data on complaints as a percentage of policies sold. What is relevant is how many people, how many made a claim, then how many went on to complain. This number should be low in the policy You finally choose.

   Do I buy a critical illness and accident cover while I’m at it? Yes, You do. These policies pay a lump sum if You get any of the illnesses that are part of the contract.Riders look attractive but I would recommend that You buy a stand alone policy.A personal accident plan has four covers: death, permanent disability, permanent partial disability and temporary total disability.

Chapter 5 What If You Die

- You need a life insurance cover for only one reason: to protect Your family’s financial health if You die an untimely death.
- You need to figure out how much the family will need to live, without You bringing in the monthly income, and how much for the future of the kids.
- The other big expense that will hit the family if You suddenly disappear is the debt You have.
- Endowment plans destroy wealth over the long term. The day You realize that it is in Your best interest to separate Your investment and insurance products, is the day You move solidly towards building Your financial security.Have a pure term-insurance plan.

- You need eight to ten times Your take-home annual income. Or fifteen to twenty times Your annualized monthly expenditure.
- In addition to a cover for Your income, You need to buy insurance for all the debt You have. Each time You take a large loan – usually a home loan, sometimes a personal loan – buy a term cover for the full amount of the loan that You take.
- Buy as soon as You have dependents or the possibility of getting dependants arises.
- The Younger You are the cheaper You lock in for.
- Get a cheap plan(Online).
- When buying a term plan check the claims experience of the insurance firm(>95%).

Chapter 6 Finally we are Investing

Four Fears of Investing :

- Show me the money :
  - We don't need a lot of money first to start investing.
  - The important thing to do is start rather than wait for that golden moment when You have a big amount to hit the market with.
- What if …
  - The insurance plan and emergency fund reduces the need to keep most of Your money ready at Your hand.
- I hate making mistakes
  - A big reason why people stay in fixed deposits, gold, insurance and real estate is the fear of making errors.
- I am a money dummy
  - What You need to remember is that understanding investing is a one-time fixed cost in terms of Your time.
  - Remember that it is in the interest of the financial sector to make You believe that You are a money dummy.
  - Remember that each financial product You buy must solve a problem You have.It must have a purpose.

Pull out Your mental money box and look at it again. Remember that the first cell has Your cash flows, the second is the emergency fund, the third Your medical cover, and the fourth has the life cover. We now create three more cells in the box for our investments. We name each cell: The first is called Almost There; the second, In Some Time; and the third, Far Away.

- Any planned expense that will happen within two to three years is a short-term need that You put down under Almost There.
- In Some Time are planned expenses that sit between three to seven years away.
- Far Away are expenses that are really hard to imagine today.Eg : Retirement.
- Each financial product has a certain period over which it works best.

You are doing OK if …

- You are committed to drawing up an investment plan;

- You have written down Your near-, medium- and long-term goals;
- You have put a monetary value to these goals;
- You understand what amount You need to invest today.

Chapter 7 Lets De-Jargon Investing

- There is a purpose for each product You buy, and each product needs to fight with others to grab that place in Your box. There are three asset classes that we need to understand. Debt, equity and real assets.
- Debt is just an umbrella term for all financial products that are based on borrowing. Equity is ownership of a business and the risk that it brings, either directly (through stocks) or indirectly (through mutual funds). Real assets are those that can be physically seen. Debt and equity are called ‘financial assets’, while real estate and gold are called ‘real assets’. Each of these three buckets has certain features and You need parts of all three in Your money box.

Debt :

- These are products where two things are fixed – how much You will get back and when You will get it back. You are loaning money to the bank or the bond issuer and the interest is the price of this loan.
  We will include Your provident fund, public provident fund, fixed deposits, corporate deposits, all the small savings products, bonds of all kinds under the heading of ‘debt’.
- There is another category of ‘debt’ products that carries more risk than the guaranteed-return products mentioned above. These are debt mutual funds.
- The role of debt products in Your money box is to provide money at short notice and to provide stability to Your long-term investments. Debt products need to give You a degree of certainty that the money will be there when You want it.
- They also make up the core of Your long-term investments. (Eg : PPF)

Gold :

- Ideally gold is good as a hedge against inflation. This means that the price of gold rises over the years, so that Your money does not lose purchasing power.
- If You bought jewellery thinking You are making an investment, the numbers in the table above are all much lower. You lose 30 per cent straightaway to making charges when You buy gold as jewellery.So buying gold jewellery as investment just does not make sense. There are other ways to hold gold.
- Not more than 5–10 per cent of Your total portfolio goes into gold. You do not buy jewellery as investment. Your options to buy gold are coins, bars, gold exchange-traded funds (ETFs) and gold bonds from the government.

- As of 2017, the smart investment decision is to buy the bonds issued by Govt of India.These bonds give You not only the full market value of gold when You sell the bonds in the future, but also a 2.5 per cent interest on Your investment each year.

Real Estate :

- Real-estate story is a horrible, clunky, chunky investment that has lots of costs, which people forget to add to the profit maths. It is illiquid.

You are doing OK if …

- You have no more than 5 to 10 per cent of Your portfolio in gold and they are in the form of government gold bonds;
- You own one house as the roof over Your head, and no more;
- You have Your PF and PPF, and no other debt products, no FDs, no corporate deposits, no chit funds;
- Your debt allocation is equal to Your age; at age thirty, no more than 30 per cent of Your portfolio is in debt products; at age seventy no more than 70 per cent in debt products; the rest is equity.

Chapter 8 Equity

- What is an index number? It is a number that shows the change in price of something when You compare it with its price in the past.
- The Sensex and Nifty50 are broad market indices and are also called large-cap indices. You must have heard the term ‘market cap’ or ‘market capitalization’ – this is just the number of shares of the company multiplied by the price. If the firm has 100 shares in the market and they currently sell at Rs 50 per share, then the market cap is Rs 5,000.
- market and the price level is not in single digits either.
- Large market-cap companies are usually the mature, established firms in the market. They are known for giving dividends rather than rapid growth. SEBI defines a large-cap company as one that features within the first 100 companies by market cap on the stock market. A mid-cap is a company that ranks between 101 to 250 by market cap, and small-caps are 251 and below.
- Time in the market matters because it smoothes out the volatility of the market. Which is why You should not put money into the equity market if You need it next year.
- But remember, both gold and real estate have high transaction costs that equity does not have. The returns in hand in both cases will be lower than with equity.

Rules of Equity investing :

- When investing in the stock market, give it the same patience You give real estate – a good equity portfolio needs five years of patience, ten years to see consistent returns, but actually will slow-cook over fifteen to twenty years.
- Remember that Your risk is choosing poor products

- If You find Yourself frozen while choosing equity products in the market – direct stocks, market-linked products such as unit-linked insurance plans (ULIPs) and mutual funds – and don't want to take the risk of choosing a fund manager, go with an exchange-traded fund (ETF) or an index fund linked to a broad market index or a mid-cap index.
- Four, do not invest in any product that locks You into a particular company or asset manager.
- Five, if You want to invest in managed funds, start learning. Read through the Mint50 coverage (http://bit.ly/1Kd4Mhv). Go through the Value Research data (http://bit.ly/1KYChan) and Morningstar ratings (http://bit.ly/1TjoxZy). Some smart investors run their funds past all the three metrics to see if they pass the test. Take a considered decision that You can own.

You are doing OK if ...

- You understand that equity cooks over time and You need at

least seven to ten years of patience to see returns;

- You understand that You will not double Your money overnight, but will get a return that is between 12–15 percent a year;
- You understand that mutual funds are the best way to give Your money an equity exposure;
- You understand that if You don't have the ability to choose funds, You invest through index funds or ETFs.

Chapter 9 Mutual Funds

- There are three broad classifications according to asset type – debt, equity and gold. Within each there are divisions that club similar schemes into groups.

Debt Funds :

- A bond will pay a regular interest to the lender, and then at maturity, it will repay the principal – not very different from the FD that we all know and use.
- We must buy debt funds to match the investment horizon of the mutual fund scheme with ours. Investment horizon, or the time for which we want to invest our money, can also be called 'tenor.
- There are two ways to slice the debt fund market. One, according to tenor, or the holding period of the bond. Two, according to the quality of debt paper bought by the fund.
- When you think of a debt fund, ask yourself these two questions. Does the 'average maturity' of the debt fund match my holding period?Question two is – what quality of debt paper does the scheme hold? The better the quality, the lower will be the potential return. The lower the quality, the higher is the risk and the return.

Liquid Funds

- The bonds that a liquid fund buys are short-maturity bonds, or bonds that will mature within an average of three months.

- Average maturity' will be a term you will come across when you go to buy a debt fund. All that it means is that the average holding period of all the bonds is about three months.
- SEBI has now allowed funds to allow instant redemption of up to Rs 50,000 a day from liquid funds, or up to 90 per cent of the money in your liquid fund – whichever is lower.

Ultra Short-Term Fund

- You can invest in these if you need the money anytime in the next nine months to a year.
- If triple-A (AAA) is the safest kind of bond you can buy, a double-B (BB) means fairly high levels of risk.
- It is usually safe to stay with large funds from large well-known fund houses.

Other types of Debt Funds

- There are other categories of debt funds – corporate bond fund, medium-term bond funds, credit risk funds, long-term bond fund, G-Sec funds and monthly income plans (MIPs).
- What should you do if your investment horizon is two years? You should stay with the ultra-short-term fund, though I use a conservative balanced fund.
- I use debt funds to keep my emergency money, to keep money that I need in the next eighteen months. For horizons more than that, I use a balanced fund.

Gold Funds

- There are no 'making' charges and it is safer – you don't have to rent a locker to store your gold.
- You buy a unit of the gold ETF at the current market price of gold and the ETF invests that money in bullion of 99.55 percent purity. One unit of an ETF is equal to 1 gram of gold.
- The Government of India has launched gold bonds to offer an alternative to gold buyers in the country.Not only is there no cost to the product, investors also get a rate of interest along with a sovereign guarantee. Remember, the role of gold in your money box is to provide diversification and a hedge against inflation.

Equity Funds

Active and passive funds

- An active fund is like the taxi – you are choosing a mutual fund where the fund manager has a view on the market, chooses his stocks to fit the investment mandate, and then manages the money by trading every day. Just as your experience of the taxi ride depends a lot on your driver, so also the performance of an active fund depends a lot on the fund manager.
- A passive fund is like taking the metro. You know the cost, you know the distance and you know when you will reach – you don't have to choose the driver, you just need to get to the station and board the right train. A passive fund just buys the index and stays with it. Passive funds don't invest in large research desks, or brokers and dealers, since all they are doing is buying an index and sticking with it.

Index Returns

- The other difference in index funds and ETFs is that you can buy an index fund at a
- price at the end of the day, but you can buy an ETF at any point in the day. This difference in price is not relevant to retail investors like us.
- I prefer to stay with index funds for the moment, because the liquidity in the ETFs may not be that good. This means that when you go to sell a large quantity, you may not get the current market price.

Basic Types of Equity Funds :

- At the very basic level there are three kinds of equity funds – large-cap, mid-cap and small-cap funds.The returns from small- and mid-cap firms are much higher than those from large-cap ones, but this possible higher return comes with higher risk. When markets fall, it is the small- and mid- cap stocks that fall harder than the large-cap stocks.
- Sector funds. These schemes allow you to invest in stocks of a particular sector.Thematic funds that track a bunch of sectors.
- An open-ended fund is open for investors buying and selling it forever.A closed-end fund comes to the market with a fixed time frame.
- I like open-ended funds that have been in the market for at least five years. I like to see the report card of the past to see if I can trust the fund manager and the fund house with my money.

Growth or dividend

- There are three kinds of options that each mutual fund scheme offers you: growth, dividend and dividend reinvestment.
- The growth option allows you to stay invested and get the benefit of long-term growth of the portfolio. Your profits are not 'realized', or in other words, your profits reflect in the rising price, much like a stock price that goes up. Till you sell, the profit is 'unrealized' or notional.The growth option works especially well for equity funds as it allows you to keep the money invested in the market. The profit your fund makes remains in the market and you get the benefit of compounding over the years.This option is good for those who don't need an income from their investment today but are targeting a corpus for future use.
- The dividend option allows you to book profits periodically. The number of units remain the same, but the NAV keeps reflecting the booked profits. Obviously for the same scheme, the NAV of a growth option will be higher than the dividend option. This option is good for those who need a periodic income from their investments, like the retired do.

ELSS :

- An ELSS is an equity fund that gets this tax benefit. It has a three-year lock-in period, and you cannot exit before that. Remember not to tick the dividend or dividend reinvestment option in an ELSS. Go for growth.

Balanced Funds :

- Today there are three kinds of balanced funds – conservative, balanced and aggressive. Conservative funds have between 10 and 25 percent in equity, balanced have between 40 and 60 per cent in equity and aggressive about 65–80 per cent in equity. Conservative balanced funds are also called monthly income plans (MIPs).

NAV :

- It is not ‘gross’, because the costs have been removed from the price, and you get the net value in your hand.Multiply the NAV with the number of units you hold to get the value of your mutual fund holding per scheme.

How do Mutual Funds make Money :

- In its simplest form, a market-linked investment product carries three kinds of costs. One, the cost to enter the product, also called a front load.
- A load is part of the price of the product, or is embedded in the price – it is an invisible charge because it is not usually disclosed. Mutual funds have zero loads and are an extremely investor-friendly product.
- The question to ask when buying a market-linked investment product is: How much of the money I invest goes to work?
- Two, an ongoing cost or the annual fees that you need to pay to have experts manage your money.
- Expense ratio is the fees that a mutual fund charges investors for its costs and the profits it makes.
- Three, an exit cost, or the cost of selling the product. To take care of expenses of selling the investment you made or to act as a deterrent to frequent churning of money, funds levy exit charges.
- Direct plans remove the sales commission embedded in the expense ratio and make the product cheaper for you to buy.

SIP :

- Using the vehicle of an SIP is good for two big reasons. One, we usually earn a fixed amount each month and have a monthly surplus left over after expenses.
- Two, an SIP allows you to average out your price as you invest over the year, either monthly, or fortnightly, or even quarterly.
- SIP is a vehicle and not the goal.
- A systematic transfer plan (STP) is a facility that allows you to space out a big investment over time.Instead of investing it all in one go, you can put the money in a liquid fund and set up a monthly (or weekly or fortnightly) transfer into an equity scheme. Remember that you have to choose a liquid fund of the same fund house whose equity fund you want to buy through an STP.
- A systematic withdrawal plan (SWP) is a facility to periodically redeem your units to generate an income. Yes, it works like a dividend plan, but in this case the control remains in your hand of how much money you want to take from your fund periodically.

You are doing OK if ...

- You understand that you can invest in debt, equity and gold through mutual funds;
- You understand that managed funds cost more, carry more risk, but also can give higher returns;

- You understand that the lowest cost and safest way to get an equity exposure is to use index funds or ETFs that track the Sensex or Nifty50;
- You understand that churning your mutual fund portfolio benefits the seller and not you and, therefore, you should choose carefully and stay invested for years.

Chapter 10 Putting it all Together

- Each product you buy must fight for its place in your money box.

At the very basic level, an investment-oriented financial product must be evaluated on six parameters :

1. Cost :
   What does it cost me to buy this product?(Entry,ongoing and exit costs)
2. Return :
   The purpose of an investment product is to give you a return. You should know what a product returns, either definitely in a guaranteed product, or approximately in a market-linked one.Stay away from products that give you returns in absolute numbers.Also remember that returns and risk are linked.You should be able to compare the return to your bank FD.
3. Lock-in :
   A lock-in means that you cannot withdraw your money for a certain period of time.Don't confuse the premium-paying term with the policy tenure.
4. Cost to exit early :
   Ask your seller to write down what it costs to exit and over what time period.
5. Holding Period :
   Each product you allow into your money box must answer this question: How long do I need to hold it for it to work for me?
6. Taxes :
   Returns need to be evaluated taking into account the costs, inflation and taxes.

A product for every cell :
Cash-flow cell :

You need three bank accounts when you are starting out.If your expenses are large and you find your savings deposit quite full till about the fifteenth of the month – put part of the spending money in a liquid fund.

Emergency cell :

Two options. FD.The second product is a mutual fund. I keep my emergency money in an ultra-short-term debt fund.Choose a conservative and not aggressive.Once you understand mutual funds and get used to investing in them, you may even move your emergency money to a conservative balanced fund.

Medical Insurance Cell :

Depending on your need, this cell gets a medical insurance policy that insures you and your family against hospital bills.

Life insurance cell :

You need between eight to ten times your annual income as a cover.

Almost-there cell :

FDs,ultra-short-term debt fund or conservative hybrid mutual fund that have a maximum equity exposure of 25 per cent

In Some Time investments :

For a goal that is three years away you can use a mix of ultra- short-term debt funds and conservative hybrid mutual funds, with the mix tilted towards the debt funds.For a goal closer to seven years,I would do a mix of aggressive hybrid funds and diversified equity funds.

Far Away investments :

The largest part of the equity fund portfolio must remain in lower-risk diversified equity or multi-cap mutual funds.

Chapter 11 Retirement

- You need to target eighteen to thirty-five times your annual spending at sixty for your retirement.
- You are financially free when you don’t need to work to pay your bills. You have enough assets that generate enough income today and for the rest of your life.
- Save your age and multiply your spend.
- Divide 72 with your inflation number to get the number of years it will take to double your current expenses.
- At age forty, you should have three times your annual income as your retirement corpus already.At fifty, you should have six times your annual income.

Chapter 12 Redo the box

- The ‘fill it, shut it, forget it’ approach needs a once-in-a-year audit. Once a year is often enough to clean your money box.
- If you have managed funds, it is a good idea to check twice a year that your products are on course. If you are an index-fund or ETF person, you don’t need more than an annual check.

Chapter 13 WIll It

- Your money box is half done till you have made a will. Nominations are not enough. Will it if you care.

Chapter 14 What kills your money box

- Buying without a thought, borrowing money you can’t pay back and greed are enemies of your money box.