16 PERSONAL FINANCE PRINCIPLES EVERY INVESTOR SHOULD KNOW.

Acknowledgement

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Manish Chauhan

Financial Coach

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Chapter 1

BURNING THE JUNGLE

Over the last couple of years, I have come across thousands of investors who wanted that one secret for wealth creation; that one secret which can change their financial lives. Everyone is looking for that magic formula which will transform their wealth creation process. Sadly, there is no single thing in life which can make it happen; but one thing comes very close. And I am going to share that open secret with you. I call it an "open secret" because its not hidden; you're probably aware of it…you just have to recognise it, that's all! That secret is "Start investing early". In the next few pages, I want to make you aware of the power of early investing and the impact it can have on your financial life.

These days, common Indian investors are worried about how to save money to meet financial goals. These could be the finances required for their child's higher education, a nest egg for retirement, the money needed to buy a house... or any other big ticket dream on the horizon. When they think about the amount of money they would need after 10-20 years to fund a particular goal, it scares them! It starts to look like a daunting and unachievable task. For example, a man who is 30 years old today would require several lakhs after 20 years to fund his child's graduate + postgraduate education. The big figure could be anywhere between 40-50 lakh, who knows! If you consider all the expenses you have to shell out right from your child's primary school till she completes her college degree and add to that living expenses, it can total up to an amount which might literally give you shock. Think about it.

So what is it that this common investor should have done to make the whole process of wealth accumulation much, much simpler? Many think that the answer lies in some "hidden" knowledge or a big secret or just plain luck. While all of these may be important, they are not the key! The key to accumulating wealth is unbelievably simple - just start investing early in life. This doctrine is so powerful that it sometimes even discounts the mistakes or stupidities you make in your financial life. It's such a "common sense" thing that it is not visible to the common investor, they just overlook this simple fact.

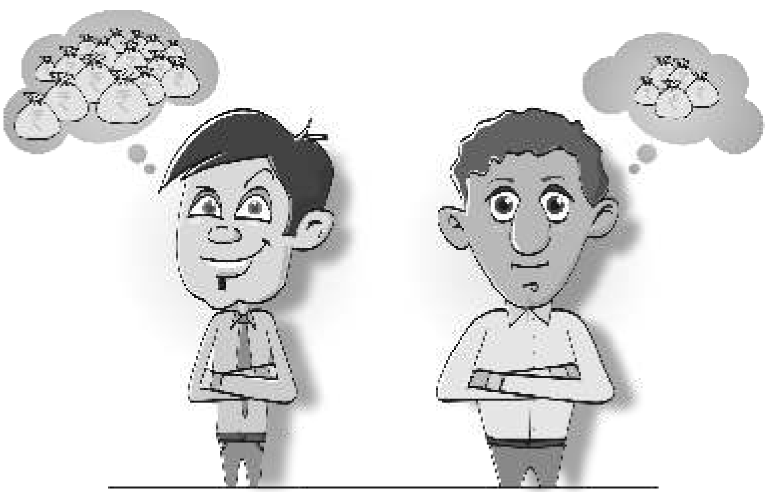
Are you procrastinating?

A lot of people procrastinate, some by choice and some due to ignorance. They always think that starting with a small amount would not make much of a difference, when they aim to accumulate great wealth. They feel,

"How much can saving of few thousands per month impact my goals which require lakhs and crores!"

Imagine a person who wants to accumulate 2 crore by the time he retires, 30 years from now. He may not be motivated to save Rs 1000 or Rs 2000 today as it looks too small to have any impact on that BIG goal. He can't see the power of small investments and how these can contribute to his final goal of accumulating Rs 2 crore. But let me show you some examples, which may look unbelievable to a common investor. These examples will motivate you to read further and find out what you may not know yet. Then we can move deeper into the ocean of "early investing" and "the power of compounding".

Example 1



Imagine two friends Ajay and Vijay. Vijay invests Rs 1,000 per month for 30 years at 12% per annum, whereas Ajay invests Rs 2,000 per month for first 10 yrs at 12% and then just lets it grow for next 20 yrs . And Ajay is going to accumulate 45 lacs at the end of 30 years although he has contributed a total of 2.4 lacs during the first 10 yrs.

Vijay will accumulate only Rs 36 lakh, despite investing Rs 3.6 lakh over the 30 year period...

Even though Vijay invested more than Ajay , he was not able to accumulate more money than Ajay. This is simply because Ajay contributed more at the start.

Example 2

Suppose you have 30 years in hand and you decide to invest a certain amount every year, in a financial product that gives you a 12% return. You will collect a certain amount – principal and interest – after 30 years.

Now, let's say you reduce the investment tenure by half – from 30 years to 15 years, and allow the money to grow in that same financial product which gives you a 12% return for the next 15 years. The amount that you collect after 30 years – principal and interest – will be only 14% less than it would have been in the first case...where you contributed for all 30 years.

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[1] Assuming that the interest is compounded monthly

Example 3 :

Investment required per month to generate 5 crores in **35** years, assuming a 15% return

Investment required per month to generate 5 crores in **25** years, assuming a 15% return

The above examples might have opened your eyes wide to what early investing can do to your financial life. Now let's explore why this is possible...

Assumption

From here on, whenever I refer to investing and compounding in this chapter, I will be assuming a capital of Rs 5,000 per month invested for a period of 30 years at a rate of interest of 15%, unless I state otherwise. I have chosen the rate of 12% as a benchmark because it is considered a standard return for equity over the long term. In case you don't understand all this, don't worry; just skip it and move forward. Don't let these assumptions create a block towards understanding the examples that are coming up.

The 12% return assumption is on products like Equity Mutual funds, Index Funds or stocks. Note that in this chapter when we refer to any investment with 12% return, its main investment in Equity Mutual funds, over long term.

Time in hand is like a powerful sword

> **"Start investing early. If you don't, you are committing a crime which you will pay for all your life..."**

When we coach people with regard to their financial life, we notice something: The biggest reason why their financial life is in a deep mess is not because of their lack of knowledge or their lack of earnings. In fact, most of them earn well and are pretty smart. They are all successful at what they do. The biggest reason is that they have lost that part of their financial life which could have created magic - "the starting years". It all boils down to not having taken action early in life. Time is that one weapon which, if present in your financial life, increases your chances of financial success greatly. You can call it the **"Bramhastra"** of creating wealth.

I see a lot of people spending too much time worrying about money and wondering how their financial goals will be acheived. They spend so much time on things which matter so little - like "which is the best stock to invest in" or "which mutual fund should I put my money in" or "which policy gives the highest returns". In doing so, they are lost in the confusing world of personal finance and deviate from the only solution they should have implemented long back in their lives, which is starting to invest early!

When we start earning, we are generally single. We have less responsibilities and have ample ways of cutting down on our expenses. We are in a position to save a substantial part of our income. We usually have some years in hand before we get into a marriage and all the responsibilities that come with it. Instead of using that precious time and opportunity, a lot of us waste it thinking that we can always start saving later; perhaps when we have more money or when we get a job that pays better. But sadly, life is not like the 'Saas bhi kabhi bahu thi' serials, whose structure can change every week or with every episode.

Tell me frankly, how different has your life been from what it was last year or from how it was the day when you first started procrastinating over your saving and investing plans? Life does not change, it's we who have to change and take bold decisions. We always have some reason or the other to not save or make the effort to start investing early. Remember that 5 or 10 years lost at the start is a crime which will haunt you for the next 40-50 years. Don't commit this crime!

Creating long term wealth is like growing a tree

Have you ever planted a small sapling? One month after you sow the sapling, it may not look any different; but you will notice some changes after 3 months. After 2 years, it will probably have grown to a good size. Yet it would not be big enough to repay you by giving shade and fruits. When you see the same tree after 20-30 years, it will be so big that it's hard to believe that it started out so small. But to help it grow to that point requires a lot of patience, hard work and belief that it can happen.

Growing wealth is somewhat similar to growing a tree. We start small and keep investing for the long term. We may not be able to invest a lot in the beginning but we can increase our contribution when we earn more or start saving more, as life progresses. However, nothing compares to starting early in life.

> **"Early investing is very much like growing a tree..., If you take good care of it at the start, it will take care of itself later ! "**

How does money grow and multiply?

Before we figure out how money grows, I would like to share with you an example which I call **"Fire in the Jungle"**.

Have you ever heard news of a whole jungle catching fire and everything getting burned down? Now imagine how it might have all started… Do you think someone went from tree to tree, burning each one down one by one? I don't think so! Perhaps one can go from tree to tree and bush to bush and set fire to each one, one by one, to get the same effect, i.e. a jungle on fire… but you don't need to work so hard! All you need to do is to make sure is that you fire up some of the trees to a self sustaining level so that the fire catches on and spreads to other parts of the jungle. There will come a point when it would be idiotic to burn up more trees because by the time you burn a single tree, hundreds of trees would be catching fire on their own! It's called **"compounding"**.

What on earth has this fire in the jungle to do with growing our wealth and starting early in life? It has a lot in common. The investments made in the early years of your life are the same as spreading a fire in the jungle… after a point, just like the fire compounded itself and spread so vigorously, your money will also grow to some extent and then the returns generated on it will be so great that your contributions will look small in comparison. A lot of investors miss this part and never act on starting early!

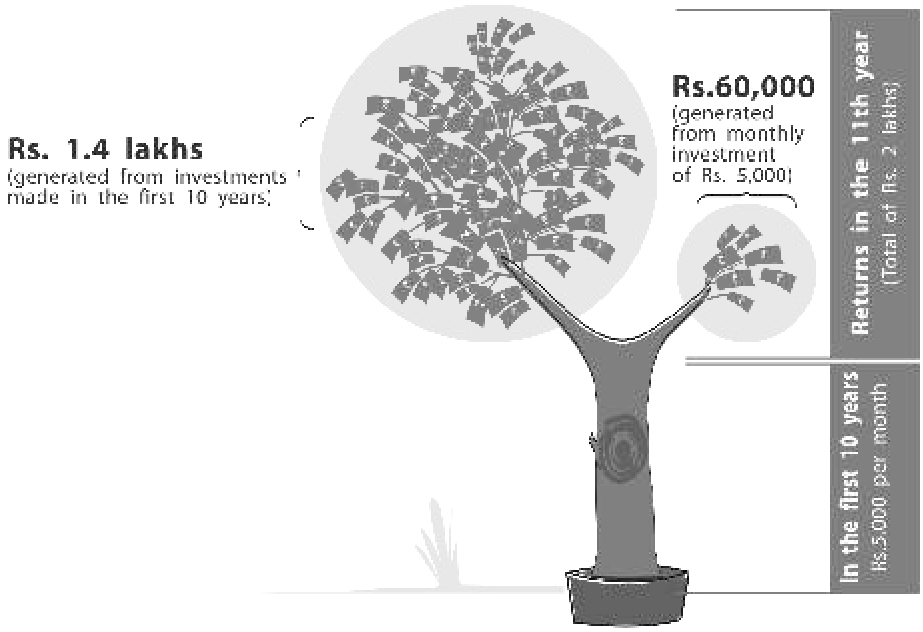
So now can you tell what makes money grow? The answer is "Money itself"! And obviously, we also need to help it to grow by investing it. When you start investing, your money starts getting accumulated and every year it starts generating returns which are added to the investments. While that return is a small amount in the starting years, over time it keeps on accumulating and then the interest per year becomes really significant.

Let me show you how…

Suppose you start out by investing Rs 5,000 per month for 30 years. In the last year (the 30th year) you will invest 60,000 from your pocket. However, the return for the 30th year itself would be Rs 18 lakh. Just imagine that! And guess what, out of this return of Rs 18 lakh, which you get in the last year, 12 lakh comes because of the contribution that you made in the first 10 years and the remaining 6 lakh comes from the investments made in the next 19 years.

It's critical to understand why this has happened. Imagine your wealth as a Money-Tree, which was small when you started, but grew bigger in size over the years. At some point, branches begin to emerge and grow in all directions. Coming back to the example, your wealth at the end of the 10th year will grow to Rs 11.6 lakh. So visualize your Money-Tree; it has become bigger and it's worth Rs 11.6 lakh at the end of the 10th year. What happens after 1 more year, i.e. the 11th year? How much more will be added to this Money-tree? There will be 2 kinds of additions. The first one will come from you, which is Rs 5,000 per month or Rs 60,000 per year. The other part will be the return generated on the wealth that has already been accumulated. This turns out to be around Rs 1.4 lakh. So the total addition in the 11th year will be Rs 2 lakh, out of which only Rs 60,000 was due to your contribution and the remaining Rs 1.4 lakh was generated by the existing wealth itself.

Now, if you consider these two branches, the branch which is a result of returns generated from the existing wealth will be much much bigger than the branch which you contributed afresh. I guess you got my point here.



Now, if you fast forward to the 29th year, your corpus would increase to Rs 1.56 crore. In the 30th year, you will add another 60k from your pocket, but your own wealth will add a 12% return to it. And that would be close to Rs 18 lakh! You can actually skip contributing that 60k in last year and it won't really be missed. The best part has happened already, which is the accumulation of wealth in the early years!

The take-away

You will agree that the money you invest early in your life has a drastic effect on the money you accumulate over the years. This is true for long term investing. But if there is no "long-term", there is no time for "compounding". Time is a great ingredient and everyone has a good amount of it. If you loose time at the start, you lose wealth. So, it's no wonder that they say "Time is money"!

Investing early lowers your burden later

I want to convince you that early investing is the best way to make sure that you are not burdened later in your life ... Here's an example…

Ajay, a 26 year old software engineer from Bangalore, has recently started his career. He has around 30 years in hand till his retirement and he wants to accumulate a good amount of money, which can fund his needs and aspirations. He has decided to accumulate a minimum of Rs 3.5 crore by the age of 56. Towards this end, he has a "plan". I will call his plan OPTION 1 and it's the most obvious way anyone would think.

Option 1

Assuming, very logically, that his income will keep increasing as he progresses in his career…

- Ajay decides to start by investing Rs 5,000 per month for the first 10 years
- Thereafter, he will invest Rs 15,000 per month for the next 10 years
- And finally, he will invest Rs 50,000 per month for the last 10 years.

Using the above plan, he will be able to generate around 3.5 crores in 30 years. We are assuming a standard long term equity return of 12% CAGR.

This seems like the most intuitive way to formulate a plan. Do you agree?

Now, let's look at the other options he has to reach the same target.

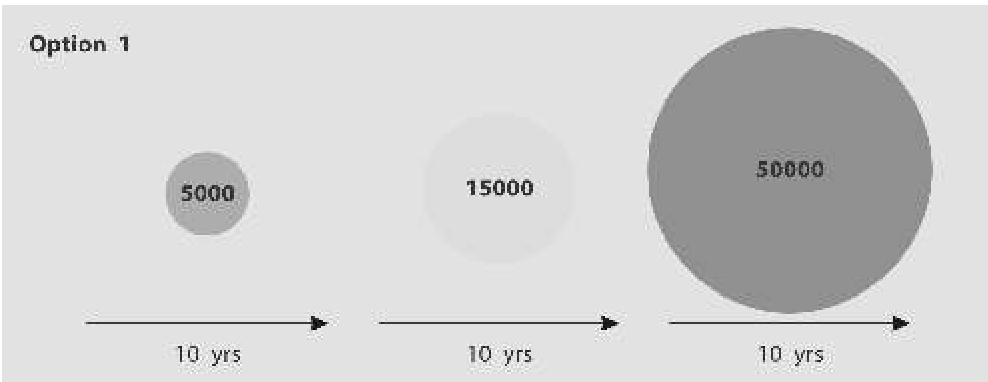
Option 2 :

He can invest Rs 10,000 per month for all 30 years. In this case, by increasing his initial investment amount in option 1 by Rs 5,000 per month for the initial 10 years, his situation changes to a level where he can continue with the same investment amount and not increase it later.

Option 3 :

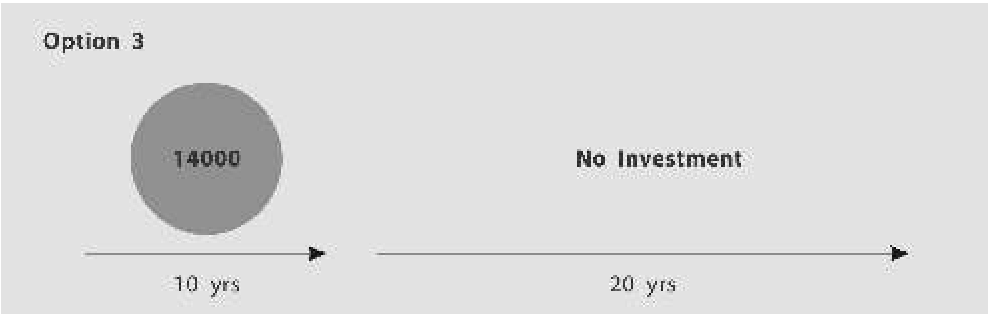
If he invests Rs 14,000 for first 10 years, he does not have to invest any further. In this case, he is investing Rs 9,000 more than he planned to in option 1. You can see that this extra investment of Rs 9,000 in the starting phase is so powerful that he does not need to invest anything for the next for 20 years. So, an investment of Rs 9,000 extra in the first 10 years can replace his old plan of making future payments of Rs 15,000 per month for 10 years in between and Rs 50,000 per month for the last 10 years (as per option 1). You will appreciate from this example that a greater contribution in the start helps him to accumulate the same amount of money without any later contributions.

What this tells us is that if one contributes more in the start, it’s equivalent to investing a lower amount initially and gradually increasing in future years.



OR

OR



In a nutshell, if you look closer, you will realise that investing more at the start gives you the freedom to invest less in the future. So, if you want to invest for 30 years, the investments that you make in the first 15 years will make up a significant portion of your whole corpus; contrary to popular belief, it is not the investments that you make in the last 15 years. Your investments in the last 15 years will, of course, add to the corpus, but the contribution will not be as significant. For example, if you want to invest Rs 5,000 per month for 30 years at the rate of 12%, you would accumulate around 1.76 crore. However, if you only invest for half the tenure and leave the money to grow for the remaining 15 years, you would still amass Rs 1.51 crore, which is 85% of the final corpus.

> "Early investing gives you the liberty to reduce or stop your investments in the future, without compromising much on the final results"

You can also increase your investments by Rs 830 per month (i.e. from Rs 5,000 to Rs 5830) and invest only for 15 years and you will still make the same Rs 1.76 crore at the end of the tenure (provided you leave your money to grow for the interim 15 years).

Early investment and returns required

Suppose you and your friend decide to race for 20 km. Your friend decides to pace himself by running at a steady rate of 4 km per hour. Accordingly, he will complete the distance in 5 hours.

However, you are more relaxed at the start and decide to run at a pace of 2 km/hour, thinking that you will cover up for this slow start later. You keep running at a pace of 2km/hour for 3 hours and cover a total of 6 km. Now you decide to increase your pace. But imagine the situation. You have just 2 hour left and 14 km to cover. It's a situation where you have to run at a speed of 7 km/hour. It might not be impossible, but it's certainly not easy! Your chances of winning come down considerably. Many things can prevent you from achieving that pace in the last 2 hours - you may get a cramp, you could meet with a small accident while running so fast, you could get exhausted... Overall, your task is rather challenging!

What could you have done? If you had decided to run faster than your friend at the start, at say 5 km/hour (while your friend ran at 4 km/hour), you could have completed 15 km in the first 3 hours. Then even if you jogged at a speed of 2.5 km/hour for the next 2 hours, you could easily have won. It becomes much simpler than the previous situation. Even if you wanted to rest for 30 minutes, you could afford to do so and still complete the rest of the race at a speed of 3.4 km/hour. Or you could alternate between jogging and walking towards the end. This leisurely pace would be possible only because of the effort you made at the start.

Your financial life is no different. It's a race. If you are happy with what you have acheived in life, you have won the race. If you contribute more at the start, things become manageable at the end.

And, each and every opportunity or chance to save more or contribute more, means a lower burden later.

Now let's look at how this applies to wealth creation...

Suppose you and your friend start your careers at the same time and have 30 years in hand before retirement. Your friend starts investing Rs 60,000 per year in an avenue that delivers a 10% return. He would collect Rs 1.62 crore at the end of 30 years. Now, let's say you start investing the same amount per year but 10 years later, thinking that you will apply some smart investment strategies which give you a much higher return. Even if you get a return of 20% on your investments year after year, you will still have less money than your friend in the end. And that's despite somehow managing a 20% return on your investment…to achieve which you need to be an investment NINJA!

However, your friend's life will be a lot easier... getting a return of 10% is almost 10 times easier than getting a return of 20%!

If you are a conservative investor, early investing is more than necessary…its critical. You should see early investing as a "strategy" rather than a "fact" for your investments.

Investment table

Formulas scare everyone. So, I'm putting down a table as a ready reckoner for how much you can generate by investing some amount for several years at different rates of return: namely, 6%, 8%, 10%, 12% and 15%.

Table 1 : A one time investment of 1,000 for X number of years at R%.

It's very simple to use this table. If you want to invest 1 lakh in an FD which gives a return of 8% and your investment tenure is 7 years, run one finger down the column titled 8% and another finger across the row titled 7 and they will meet at 1,714. Now that's how much Rs 1000 will become in 7 years at 8%; so, Rs 1 lakh will become approximately Rs 1,71,400.

In the same way, if you consider a mutual fund which says that its overall return was 12% per annum for the last 23 years, you can quickly see that Rs 10,000 invested in that mutual funds would have been worth 135520 (13552 x 10) or around Rs 1.35 lakh after 23 years.

One time Rs 1000 invested for X yrs at R interest rate per annum

	Interest				
Years	6%	8%	10%	12%	15%
1	1060	1080	1100	1120	1150
2	1124	1166	1210	1254	1323
3	1191	1260	1331	1405	1521
4	1262	1360	1464	1574	1749
5	1338	1469	1611	1762	2011
6	1419	1587	1772	1974	2313
7	1504	1714	1949	2211	2660
8	1594	1851	2144	2476	3059
9	1689	1999	2358	2773	3518
10	1791	2159	2594	3106	4046
11	1898	2332	2853	3479	4652
12	2012	2518	3138	3896	5350
13	2133	2720	3452	4363	6153
14	2261	2937	3797	4887	7076
15	2397	3172	4177	5474	8137
16	2540	3426	4595	6130	9358
17	2693	3700	5054	6866	10761

	Interest				
Years	**6%**	**8%**	**10%**	**12%**	**15%**
18	2854	3996	5560	7690	12375
19	3026	4316	6116	8613	14232
20	3207	4661	6727	9646	16367
21	3400	5034	7400	10804	18822
22	3604	5437	8140	12100	21645
23	3820	5871	8954	13552	24891
24	4049	6341	9850	15179	28625
25	4292	6848	10835	17000	32919
26	4549	7396	11918	19040	37857
27	4822	7988	13110	21325	43535
28	5112	8627	14421	23884	50066
29	5418	9317	15863	26750	57575
30	5743	10063	17449	29960	66212
31	6088	10868	19194	33555	76144
32	6453	11737	21114	37582	87565
33	6841	12676	23225	42092	100700
34	7251	13690	25548	47143	115805
35	7686	14785	28102	52800	133176

Years	Interest 6%	8%	10%	12%	15%
36	8147	15968	30913	59136	153152
37	8636	17246	34004	66232	176125
38	9154	18625	37404	74180	202543
39	9704	20115	41145	83081	232925
40	10286	21725	45259	93051	267864

Table 2: Monlthly investments of 1,000 for X number of years at R%.

Now suppose if instead of a one time investment, you decide to keep investing some fixed amount of money in a particular instrument every month. Here's a table which will tell you what you will have amassed over the years, i.e. the sum of your contributions and the interest thereon.

For example, if you wanted to invest Rs 5,000 per month for the next 25 years in an instrument which returns an interest of 10%, you can see from the chart that you will have collected Rs 13,37,890 for every Rs 1,000 invested per month, so you can just multiply this 13,37,890 by 5 and get Rs 66,89,450 as the final amount that you receive for investing Rs 5,000 per month.

Monthly Investments of Rs 1000 for X yrs at R interest rate/annum

Years	Interest 6%	8%	10%	12%	15%
1	12397	12533	12670	12809	13021
2	25559	26106	26667	27243	28135
3	39533	40806	42130	43508	45679
4	54368	56726	59212	61835	66044

	Interest				
Years	**6%**	**8%**	**10%**	**12%**	**15%**
5	70119	73967	78082	82486	89682
6	86841	92639	98929	105757	117120
7	104594	112861	121958	131979	148968
8	123443	134761	147399	161527	185937
9	143454	158479	175504	194822	228848
10	164699	184166	206552	232339	278657
11	187254	211984	240851	274615	336474
12	211201	242112	278742	322252	403585
13	236625	274740	320600	375931	481484
14	263616	310076	366841	436418	571906
15	292273	348345	417924	504576	676863
16	322697	389791	474357	581378	798693
17	354997	434676	536698	667921	940108
18	389290	483287	605568	765439	1104255
19	425698	535932	681649	875325	1294790
20	464351	592947	765697	999148	1515955
21	505388	654694	858546	1138674	1772673
22	548957	721567	961117	1295896	2070659

	Interest				
Years	6%	8%	10%	12%	15%
23	595213	793989	1074429	1473057	2416548
24	644321	872423	1199606	1672687	2818040
25	696459	957367	1337890	1897635	3284074
26	751812	1049360	1490655	2151112	3825025
27	810580	1148990	1659417	2436736	4452936
28	872972	1256888	1845849	2758585	5181786
29	939212	1373742	2051804	3121252	6027803
30	1009538	1500295	2279325	3529914	7009821
31	1084201	1637352	2530671	3990405	8149702
32	1163469	1785784	2808335	4509297	9472825
33	1247627	1946536	3115075	5093998	11008645
34	1336975	2120631	3453934	5752854	12791356
35	1431834	2309175	3828277	6495269	14860645
36	1532543	2513368	4241818	7331841	17262582
37	1639465	2734510	4698662	8274511	20050641
38	1752980	2974005	5203343	9336736	23286893
39	1873498	3233379	5760871	10533677	27043388
40	2001448	3514281	6376780	11882420	31403755

Early investment can help you enjoy semi-retirement

Now I'm going to touch upon one of the most ignorned aspects of early investing. I dont see anyone talking about it in the personal finance space.

For how long do you want to keep working at your job? Till you are 60? Don't fool yourself ! A lot of people are forced to work till their retirement, battling daily pressures only because they are suppose to bring home money to provide for the family, year after year.

By now you know that if you invest early in life and utilize the time to compound your money, you can rest assured that the money starts working for you. This means that in the later years of life, you get freedom from worries about contributing each month to that big wealth pool.

If you do it in the right way, you could even enjoy a semi-retirement. Semi -retirement is nothing but that phase of life wherein you don't stop working, but definately stop worrying about money. You can take up some light job or some consultancy work, which gives you enough time to enjoy your life while some money still comes in. If you want to retire at the age of 55, you can semi-retire at the age of 45, atleast.

Just recall the initial part of this chapter where we saw how early investing gives you the freedom to exempt yourself from contrubuting too much at the end. That's exactly what you can do and as a result, there will be less pressure to earn a lot nearer your retirement. Even if you are earning less, your money takes care of itself.

So take action towards contributing more at the start!

3 strong conclusions regarding early investing

By now you must be suitably impressed with all the magic that early investing can do to your financial world. So, at the risk of sounding repetitive, let me neatly wrap things up for you with three conclusions which capture the essence of early investing and explain what exactly happens in the process.

Conclusion #1 : Even if you cut your contribution at the end of the tenure, it won't affect the final corpus drastically.

When you see a huge 30 year old tree, in which part of its entire life do you reckon it required the most amount of care and nutrition? It's always the initial years during which the roots have to take hold. It's also the initial years in which a plant is most vulnerable to weeds and bad weather. Once it has safely made it past the first few years, you can leave it to grow on its own; the tree will be able to extract nutrients from the soil on its own. It wont hurt if you forget to water it once in a way. In fact, there's a good chance that it doesn't need your care now; it has become so big that it can expand and grow well. Hence your contribution does not matter much at a later stage.

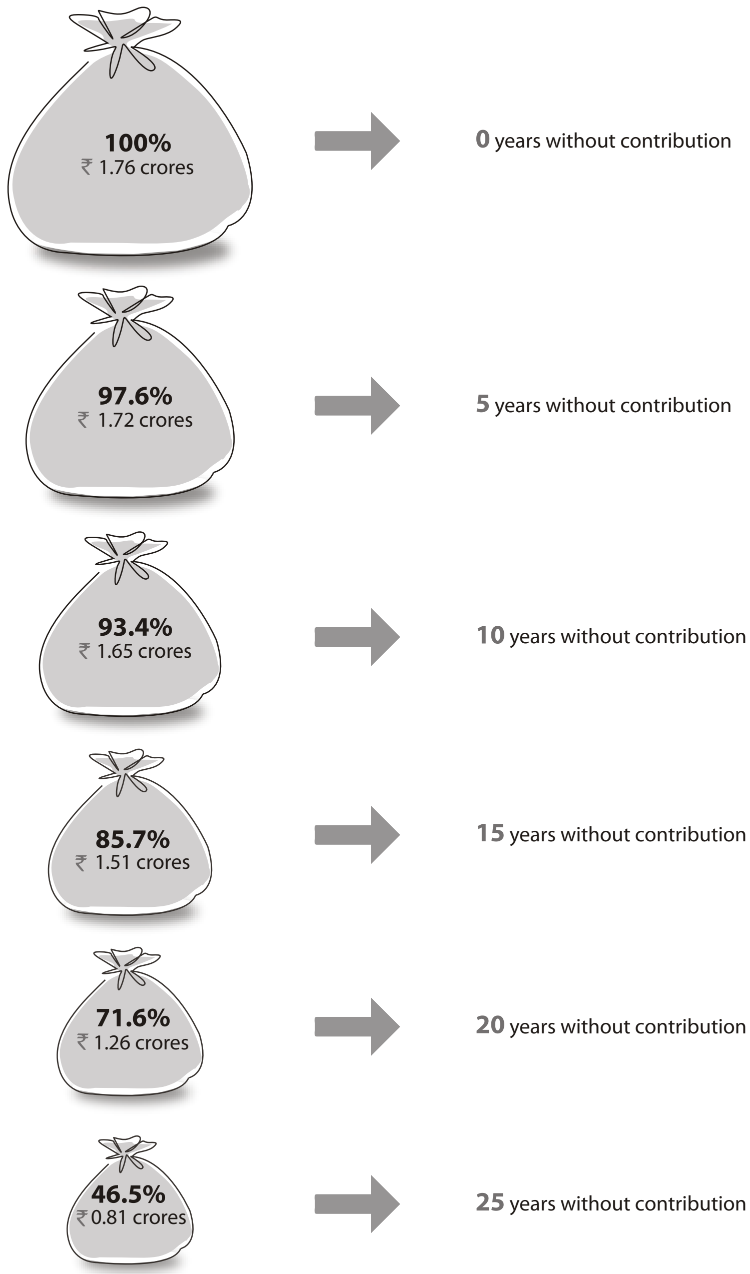
Something very similar happens in the case of your investments. The initial period is very critical. If we take care of it very well at the start, later on we can achieve good results without actually putting in much effort at the end, in terms of contributing money. Naturally, effort in terms of analysis and monitoring will still be required.

Just as an example, if you invest Rs 5,000 per month for 30 years (let's suppose you wish to build up a fund for your retirement), you can generate around 1.76 crore if you get a return of 12% (compounded monthly).

Now what happens if you do not contribute anything in the last 10 years? At the end of 30 years, you will still accumulate Rs 1.64 crore, which is 93% of the original corpus.

If you do not contribute for the last 15 years? You will still make Rs 1.51 crore, which is 85% of your original corpus.

Here's a chart which shows the percentage of corpus generated when you do not contribute anything for a certain period at the end.


100%
₹ 1.76 crores
0 years without contribution
97.6%
₹ 1.72 crores
5 years without contribution
93.4%
₹ 1.65 crores
10 years without contribution
85.7%
₹ 1.51 crores
15 years without contribution
71.6%
₹ 1.26 crores
20 years without contribution
46.5%
₹ 0.81 crores
25 years without contribution

It's no magic; it's pure maths and compounding. Whether you lose the last 10 years or 15 years, one thing remains certain, you have put in enough effort in the start and then given sufficient time to your investments to grow.

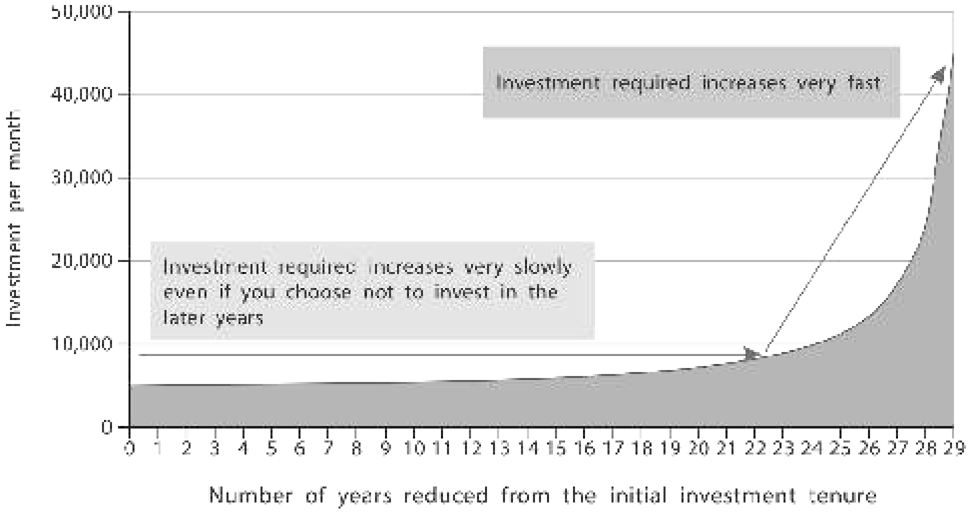
Here's a table which gives you the exact corpus generated and what proportion of the original corpus it forms when you don't contribute in the latter years.

Number of years without contribution at the end of a 30 year period	% of corpus generated	Total corpus
0	100.00%	1.76 crores
5	97.6%	1.72 crores
10	93.4%	1.65 crores
15	85.7%	1.51 crores
20	71.7%	1.26 crores
25	46.2%	0.81 crores

Conclusion #2 : If you reduce the length of your tenure substantially, the additional amount you need to invest to create a corpus of a particular size does not increase drastically.

In Conclusion # 1, we understood that if you reduce the tenure during which you contribute to your corpus by 25-50%, your final corpus reduces by a small margin. Naturally, it depends to some extent on how much you have shortened your tenure by. Now, this indirectly tells us that if we increase our investments by a small amount, we can still reach the same corpus.

For instance, let's say you need to invest Rs 5,000 per month for 30 years to reach a target of Rs 1.76 crore. Now suppose you do not want to make any investments for the last 15 years, but are willing to leave your corpus to grow. All you need to do is increase your investments by Rs 830 per month and invest 5,830 for 15 years instead of investing Rs 5000 for 30 years. This will make sure you reach your targeted corpus.

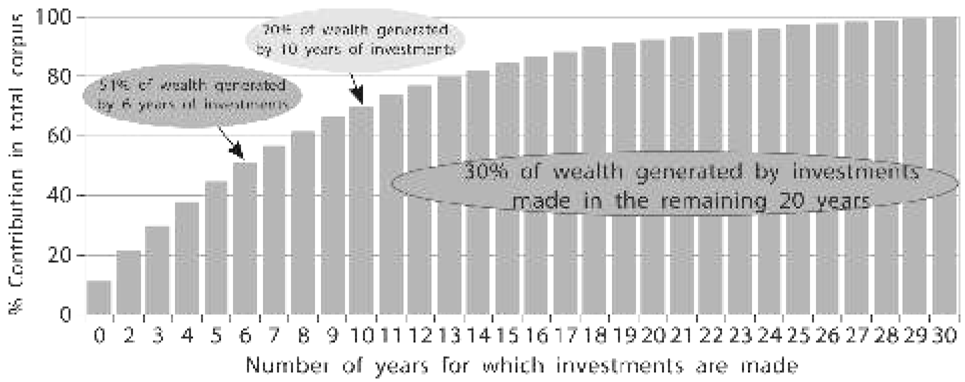


Here are some other situations in which you can reduce the tenure of your contribution, without impacting the amount of your final corpus, simply by increasing each contribution marginally.

Years without contribution at the end of tenure	Amount required per month	% increase in investment to reach the same corpus
0	5,000	0.00%
5	5,120	2.41%
10	5,350	7.01%
15	5,830	16.6%
20	6980	39.6%
25	10,830	116.0%
29	43,100	762.0%

Conclusion #3 : Investments made in the initial years form the main chunk of your final corpus

The investments that you make at the beginning get sufficient time to grow and compound drastically over the years. Using the same example, take a look at a chart which shows you how a huge part of your final corpus gets built because of the investments made in the initial years. Out of the total wealth you create in 30 years, almost 50% is a result of investments made in the first 6 years and 70% is generated due to the investments made in the first 10 years. The contributions in the last 20 years account for just 30% of the wealth generated. Which again shows that early investing is so critical for wealth creation. However, do remember that the above conclusions hold true only if we have a total time horizon of 30 continuous years. If you discontinue your investment in between, the above will not hold true.



Years of contribution	Percentage of total wealth accumulated
1	12%
5	46%
10	72%
15	86%
20	93%
25	97%
30	100%

Your next best alternative

Now don't be disheartened if you have not yet started contributing towards your future. Start today. It's always earlier than tomorrow and investing today will give your investments a chance to grow in future, irrespective of how long or short that future is. The main principle that you need to follow is invest as much as you can today…don't put it off for later!

Here's what you can do to maximize your investments today. Take a closer look at your life and you will find several ways in which you can generate more money to invest. A few suggestions which come to my mind are:

1. Cut out on unnecessary outings once in a while
2. Try - to use a bike instead of a car, if your situation permits it. I see many people using 4 wheelers when they can do just fine with a 2 wheeler!
3. Buy a smaller car instead of a bigger one, if it doesn't hurt your ego

4. Change to a prepaid mobile instead of a postpaid (this works out well for a lot of people)
5. When you go shopping, write down what you want and calculate approximately how much it will cost you. Then carry that amount of cash, with a small margin, perhaps.
6. Walk or ride a cycle when you want to get to a place that's relatively close; don't become a slave to two wheelers or cars

Any small savings undertaken and invested today are going to have a huge effect later. The stronger your focus is on investing more at the start of your life, the bigger will be the relief you can expect later. But the focus is on discipline and not on getting bogged down by short term deviations, which are bound to come along the way.

Final Thoughts

Make sure you don't overdo your "belt tightening" exercise and start cutting down on those things which make you happy. The whole idea is to look at increasing your investments by cutting down those costs which are relatively dispensable. You don't have to and should not compromise on todays life to build a great tommorow. The whole idea was to motivate you into early investing and show you what it can do for your financial life .

Now you have to do the most important and the toughest part, ACT ON WHAT YOU HAVE LEARNT!

Flashback Learning

- Investing more money in your initial earning years will make sure that you quickly build your corpus and it eventually grows without your support
- Investing more later is the same as investing less today; the choice is yours!
- Don't lose time. 5 years wasted in the start is worse than wasting 15-20 years towards the end of your earning life.

2 hour Action Plan

1. Identify all the areas of your life in which you can cut down on costs, without compromising on your current lifestyle and find out how much you can save.

2. Find out how much money you are able to additionally save per year and what kind of additional wealth it can generate for you by the time you retire.

Chapter 8

16 PRINCIPLE EVERY INVESTOR MUST KNOW

Finally, your journey through this book has come to an end. While reading it, you have certainly come closer to your tryst with wealth. Although you are motivated and all charged up after reading all the eye-opening insights that you have come across in the book, you have not reached your goal yet. There are 2 things you still need to do:

Remember and Live by the 16 basic 'Rules for an Excellent Financial Life'.

1. Smart investors are early investors
2. Secure your life to ensure peace of mind
3. Clear goals leads to clear direction
4. Use Equity for long term goals, Debt for Short term goals
5. Instead of asking how to, ask Do you want to or not
6. Simple financial life is awesome financial life
7. Focus on earning more rather than saving tax
8. Don't consume 100% when you can live on 90%
9. Simply put the First things first not second or third
10. Invest in yourself and not just in financial products
11. If your financial life is your business, then you are the CEO
12. Personal finance Short cut ends up to be long cut
13. Always Educate yourself to educate other family members
14. Focus on bigger picture rather than small things
15. Spend on what you really need, not on what you think you need
16. Look at "Value" not the "price"

Take action - Complete all the important tasks.

Testimonials

Honestly speaking the book is an eye opener for me. I came across this book and especially about Jagoinvestor initiative accidentally. Yes accidentally, and may be that it was to happen with me. I was searching for information related to CIBIL and I came across JagoInvestor and read all blog post related with CIBIL. The reason to say this is because then I also found out about this book (the old edition) and that time onwards things changed and every day was like an awakening as I was reading through each chapter of the book carefully. Every chapter has made me think about not only just financial aspect or wisdom but also about the other parts of life. First and foremost things that I did was to ensure that after each chapter take the action and then only read the next. This compelled me to do the things. This has lead me to buy online term insurance plan, I know it may be late to do it for me but I have started.

Each chapter has a good elaboration of ideas, but what I like most is it has provoked me to think an do things and made me take actions and that is what I can say is a success of this book is, no matter how many copies are sold or others readers may find it find it very basic. However I personally feel that basic principles only takes one ahead in life. It also made me write my finacial goals now I dont know what will be the result but atleast the journey is started. It also made me share important financial information with my family (big smile here). This also made me consolidate all informaion of where things are in one place and organized them.

I also liked the concepts related to each stage of life how typically a portfolio of an individual should look like. It also gave me a realization on how starting late in action in your financial life takes you away from the goal of enjoying true financial freedom. This book also made me to start teaching fiancial wisdom to my kid and have made some progress on the same. One may think is that all? But let me tell you for a person with complete un-awareness to a wakening is a sea change that this book has brought in me.

Prasad Kulkarni

This books has changed my way of looking towards my financial profile, towards my earning and overall about money. As an youngster, started having salary, I was of nature to enjoy the life as it comes in my mind, spend money without having a second thought, kind of 'kal kisne dekha' nature. But after reading this book, I started thinking seriously about money. The importance of, early investment, importance of having right valued insurance plan, growing your money instead of just saving it, choosing combinations of different types of investment products - equity and debt products, convenience of having a simple financial profile, automating the things.All these are very well explained and elaborated. This book can be a very nice step for youngsters to get into money management.

Sushant Kande