

§1 financial management is important

In the process of market investment, the rate of return is proportional to the risk. The lower the risk taken, the lower the return on investment. On the contrary, high-risk investment may be accompanied by rich returns . Bank fixed deposit is a kind of financial behavior that everyone of us will do. With "quasi national reputation" as guarantee, it can be said to be one of the safest ways of financing. The ultra-high security doomed its ultra-low yield .

The fixed deposit interest rate of the bank will fluctuate with the development of the national economy. Take the one-year fixed deposit interest rate as an example. In 1993, it was as high as 10.98%, while in 2015, it was as low as 1.5%. In 2021, it will remain at 1.5% .

It is said: if you don't manage your money, then money ignores you. Financial management is an unavoidable choice, because the annual inflation rate is devouring the cash in our hands. The following table shows China's annual inflation rate from 1990 to 2016 .

Year	Inflation rate	Year	Inflation rate
1990	3.10%	2004	3.90%
1991	3.40%	2005	1.80%
1992	6.40%	2006	1.50%
1993	14.70%	2007	4.80%
1994	24.10%	2008	5.90%
1995	17.10%	2009	-0.70%
1996	8.30%	2010	3.30%
1997	2.80%	2011	5.40%
1998	-0.80%	2012	2.60%
1999	-1.40%	2013	3.20%
2000	0.40%	2014	1.50%
2001	0.70%	2015	1.40%
2002	-0.80%	2016	3%
2003	1.20%		

Generally speaking, the inflation rate is the rate of currency depreciation, which means that the purchasing power of currency is declining. For example, at the beginning of 2011, if 100 yuan, you can buy a birthday cake. The inflation rate in 2011 was 5.40%. That means that the actual purchasing power of 100 yuan at the end of 2011 is only 94.88 yuan as 100 yuan had at the beginning of the year. At the end of 2011, we could not buy that birthday cake with 100 yuan in our hands. At this time, the price of birthday cake is 105.4 yuan.

From the above table, we can calculate that the annual average inflation rate from 1990 to 2016 is 4.33%. It is a very frightening number. It means that if we do not make any financial efforts, the cash held in our hands will depreciate at a rate of 4.33% every year. For example, we can more intuitively see the damage caused by inflation. If we had 10000 yuan at home at the beginning of 1990, by the end of 2016, the purchasing power of 10000 yuan will only be 2875 yuan. The

accumulated depreciation reached 71.25%. In the face of such a high rate of currency depreciation, financial management is imperative.

As we said earlier, saving is a mean of financing, because saving has interest. Can the interest of saving resist inflation? The following table shows the change of one-year fixed deposit interest rate published by the Central Bank since 1990.

Year	Interest rate %	Year	Interest rate %	Year	Interest rate %
1990/4/15	10.08	2004/10/29	2.25	2010/12/26	2.75
1990/8/21	8.64	2006/8/19	2.52	2011/2/9	3
1991/4/21	7.56	2007/3/18	2.79	2011/4/6	3.25
1993/5/15	9.18	2007/5/19	3.06	2011/7/7	3.5
1993/7/11	10.98	2007/7/21	3.33	2012/6/8	3.25
1996/5/1	9.18	2007/8/22	3.6	2012/7/6	3
1996/8/23	7.47	2007/9/15	3.87	2014/11/22	2.75
1997/10/23	5.67	2007/12/21	4.14	2015/3/1	2.5
1998/3/25	5.22	2008/10/9	3.87	2015/5/11	2.25
1998/7/1	4.77	2008/10/30	3.6	2015/6/28	2
1998/12/7	3.78	2008/11/27	2.52	2015/8/26	1.75
1999/6/10	2.25	2008/12/23	2.25	2015/10/24	1.5

From the above table, we can find that the average interest rate of one-year fixed deposits in banks from 1990 to 2016 is 4.17%, which is very close to the average inflation rate of 4.33% in the same period that we calculated earlier, but still less than the inflation rate. Using the above example, we can see that if we had 10000 yuan in the bank for one-year fixed deposits at the beginning of 1990, by the end of 2016, we would have accumulated 32202 yuan. We have calculated that the currency depreciation rate in the same period is 71.25%, so 32202 yuan is actually equivalent to 9258 yuan. For this, after 27 years, the 10000 yuan has lost 7.42% of its purchasing power. It can be seen that bank savings cannot beat inflation.

In fact, from our experience in real life, the inflation rate around us will be much higher than the figures in the table. The inflation rate figures in the table are obtained on average after taking into account the production and living factors of the whole society, while ordinary people are more concerned about the necessities of life, such as food, clothing, housing and transportation. For example, in 1992, an ordinary Santana car from Shanghai Volkswagen Factory was sold for 180,000 yuan. In July 2012, when the model was discontinued, the price was about 90,000 yuan. For Santana, it is getting cheaper and cheaper, but who can buy cars every year? As a type of durable consumer goods, cars have been used for at least six or seven years. What we care more about is the price of daily necessities that are often used around us. In my own experience, Hot Pepper Soup is a kind of breakfast that the northern people like very much. In 1990, the price was 20 cents a bowl. By 2016, the price was basically stable at three yuan a bowl. In 27 years, the price has risen 14 times. In addition, taking my city as an example, in 2005, the price of commercial housing was about 1000 yuan per square meter. In 2016, the price has risen to 8000 yuan per square meter. Eleven years, the price has risen seven times.

§2 dilemma in money management

The grim reality tells us that our wealth will shrink significantly if we do not manage money. What financial means can we have for ordinary people?

No1, bank financial products. Broadly speaking, bank financial products can be divided into fixed income and risk types. Here we specifically refer to fixed income bank financial products, which are mainly fixed income investments such as bank time deposits, agreement deposits, national debt, financial bonds, corporate bonds, convertible bonds, bond funds, etc. Generally speaking, these products have low returns, but are relatively stable and have low risks, Note that these products are not risk free, but rather low risk. The yield of bank financial products is usually higher than the one-year fixed deposit interest rate in the same period, roughly equivalent to the five-year fixed deposit interest rate in the same period. This yield can only slightly outperform the inflation rate in the same period, but also may not. The financial management effect is very general.

No2, private lending. The private lending I mentioned here includes investment guarantee companies, investment companies, online P2P companies, etc. This type of investment is characterized by the agreed rate of return within the agreed period. Usually, the period of each investment will not exceed one year. This type of investment started in 2010 and reached its climax in 2012. At that time, all kinds of investment guarantee companies filled the streets and alleys, all of them promised to attract high interest returns. According to the market, the annual interest rate of 12% is the starting point, and the high rate can reach 30% or more. However, high interest rates are often accompanied by high risks, It can even be said that high interest rates are basically equivalent to fraud. The downfall of E-Rent, Fan Ya and many P2P companies has quickly destroyed this wealth myth, and a large number of people who do not know the truth have lost their money.

No3, buy a house. Since the first wave of real estate boom in 2007, housing prices have become a hot topic in the whole society. According to the statistics of the Ministry of Housing and Urban Rural Development, in the past 20 years, buying and holding a house at any time has been profitable, and can earn a lot, so it's easy to beat the inflation rate of the same period. But for ordinary people, the vast majority of people buy houses to live on their own. Where do they live after selling such a house? What about the extra money from selling the house? There is a good example of the previous question. A few years ago, there was a hot news on Internet, to the effect that a Beijing taxi driver with a monthly income of about 8000 yuan bought a house in Beijing in the early years, which was worth 8 million yuan at that time. If you calculate the total assets, the driver is not poor. However, his wife was seriously ill and badly needed 500000 yuan for surgery. He was baffled by his house and wife, which made a would-be millionaire suffer for 500000 yuan. For most people, the house is only paper wealth, and you can't enjoy it if you sell it. For the latter question, if I have two houses, it is OK to sell one, but the problem is that what are you going to do with the cash you get from the sale? The problem has returned to the original point. You still need to manage money.

No4, to invest in stock funds, which is of course a typical venture capital. Stock market is a complex market, where there are both long-term value investors and short-term speculators. Most people think that they can surpass others and earn income when facing the daily K-line. Sadly, people in the stock market, on the whole, still lose money. "Seven losses, two equalities and one gain" is a phrase that most shareholders often say, as if the stock market is not a good way to manage money. Is that really the case? As an example, the Shanghai Securities Composite Index was launched in December 1990, with a starting point of 100 points and a closing point of 3639.78 points on December 2021. The cumulative growth rate in 31 years is 36 times, and the

compound annual growth rate is 12.25%. If we hold such assets, it will steadily outperform the inflation rate by a large margin.

§3 Stock Indexes are different

For ordinary retail investors, the investment index is the most suitable, because compared with individual stocks, the index is average, sustainable and passive. And the risk is low.

- (1) Average means that an index is a collection of a package of stocks, which reflects the average rise and fall of the market. As long as the market is rising as a whole, the index will also rise. Buying and selling the index will be better than Buying and selling the stock shares.
- (2) Sustainability means that once the index is released, it will continue to run according to the rules. Generally, the index will adjust the constituent stocks according to the compilation rules every year to eliminate the fittest, as long as the exchange does not close, the index will continue to exist. The US Dow Jones Index has a long history. When it was released in 1896, there were 12 stocks, representing the most dazzling enterprise stars in the US economy at that time. After 100 years of evolution, the Dow Jones Index still operates healthily, while the original 12 companies leaving only General Electric still remain in the index.
- (3) Passivity means that the index operates according to the compilation rules, without the subjective will of people, and will not be changed because of the preferences of publishers, thus ensuring the objective, fair and equitable operation of the index.
- (4) The risk is low, which is relative to individual stocks. Because of the average, sustainability and passivity of the index, the operation of the index is relatively stable. An excellent index can be continuously incorporated into excellent stocks (listed companies) according to the compilation rules, so as to ensure that the index is generally in a spiral upward trend.

§4 Principle of regular investment

Having said so much about the benefits of the index, how should we buy and sell the index? Fixed investment is the most suitable investment method for retail investors. For investors who often speculate in stocks, they have more or less heard of the concept of fixed investment. As the name implies, fixed investment is to invest in the agreed amount at the agreed time.

More people in China may know that fixed investment in fund. Fund companies issue fund products to attract customers to invest in their own fund products, so as to introduce this business into fund investment. It is a fund investment method in which the investor submits an application to the designated fund sales agency to agree in advance the deduction date, amount, method and name of the fund to be invested in each period, and the sales agency will automatically complete the deduction and subscription in the bank account designated by the investor on the agreed deduction date.

1. Fixed investment has the following advantages

First, make regular investments. Every little makes a mickle. Investors may have some idle funds every once in a while, the investment value can be increased by purchasing the target through the regular and quota investment plan and, they can accumulate a lot of wealth unconsciously.

Second, regardless of the investment time, the key to investment is to buy low and sell high. However, few people have mastered the best trading point to make profits when investing. Of course, the best trading point has its own randomness and contingency. In order to avoid such artificial subjective judgment mistakes, investors can invest in the market through fixed investment plans, regardless of the entry time, market price, and their short-term fluctuations, make long-term investment decisions.

Third, the average investment spreads the risk. The capital is invested by stages. The cost of investment varies from high to low. The long-term average is relatively low, so, it maximizes the diversification of investment risks.

Fourth, the compound interest effect is significant for a long time. The return of fixed investment plan is compound interest effect. The interest generated by the principal is added to the principal to continue to derive income. The compound interest effect becomes more and more obvious over time in the form of rolling interest. The compound interest effect of fixed investment takes a long time to fully display, so it should not be arbitrarily terminated due to short-term market fluctuations. As long as the long-term prospect is good, short-term market decline is the opportunity to accumulate more cheap chips. Once the market rebounds, long-term accumulated chips can make a profit immediately.

2. Which groups are suitable for it?

- (1) Young moonlight clan. As the fixed investment of the fund has two functions of investment and saving, it can leave daily living expenses after the salary is paid, and part of the remaining funds are fixed investment, forcing self to save, and cultivating good financial habits.
- (2) A salaried office worker. After most office workers pay for their daily living expenses, the balance is often small, and a small amount of regular investment is the most appropriate way. Moreover, because most office workers do not have a high level of investment and are unable to accurately judge the timing of entry and exit, asset appreciation can be steadily achieved through the fund investment tool.
- (3) There is a special or large demand for funds at a certain point in the future. For example, the down payment for house purchase must be paid three years later, the study fund for children to go abroad 20 years later, and their own retirement pension fund 30 or 40 years later. When it is known that there will be a large amount of capital demand in the future, it will be raised by regular small investment in advance, which will not only not cause a burden on your daily economy, but also make the small money of each month easily become large money in the future.
- (4) Those who have experienced a bear market and do not like to take large investment risks. Due to the advantages of weighted average of investment cost, regular and quota investment can effectively reduce the overall investment cost, reduce the risk of price fluctuation, and make steady profits. It is one of the best choice tools for long-term investors to be optimistic about the market for a long time.

The above is a qualitative analysis of the fixed investment. How can we better implement the fixed investment plan? How can we achieve higher returns by our capital? This will be the content of this book. Let's start the exploration of quantitative investment together!