FINANCE MASTERCLASS

For people in their 20's & 30's

By Aman Dhattarwal

* Inflation : eats your savings
Enemy of compounding & savings

Govt says it eats 4% each year

Fact : Last 60 years average inflation rate = 7.5%

Reality : it eats 8% to 10% each year from most of us!

Inflation rate in Big spends :

Education	Healthcare.	House	Gold
10%	13-14%.	10%	10%

Additionally we have Lifestyle inflation - new generation in a capitalist society will always want a better life i.e more consumption.

* What happens to Rs 1Crore if kept in different instruments ?

	Bank Savings.	Bank FD.	Nifty 50 Index Fund	Real Estate
Initial Amt.	1Cr.	1Cr.	1Cr.	1.07Cr
Interest rate	3.5%.	7.4%.	13.5%. (2000 to 2024)	Varies
Tax Rate	30% each year income slab	30% each year	12.5% on redemption	12.5% on redemption
Net Interest rate	2.45%.	5.18%.	-	-
Subtract Infaltion	2.45%-8% = -5.55%	-3%	5.5%	-

This is a major reason why it is difficult for people to stop earning.

Solution : Earn more

Invest wisely* for long period i.e 10+ years

Track your portfolio time to time

Remember : what compounding creates, inflation eats!

* **Real Compounding Maths for (10 years)**

1Cr

Rs x

7% −8% = −1% → −3%	2x 2Cr → *
12%	3x
15%	4x
17.5%	5x
20%	6x
25%	9x

* Rule of 72 → double in how many years

7% $\frac{72}{7}$ = 10 years

10% $\frac{72}{10}$ = 7.2 years

15% $\frac{72}{15}$ = 5 years

* $\boxed{\text{How to Earn More (in long run) ?}}$

1. Improve your Job Address
   - rich kids going abroad for UG & PG
   - IIT/NIT & best talent goes abroad
   - rich nation/people pay more
   - increase child income by 25%

2. Get very good in ONE domain
   - people pay more for specialisation
   - niche
   - A players are better entrepreneurs

3. Marriage & Spouse
   - working spouse
   - spending habits
   - growth mindset & priorities

4. Be a constant learner
   - self development
   - communication & socialisation
   - improve neighbourhood

* How to spend less ?

1. Avoid school,college Friend circle!
   - brings insecurity
   - brings jealousness & envy
   - WhatsApp & IG status brings fomo
   - solution ?

2. Big expenses
   - vehicle : 8-10
   - marriage : rising, house & gold
   - house (for most, after marriage, 30s or 40s)

3. Don't compete with UHNIs & HNIs in spending
   - most are living easily on interest of interest
   - even on 10% interest they earn 25Cr interest each year
   - 10% of 25Cr is 2.5Cr their annual expense & someone's life savings
   - & additionally they also have active income

4. Parents
   - if parents living in Tier 1 cities
   - rent, food, marriage, house, vehicle, house help

5. Loans
   - we never take personal loan
   - loan only helps in Real estate background check or business loan
   - loan is for the rich, who don't need it
   - No to credit cards, if imp then set on auto payment

You can go Goa in Rs 30K
OR you can go with your family in Rs 5 lakhs.
So, focus on growing & not on fear of missing out.

Equity : we invest the money which we don't need for next 10 years

Who wins in Equity :

1. Invest for long period over 10 years
2. Buy low (on value margin) and sell high
3. Do SIPs each month & lumpsum when market on margin
4. brokers & "influencers :p

5 Major Don't -

1. Never lose money. We never invest where there is a risk of principal value becoming Zero i.e check fundamentals
2. Making lumpsum when market high, investing all at Top

   Ex: China Hang Seng Index

   Japan Stock Index

   India : 1979 to 1992 & 1992 to 2000

   30% 0%

3. Nobody can predict or time the market : everyone is lying!

4. Check expense ratio : brokers are eating your money

   Ex: Discuss platforms & affiliate links

5. Unemployment breeds F&O trading : more money for govt, brokers, trading courses & big fishes.

Equity

Stocks.	Index M.Funds.	Active Equity M.F
Reliance	Nifty 50	Large Cap
Asian Paints	Nifty Next 50	Mid Cap
ONGC		Small Cap
More growth	Low expense ratio: 0.18	High expense ratio
More risk	Less volatile	Fund manager
Intelligent investor only	Good for No Knowledge Investor	

Expense ratio Calculation

Calculation of expense ratio on 1Cr investment

HDFC short term debt fund

	0.4	0.71
1st year	43,000	76,000
2 years	92,500	1,64,000
3 years	1,50,000	2,66,000
5 years	2,93,000	5,16,000
	Groww, Zerodha	Kotak Neo

Why Mutual Funds ?

6 Key benefits :

1. Good for no knowledge investors, specially index MF
2. You minimise risk by diversifying through MF
3. Allow you to invest overseas without need of abroad Demat account

   eg: S&P 500 or Hangseng bees

4. Tax benefit in Hybrid Equity & Debt funds, MF don't need to pay capital gain taxes when they shift money from equity to debt. Individuals have to book profits and pay taxes.

5. Government bonds & treasury bills are mostly only available through debt funds (we will learn later).

6. Business owners don't get any interest on current accounts (except Kotak bank for now). They can park their money in Liquid or overnight debt mutual funds to get FD equivalent interest rates.

How to know if Stock market Cheap or High?

1.Single stocks are volatile, therefore we will check Nifty 50.

2.MarketCap/GDP ratio

3.P/E ratio of Nifty 50 : Low range, Fair range & Expensive range (Price/Earning ratio)

4.Earnings of Nifty 50 companies of last 5 years

5.Lot of euphoria, optimism in media & IPO launches are indicator of Greedy (expensive) market

6.Fear, people crying that they lost money in stock market : good indicator that market is cheap

* P/E ratio of Nifty 50

If 7% risk free rate	14/1 to 19/1	19/1 to 22.5/1	22.5/1 & onwards
	Cheap Good time to buy People are scared	Fair value	Expensive Small SIPs Market Greedy
If 8% risk free rate	12.5/1 to 17.5/1	17.5 to 22/1	22/1 & onwards
If 6% risk free rate	16.5/1 to 21	21/1 to 24.5/1	24.5 & onwards

Note: P/E alone is not best measure, so we also check earnings of Nifty 50 of last 5 years.

Some basic fundamentals

Repo rate : risk free rate given by RBI

Return on government bonds

Easy explanation : slightly less than FD rate

TRI

Price/Earning ratio

24,131

Bank FD	Nifty 50	House
7% earning	Check	2.5% earning
100/7	niftyindices.com	100/2.5
=14/1	= 22/1	=40/1
In order to earn Rs1, we have to invest Rs14 in FD	Earnings / Appreciation	In order to earn Rs1, we have to invest Rs40

1 Cr

1.07 Cr Earning

1 Cr

2.5lakh + 1.25 Cr

1.275 Cr

Earn

Appreciation

In long run, stock prices will follow earnings.
All businesses are in the business of earning money.
So, if business earnings are increasing, then stock price will also increase with time.

For investing in Individual Stocks we must understand Fundamental Analysis

Top line/ Revenue / Sales
Gross Profit margin (GPM)
Operating profit margin (OPM)
Net Profit / Bottom line
Free cash flow (cash is king)
Debt/Equity ratio
Loan Interests
MOAT : competitive edge
PnL & Balance sheets
P/E ratio, Average P/E ratio
P/B ratio
Calculating fair valuation
Management ethics & i
Fair trade practices
Depreciation
Amortisation
EBIT, EBITDA

Why Debt Mutual Funds ?

1. Give similar & slightly more returns than F.Ds
2. No penalty on early withdrawals like F.Ds
3. Benefit of deferred tax
4. More liquid than F.D
5. Very low risk as compared to equity

People invest in Debt funds when

1. Equity markets are expensive & expecting fall
2. You need money in next 1 day to 5 years, so need less volatile instrument
3. Interest rates are High!

Risks Involved

1. Interest rate risk
2. Capital default risk
3. Cannot beat inflation

Debt M.Funds

Invest your money in

Bonds

- Government
  - Treasury bills
  - Fixed rate bonds
    SGB
    Long term bonds

  No default risk

- Corporate
  - Commercial paper
  - Debentures
  - Convertible Debentures

  More returns
  Default risk

Types of Debt Funds

Overnight Funds	Liquid funds	Ultra short funds	Short term funds	Long term funds
Few days	Upto 1 month	6month to 1 year	2-3 years	3+ years
6%	6.2%	6.5%	7%	7.5%

Note : in each type you can invest for as long as you want

Interest rate increases
Default rate risk increases →
Interest rate sensitivity risk increases

More types : Gilt Debt funds, money market funds, dynamic bond funds

Steps to select a Debt fund :

1. Check ratings of debts funds on
   - Value research
   - Morning star india
   - Crisil
2. Asset under management (AUM) : higher is good
3. Past performance
4. Fund manager
5. Risk matrix : well diversified (not over 4-5% in 1 company)

Real Estate & House

First increase income, savings & then you can go for this.
Family, job & future

Who wins in Real estate ?

1. Real estate brokers
2. People with land bank
3. Black to white economy
4. Upfront ready cash
5. Strong understanding of a locality

Rent.	Owning house
Good in our 20's, 30s	Sense of security
Frequent location changes	No forceful change
Low investment portfolio	You can invest on decor
Hate real estate hassle	Memories
11 months agreement	Marriage market
	Black money

Major Do's & Don't

1. Use bank loans for background check
2. Check Registry & GPA
3. Possession of land
4. Land under your chest
5. Weak paper work
6. Land use & upcoming government projects

* Buying real estate is easy but selling it is NOT.
Make sure you buy a Hot property
Real estate is a game of demand and supply.

* Apartments :
Already build - check age & build quality
Before construction - only big builders, avoid small
Eg : DLF, Godrej, Emaar

* How to get a real estate at good price ?

1. Government lottery system ex: Noida
2. Upfront cash discount
3. Seller is desperate
4. New upcoming government projects
5. Research
6. 3-4% rental yield + 8-9% appreciation = 12% total
7. ROE & Loan
8. Larger the land size, cheaper it gets

Where to keep your money?

* Avoid keeping over 1lakh to 4lakhs* in bank savings account :

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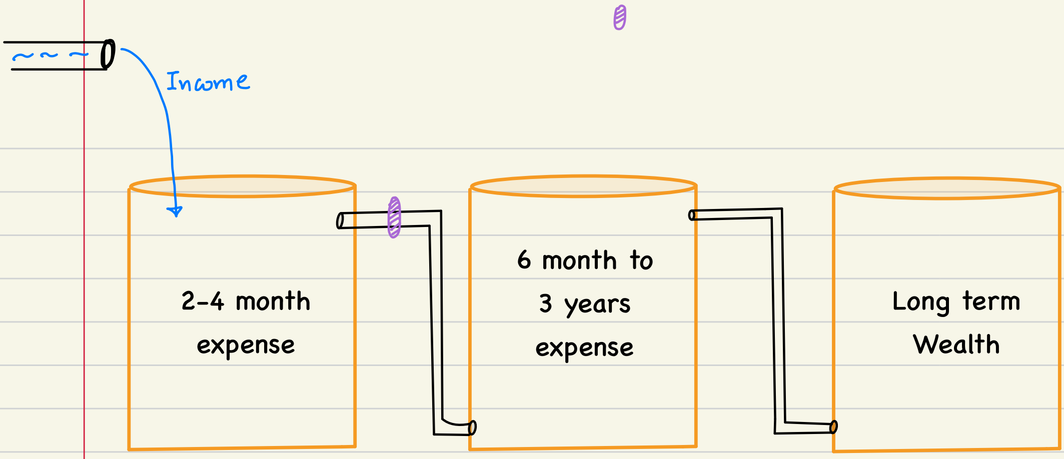
* Liquid Debt funds or Auto Sweep F.Ds : for next 2-3 month expense

  FD's for 6 month to 3 year goals

  Ultra Short + Short term : 6 month to 2 years expense

* Equity & real estate* for long term investment



Bucket 1	Bucket 2	Bucket 3
Bank account with automatic sweep FD	Ultra short + Short term or Fixed FD	Equity Real Estate*
1-4lakhs	10lakhs to 36 lakhs (3 year expense)	Check market & invest accordingly

For Big Expenses like marriage, car coming in 3-5 years we can use bucket 2 or we can take help of other instruments i.e Equity + Debt (or hybrid funds)

Remember : Best investment is YOU!

* Major Do's & Don't

1. Get a term insurance if people are dependent on you.
2. Get a health insurance for yourself & your parents.
3. No to F&O trading & fast money schemes

* ## Major Warren Buffett's learnings

1. Never lose money
2. We cannot time the market, but we can value the market.
3. Be fearful when others are greedy & be greedy when others are fearful
4. Margin of Safety
5. We buy great businesses at margin of safety i.e we buy at a discount.
6. Figure out your edge over others
7. When we buy something we assume that the markets are closed for the next 5 years.
8. Don't track the price, look at stocks as businesses to own.

Aman Dhattarwal's learnings

1. First earn money then earn more & then become investor.
2. Investment is not our full time job (until you are an HNI or UHNI)
3. Scale & size of investment matters the most ex: Paytm
4. Do your own research, don't blindly trust media.
5. Real investors won't broadcast their strategy & A cards.
6. Real estate costs 20% extra when you switch.
7. Businessman are better investors.
8. 100 ways to earn or invest money, pick your few.
9. Few ways to lose money, avoid them.

Understanding Taxes

* **Individual Tax** | **Company Tax (Pvt. Ltd)**

Old regime	New regime	Company Tax (Pvt. Ltd)
		25% + cess
Complex	No 80C hassle	On Profits only
	No tax till 7lakh	
	Upto 20% till 15 lakhs	
	30% above 15 lakhs	

* Parents, siblings & in-laws can gift you money & no tax implications.
  So, many give salary to mother upto 15 lakhs to avoid 30% tax bracket.

* Capital gains tax on Investments : STCG (short term) : 20%*
  LTCG (long term) : 12.5%*
  t

* F.Ds & bank savings taxed each year
  Equity, debt & real estate are taxed on redemption

* F.Ds, Debt MF are taxed as per income tax slab!
  Equity & real estate are taxed as per STCG & LTCG

* 6% to 7% registry tax on purchasing real estate.

* F&O is tax heaven for government &
  brokers : very high charges

Bonus Learnings : via case studies

1. Camellias DLF
2. Upto 10Cr : tax benefit on selling shares/company or house for reinvestment in residential property.
3. NRI's take global health insurance from India
4. No tax on agricultural income
5. Work with the government : future policies
6. Start up India tax benefits
7. A+ employees have more chances to become good businessman

In very long period : 10-40 years

Equity > Real Estate > Gold > Debt MF > FD's > Bank savings

In shorter period : 1-10 years

Real estate = Equity > Gold > Debt MF > FD's > Bank savings

Localisation edge
Anticipation edge
No finance education
background required