A SHORT GUIDE TO PERSONAL FINANCE

SOHITH

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By

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DECLARATION

This book is a short practical and philosophical guide rather than a technical text book. I tried to keep the explanation to the minimum and often gave the conclusions directly so that any one who wants to use can just look it up and us it. Don't get deceived by the simplicity of the advice in this book. Follow them and you will be rewarded richly.

I guarantee that anyone who reads the book can live a ruin-free financial life assuming that he has the discipline to adapt and implement the ideas without giving up.

I live by the principles of this book and hopefully you will find them just as useful as I find them. *-Sohith*

DEDICATION

I dedicate this book to my parents for patiently bearing my idiosyncracies.

- Sohith

BASIC IDEAS

“This is your life, and it’s ending one minute at a time.”

Managing Personal Finance is intertwined with Managing Personal Life. Each and every aspect of one’s life is irreversibly dependent on one’s finances. To enjoy comforts you need money. To just survive you need money. Financial troubles are major causes of friction in relationships. The state of your personal finances determine the quality of your personal life and enjoyment.

First of all let us learn some basic ideas that will guide the rest of our journey.

Basic Idea No.1:

Fools don't learn from their mistakes. Smart ones learn from their mistakes. The Wise learn from mistakes of others and their own.

Life is too short. It is not enough to make mistakes and learn from them. Considering the crores of people born and dead before us and those living around us the wisdom we can learn from their mistakes is very valuable.

Basic Idea No. 2

Control of Time (Freedom) is the true wealth in life. It is given to all but is often wasted.

Money lost can be earned again. Time once lost is lost forever. Everyone has the same amount of time every day. Managing it and maximising the enjoyment out of it is very important. Life is measured in units of time. A rich man who has to do boring work all day and never has time to enjoy his riches is pathetic.

Basic Idea No.3:

In order to win the game you have to play it first. Survival is more important than any gains.

If you are not able to play you will not have a chance to win. Survival is very important and cannot be risked. Many in their greed to get high gains or to be proven right often lose sight of the necessary condition of survival. Those who lose their capital will never be able to play again. Those who lose life can never taste it again.

Basic Idea No.4

Have Definite Goals and purpose. If not at least keep your options open till you find them. You cannot measure yourself without goals and purpose.

Money is the means to an end. Money is not the goal. Being rich is not the goal. What you want to do with the money is the most important factor in life. Dying as a rich man never fulfilling your needs amd wants is quite stupid. So make a list of your goals and prioritise them. Decide that and you can live with clarity. Life with a purpose will make let you know what to do next even if the purpose is not to have a purpose at all.

Basic Idea No. 5

Money earned risking your health is not worth it. Take care of your body. You have to live in it till you die.

Without health you cannot enjoy your money. Being a healthy poor man is better than being a rich man suffering on hospital bed. The quality of enjoyment in life is directly proportional to the quality of your health.

Basic Idea No. 6

Control your MONEY and your TIME.

You don't need geniuses to manage your money. Don't assume you can beat the markets, win the lottery and outsmart the entire human race. Everyone in the market is doing it for themselves. Brokers, Bankers, Fund Managers, Financial Advisors, Agents etc.,(including me) are all working for their fees, their cut, their salaries, their profits, their incomes and their interests. Most are smarter than you. They will ruin you if you are careless.

If something is too good to be true then most probably it is not true. Don't assume yourself to be a genius who found out an easy way to riches or a complex shortcut to riches. It is easy to fool a person who thinks he is a genius. Never ever give up control of your Money and your Time.

Basic Idea No. 7

DISCIPLINE beats TALENT and GENIUS in the long term.

Play the game for life. Keep long term goals in mind before taking decisions. Practicing every day the simple financial rules consistently trumps any luck, talent you may be lacking.

Discipline to follow a simple plan makes the difference between a winner and loser. Lack of Discipline is the reason why most people though talented and even maybe geniuses fail to lose weight, stop spending, get rid of debt, learn a new skill, control their time, get out of poverty, excel at their goals etc.

Basic Idea No. 8

PROCESS is more IMPORTANT than EVENT.

Most people don't have the discipline to follow a process because they only enjoy the event at the end of the process. They like a slim body but don't enjoy the process of exercising everyday. If you don't like the process or you don't have the discipline to stick to it then you won't get to the big event you want. Enjoying the event and enjoying the process are entirely different. Have the Discipline to follow the process at any cost. Enjoy the process and you will get to enjoy the result.

Basic Idea No. 9

HUMAN NATURE and REALITY are UNDENIABLE. Your personal and financial lives are intertwined. Your personal choices are very important.

Your personal choices affect your finances. You cannot fight Reality and Human nature. Understanding and looking at reality without bias is really difficult. You could be your worst enemy if you don't understand your own nature. If you are a capable man earning one crore per month and marry a wife who shops and spends all the money then you are no better than a poor man. If your husband is a gambler then all his riches are in danger. Your Finances affect your personal life. If you are broke no girl will respect you. If you are in debt your life sucks. If you don't save enough you may have to work more and suffer more. REALITY doesn't change. HUMAN NATURE doesn't change. People don't change. Hope is not a plan. Morality is not dependable or enough in life. That's why Law is invented and enforced.

Basic Idea No. 10

FATE can TRUMP EVERYTHING ELSE. ALL YOU CAN DO IS TO TRY.

You cannot control future nor predict future accurately. The best you can do is minimising the risk. However any bad luck can befall you and all your best plans will be ruined. As long as you did right regarding everything you control you don't have to worry about what you cannot control.

So realise that fate can ruin you but face it calmly armed with disciplined preparation and best efforts in process and with dignity. Face all odds. As long as you are breathing there is still hope. Sometimes even death (suicide) can be the best way to face the fate. That's okay. We are all going to die anyway. The only thing we can control is whether we tried our best in life before death arrives.

As it is said in Bhagavad-Gita, Do your duty and leave the results to god.

Basic Idea No. 11

One Size doesn’t fit all.

Ultimately Life is Subjective and so is managing personal finance. Your life goals and financial management depends upon your temperament, risk appetite, values, confidence, abilities, character, discipline and will power.

One size doesn't fit all. One financial management blueprint will not work for all. All the advice on financial management has to be processed by you and adjusted according to your life. Ultimately everything in this book is a heuristic for you to follow by default unless you have a better alternative.

Basic Idea No.12

Consider Maslow’s hierarchy of needs. Don’t try to fulfil a higher need without first fulfilling the lower needs.

Maslow’s hierarchy of needs is a list of needs you need to fulfil to live a satisfying life You need to fulfil a lower need before attempting a higher need. The list of needs from lower to higher is as follows:

Physiological Needs:

These are for survival like air, water, food, sleep, clothing, shelter, sexual instinct

Safety Needs:

Safety and security from war, natural disasters, violence, abuse, accidents, illness, riots, loss of means to earn money, financial insecurity.

Love/Belonging Needs:

Interpersonal needs like friendships, intimacy, family, romance, social acceptance. In short this is human need to love and be loved.(both sexually and non-sexually)

Esteem Needs:

Human need for respect both from themselves and others: Status, Fame, Competence, recognition, Pride and Self-esteem. Respect from loved ones and pride in one's own work are part of it.

Self-Actualization:

Human need to achieve the best one can do and want. Every human has a need to achieve the best possible life.

You cannot achieve higher needs properly without achieving the lower needs first. You can love without job but for that love to survive you still need to fulfil the need for financial safety. Since financial security comes under Safety Needs you need to note that managing and mastering your personal finances is very important before you achieve any higher needs of love, family or esteem. If financial safety is not ensured then your higher needs will not be met properly or their quality will suffer. This book only deals with the need for financial security.

Basic Idea No.13

50 - 50 Rule: Sacrificing today for tomorrow and sacrificing tomorrow for today are both wrong. Always divide everything in a 50-50 split.

Never bet everything on a single event, thing, plan or person. Always have backup. The constant dilemma in life is whether today's effort will give the proportional result tomorrow. It is always better to have a backup. Aggressively diversify everything in life using this 50-50 Rule.

DECISIONS AND OUTCOMES

"….it's our wits that make us men."

How to make a decision? How to check whether your decision is right or wrong? If you think positive outcome implies right decision and negative outcome implies wrong decision then consider the following case:

Two friends Raju and Somu went on a trip. Raju wore his helmet and Somu didn't wear one. They both met with an accident. Raju died on the spot while Somu didn't. Will you say Raju's decision to wear his helmet is wrong because he met with an accident and died? Will you say Somu's decision is right?

You have to understand that Raju's decision is right no matter what the outcome is and Somu's decision is wrong no matter what the outcome is. Decisions and Outcomes don't necessarily correlate. Random events and unknown variables can impact the outcome in life. You can only control very few things in life and even those can be controlled only up to a certain extent. Accepting that random events and unknown factors play a role in outcomes will make you decide differently than thinking that outcome depends solely on your decision.

Just because someone won a lottery after purchasing a lot of lottery tickets doesn't mean purchasing lottery ticket is a right decision to make unless you have a lot of money to waste.

If not on outcomes then on what criteria should we use in judging the decisions we make in life? We have to make the best decision possible based on the knowledge we have at the moment of decision-making. We should not judge a decision based on knowledge we acquire later in life. But the next time you make a decision you should base it on the updated knowledge that you have.

Also the best decisions we make are those that decrease our risk and increase our chances of reward. Best decisions are those that reduce the pain while increasing our pleasure in long term. Cigarette smoking might be pleasurable in short term but in long term is very bad for health. Just because a person says that his dad smoked his entire life without any side effects doesn’t mean you should smoke too.

Best decisions are those that have a margin of safety and options to reverse the decision in future. Since we accept that we are not omniscient and omnipotent we should try to keep as many options as possible to change our decisions in future. Unalterable decisions are not good and should be taken only in rare cases after substantial time has been spent in pondering about it.

Decisions where if you are wrong will be fatal should be avoided like drunk driving, drug abuse etc. Your decisions should be such that they should accommodate any future events that might be go against your predictions and flexible enough to change if your goals, tastes or wants change in future. All decisions should have a backup plan for worst-case scenario.

Also completely opposite conclusions can be drawn from the same data and it is easy to retrofit every outcome as foreseeable. Hence every situation will look obvious in hindsight and also decisions can be evaluated easily in hindsight. Once you take the best decision according to your thinking based on available information you should never have guilt or regrets about it.

For guiltless decision making always decide before hand what you will do when a situation comes up even before such situation comes up. Have a process or a plan by which you can make decisions in any event. Test your processes, rules, values, morals and plans in imaginary critical situations.

Decide whether you will cheat on your wife if a beautiful woman invites you into her arms. This will make it easy to decide when such a situation actually happens. Even though you may not necessarily follow your own hypothetical choice, at least you will have a ready reference (sort of like heuristic) to follow if your brain stops thinking. This kind of intellectually visualizing as many situations as possible beforehand is very beneficial so that when such situations occur you won’t be surprised or emotionally driven to decide.

Of course you can't imagine all the vast possibilities. Just try and try until you got your process, plans, values and principles are properly defined and distilled into your head. Just understand that you have given your best and you could not have done anything better. If you have done the best then it is best to always be detached to the result as it is said in Bhagavad-Gita:

Karmanye Vadhikaraste
Maa Phaleshu Kadachana
Maa karma Phala Hetur bhur
Maa te sangostva akarmani

Translation:

You have the right to work only
No right for the fruits thereof
Let not the fruits be your motive
Let not be attached to inaction

You should only think about doing your best and not worry about the results. Don't let the worry about results stop you from taking action. Life is about Action.

Example:

Decide the following with the understanding that there are no right or wrong or even rigid answers—just your personal answers:

What will you do if you find that your child is not actually yours?

What will you do if your mother eloped with her lover?

Will you take bribe for a work you already did as a part of your job?

What is the maximum amount of money you will give to your friend knowing that he will never repay you?

If you met with an accident and ended up being brain dead do you want your family to donate your organs or allow you to continue to live on life support?

What will you do if all your contacts are dead and all your savings are lost and you are left jobless with nothing in your pockets?

What is the step by step process by which your family can get your assets and other investments if you die suddenly?

What will you do if you invested in stock market and the next day stock market collapsed upto 50%? Will you buy the stocks as you consider them cheap or will you sell as you cannot bear any more losses?

What will you do if your career is ruined because a new technology made your job obsolete?

What will you do if all the people you know are dead and your savings are lost and you are left jobless? What skills do you possess that will help in earning money?

What will you do if suddenly your right hand and left leg are not disabled due to an accident?

What will you do if you are sentenced to life-time behind bars for a crime you haven't committed?

How will you spend your time if doctor told you that you have only one day to live? What is the time left is one week or one month or one year or one decade?

VISION

“Every man dies. Not every man really lives.”

Wealth and money are different. Financial Management is not only management of money but also of wealth. The wealth we are all born with is TIME. What you want to do with your time is up to you. Theoretically on the assumption that we live up to 100 years, each person has around 100*365*24 = 876000 hrs. Of which half has to be spent on sleeping, eating food, travelling etc. Only the remaining is at our discretion. This limited amount of wealth is same for each and every person born on earth. Some are even unlucky to have terminal diseases like cancer that limit their theoretical life span. Add pollution, lifestyle stress etc., to it and you should know that your true wealth of time is very short on earth. YOUR TIME IS EXTREMELY PRECIOUS.

A man who has to commute two hours to his work and curses himself while commuting has basically no control on his time and is wasting two hours of the limited time. He should find a better job or home near his job etc. If he has signed a bond to work for few years and he doesn’t have money to pay his freedom, he is basically wasting the most precious wealth he owns. This is intricately linked with the money he has as the money he has limits his options on choosing where to spend his time. Basically Financial Management boils down to managing your time.

Managing your money and time well will enable you to pursue your needs and goals according to the maslow’s hierarchy of needs and ultimately enjoy your life without major setbacks. It is really important to understand that financial management is the basis of life management and will determine almost all options in each and every aspect of life which is basically made up of time.

Free time: Time owned by you. This is the time you spend on doing things you enjoy or want. Time spent on your goals.

Slave time: Time of your life owned by someone else. This is the time you spend on doing things other's want. Time spent on other's goals. Time spent due to necessity of survival.

EVERY MAN no matter in what kind of system, culture or times he is born into will start his life as baby who depends on others for food and survival. The financial health of the baby is in the state of Financially Fucked Up. The baby takes value from others: from parents, from society without giving anything in return. In short the baby is a parasite.

From that state a boy has to grow his body, his skills, his intelligence with discipline. A day comes when he is able to earn his own food and survival with his body and mind. That's when he becomes a Man. A Man is Financially Independent. He doesn't rely on others. He takes care of himself and his family. He improved from the status of taking value like a parasite from his parents to a greater state of independence where he gives value to his kids as a parent and to society as a member.

This evolution happens in the life of every man no matter what his work or his goals or his finances. Evolving from a value taker from the society/tribe/parents to being a Value giver to the society/tribe/kids is the important factor in living a fulfilled happy life. However this evolution is just a road map. One needs a clear path to reach from one state to another. Also most people just keep on working and being busy all the time until they die.

Money, Economic and Financial System, Government, Taxes are all part of the system where humans trade their time for their wants. The stupid and ignorant people trade all their time for gadgets, security, luxury cars, unnecessary shit and become slaves. The smart people understand the rules of the system and game the system so that they could spend as little time as possible as slaves and enjoy their free time. The wisest and smartest people are those who get to a point where the rest of their life is just free time that they spend on the enjoyable work of their choice.

Many people spend their time doing jobs just to pay their bills, debts and are in a position where they behave almost like slaves and hate their jobs, their lives and their situations. Instead of working on improving their situation, they quarrel about politics, fret about raising prices and squirm about the interest rates. They feel like their life is struck in a rut.

However there are people who know what they are doing. They know what they want from life and how to achieve them. They enjoy the process of achieving their goals and live the life they wanted to live secure in the idea that even if they fail they at least tried and enjoyed their life.

If you are doing a job you hate then you are still a slave.
If you are doing something you didn't choose then you are still a slave.
If you are doing something because you are forced to do so then you are still a slave.
If you have to justify doing something to others then you are still a slave.

When you do something because you enjoy it you are free.
When you do something out of pure choice you are free.
When you do something because you want to do then you are free.
When you do something and don't have to answer anyone except yourself then you are free.

The Vision:

Maximise the enjoyment of life: maximise the free time and minimise the slave time.

GOALS

The vision of maximising the free time to pursue what you want and minimising the slave time you are forced to do cannot be realised until it is concretely set in the form of goals. Let’s formulate our personal financial goal.

Basics

Anyone's financial health can be measured via NET CASH FLOW and NET WORTH.

Net Cash Flow = Income - Expenses
Net worth = Assets - Liabilities

Income: the money you earn via your efforts or through investments or through luck or inheritance.
Examples: salary, profits, prize money, gifts etc

Expenses: the money you spend on your needs, wants and obligations.
Examples: Taxes, Rent, Fuel, Food expenses, EMIs, Alimony etc

Assets: Anything that earns income to you and holds your wealth is an asset. Asset gives you money.
Examples: Shares(Dividends), Fixed Deposits(Interest), Real Estate(Rent), Business(profit), Your Skills(Income)

Liabilities: Anything that takes money away from you is a liability. Liabilities cause Expenses.
Examples: Taxes, Car(fuel), Big House(EMI, Maintenance), Loans(EMI), Kids(A lot of Expenses), Gold in Bank Locker(locker fees), Guarantee to Borrowings(payment in case of default), Stock Trading(broker fees), Body(Food, Clothing, Shelter), Disease(Medical Expenses).

NET CASH FLOW= INCOME – EXPENSES

NET CASH FLOW IS POSITIVE IF INCOME IS GREATER THAN EXPENSES.

NET WORTH= ASSETS - LIABILITIES

NET WORTH IS POSITIVE IF ASSETS ARE GREATER THAN LIABILITIES.

Let us see some examples to understand these concepts:
Example: Arun’s father died. He left him two houses worth 15 lakhs and 30 lakhs. The loans on them were around 5 lakhs and 15 lakhs respectively at 12 percent per annum. Arun has 10 lakhs in epf. He earns 1 lakh per month. He invested 15 lakhs in mutual funds. He bought gold worth 5 lakhs last year which is worth only 4 lakhs due to decrease in price. He pays 1 lakh in taxes. What’s his net worth and net cash flow?

NET WORTH OF ARUN = ASSETS – LIABILITES = (HOUSES+GOLD+MUTUAL FUND) – (LOANS) = (15+30+4+15)-(5+15) = 64 LAKHS – 20 LAKHS = 44 LAKHS

NET CASH FLOW OF ARUN = SALARY – TAXES – INTEREST ON LOANS = 12 – 1 – (20*0.12)=11-2.4 =8.6 LAKHS

Based on the two parameters let us assess and rank the financial health:

WORST: NET CASH FLOW: NEGATIVE
NET WORTH: NEGATIVE

BAD: NET CASH FLOW: NEGATIVE
NET WORTH: POSITIVE

OKAY: NET CASH FLOW: POSITIVE
NET WORTH: NEGATIVE

GOOD: NET CASH FLOW: POSITIVE
NET WORTH: POSITIVE

If you asses properly using the above list you can find your Financial Health and you can start going from worst to good. If you are already in good health then you need to go towards Better and Best which will be defined based on Basic YEARLY Expenses.

BASIC YEARLY EXPENSES (BYE)

It is the total expenses incurred by a person in an year for just survival. If you just eat and sleep for an year without any work then the expenses like groceries, power, rent, medicines, clothing, water bill, EMIs etc come under Basic YEARLY Expenses. It is the minimum amount you require to survive a year without any income.

The smaller the BYE the more you have advantage in your life. The bigger the BYE the more effort you need to improve your financial health. Based on BYE we can further rank the financial health as follows:

GOOD: NET CASH FLOW: POSITIVE
NET WORTH: = 5 x BYE

BETTER: NET CASH FLOW: Positive
NET WORTH = 25 x BYE

BEST: NET CASH FLOW: Positive
NET WORTH = 125 x BYE

As you improve your life from bad to good and towards the best financial health, your freedom improves and your options in life increase and you can basically do what you want with your life.

GOAL: ***TO IMPROVE PERSONAL FINANCIAL SITUATION FROM WORST TO BEST AND BEYOND.***

As you reach the "BETTER" position of having assets worth 25 times your Basic Yearly Expenses you have reached a state of Financial Independence. It means you no longer need to worry about finances daily.

You can take decisions without worrying about finances. Instead of basing your life on financial needs you will then be able to take decision based on your wants, your goals and your purpose.

When you reach the "BEST" position of having assets worth 125 times your Basic Yearly Expenses you are ready for Retirement i.e., free from the need to work for survival. Then you can decide for yourself what to do, when to do and how to do or do nothing at all.

THE PLAN

“Failing to plan is planning to fail.”

No matter what your current state of financial health is you can keep on improving by checking off each and every point in the process given below. So the financial plan to the goal of Financial Independence is:

1. SAVE MONEY

.Minimise Expenses: Reduce your BYE (Basic Yearly Expenses) as low as possible

Maximise Savings: Save 50% of income for tomorrow.

Emergency Fund: SAVE one year worth BYE as Emergency Fund.

Become Debt Free

2. INVEST IN ASSETS

Diversify the assets.

Build a portfolio based on your personality and personal goals.

3. HEDGE: Minimize Risks by prevention, preparation and philosophy.

4. Keep on with the plan until you reach the BEST financial state.

> THE FOLLOWING IS A CONTINUOUS PROCESS THAT SHOULD HAPPEN THROUGH OUT YOUR LIFE:
>
> REDUCE LIABILITIES
> SAVE YOUR RESOURCES
> INCREASE ASSETS

HEDGE AGAINST RISK

You should keep in mind that all of them are to be taken care of simultaneously. Reduction of liabilities leads to saving of resources which can be used to increase assets all the while taking care of risks while investing.

SAVE MONEY

"We buy shit we don't need, with money we don't have, to impress people we don't like."

MINIMIZE EXPENSES

The more you minimize the expenses the more leverage you have while improving your financial health. You only need basic physiological needs met for survival. Anything more than food, water, air, clothes and shelter are luxuries and you have to realize that you are already living a rich lifestyle that was never available to the previous generations of humanity. So go to the extreme and minimize your expenses and you will be surprised how little you actually need to live your life and how much of your freedom you are sacrificing for silly things in life.

Every man should add net value to the society. It means that the income earned should be more than the expenses incurred. In short live below your means.

ALWAYS LIVE BELOW YOUR MEANS

By living below your means you reduce the burden of constant borrowings. Every time you borrow money from friends, family or bank you are degrading yourself. Your self-confidence and self-worth takes a hit. Moreover the chronic indebtedness cripples your financial health.

Many live in step or even above their means. They fill their life with big house, big car and huge materials and obsessions like films, fashion, sports etc and completely spend their income to pay the EMIs. Their life is filled with constant pressure of not having money. They worry about losing their jobs and not being able to pay their EMIs and losing their life style. Insecurity and stress rule their lives.

Always live below your means. If you want more then earn more. You should never try to live a lifestyle above your income. By living a lifestyle that is below your income you avoid a lot of stress that would have wrecked your life. You should never compare your lifestyle either to your peers nor to those above your income.

Socialize with those slightly below your income and you can live a healthy life free from stress. Don't buy respect with money. Also never increase your consumption just because your income increased. Lifestyle once scaled up cannot be scaled down easily if your income reduces in future.

TO BUY OR NOT:

"The Things you own end up owning you."

A man should always live below his means. Buying shit you can't afford is a sure way to hell. You can know if you can afford something or not by the following criteria:

1. It should not be more than 20 % of your net worth.
2. It should not be bought with loans or credit.
3. It should not make you lose sleep.

Example: Raju has three homes worth 85 lakhs and savings worth 15 lakhs. He wants to buy a car. How should he proceed?
Applying the criteria we discussed:
1. Car should cost less than 20% of his net worth i.e., less than 20 lakhs.
2. He should not take any loan to buy it. He should be able to buy it with his own money only. So the car should cost less than 15 lakhs(his savings). If he wants to buy 20 lakhs car then he should wait until he saved the money.
3. He should not lost his sleep worrying about it. If he spends his 15 lakhs savings on car then he will not have any money for emergency or for even reapiring the car. So the car he has to buy should be less than 10 lakhs. and remaining 5 lakhs for emergency. Now if he has to ask if the car is met with an accident or lost at what price point will he not feel bad enought to lose sleep? If Raju is okay with losing 7 lakhs without feeling bad and losing sleep over it then that should be the price of the car he is able to afford.

Whether you are purchasing car or house or mobile or washing machine or anything else this is the way you should approach any purchase. If you have anything currently which doesn't fit the above criteria then you should ruthlessly eliminate it.

If your house is more than 20% of your net worth then you should sell it and get a smaller and cheaper one. If you have a wife who spends all your salary on unnecessary things then maybe you should divorce her immediately because people rarely change their nature.

1. Live below your means: Save 50% of everything you earn.

2. Accumulate assets: invest 50% to buy anything that generates income. Buy low Sell High

3. You don't need big house. You don't need a big car.

4. Your House should be less 20% of your net worth and should be bought with cash if possible.

5. Your Car should be less than 5% of your net worth and should be bought with cash.

6. Your Assets should generate your income. At least twice your basic expenses.

7. Always insure your assets and to shield from liabilities. Your gold, your health, your life, your body, your home, your car etc.

8. Limit eating outside as much as possible. Cook your own food. You will be amazed at how cheap vegetables and eggs are when compared to restaurant food.

9. Never go to shopping without a shopping list along with maximum price you are ready to pay for each item.
Ask the price before you buy an item. No matter how cheap an item is you should not even touch it without asking the price.

10. Unless you are going to a prestigious university, don’t spend too much money on education degrees. Instead you can learn all you want and even get degrees online through distance education courses which are cheap and easy to pursue without quitting your job.

DEBT

Debt is Hell. Only few can handle it properly. Most are seduced by how easy it is to get your hands on it and how small the EMI is. In fact the entire credit card industry is based on your psychological overconfidence in your abilities to repay in future. Most people have no idea about how much interest they are paying on their loans and how many penalties, fees and taxes are added to the amount they have to repay.

For the undisciplined people credit cards are poison that look like nectar. If you are lazy or undisciplined in your finances never get a credit card. The interest rates are very high for it and the penalties are huge not to mention service charges and fees. Also credit card is a security risk and you always have to keep an eye on it.

Rule of 72: If you want to know how much time an amount will take to double given a certain interest rate(per year) then divide 72 by the interest rate and you will get the number of years it will take to double the initial amount. Suppose your credit card interest rate is around 36% then if you stop paying your outstanding then your debt will double in less than 2 years. Any time you take a loan or lend calculate the number of years by dividing 72 with interest rate. This will give you an intuitive understanding of interest rates rather than just looking at them.

Always repay loans on time. Starve if necessary but repay as soon as possible. Loans cause extraordinary mental stress that ruins the quality of life. Also don’t take loans from friends,relatives or co-workers. Debt is burden to both borrower and lender. Your relationships will strain under the weight of debt even if the amount is spare cash. Also once you start depending on debt rather than savings then your will soon begin taking new debts to repay the existing debts and soon you will be in debt trap and coming out of it will be very difficult as your entire income may not be sufficient to even repay the interest. So beware of debt.

INVESTMENTS

BASICS

The money one saves from his income should be used to increase his assets that will produce income in future. This buying of assets is called Investments. Assets include: Land, Buildings, Patents, Royalties, Stocks, Mutual funds, Gold, Bonds, Business, Cryptocurrencies, Art, Annuities, etc. You invest your money to get future income via assets. Assets store the value of your money and have chances of increasing the value. The exact allocation of assets in your net worth is called portfolio.

Example: Raju has gold worth 2 lakhs, house worth 15 lakhs, Mutual funds worth 15 lakhs, EPF worth 18 lakhs. Then his portfolio is 4% Gold, 30% Real Estate, 30% Stocks, 36% Bonds.

Broadly all assets come under under FIVE categories:

1. Real Estate: Land is limited. Hence will always be worth something. From Farmlands to Huge apartments real estate is always an hard asset which is difficult to acquire, utilize and sell. However this same difficulty makes it easier to hold and collect rents often for generations. If you are trying to give something to your future generations then Real Estate is the best way to pass down the wealth. Real Estate has potential for both Income (Rent) and Value(Price).

2. Stocks: The ownership of company is divided into huge number of shares which are then traded in stock market. If you own shares of a company then in proportion to the number of shares you own the company. The value of stocks is often influenced by how well the underlying company business is going on. Mutual Funds are collection of shares of multiple companies and is usually managed by a Fund manager. The money collected from many investors is invested in shares of different companies as judged by the manager and then any returns on investments is shared to the investors according to their investment. Stocks have potential for both Income(Dividends) and Value(Price).

3. Bonds: This is the money you loan to governments, companies and other individuals. They are often fixed in their potential for income and considered safe. Government bonds are the safest and have low income potential l(interest). Bank Deposits, EPF, PPF, Peer to peer loans etc are all directly or indirectly come under this category.

4. COMMODITIES: These are assets with often no underlying income like gold, silver, rice, oil, gems, diamonds etc. They don't give any income. Their only potential is in their value (price). Their main use is in storing value and saving it from inflation or even hyper-inflation or failure of system or for some future use in trading.

5. ALTERNATIVE INVESTMENTS: These are assets like your skills, your knowledge, patents on inventions, royalties on books, trademarks, art, foreign currencies etc. The values of them depend on the market needs and are not for everyone.

FOR MOST PEOPLE FIRST FOUR ASSETS ARE ENOUGH.

All the assets can be judged based on the following criteria:

1. Liquidity: How quickly can you sell the asset and get money back? Stocks, Deposits are of high liquidity and real estate is of very low liquidity.

2. Opportunity Cost: What other assets you are losing the opportunity to buy because of investment in this asset? Purchasing a 50 lakhs home means that you cannot use that money to invest in stocks, gold or children education. That money is unavailable for anything else.

3. Yield: How much are you earning by investing in this asset? Stocks may yield high. Bonds have often fixed yield.

4. Risk: What is the probability of losing the amount you invested and how much will you lose? Stock market can crash and wipe out the past gains. Bonds have low risks and often principal is not completely lost.

PRINCIPLES OF PERSONAL FINANCE

1. UNDERSTAND THE ASSET BEFORE INVESTMENT.

If you don't understand stock market then don't invest in it. If you don't understand what PPF is then don't invest in it. To invest in any asset you should have thorough understanding of the asset. Often investors are lured into investing their money in too good to be true schemes. Sometimes investor will invest in an asset and gets a rude shock when the returns don't match his investment or his entire investment may be lost.

Example: Ramesh has 5 lakhs in his bank account. He heard from a broker that stock market will yield highest return on his money. So he invested 4 lakhs in the shares of a big company. The stock market increased his 4 lakhs to 5 lakhs in one year. He was very happy. So he invested 1 more lakh in it making the total to 6 lakhs. But the next year the stock market crashed and his stock value is decreased to 2 lakhs. Angrily he sold his stocks and got back his 2 lakhs.

Ramesh does not have any idea how stock market works. He should read about it online and learn what he is buying, the balance sheet of the company he is investing in and the general knowledge that stock market investment time period is at least 10 years. Before investing he should understand that any meaningful gain may take 10 years and should have been patient instead of selling it.

Example: While I was working at a bank, one day a lady showed me a bunch of receipts and asked me to return the money she invested. On observing the receipts I realized that they are just ordinary white paper promising land in a distant part of the country and have amount written on them. They are not even signed by the agent who collected money from her. The agent promised her that her money will be tripled in 3 years and she bought it. This got nothing to do with the bank. She thought that money is being kept in bank and asked me to advice on how she could get the assured money. I told her to twist the arm of the agent and get her money back ASAP.

I pity her because she is illiterate. She has fallen for extraordinary returns on money and never questioned how the money is being generated. She did not even know from whom she should collect her money. She trusted a man who collected from her neighbours and blindly followed the herd. She is duped and as far as I know she will never get her money back.

Before making the investment you should ask how the money is being generated. For example if you are investing in a business you should find out if it is in profitable state or not. If you are investing in bonds, you should know that the government is using the money and has promised to repay according the agreed rules of bonds. If you are investing in Bank Deposits, you should know that the bank will lend the money at higher rate as loans and gives you a part of that interest collected from borrowers. If you are buying a lottery ticket, understand that the prize money comes from millions of other lottery buyers who never win. If you don't understand how money is being generated by the asset you should not invest in the asset.

Understanding an asset before investment gives you a clear idea of how much to invest, when to invest and when to sell it. You will also find out how money is being generated, if it is on par with current market and if it is a scam luring you with huge returns to defraud you. IGNORANCE COSTS A LOT. BEWARE. Every year millions of people lose money in stock market, real estate, useless insurance products etc.

2. DON'T PUT ALL YOUR EGGS IN ONE BASKET. DIVERSIFY.

Never bet all your money on one choice. Never depend on only one option. The more options you have the more freedom and less risk you have in your life. If your entire finances can be ruined by one wrong event then you are depending on luck and that's not smart way to live. Always have options by diversifying your assets.

Diversification is like having a lot of girlfriends. This gives you a lot less head ache when one of them breaks up with you or is not behaving properly.

Pinning all your hopes on one girl will wreck your life when she decides to dump you. Diversification puts back the control of your life into your hands.

3. BUY LOW, SELL HIGH.

In any trade if you want profits you should buy low and then sell high. This basic principle is forgotten by many due to their irrationality. Often people buy land when real estate is in boom and sell the land when real estate prices fall to earth. This is because people follow their herd instincts. If everyone is investing in stock market they too jump into it for greed of money others are making or for the fear of missing the bus. Often it is just since 'everyone is doing so it must be right' kind of thinking. This is not conducive to rational investment choices.

Instead what anyone should do is to trust their thinking before the event. If you had researched a company and invested in it based on fundamental value of it then drastic decrease in prices due to bear market shouldn't cause you any worry. In fact you should buy more because it is available for you at cheaper rate.

Example: During the demonetization the price of gold varied a lot. During the first few days it decreased a lot. Then suddenly the prices rose. Many borrowers of the bank began repaying the gold loans. When I asked one of them (a trader) what he is going to do with the gold, he said that he will sell it and when prices come down he will buy it again.

This trader knows that they is no inherent value in gold. The prices go up and down and almost in step with inflation. He saw an opportunity where the price of gold is higher than the price he bought it for and took immediate steps to make a quick profit. He also knew that once the prices come down he will buy it and once again wait for the gold to appreciate in value. This is an excellent trader with good business sense. People like this trader make a killing because they understand the simplest rule which even a kid can understand-- BUY LOW, SELL HIGH.

Most of the ordinary people looked at their gold ornaments when the prices increased and thought that their gold is more valuable and hence should not be sold. Some did not sell out of greed thinking that it will increase a little more postponing their decision every day. Ultimately they missed the opportunity.

In the world of investment, the window of opportunity is small but often gives the illusion of eternity. Until you book the profits paper gains are nothing. The cycle of increase in prices and decrease in prices goes on. But our lifetime is short. If we don't book our profits we might as well not own that asset. Only stupid people and intelligent super rich people own forever. Rest of the humanity cannot afford owning an asset just for the sake of owning it without booking profits.

The solution is to sell one half of what you own when your investments grow abnormally so that your profits are solid instead of paper profits.

4. AVOID CATASTROPHIC LOSSES.

Always protect principle. avoid the catastrophic loss. cut you losses when they are small. A huge loss is the always the worst outcome.

This can only be achieved when you don’t expose yourself too much to anything. In other words you avoid huge losses by diversification of your assets. The more money you have the more aggressively you should diversify your resources, assets and efforts.

Before investing always prepare for the worst case scenario by only investing what you can afford to lose. Remember you are not just losing money but also the time spent in earning it.

5. SIMPLIFY.

Never invest in any product that you can't explain to an eight year old child. Always simplify your finances by reducing the number of accounts, products etc to a certain limit and keeping track of every one of them.

Always simplify the process so that you can stick to it. Many people use multiple credit cards thinking that they can make use of the money without paying any interest. This complicates things and soon situation get out of hand. The best option is to NOT use a credit card. Instead use a DEBIT CARD. Debit Card forces you to save money before you buy something. It simplifies the process of purchase from using extraordinary will to resist the temptation of credit card and mental effort required to keep track of purchases and dates to just saving enough money before you buy.

Taking decision how much to invest, in which fund you should invest, when to invest will sap your energy and will power and you will find it difficult to consistently stick to the plan of investing in stocks. Instead of buying individual stocks and looking up their prices individually and worrying about it constantly just set a monthly SIP instruction which automatically invests a small amount from your salary in a mutual fund of your choice. This is simple enough to understand and makes it easier to stick to the plan.

8, INVEST BASED ON GOALS.

Before you invest you should already know how much you are expecting the return and how much you are prepared to lose and when you will exit the investment. Without thinking about these don't invest in anything.

Also your investment goals should match your life goals. You don't invest in a big home if you are planning to immigrate to another country. You don't buy gold ornaments if you are living in a hostel. You don't need to invest in a big home to live if you are planning to lead a single life. If you need money in the next few months you don't invest it in stocks. If you need money for children education or marriage after 15 years then invest in stock market or real estate.

9. UNDERSTAND THE NATURE OF RISKS AND RETURNS.

Example: Jaipal got a job in bank at the age of 25. He started saving money and wanted to plan for his retirement. He took the help of a financial advisor and told him that he wanted to retire comfortably. The advisor showed him a chart which listed the return on investment and probability of loss of capital. One is a foreign government bond which gives 8% interest and the risk is 1% that he may suffer loses. Another is a low risk mutual fund which gives around 12% and the risk is around 10% that his investment may be in loss. Another is a medium risk mutual fund which gives around 16% and the risk is around 20%. Another is a high risk mutual fund which gives a return of around 24% but the risk is around 25% that he may suffer losses. Jaipal didn't want to take huge risk of mutual funds but he didn't want low returns of bonds either. So he started a sip in both low risk mutual fund and medium risk mutual fund but avoided the high risk mutual fund.

A few months later the stock market rose to new peaks. Jaipal was happy that he made the right choice. At the end of the financial year he received a statement from the mutual fund companies showing the performance of his mutual funds. He was shocked to see that he was actually in loss in low risk mutual fund and in profit of 10% in medium risk mutual fund while the stock market gained around 36% that year. How did this happen?

This is because the probabilities and rates of return don’t say much about the actual risks and nature of risks and the variations in returns. When you invest in government bond your return is fixed by the interest rate. However it will be affected by the inflation rate. If inflation become more than interest rate then you are losing value. Also another risk is that the government doesn't pay the interest or even refuse to honour and repay the capital you invested in the bond. The risk is very low since when you are lending to government you are essentially lending to all the people of the country who will have to repay it via taxes to their government. The government can always print more currency and repay the bond hence the risk of loss is very very low. But still there are few examples where the governments collapsed or governments are unable to repay the bonds. Remember that nothing is certain. A tiny probability doesn't mean it doesn't happen. A large probability doesn't mean it will happen.

Risks involved in mutual funds are different from those of bonds and they shouldn't be compared. The returns on mutual funds are dependent on the market sentiment, performance of the companies etc. The returns of stock market are not promises made by anyone. No one is backing your returns. You may get or may not get any returns.

In fact even the money you invested is not guaranteed. The stock promises only a part of ownership of the company. The price of stock doesn't correlate with the value. Also even if the stock market gains 36% it doesn't mean the mutual fund you invested in will also perform as well. The stock market indices are just a group of stocks from different companies. Those stocks may or may not be in the mutual fund you invested. Even if they are in the mutual fund the composition will be different based on the fund manager choice. Mutual funds are only a way to share the risk with others but they also entail other risks. The manager of fund may choose wrongly. The companies may underperform compared to other companies. The companies may be undergoing a bad phase or just bad luck. The sentiment might be negative regarding the stocks in the mutual fund. These many risks are taken when you invest in mutual funds. So the gains of stock market don't translate to gains of your particular investments. Also the natures of risks you are taking are different from one asset class to the other. The risk of bonds is fundamentally different from the risk of mutual funds.

Example: Ramanji bought a house for just 5 lakhs twenty years back. Now the real estate is booming in the country and the value of his house as he calculated based on the market value is around 50 lakhs. He always wanted to travel around the world but he couldn't because of his family. Now he is alone and so he tried to sell the house. As he was approaching potential buyers a similar house besides his house belonging to a neighbour was sold at just around 15 lakhs as the neighbour needed money urgently. Because of this the rates of all the houses in the neighbourhood dropped and now the buyers are willing to buy Ramanji's house at around 20 lakhs only. Since this is not enough to cover his expenses Ramanji has to wait few more years to fulfil his wish.

Often the risks are not what we predict them to be. Even though the real estate of the country is booming the local market could be dead. Even if the local market is booming the particular neighbourhood might have low prices. Even if the neighbourhood is doing alright your house could drop in value. The reasons might be different like rumours of govt. acquistion, opening of a bar near your house etc. These risks cannot be anticipated and often don't come up until you are neck deep in the investment. So we should always reduce the amount of capital we can risk on any single venture. In other words diversify. The beauty of diversification is that even if you are wrong most of the times you are not completely ruined. If you just put it all on one asset you are ruined when an unknown risk surfaces.

Example: One of my friends has all his savings in mutual funds. When I cautioned him that it is too risky he said that they have given the maximum returns for the past ten years and he is betting his entire savings on it.

What this friend is not realizing is that he is gambling in the stock market. A single recession can wipe out his savings. Any asset will give good returns in good times but you should also know what it can do in bad times. A fixed deposit in bank will give good interest rate on par with inflation. In bad times it will give negative return too but this negative return has the maximum of inflation rate only. It cannot go down by 50% while inflation rate is only 10%. However stocks can reduce their value exponentially and become worthless.

10. DON'T INVOVLE IN DEBT. DON'T GUARANTEE ANY DEBT.

Don't take loans. Don't give loans. Don’t guarantee loans. This simple advice is often the most difficult to follow. Humans are greedy and impatient. They want everything now. But the most successful people are those who delay their gratification. Debt is a burden that will slow you down and if not cut off quickly will bring you down to your knees. Many people who take as much loan as they can thinking that they can pay off the instalments with their income. They underestimate how quickly the interest adds up and how much effort is required to pay off both the principal and interest. When I worked in a bank I saw overconfident customers taking the maximum possible amount as loans and then only a few instalments later lament the interest rates or the pinching of money each instalment of repayment does to their lives.

Example: Sandhya loves her friends very much. One of her friend asked her some money for her marriage expenses. Sandhya lent that money but even after a lot of time her friend never gave her money back. Sandhya confronted her friend one day and that’s the end of friendship. Later another friend asked Sandhya for money. This time Sandhya refused to lend money. Her friend asked for a guarantee to a bank loan instead. Sandhya relented thinking there is no harm in it. Six months later she received a notice from bank for the loan being overdue. It is now her responsibility for recovery and repayment of the loan as her friend has absconded without trace. Afraid of a court case and losing her government job Sandhya repaid the loan and vowed never to guarantee any loan again in life.

Never leverage or borrow money to invest in assets or for short term profits. Always invest in assets from the money you earned. Only few people can use debt as a tool for productive asset generation. Such people have deep pockets and can pay back in case of failure. For most people that is not the case. A single wrong step can leave you without assets and in a far worse situation by also having the debt around your neck. So put the existing assets in risk for the promise of above market returns by taking loans. Loans are the last resort in the case of emergency. They should never be the means of asset accumulation.

Example: Raju has saved five lakhs in his bank deposits. His co-worker told him about his profits in stock market by trading stocks. Raju pre-maturely closed his bank deposits and started speculating. When he got a profit of one lakh in one month, he immediately sold his wife's gold for 4 lakhs and started intra-day trading of stocks with total 10 lakhs. In the next few months he sometimes got profits and few losses. He began using up the margin provided by the broker and took big positions in stock market. He sold stocks worth 50 lakhs in the morning and bought them back for profit later on the same day. One day the stock declined 10% and his capital got reduced from 10 lakhs to 5 lakhs: a loss of 50%. This is because he leveraged his position i.e., he is speculating or betting on stocks with borrowed money from broker. If stock declined by 20% then he would have lost all his money. If the stock declined by 25% then he will be in debt to the broker to the tune of 2.5 lakhs.

11. DON'T MIX RELATIONSHIPS WITH MONEY. NEVER GIVE LOAN AND NEVER GUARANTEE LOAN TO ANYONE YOU KNOW (FRIENDS, RELATIVES, CO-WORKERS).

Relationships and Money doesn't mix. That's because money is power and all relationships are influenced by it. The money you give to your friends, relatives and co-workers will be never returned and the relationship is ruined because of it. You will find it difficult to ask and they will find it difficult to face you. Their gratitude evaporates once they spend your money and when you ask to repay it they will resent you for it. That's human nature. The more money you give the more they will hate you at the time of repayment.

Also remember Money is Power. Once you give money to someone they have all the power. You got to be nice and start bending before them because you are now afraid that they will not repay. Once they realize that they got money from you they will shun you because you are no longer useful for them and a burden. All relationships are based on needs and hopes. When needs are fulfilled and hopes are vanished relationships cease to exist.

Example: Tarun asked his friend Kumar for 35000 rupess urgently for paying security deposit while joining a job. Kumar gave him the money without any agreement thinking that his friend will return it once salary is received. He waited for six months but not a single rupee is repaid. He called Tarun who kept on postponing the repayment. After a few more months Tarun stopped responding to any attempt of contact from Kumar. It took a few more months for Kumar to realize that he lost his entire money and friendship.

Many quarrels between relatives and friends happen often because of tiny amounts of money. So unless the money is for paying hospital bills in case of accidents and you are okay with never getting the money back only then you should gift the money to friends or relatives. I am calling it gift because you often never get it back. Of course you won't listen until your hands are burned. That's life. Deal with it.

12. ALL INVESTMENTS START WITH SAVINGS. SAVE AT LEAST 50% OF YOUR INCOME.

All finance management rests on savings. Before you invest you have to save money in hand. If you don't save anything you will never be able to have security and freedom beyond today. Money in hand gives a sense of security and safety from unknown risks and eases the burden of tomorrow's expenses. Every person must save a part of his income. If his expenses are more than his income, he should reduce his expenses without any hesitation and find ways to increase his income via hard work, skills or ideas.

Beyond a few comforts you will not get much happiness by spending the money on things. In fact as the number of things you own like houses, clothes, vehicles etc grows you will find that most of your time is being spent on taking care of things. Things you buy should take care of your comforts, not the other way around. So adopt a mind-set of frugality and minimalism. Stop owning things you don't use or you have to spend your money or time to just keep them with you. Only buy things which are absolutely necessary. You will live happier and longer.

How much one should save differs from person to person. A person with less expenses and huge opportunities doesn't need to save a lot. A person in risky job should save a lot. Also if a person becomes miser and saves everything he earns without even fulfilling his needs is an idiot and so is a spender who spends all his money without any thought of tomorrow. We should not sacrifice today for tomorrow nor tomorrow for today. So the best savings rate is fifty percent of everything you earn. If you earn 10000 rs per month then you should immediately save 5000 rs. and then think of how to manager your expenses in the remaining 5000 rs. If you win a lottery of 1 Crore rupees then you should immediately save 50 lakhs and only think of spending about the remaining 50 lakhs.

The beauty of this 50-50 rule is that it is simple and easy to follow once you adopt it. For every month you work you are able to live in the present month and save money to live for a month in future too. Even if you don't invest and just keep this saved money in bank you will realize that in 25 years the money is so huge that you can practically retire and live alone for the rest of your life. If possible save more than 50% and you can become financially independent within 10-15 years. Remember you should at the least save 50% of your income.

13. IN LIFE YOUR BIGGEST ENEMY IS YOU.

Not just in life but also in finances your biggest enermy who could utterly ruin you is only you. Your stupidity and weakness, greed and fear will cause more harm than any government policy or market disaster.

You are usually overconfident about your abilities, future behavior and discipline. This makes you prone to decisions like selling stocks when stock market collapses, buying houses at peak prices, not insuring your life and assets, spending all money on buying a luxurious car for status signalling, instant buying with credit card, pre-closure of pension plans, over lending to others for high interest, taking loans from banks due to low interest rates etc. The common theme in all of these is that they are all your emotional decisions.

When emotional responses overpower the intellect you take stupid decisions and regret them later. When person without control on his emotional response sees that the stock market is returning extraordinary returns and everyone is buying will invest all his money in it. Later when the stock market collapses and everyone is selling, he too will sell with them out of panic. The point is the rational behaviour is usually opposite in that situation. You should sell when everyone is buying out of greed and buy when everyone is selling out of fear.

You are most prone to peer pressure and crowd thinking. If your parents, siblings and co-workers all are taking a new LIC policy then you too will take it. If they are buying gold then you will also buy it. If the neighbours are buying a luxurious car then you too will buy it. If your co-workers are buying land at a place then you too will buy it. If everyone around you is investing in stock market then you too will invest in it. Such actions will not give any beneficial results. Often in investments the opposite of crowd behavior has to be taken based on merit of each situation. Your goals are not their goals and your interests, risk taking capacity and tastes are not theirs. Your financial situation is not the same as others. So each and every situation has to dealt independently and objectively based on personal goals, inclinations and situations.

You are also prone to Sunken Cost Fallacy. Imagine you purchased a ticket to a movie worth Rs.250. One hour into the movie it turns out to be boring and waste of time. Will you walk out of the movie or sit in the movie till the end because you purchased the ticket? Most will sit through the movie. They will try to convince themselves that if they walk away the ticket is wasted. You should actually leave the movie. This is because by walking away in the middle of the movie you are saving your time and from bad experience of watching boring movie. Once you purchase the ticket the money is already wasted. Now the question is whether to spend the time on it or not. If you keep on watching till the end of boring movie then you are wasting your time just because money is already wasted on ticket. This is the fallacy behind people who owns a repeatedly breaking down car and found out that to repair it will cost the same as buying a second hand car will still waste their money on repairing rather than buying the second hand car and selling the repeatedly breaking down car.

Sunken cost fallacy is behind a lot of stupid decisions people take in life. You married a stupid wife who keeps on overspending and emotionally abuse of you but since you married her you will keep on living in marriage hell rather than divorce her. You love to move to another city but since your house is in this city you will keep on living in it. You bought a stock at Rs.100 and it keeps on falling down every year because of poor performance of the company. But you will not sell it to stop losses from increasing because you want to sell above 100. You hope that if you don't sell you are in loss. You should understand that the Rs.100 you spent to buy the stock is already lost at the time of buying and now the only thing is how much you can get for the stock and that depends on the market not on your buying price.

The same fallacy is behind people who buy a costly pair of shoes that they never use. Since they don't use they should sell them or give them away for charity. But the fallacy of their mind makes them think that if they give away the shoes they will lose the money they spent to buy them. So they keep the shoes for years until they are psychologically exhausted and then throw them away. They should realize that the money spent to buy them is gone and now what remains how much value they can get from the shoes either by using them or by selling them or by giving them away.

Hence always assess your assets based on what you will get if you sell them now or in future, not on what you spent in the past to buy them.

Another fallacy is that of efficiency. Life is not a mathematical problem or artificial system that you are optimizing for efficiency. You should always have some redundancy. When you meet any mutual fund agent you will presented with numbers and graphs showing you why you should move your money from fixed deposits, bonds and put all that money in stock market to get maximum returns. They will say that your money is not efficiently utilized if you park it in bonds or fixed deposits. However you should not fall for that stupid logic. You goal is not maximizing returns on your investments. Your goal is survive and have freedom to live your life in pursuing the goals you choose to enjoy. Efficient systems break down quickly because they cannot handle errors. If stock market collapses during your retirement and all your money is in it, then you are ruined without any means to survive. That's why you should always have margin of safety. Even though margin of safety means that you are not efficiently using your money in investments but margin of safety will protect you in risky situations or if your decision is slightly wrong. So have redundancy. Don't worry too much about beating the markets. You should only worry about meeting the goals of your choice. That will not happen if you ruin yourself in pursuit of efficient returns and beating the market returns.

For example if you have 10 lakhs to buy a car, then you may buy a car worth 8 lakhs and keep the 2 lakhs as margin of safety.(for repairs, insurance etc) .

If you received a gift of 50 lakhs from your parents and you want to invest in mutual funds, then invest 40 lakhs and keep the remaining 10 lakhs in bank deposit or buy gold.

Instant gratification and wrong prediction of future behaviour are the bane of every human. People who speculate stocks, sell options, buy lotteries, indulge in betting are all looking for kick and instant gratification. Most of them lose almost everything they have in these activities. They will even rationalize that their decisions are rational choices based on valid reasons. Having patience for long term behaviour instead of trying to have everything in short term is the only rational way in any scenario. So before taking any decision consider the long term impact and always have a cool off time to deliberate.

Often a salesman will make a pitch to sell you something and pressure you to buy or commit immediately in the heat of the moment. This is because if you delay the decision and take time to think then you will cool off and think rationally. When you think rationally the decision which appeared great in the heat of the moment will look poor and stupid.

Entire credit card industry relies on your wrong prediction of your own future behavior. The easy purchase of a latest gadget instantly blinds you to the fact that the credit card has interest rate of 36% on the due amount. That means if you are unable to pay for two years then you will have to pay more than twice the cost of gadget. These often come as shock to people who overestimate their future income, their future happiness, their future discipline, their future cash flow, their future financial situation. Easy instant gratification and wrong prediction of your future can destroy your life.

Example: A salaried person whose net worth is 15 lakhs received a bonus of 1 lakh spent it all on buying a luxurious wrist watch. He felt happy for a day or two and everyone noticed his watch for a month. Later the interest dwindled and he began actively showing off the watch and justify himself to others.

No matter what that person says to himself about the qualities of the watch to rationalize his behavior to others and himself(to overcome buyers remorse) this is a stupid choice because it did it for instant gratification without thinking of alternatives. A watch of 1 thousand will do all the functions a watch of 1 lakh does and often looks the same. Other than a few moments of happiness this decision to buy has not served him in the long term. Also it has cost him an asset worth 1 lakh and if added the liability of taking care of watch and maintenance. Even if he sells it now it will not fetch even half of what it is worth. He could have bought gold jewellary which at least preserved value of his money.

Another fallacy is that debt and consumption leads to progress: that you can increase assets by using debt. This only works if your existing net assets are multiple times more than the debt. But for most people debt is often half or sometimes more than their net worth. This fallacy is popular with people who buy big homes they don't need with huge loans they can't pay thinking that in future somehow everything will become alright. The same applies to a country which thinks it can keep increasing the economic growth rate by spending huge borrowed money. This kind of growth and lifestyle is not sustainable and any small setback can wreck havoc with finances.

Another problem with most people is their misunderstanding of probability. They either overestimate or underestimate or don't estimate at all believing in chance. A probability of 10% sounds the same as probability of 50%. A tiny probability of winning lottery makes most people think that they have a chance of winnning on par with winning a coin toss i.e.,50-50 chance. A tiny probability gives them hope or makes them cower in fear.

A true understanding of probability lies in understanding unknownability and uncertainity in life. No matter how much you try to know about any thing there is always areas of ignorance which you can never know. Also whatever you know about anything will have a degree of uncertainity attached. The assumptions you make could be inaccurate or plainly wrong. Being prudent and not being too much confident in your knowledge or predictions is very important. Probability arises out of our ignorance when we deal with reality. Our theories, knowledge, models are all in our head and when we use them in real life the extent of our ignorance is revealed.

An event say gold price collapse has a probability of 10% and another event say collapse of stock market has a probabilty of 10% and another event say collapse of real estate has a probability of 10% doesn't reveal much unless we take into account what we will subjectively suffer from that event i.e., outcome(loss). A man with one crore assets distributed equally in gold, stock market, real estate and cash will not be harmed much if any one of the event happens. Even if three events happen simultaneously he will not have to sell any of them for his expenses as he can rely on his cash alone. He can wait till the markets recover to sell. If his total assets are just 10 lakh and his expenses are 1 lakh per month, then he would suffer catastrophic losses because of not only the decline of asset value but also the necessity of selling them to meet his expenses and thereby taking in huge losses. So even if the probability is same the outcome may vary according to person to person based on situations, goals, perceptions and personalities.

Example: Ramu and Somu are co-workers. Ramu is a bachelor while Somu has a family of four. However Ramu is a young man of 30 years while Somu is nearing his retirement. Ramu had 2 lakhs in EPF, 3 lakhs in Mutual funds and lives in his own home. Somu had 20 lakhs in Epf, 20 lakhs in PPF, 25 lakhs in gold, 30 lakhs in Mutual Funds. Since he is retiring in a month somu sold all the gold, closed PPF and bought a house. On the day of Somu's retirement, war between india and pakistan started and the stock market collapsed and hyperinflation devalued currency. The value of 5 lakhs is now just 1 lakh. What will be the effect?

Even though in paper both of them are exposed to same misfortune and erosion of asset value, Ramu has the safety net of salary, a home and a long life to work and build his assets again. Somu however doesn't have a job or work and has to depend completely on his investments.He could not sell his house which he bought for 45 lakhs quickly. He can only survive a few years on his assets. Since he has a family to feed he may have to find a work in his old age. Even though both are same in terms of assets their situations are different and therefore the outcome is different.

NOTE: The above principles of personal finance also apply at all levels of society, not just the individual. Even a country like India or a terrorist organization like Taliban should also follow the same principles of finance to stay secure and safe from financial ruin. Most of the problems arise from the fact that many believe they can spend more than they earn. For example almost all the problems India as a nation is facing is due to financial mismanagement. India spends a lot more than its income by borrowing. Due to this deficit budget almost every year the debt is increasing compared to income. Huge borrowings come with conditions which are not in national interest. Rupee is weakening every day compared to dollar and inflation is above 4%. Due to high reliance on service industry that exports cheap labour services to other countries and huge borrowings from other countries just to meet its expenses India is being prone to the risk of economic collapse. A small shock at foreign market is having huge impact on our economy. This risk is increasing every year as globalization and govt. spending is increased without any margin of safety. The added burden of overpopulation is ever present.

India should try to spend less than what it earns via taxes or charges or licenses. It should not borrow just for spending (to artificially pump market activity and show it as real growth) rather it should only borrow at the times of emergency. It should repay all the loans as soon as possible. India should behave like a mature adult by spending less than what it earns. Excess earning should be reserved for emergency or loaned to other countries for earnings. India should diversify the workforce in this country by improving manufacturing, agriculture and tourism sectors on par with service sector so that India doesn't fail if any one sector fails. It should strictly increase foreign exchange reserves, gold reserves and food reserves. It should diversify development to different states and cities instead of just major ones. Also strict two child policy should be enforced as a criteria for government benefits. Moreover as an individual protects his investments from his emotions, India could mandate all these financial principles by law thereby making it difficult for future politicians and governments to go against sound financial principles.

Based on the principles of personal finance, the following is a brief WISDOM on finances and personal life in general:

PERSONAL LIFE

Live below your means. Spend less than what you earn. Don't buy material things just to show your status. Don’t involve in debt. Don’t ruin your health in pursuit of money. Don’t marry a financially irresponsible person. Have no more than 2 children.

STOCK MARKET

Always invest in value. The price of a stock is different from its value. Value of stock depends on the financial status of the company and how well it is performing. Price depends on market outlook.

Whenever you are investing in stocks understand that the entire principle is in lot of risk and there is not guarantee of gains despite what experts say. The stock market is a gaint multilevel marketing scheme where one fool buys an overpriced stock in hopes that he will sell it to a greater fool. Ultimately the last one holding the stock just before a bust loses. Make no mistake most of the stock prices are so high that they are several times their book value and earnings.

Never invest more than 25% of your net worth in stock markets. This means the total value of shares, mutual funds should not be more than one fourth of your assets.

Never buy when the stock market has reached all-time high. Never sell when it hit rock bottom. Understand that the Stock Market moves in cycles. Don't try to time the market. You never know the exact future. You can know where you are in the cycle. If everyone is pushing you to invest in Stock Market, don't invest. If everyone is getting out of stock market, invest in it. In stock market you got to be a contrarian.

Always have stop loss. Never sell options. They are for investors with huge pockets. Don't involve in stock trading. Only trade with pocket-change so that losing it will not hurt if lost. Don't use leverage provided by the brokerage.

Stock Market is just a place for selling and buying of shares. It doesn't magically add any value. In fact it takes away value via commissions, brokerage, taxes, fees etc. So buy and hold till you need to sell for a goal is the best strategy. Frequent trading benefits the middlemen. It eats away your principle amount.

Stock Market is highly unpredictable. Always book profits and get back your principle and a little profit as soon as possible. Don't look at the prices and indices every day. Review quarterly or even better yearly. This will improve the quality of sleep and results in peace of mind.

Each time stock market is in a phase people think that it will continue forever. Governments around the world are artificially pumping the stock markets higher resulting in busts getting worse each time.

In short most people have no fucking clue what stock market does. So invest in mutual funds for diversification. Ever better option is investing in a low-fees passive index funds. Just minimise the expense ratio and exit load. That's all.

REAL ESTATE

Always remember house depreciates. Land appreciates. Land has more potential than a house.

Buy a residential house as small as possible for yourself. It could be on a bigger land but the house area should always be as small as possible. A simple rule is stick to less than 150 sq.ft per person. If you have 5 people at home, then the maximum area of your house excluding garden and other land is 750 sq.ft. Smaller the house the less the maintenance, expenses, taxes etc.

People usually buy a house as bigger as possible and all their money gets tied up in their house and they cannot use it in times of need. Also property could get tangled in legal litigations and huge amount of capital could get wasted. Thorough verification of ownership is needed while buying Real Estate.

Besides a residential house, buying land is the best investment as you can build as you like and rent. In India Farm land is traditionally seen as the best investment as you can lease it for income or use it to raise crops yourself. Also all income from agriculture is exempt from tax.

Usually people build two or three houses and get rent from them during retirement. Some skilled people can involve in trading real estate by buying them at low prices and selling them at high prices but this is not recommended for a lot of people. The taxes, charges and capital is out of reach for most people and the risk is huge.

Real Estate has the lowest liquidity, low yield, high risk and huge opportunity cost due to huge amount of capital required to invest. For most people it is far better to rent throughout your life than get stuck to one house, become slave to bank and job and lose many opportunities to enjoy your earnings.

Fuelled by governments' and banks' relentless propaganda and low cost loans to benefit real estate builders many people are brainwashed into buying huge unnecessary houses that will make them work and suffer like a donkey throughout their life. This led to rise in prices of homes through the roof that no one in India now is able to afford to buy a house without loans. In fact most people take loans several times their yearly salary to buy a home and then spend all their time working at job rather than enjoy leisure time at home. With huge EMIs they cannot afford to take chances in their lives and career.

This is unacceptable. The opportunity cost is too high. You can enjoy your life filled with better memories, better jobs, better places to live only if you are not burdened with huge loan. Rent a home and change as many times as possible and you always have choice to move or not, to upgrade your lifestyle or not.

Having choices increases your freedom. In fact any costliest house can be rented at the cheapest cost if you want to just live. So always remember you should save money and buy home without any loan. If you can't buy with your savings, then rent. Fight the urge to buy a home you cannot afford with your savings by taking loan. Don't become slave to bank and give your life to earn profits to the bank.

Aggressively diversify you real estate assets. Never buy huge land or a big house at one one location. Instead buy small plots and small houses at several different locations or even at several different cities. This will ensure maximum freedom and maximum protection from risks.

GOLD

Traditionally Gold is used by Indians as hedge against uncertainty of financial system. Cash and coins could be changed, demonetized, taxed via inflation etc. but gold increases its value along with inflation. Gold stood the test of time and still retains its value for thousands of years. Governments change, Kings and rulers change, Culture and currency change but gold remains a standard of value till today. That's why Indian women hold gold as ornaments and huge sentiment is attached to family gold making it hard to sell and easy to save. In case of emergency gold remains the saviour of Indian families. Just pawn the gold and get the money for emergencies. That's the attitude of Indians and it has protected Indians for centuries against collapse of government and currency.

However I should stop you from investing in gold too much. Gold should never be more than 25 % of your assets. The reasons are many. One of the reasons is that having too much gold presents a risk of theft. Often people are killed just to rob the gold they are wearing on them. Also gold is not an asset. It is a hedge. Gold doesn't earn any interest. It can protect you from inflation as its price may increase along with other prices. Even this too is not guaranteed since the gold prices are now linked with international markets and are showing volatility. Gold is no longer a stable asset that it once was. However it will still be useful as storage of value but not as gainer of value. If you have gold in bank locker you have to pay the rent for just owning gold and it will become liability rather than asset. So use gold only as a hedge against inflation and collapse of economy or as ornament that is less than 25% of your assets.

Government has issued gold bonds that could be traded like stock market and are linked to market prices and yield around 2% interest. This is because the government wants to curb the physical holding of gold by its citizens as every years crores of rupees is being spent to import gold and this is burdening the foreign exchange reserves of our country.

Any country which imports a lot is dependent on other country and the currency of importing nation will weaken against the currency of exporting nation. Due to huge imports of gold the rupee is weakening as the burden grows on forex reserves of our country. It is a good initiative but it doesn't address the real reason Indians own gold.

Gold saves them at the time of war or famine or insurgency or breakdown of society or collapse of government or regime change or Hyperinflation or destruction of infrastructure. When the money in hand is no longer valid or accepted, gold is the only thing that rescues them. For that gold should be owned physically not as digits on a screen of computer or on paper.

You should always own gold physically at your home or on your body. So have as little as possible and always in your possession. If possible insure it against theft. Sell excessive gold that you have above 25% of your assets and invest in any other asset. Gold in bank locker is not as safe as you think.

Example: Roja is working as teacher earning around Rs.15000 per month. She has an education loan with outstanding amount of Rs.75000. She has no other liabilities. She recently bought gold ornaments worth Rs.100000.She has no other assets. Her monthly expenses are around Rs.5000. How are her finances?

Her finances are in bad health because if her monthly salary is delayed for a month, she has to rely on parents or friends or sell her gold. Her liability keeps growing and she may have to repay it. The gold doesn't earn any interest and if she has to sell one day the gold prices have a chance of being lower than her purchasing price. She should sell the gold and get back her money. She should clear the loan immediately. Then she should save the remaining 25000 in a bank fixed deposit that could be accessed and closed via online banking. Only then her finances are in OKAY. She should then concentrate on savings and increasing her income. Then she can buy as much gold as possible.

Have no gold more than 25% of your assets and if you are only interested in it as ornament then limit it to 5 times of BASIC YEARLY EXPENSES (BYE).

BONDS

EMERGENCY FUND--CASH:
CASH IS KING. Having spare cash will cushion you in emergency. Those who calculate exactly and only keep exactly as they require will undergo great difficulty over small amounts when unpredicted expenses come up. They then have to use up their assets at the wrong time causing huge loss just to cover small unprepared expenses. It is always best to have one year worth of Basic Yearly Expenses as your Emergency Fund in your bank account as fixed deposit that could be accessed instantly. Emergency Fund is an absolute necessity in this uncertain world. Lack of Emergency Fund will cause not only mental but also physical health issues in future.

RETIREMENT Schemes:
EPF, VPF, PPF and NPS are all part of retirement schemes in India. The problem with retirement schemes is that they give far below the market rate of return and also most of them are not really under your control. You can’t access them instantly and also they have huge lock-in period. But they also provide tax-savings and because of the strict policies they are often good for undisciplined investor. If you have an itchy hand that spends your money then by locking away your money in these retirement funds is a good option. In short as long as tax savings are possible it is far better to put the maximum into these accounts. Any amount above the maximum tax saving amount is not recommended to lock into these retirement schemes. PPF has just 15 years lock in and is under EEE status where your contribution, your interest and your withdrawal are all exempt from taxes. Learn all the rules before you put the money into any of these schemes.

Govt. of India and some companies in India sell bonds that promise a fixed rate of return. These are good for investing. However make sure that rate of return is above the inflation rate. If you are investing a lot of money then invest in bonds backed by the govt. of India.

Annuities are retirement products where you pay certain fixed amount and then get a pension for the rest of your life and on your death your nominees receive the paid amount. Annuities are not giving enough return in India. Their returns are even lower than bank deposits in India. Also they are taxable. At the time of retirement you can put all the money you have in stocks and bonds into annuity since you may no longer take any risks at that age. Even then you should diversify into as many different annuity companies instead of taking annuity from a single company so that you are not ruined if a single company goes bankrupt.

PEER TO PEER (P2P) LENDING:

You can also lend money to your friends, neighbours and earn interest. Be careful as there is a huge risk of default and straining of relationships. However with the entry of Peer to Peer lending companies in India this micro-lending has become quite easy without any unnecessary hassles. You can invest a certain amount as loan to many different people and decrease the risk of default. These p2p lending companies handle the paper work and recovery. You can choose to whom you lend and how much you lend without ever contacting the borrower.

For example if you have 100000 rupees to invest then invest in 20 different borrowers by lending only 5000 rupees to each. Also the very nature of p2p lending means that you almost always get more than the market rates but the risk is also higher.

After all the share of bonds, p2p in your total assets should not be less than 25% as they are very important in terms of return and low risk. They are the most liquid with lowest risk.

MISCELLANEOUS

Sometimes you come across investments opportunities in your life that are not available to everyone else. Your brother might start a company and ask you for investment. You can buy a share of the ownership for certain amount of investment. You may find a certain thing is available at cheaper rates at one place and is being sold at premium rates at another place and make use of the opportunity to make some money.

A friend might be trying to sell a house while moving abroad and you might get a chance to buy it at low price. The share of your favourite company might fall in price due to a rumour and you might use this opportunity to buy it at low price. You might find an opportunity in your sector of work that is unknown to other people like the early adopters of bitcoin who are mainly in software sector.

You can find a business opportunity in your local area and start it by investing some amount. You can invest your time and money in learning a new skill or degree that might improve your income or career options.

You might invest your money in inventing a device that might become popular and fetch you a lot of return on money invested. You might invest your money in producing content for your youtube channel that might bring you some income.

The point is that when you find an opportunity in life to make some money don’t get too excited and at the same time don’t reject it outright. Don’t invest everything in it. Just invest what you could lose without worry and hope for the best.

FINANCIAL INDEPENDENCE/RETIREMENT EARLY (FI/RE)

Emergency fund is nothing but one year of Basic Yearly Expenses (BYE). What people usually refer to as Retirement is nothing but Emergency fund which will take care of your entire life expenses. Usually when all your life expenses are taken care of you are essentially free. Freedom is the ultimate value as you are free to do what you want and be happy.

When you save and invest you are actually doing nothing but increasing your Emergency fund. Your investments are tools to make your money work for you via other people. At some point the money you have will make other people work for your entire life expenses and that's when you are completely free to do what you want with your time.

Financial Independence is not when your expenses are taken care of by your investments. It is essentially an Emergency Fund of twenty five years worth expenses. It gives you a lot of leverage by stopping you from being forced to work as slave. However it is not enough as it may be subject to shocks from economy. Collapse of financial market, accidents, inflation, frauds etc can wreck your emergency fund and you will be forced to build it again. That's why you should not stop saving even if you are financial independent. You should keep saving until your Emergency Fund is enough to cover your expenses for at least one hundred and twenty five years. This is now your Retirement Fund.

Even if your Retirement fund loses one half of itself during a depression you are still afloat for at least 50 years. Also just because you reached the target of Retirement Fund doesn't mean you should not do any work. It means from that point on wards you are free to do the work you really want to do. Also remember that this is for a healthy single individual. If you have wife, children, health problems then you should save even more. Just multiply your retirement fund with number of individuals in your family and achieve that number.

PORTFOLIO

Your Portfolio is the list of your assets and the share of each asset. How much you should invest and in which assets you should invest depend on your goals. The assets and percentage of each make up your portfolio.

Portfolio determines your rate of return and risk. Also it is a short and easy way to keep track of your investments and plan for the future. You can decide where to invest next based on portfolio.

Example: Suresh has 3 lakhs in ppf, 2 lakhs in mutual funds 3 lakhs in gold, 1 lakh in LIC savings, 1 lakh in his friend's business. What is his portfolio?

His portfolio is Bonds:40%(lic,ppf), Stocks: 30%(mf,friend's business), Commodities(Gold):30%, real estate: 0%.

HOW TO DECIDE YOUR PORTFOLIO?

Based on your reading of this book so far you have certain idea about the risks and overview of each asset class. Don’t cross the limits advised in this book unless you clearly have an edge in terms of information or wealth.

The most important factors in determining your portfolio are:

1. Your present and future lifestyle and goals.

2. Your Personal nature.

3. Your Health.

4. Your Relationships.

Your desired goals and lifestyle determines how much return you should aim from your portfolio and how much risk you can take. Someone with a goal of rich lifestyle should obviously take more risks than the one who is already rich. If your lifestyle is that of a solo jobless traveller then you should keep less gold but more in liquid assets. If you are doing a high risk job like day trading in stocks or being an artist then you should invest in low risk bonds. If you have a low risk stable government job then you should invest in high risk stocks. If you have ancestral properties then you don’t need to invest in real estate at all. Having a goal like amassing wealth of around 125 times that of you BYE will clear you path on how far you are and how much risk you should take to reach it.

Your Personal Nature should also influence your portfolio. If you are a man who lives on the edge and is never worried about the future then you can take risks without much worry. But if you are someone who worries a lot about the price of the stock you just bought and looks at stock price every day then you should risk less by investing more in bonds and less in stocks. If you are a person who prefers monthly salary then you should invest your money in such a way that you can get some amount monthly. If you lose sleep over having precious things at home then your portfolio should have very less in gold or none at all.

If you are in good health then you can invest in long term bonds and stocks. If you are not in good health then you should spend more on insurances and highly liquid bank deposits. If you have a family that depends on your sole income then you should get life insurance and save more in retirement schemes and try to have a home and some gold as soon as possible. If your son is a gambler then you should lock away your money in real estate and endowment pension plans instead of saving in fixed deposits or mutual funds. If you are single then you can afford to have more in stocks and can make do without much investment in home or gold.

At the end of the day the portfolio should be completely personal and not something you should be following from others blindly.However I will give you some important portfolios for your reference along with my own portfolio.

1. Barbell Portfolio by Taleb

In this investment strategy you invest 90% of all your savings in safest govt. bonds, retirement schemes, gold etc. and the remaining 10% in extremely volatile and risky investments like startups, cryptocurrencies, new inventions, stock options etc.
In short you keep 90% safe and you bet on the remaining 10% to yield high returns as you are taking high risk with it.

2. Permanent Portfolio by Harry Brown

In this strategy you invest in all four asset classes in equal proportion i.e., 25% in Bonds, 25% in Stocks (index funds), 25% in Real Estate, 25% in Gold.
This is an amazing and simple strategy for ordinary salaried family people. I highly recommend it.

3. Lazy portfolio

In this portfolio you invest as follows:

[Your Age]% in Bonds

100-[Your Age]% in Stocks

The beauty of this portfolio is that it will allow you to take more risk in young age and decreases your risk in old age.

4. Bachelor Portfolio

30% in Stocks

30% in Bonds

40% in Skills, Experiences, Hobbies and Enjoyments in life.

5. 50-50 Portfolio by Sohith

I am still researching on this 50-50 portfolio and I may come up with a book on this 50-50 rule that applies not only to financial aspect of human life but also to other aspects of human life like relationships, health, lifestyle etc.

In this portfolio you aggressively diversify in the ratio of 50-50. You never settle for one. About 50%of your assets will be in low risk assets while the other 50% will be in high risk assets. You will continue to divide that 50% among different assets and even different products of same asset.

For example permanent portfolio comes under this rule: 25% in Bonds, 25% in Commodities, 25% in Real Estate, 25% in Stock Market. You can subdivide each category as shown below:

25% in Bonds: 12.5% in Banks Deposits, 12.5% in P2P loans

25% in Gold: 12.5% in Gold, 12.5% in Silver

25% in Real Estate: 12.5% in own home, 12.5% in rental house

25% in Stock Market: 12.5% in Mutual funds, 12.5% in individual stocks(direct equities)

You can also use this based on your lifestyle, goals and situations.

Example: Hari wants to be an actor. He is struggling in the film industry and he decided that he will keep on trying till he die. What should his investment portfolio look like?

As Hari decided that he wanted to be an artist which is a risky career. Hence his investment portfolio should be extremely low risk. He should invest 50% in Bonds and 50% in Real Estate. He should not go near stocks or gold as stocks are extremely risky and gold is not conducive to his outdoor career.

Further he should then divide each category into 50-50. He should invest half of Bonds in Retirement Schemes as his career will never provide it. He should invest the other half in extremely liquid bank deposits or debt funds as his career will go through rough periods where he will have zero income.

Further he should invest one half of his real estate assets in one city and the other half in another city. At least one city should be where his career is based like for example Hyderabad or Mumbai. So the final portfolio of Hari should be as follows:

25% in Debt Funds/ Bank Deposits

25% in Retirement Schemes like PPF, NPS etc

25% in houses/lands in one city like Hyderabad

25% in houses/lands in another city like Mumbai

MY PORTFOLIO

I am giving below my own portfolio (it may change in future depending on goals, lifestyle and situations):

25% in PPF
25% in P2P (debt)
10% in Mutual Funds
10% in cryptocurrency

My starting point based on 50-50 rule is as follows:

50% in well tested low risk assets (40% in Public Provident Fund +

10% in Mutual Funds)

50% in new untested high risk assets (40% in Peer to Peer loans + 10% in Cryptocurrencies)

If you observe carefully you can see that both PPF and P2P loans come under bonds (guaranteed returns) and they are both divided in 50-50 ratio. Both Mutual Funds and Cryptocurrencies are risky assets without guaranteed returns and are divided in the ratio of 50-50%.

I don't invest in real estate as I am not planning on settling at one place. I don't invest in gold ornaments due to my aversion to put constraints on my body and the hassle of carrying it while travelling.

Note 1: Within a week of writing this I liquidated my crypto-currency share and waiting for time to invest again. This shows how quickly you should modify your portfolio based on your situation. Your portfolio is not a fixed entity. It's malleable according to your life.

Note 2: At the time of publishing this book I once again invested in crypto-currency as the prices are low due to market correction.

TAXES

Taxes are an important part of your life as they are ever present and mostly eating up a large part of your income and investments. Even inflation can be seen as invisible taxation by government. Taxes are haftas for legitimized mafia called government.No matter what always try to reduce your taxes by using the legal ways provided in tax laws. Read them properly and act accordingly.

There are huge number of deductions and rebates available for each person to reduce his tax burden. Income from agriculture, retirment funds, insurance, ELSS(mututal funds), education fees, home loans, royalty on books, patents , contributions to charities, health expenditure etc are all part of deductions available under tax laws. Learn about them and find out what applies to you. Never pay a single rupee extra on taxes.

There are two important things to remember while planning your taxes.

1.Never invest in a product just to save taxes unless it suits your investment strategy. Investing a lot of money in NPS and then regretting the low interest rates is not a good strategy for low income earners. This is because most of the tax saving products are either locked for a long term or are not high yielding products. If you are in high tax bracket then you can safely maximize investment in as many tax saving products as possible.

2.Never move your money unnecessarily in short time. Each time you are moving money from one investment to another in short time your gains are often taxed under short term capital gains tax. Also you have to pay fees and service charges. If you invest in mutual funds or individual stocks or in real estates hold them for long term so that you don’t have to pay a single rupees on your gains as taxes. So before investing in these make sure you are able to hold them for long time. Therefore plan well.

BUSINESS

Starting your own business or being self-employed is risky in India. On the other hand if you succeed your financial position will sky rocket and you will have the immense pleasure of being your own boss.

One use of being self-employed or having your own business is that most of the expenses can be shown as a part of business and only net profits are taxed. On the other hand salaried employees have to pay tax on the income and then spend their money. This is very important distinction between being an employer and an employee.

In Business there is no cap on the profits you earn and keep. No matter how hard you work as a salaried employee your salary is fixed or capped at certain point and all the profits you generate go into the pockets of your employers. That’s the price of job security. However the employer doesn’t have any secuirty and is taking a lot of risk and is why gets to keep almost all the profits earned by several people working for him.

If you want to start a business in India make sure you have a back up plan because most of them fail and there is no economic nor social support in India for failed entrepreneurs. Learn as much as possible before starting your business. If possible work as an employee in the industry you are hoping to start your own business.

TRADING

Trading is a business where you buy something at lower price and sell at higher price and profit the difference. The difference between usual business and trading is that often no value is added in trading and the nature of trading is always speculative.

Trading doesn't come under investing but almost everything we do is buying and selling so trading is something we all engage sooner or later. Most people engage in stock or forex trading as they are very easy to trade on internet.

The problem with trading is that you need very disciplined strategy and you need full focus on it. This is impossible for most people with jobs. Hence generally trading is discouraged as it is very tiresome and risky process. The money you earn is almost always through luck and only institutional players with huge pockets can make consistent returns. Hence it is better for most poeple to stay away from trading.

HEDGES

Hedging is preparing for the worst while hoping for the best.

Hedge is any strategy you use to minimize the risk when future doesn’t happen as you want. Each time you take risk you should hedge it to minimize the risk. There is a cost to hedging. Hedging is not efficient and so may appear irrational.

The hoarding of gold by Indian women has saved them and their families for centuries from failures of their husbands, system and fate. Even though gold provides zero income and is rationally not the best investment. It is stable value holder which will increase in value in case of system wide collapse of currency or regime change. It weighs less and can be used to transfer huge value anonymously. Since the value of gold doesn’t depend on the government or the system its value cannot be revoked. Through centuries Indian women saved their loved ones and families from bankruptcy and ruin using gold in times of emergency.

Similarly you can find many families in India traditionally store many rice bags and pickles that will be sufficient for years in rural areas. This is hedge against famines, sudden price increase, failure of crops etc. By securing their main food when price is cheap (or when crops are reaped) the heads of the house can stop fussing about feeding their families and sail through hard times by their efforts. If their efforts fail they can always sustain their family rice and pickles. Just go through traditional practices of Indian households to find many more such hedges that may appear simple and inefficient but are actually incredibly deep in wisdom.

The paradoxical nature of poor families having more kids than rich families is due to the fact that having more kids is a hedge against fate. More kids means more income(marginal utility is higher than marginal cost – one extra kid while costing only one more plate of food will earn enough to feed up to three other kids) and at least few would survive to take care of those poor parents in their old age. The financial security of rich families makes it easy for them to not worry about basic survival and hence they can afford to have just one kid and protect that kid. Even if the kid dies rich parents can take care of themselves in old age due to the safety net of money.

Similarly Hedge funds, banks too often engage in trading in stock market and hedging their assets to profit and risk reduction. Otherwise a big swing in either direction can wreck their balance sheets.

The best hedge we all indulge in either on our own or due to legal requirements is INSURANCE. Always insure your assets. Insurance protects you from unknown factors damaging your assets. Insurance is a scheme where a lot of people share their risks by agreeing to lose a little collectively so that individually they won't lose a lot in future. Let's see Insurance in detail now:

Insurance: Always insure against fatal risks. Here is a list for you to check:

1. Life Insurance: Insurance against your death. If you die, your family will not have to suffer financially. This is the most important insurance if you are the sole earner in your family. Get insured for at least 25 times your yearly income.
2. Health Insurance: Insurance against your health. If your health

fails, you and your family doesn’t have to ruin your investments for paying hospital bills. Also if possible get critical insurance for cancer etc. Get at least health insurance worth your yearly income.

3. Disability Insurance: These are optional but if you are in a hazardous job then they become really important.

4. Liability Insurance: To protect you from liabilities if anything goes wrong in future. The best example is vehicle insurance where liability in case of accident is taken care of. Your business loan taken from a bank can also be insured (usually by your bank under Credit guarantee scheme).

5. Asset Insurance: You can insure your home, your gold, machinery, your live stock (sheep, buffalo etc.) , your crops etc. If anything happens to them you are not fully ruined.

Marriage

Don't marry. Love doesn't require a legal contract. Most marriages are for economic reasons so make sure your partner's finances are not fucked up before tying the knot. Also make sure she is a saver not a spender.

If you still marry then at least you should keep your finances separate from your partner's finances. Keep bank accounts, insurance, savings separate. This is an important strategy to protect yourself from your partner's misconduct and divorce in future.

Children

Two or three children are enough in peaceful times. Even if one dies the other will be there for you to protect in old age and pass down your genes and legacy. Have more in times of war, political unrest, break down of system, regime change, natural disasters and weak health. If these conditions don't apply, then stop at two or three. Each child costs twice that of an adult till they become an adult.

In case you cannot naturally conceive or there is high chance your child may die due to genetic diseases, then it is better to adopt one or two healthy (both physically and mentally) orphans and spending money on them rather than on expensive treatments you cannot afford. Understand that you are also protecting two orphans from bad fate and that the passing on your values & ideas is more important than passing on your genes.

Career and Retirement

If your job is your sole source of income then you should urgently diversify your sources of income like extra part-time job, rent, side-business etc. This will make sure you don't suffer when your primary job is gone.

Instead of waiting for retirement to start doing what you want, you should enjoy life whenever possible. If you are doing a job you hate and you are unable to change it then at least you should try to do the work you love on weekends. Don’t postpone living your life till retirement since there is no guarantee how long you will live after retirement or if you will live till you reach retirement age.

The best career is one which you want to do so that you don’t even think of retirement and vacations.

Savings & Spending

The best time to save money is yesterday and second best time is today. Increasing your income by job change, improving skills etc., will have bigger effect on savings than cutting corners. Also your goal should be to save aggressively 50% or more of your income. In other words never spend more than half of what you make at least until retirement.

Focus on quality rather than quantity. If you are purchasing something ensure that they long last. Regarding absolutely necessary items get two instead of one item. For example if you are going for exam then take two pens instead of one pen. Also put them into different pockets preferably shirt and pant pockets. If you are purchasing big things like cars or motorcycles then buy one which costs half the price you can afford.

Adopt the philosophy of minimalism and always try to live on the least amount of resources. This will keep you calm even in a financial storm.

Debt

Stick to this: “Don't take loans. Don't give loans. Don’t guarantee loans.“

Emergency Fund

Having one year worth of expenses saved in your bank account is the best bet against emergencies like job loss, unplanned bills, repairs, taxes etc. The most important use of emergency fund is when you find an great opportunity to make money. For example the stock market collapsed and you find a great stock to buy at cheap rate then you can use the emergency fund to buy it. At least you will get exposed to good opportunities.

Investments

Always follow 50-50 rule regarding your investments. If you want to invest 100 rupees in stocks, then invest 50 rupees in mutual funds and either put remaining 50 rupees on hold or in other assets. Never go fully into anything. It is even better if you divide the 50 rupees you are going to invest in stocks into two portions and invest in two different mutual funds rather than one. It would even better if you invest those two portions at different times. This way you are allowing yourself a margin of safety in each investment decision.
This 50-50 rules applies to a lot of things. Have two bank accounts at least. Purchase annuities from two different companies rather than a single one so that you won't go bankrupt along with company. Instead of purchasing a deposit bond for certain lump sum divide it into at least two portions and purchase two bonds. Instead of investing in a big home purchase two homes each for half the amount in two different cities.

"Read the Fine Print." Always read the agreement you are signing while you are opening a bank account or investing or taking insurance. Reading the papers you are signing keeps you ahead of millions of other people. You will find several shortcomings and outright lies, exceptions and other stupid clauses in it. Reading it will save you a lot of time and headache in future. So always Read the Fine Print of your agreeements and forms before signing. It is boring so take it home and read when you have time a little by little even if you don't understand it.

Health

Walk whenever you have a choice. Eat fewer carbohydrates and more proteins (eggs and meat). Don't force vegetarianism on you children. Check your weight within BMI range. Don't forget Health

Insurance.

Culture

Let people have more options in their life. Don’t force them to adopt your choices. Everyone is selfish. That means everyone has their own reasons and their own thought process that made them make their choices even if you cannot understand them. So make your choices and enjoy. In short, “Live and Let Others Live.”

Don’t replace old traditional practices unless you have a proven “better” alternative.

Best Investments

The best investments in life tend to be Simple and Memorable. Helping people, spending time with loved ones, doing simple things like tattoos are all pleasurable and often simple things that make our lives happy. That’s why the best investments you can do in your life are your Experiences.

To find out what you really value in life Imagine you have only one year to live and what will you want to do in that year? Imagine you died today and what will be those things you regret not doing while you are alive? One of the best articles I read on Internet is about top 5 regrets people had on their death beds:

1.I wish I’d had the courage to live a life true to myself, not the life others expected of me.

2.I wish I didn’t work so hard.
3.I wish I’d had the courage to express my feelings.
4.I wish I had stayed in touch with my friends.
5.I wish that I had let myself be happier.

If you observe closely no one cared about amount of money they earned nor about their reputation nor about their financial investments. You should try to use your financial investments in such a way that you are secure enough to pursue people and activities you really want without any regrets.

Philosophy

Whenever you feel bad about your life remember that “You are lucky to be even born in this world.” Whenever you are met with bad luck remember that “You never know what Worse luck your bad luck has saved you from.” If you still think you are unlucky then search on google for: Locked-in Syndrome (LIS), Pilonidal Cyst / Pilonidal Abscess, Dendrocnide Moroides, Naegleriasis, Hutington’s Disease, Creutzfeldt Jacob’s Disease, Fatal Familial Insomnia, Mad Cow Disease, Dementia, Harlequin-type ichthyosis, Rabies, Necrotizing Fasciitis, Fibrodysplasia ossificans progressiva etc. Your pain and bad luck is nothing compared to those. Stop complaining.

Remember life is about action. Guilt is better than Regret. Before you commit any action think of the worst outcome and prepare for it. Then forget about the worst outcome and think only about the best outcome while committing the action.

In short whether positive or negative situation you get in life you got to make the best out of it and use it to improve yourself. Love your fate no matter how bad it may seem to you. By being prepared and courageous enough to meet anything fate may throw on your face you remove the power lady fortune has on you and become truly free.

AMOR FATI

POSTSCRIPT

I hope after reading this book you have gained enough wisdom to deal with your financial situation on your own.

If you are still confused, worried and have no idea what to do then just do the following:

1. SPEND LESS THAN WHAT YOU EARN.
2. SAVE MONEY AND BECOME DEBT FREE.
3. TAKE CARE OF YOUR PHYSICAL HEALTH WITH EXERCISE AND PROPER FOOD.
4. TAKE CARE OF YOUR MENTAL HEALTH WITH EMERGENCY FUND COVERING ONE YEAR EXPENSES.
5. BUY PURE INSURANCE PRODUCTS THAT COVER YOU AND YOUR FAMILY'S HEALTH, DISABILITY, EMPLOYMENT, LIFE, HOUSE, CAR, LIABILITIES ETC.
6. INVEST YOUR MONEY IN PERMANENT PORTFOLIO:

25% IN HOMES(2-4)
25% IN MUTUAL FUNDS (2-4)
25% IN BONDS(FDs,PPF,EPF,P2P LOANS)
25% IN GOLD, CRYPTOCURRENCIES, ART, GEMS ETC.

7. INVEST YOUR TIME IN KNOWLEDGE, SKILLS AND MEMORABLE EXPERIENCES.

YOU WILL BE FINE

DON'T PANIC

ALL THE BEST