From the co-author of bestselling 'You can be Rich Too'

GameChanger

Forget Startups, Join Corporate & Still Live the Rich Life You Want

"This will change the outlook of people who read it"

- Murali Vijay

Pranav Surya

M Pattabiraman

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by

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&

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To my finance professor who ignited this flame. Hope I haven't let you down Ms. Pia Huh

To Michael Lewis who inspired me to read

And finally, to Sakshi Nanda, our editor. We gave her a square pizza, and she replied that round ones are still in vogue while splitting the slices in equal portions.

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Prologue

If Dinesh and Gilfoyle from HBO's show 'Silicon Valley', were working on a start-up in India

"Startup is great but you know…" (SIGBY),

Dude 1: SIGBY, if I don't marry within my community, my parents become rebellious but if I start-up, no one in my community will offer their daughter
Dude 2: SIGBY, I'll never take vacations for a long time
Dude 1: SIGBY, what if I don't succeed and my sister wants to get married soon
Dude 2: SIGBY, I can't live in limbo forever. I'd like a car, a home and the traditional lifestyle, minus the humdrum office atmosphere
Dude 1: SIGBY, I guess life is bigger than work. It's about travel, it's about experiences, IT'S ABOUT GETTING MARRIED
Dude 2: SIGBY, maybe a corporate job isn't as bad as it's portrayed
Dude 1: SIGBY (sigh)
Dude 2: SIGBY (sigh)

A Bellyful Experience

Woody Allen once quoted, *"There are worse things in life than death. Have you ever spent an evening with an insurance salesman?"* I'm guessing he never met entrepreneurs at a networking event.

At an event, everyone is the CEO of something and whatever they're building is the contemporary Minimum Viable Product (MVP) in their genre. A growth that rivals a meticulously embossed hockey stick is a certainty. And if an under-prepared layman comes into the room, he is destined to walk out with quotes from Lean Startup, Zero to One or Dan Ariely.

Yes, we all get it:

- The *'what's the scene bruh*' Bangalore.
- The countless Rashmi Bansal books and its perennial knockoffs.
- The *'tu beer hein b$`%^&@/!'* inspiration.
- The *'OMG, I raised another round'* piece on Yourstory.
- The incessant talks about how awesome life is, because you braved Anu aunty and decided to *'not think, just do.'*

A neuter look and it seemed like a new graduate who wasn't willing to go down the entrepreneurial route was low-balling his life. Winding the clock a little, I tried to find any good reason for this tectonic shift in people's thinking. The longer I tried to find answers, the more extended the fad had become. **As the months grew, the number of people with a sense of 'calling in life' grew exponentially. This led to people withdrawing from their corporate roles and moving into entrepreneurialism.** Quite often it looked like the 1920's New York scene. Prior to the 20's, people produced goods just in time for survival. Any surplus would be stored for drought seasons. The concept of production surplus coincided with the industrial revolution and for the first time ever, man had to find ways to make people consume against their wishes. Enter Madison Avenue money, creating new desires in order to increase consumption. As time progressed and production evolved, we started living in an age of aura. An aura that entails the belief, *"I could never live in a city without an H&M store."*

The fascination with this aura is that: the more reclusive the idea, the more it spreads wildly. With reclusive ideas propelling them, Pepsodent, Burberry and Nike became multinationals by creating a demand that didn't exist before the company was found. In certain terms, when we find the reasons and motivations for the things we do, there is a fictional story running in the background. A fictional story such as 'confidence' in the overall market is important for industrialists and economists while charting expansion plans. A fictional story that *'The World's Happiest Man' (*read Matthieu Ricard[1]) exists and is safely locked in the mountains while we can remain unhappy because we live in faraway cities. A fictional story of a burger that would taste great when you look at the sauce drooling out from the pictures, but will never taste the same when you have it.

In certain instances, this fictional story has benefited us. Yuval Noah Harari[2] would point out that the reason homo sapiens survived eons while other species didn't, is because they could communicate things like, *'yesterday I saw a lion drinking water and so today it might come too. Let's take this other route.'* This ability to conjure stories had stood us in good stead for centuries. But perhaps, right now the tables have turned. Perhaps our ability to create and transpire fictional stories has led too many of us to believe *'I have a calling in life'* and I'm willing to pursue it. Much like outdated religious practices that don't make sense but we follow them nonetheless for the sole reason that people did for years before us, entrepreneurism mushroomed into the psyches of a larger audience. When word about successful entrepreneurialism started moving, the masses caught wind: *"Maybe I'm not meant for the cubicle and I could do something on my own"*.

And yet, for all the right reasons to join a startup or found one, people started doing it for the wrong reasons.

Reason #1: "You needn't worry about money. ESOPs will take care of you"

When a few of my friends moved into start-ups upon learning the glorious million-dollar pay-day stories, it proved a modern-day example of the old adage, '*With ignorance comes egregious mistakes'*. Maybe they haven't read Michael Lewis' 'The New New Thing'. Or maybe they believed they are the outliers that Malcolm Gladwell writes on. Outlier considerations aside, the widely prevailing opinion was *"I just have to work hard and the seniors will notice me, which will translate into options pretty soon."*

VC's (Venture Capitalists) are notorious for not parting with any amount of equity and quite often, the initial founders can be found with less than 15% of their own company. What is less public is the fact that employees almost never see their share of the pie increasing, even after years of meaningful contribution to the company. Promotions are rare and random and if the company is not doing good on the hockey stick growth, the low salary received now hurts more along with the worthless equity in your hand.

Reason #2: "If you were early at finding a well-heeled horse, you'll be in the top brass very soon"

Most companies rate top-level, internal promotion as the last on their list of priorities. When the company is looking to hire a wise head, who's *been there, done that*, they look outside for candidates and the biggest bargaining chip they have in interview negotiations is a fancy title. Incidentally, I've heard companies say, *"I hope you know that we can't offer the salary you'd make at Microsoft but here you'll be Chief Technology Officer. That will give you the clout you'll not find anywhere."* To attract good talent, they **have** to dangle fancy titles with greater power in company decisions, which leaves little room for the new birdie (you) to grow into the boss' shoes.

Reason #3: "The responsibility you'll have is incomparable and you'll be a well-equipped leader for later"

Responsibility in a startup is often a double-edged sword: you'll have more clout but that doesn't always translate into a better experience. While in a corporate the company assigns the mind-numbing, number crunching, *mechanical turk* work to an intern, at a startup the work must be spread around.

As the numbers increase, the quality of work regresses; plus, when hiring mistakes occur, the work-quality will be equal to the mean around you.

Reason #4: "Right now, we're clearly undervalued. Another round of funding and we'll be game"

This will be the oft-heard line when the founders pitch the company to a prospective employee. If the VC's know what they're doing and they mostly do, this means the founder massages the numbers to recruit new people. While not uncommon in startup pedagogy, quite often it spells trouble to new hires. Skim through PG (Paul Graham) or YC (YCombinator) posts and you'll soon realize that team morale builds companies more than talent.

Valuation gimmicks, leadership issues and greater fool theories have sunk more ships than product mismanagement.

Reason #5: Vesting, taxes and related mumbo-jumbo

- Join early into a fast-growing start-up and you will have the *golden handcuffs* - divest the shares only after 4 years at the company. If you'd like to leave early, then you must pay the associated taxes + value of options with your life savings and pray that the company gets acquired or goes public.
- In case you don't pay upfront to hold the shares, the options technically expire in 3 months.
- Join too late, then the equity portion you have is worth peanuts because the valuation is diluted.
- If the company flounders and gets acquired for something below its last valuation - your shares are worth nothing.

With more legal jargon and many more combinations, one of the better solutions is if a company grows crazy fast and gets acquired by a giant for several multiples. But then, big giants often make acquisitions in IT, Telecom and SaaS ecosystems. Employees with Retail, lifestyle business options rarely see the liquidation-sun (rare ex. Dollar Shave Club).

If growth in the role and easier seniority were thought as a given, evidence suggests the opposite. The other option is to jump from one startup to another, but in the long run, changing industries is hugely detrimental to any hopes of a linear career ascension. While growth and an improved quality of work are not guaranteed in any measure, the next step it seemed was to break down the financials. Being in the median, it turned out, the odds were better stacked in a corporate role.

Much to my fascination, the numbers told me something to the contrary of what I believed. I've always thought the windfall would be so much better if I joined a startup. Under ideal circumstances, the startup employee was on a different class of life, post-acquisition. But such idealism is quite rare in the startup ecosystem and companies fail at a greater clip than you could say 'tomatoes'. To bring you up to speed, consider the narrative assumption

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Newer employee (within first 50)

- Your compensation will be lower (20,000 at best) but you'll have equity 5-15%.
- Your period of toil begins for 4 years.
- A bigwig decides to buy out your company or your company goes public in 4+3 years.
- To compensate for the years of toil and lower salary, the equity will pave way for more equity in the new company or an immediate windfall at an IPO.
- Market averages denote that if your company gets acquired you'd be getting 50-60L and if you go public, your options will give you 2C after the vesting schedule. Now, you have that dream home to sit in, a swanky car parked outside and funding to start your next venture.

Later stage joinee (typically after Series A funding)

- You join a company with 150 or more employees; a salary in line with the market but infinitesimal equity (usually <1%).
- You have a middle manager and politics are at play just like a big company.
- You joined the company for different reasons but any acquisition talk does sound sweet.
- If acquired or gone public, the options rarely give more than 20L, a down payment for a nice home.

If you'd like to know how often the above narration happens, consider the numbers. 90% of nascent startups fail before funding and 80% of them fail after funding because they hit a plateau of users and stagnant revenue[3]. Not knowing how to scale-up despite having a brilliant product has slayed many imperial ambitions. But playing devil's advocate a little further, let's consider it takes 7 years, for your startup to be acquired. In the same timeframe, you could become a middle manager at a big corporate. Middle managers nominally make 10-12L yearly. If you consider an average of 6L per year for the first 7 years, at a corporate set-up, the numbers round up to:

Newer start-up employee[4]	**Corporate joinee**
7 years' time: 20,000*12*7 +	*7 years' time:* 6L (averaged) * 7

60L(equity) = 76.8L	years = 42L
Post-acquisition, salary improves to bigger margins (9L PA averaged over 9 years)	You've become a middle manager (12L PA averaged over 9 years)
In another 9 years: 76.8L + 8*9L = **1.57C**	*In another 9 years:* 42L + 12*9 = **1.50C**

Later stage startup employee[4]	Corporate joinee
3 years' time: 40,000*12*3 + 20L(equity) = 34.4L	*3 years' time:* 6L (averaged) * 3 years = 18L
After 3 years: Salary improves at widely-prevalent 5% per annum and your annual compensation is 8L	You've become an early middle manager (10L PA averaged over 5 years)
In another 5 years: 29.4L + 8L*5 = **69.4L**	*In another 5 years:* 10L*5 + 18L = **68L**

When a newer start-up employee cashes in his options after the vesting schedule, usually 4-6 years after joining the company, he was guaranteed a bigger payoff. Despite paying taxes on the options, the payoff will leave him in a better position than any corporate employee. But, a later-stage startup employee didn't enjoy the magical returns of an early adopter. Given that both had similar skills in employability, the numbers converged at the same place and the difference in total remuneration wasn't much. In the probabilistic magical place that a startup scales up dramatically and gets acquired, the windfall is immediate but in the long run, a corporate employee's earnings converged with a startup employee. Unless, you are a first 50 employee in the company, the financial motivation wasn't convincing.

If financial reasons weren't stimulating, it then mattered to look at the life of employees at the two workplaces.

How Lifestyle Differs

Newer start-up employee	Corporate joinee
Blood, sweat and ramen days	Is comfortable in a decent apartment and has good food everyday

3 years look like eons after which you can take a vacation	Yearly foreign and tri-annual domestic vacations later, you realize how awesome life can be (shown in Week 2)
7 years later, the home fills you with joy and the car smells success every time you sit in it.	You bought a car and the downpayment for home is a little far but the savings are adding up (not very far away though)

With neither financial nor lifestyle reasons backing the decision to choose startups, it meant I needed qualitative reasons. As Antonio Garcia Martinez remarks in ‘Chaos Monkeys’, ‘*the only chance you have of your company making it through is if all your thoughts are about the startup from rise to fall.’* A cocktail of total dedication, execution and salability is often needed to break through the unknown.

When quite a lot of my friends didn’t know why the startup mania hit the roof, we were essentially 4 foot innocent hobbits looking at Mordor from afar. We preferred the life of the Shire, not wanting the Ring in all contexts. Being a simpleton who does 3am scrolls on Facebook, maybe a startup is a step too far for me. If there was any semblance of a known path, I’d like to choose one among the options. In the same, when you peeve into the minds of two youngsters, you’ll soon know there’s a reason why the foremost question when studying for CAT is: *How much did the graduates from IIM make this year?* We like the comfort of a known path. Step away from the CAT aspirants and run into a common investor on the street and you’ll realize their favourite investment instrument is a Provident Fund. Why? Because we like to know what returns we get and feel secure about it. The physics of living with uncertainty agrees with a few people at best. For the rest of us, startups are maybe a mis-step.

Right then, when I knew I was going to be at a corporate set-up for a long time, the next step was to make the best use of the monthly paycheck. Upon researching and talking to several senior statesmen, the debate often veered into the arena of investing. In all probability, the biggest takeaway from these conversations was: if I learnt to make optimal use of the cashflow, <u>I could live a life better than any entrepreneur could.</u> Distilling their years of timeless experiences with the new-fangled love of travel, I have written my life’s learnings onto this book. Keeping in mind the nation’s clamour for solved examples this book will show you how to

- Save easily
- Invest wisely
- Travel every year
- Plan home and car purchases with ease
- Not have a single worry in the world

You, dear reader are going to forget startups, join corporate and still live the Rich Life.

What this chapter entails?

Why learn about money?
Mistakes we make in money management
Minimize budgeting and smooth-sail all financial aspects of your life

OMG! We invented fire!

> *"By the time you reach the age of 18, you've heard the word no 200,000 times, seen 30,000 acts of violence and have received 12 million messages in the form of advertising telling you how to look, what to eat and how to feel. No wonder most of us grow with a negative self-image!"*

- Desi Williamson, *Get off your assets! How to unleash the Power in You*

A few thousand years before Christianity, we started making use of our hands and developed sharp objects with stones. Being at the lower end of the food chain, we used to hang back and wait for the more majestic animals such as lions to finish the hunt, then wait further for the lesser majestic wolves and jackals to devour the remains. Afterwards, we made our way over to the bones and fed ourselves with the marrow. Some researchers explain that the marrow was the reason we started developing a better neuron system (bigger brains) as a method of survival. We fed ourselves on small insects, fruits and on the marrow of hunted animals. This led to weaker forearms and better brains. And then we made use of our growing brains to accidentally invent fire.

Inventing fire helped humans move up radically, by-passing several levels of the food chain to the top. We began to save time that otherwise would have been spent chewing uncooked meat which in-turn led to developing bigger brains and smaller limbs. Over the course of history, moving up the food chain was progressive, slow and intended with natural selection. Lions came out on top because they adapted through natural selection over several million years to become the strongest and fiercest.

All this created chaos in an existing peace of order. When lions became stronger, deer learnt to run faster and thus the ecosystem evolved. But all of a sudden, a new leader emerged when no-one was ready for it. Humans, interestingly, weren't ready to be the leader of all species. Over several million years, lions and sharks being the leaders, had developed the self-confidence that transcended generations. Humans were lacking in self-belief due to their inferiority and now they were at the top of the food-chain. We didn't know what to do, being the foremost species on earth. Several ecosystem disasters and manmade disasters emerged from this tone of low self-assurance.

This hasty jump resulted in a non-assurance to whatever man did. The questions about living have transcended generations and still exist in the present age. We look at other people and read through history to decide how to live, love and prosper. In the present day, we scroll through a news feed to make sure we aren't missing out on what other people are doing. A self-doubt dearly exists and is in fact the main reason we continue to evolve.

Whether this self-doubt can totally be eradicated, I'm not sure, but being financially savvy allows us the liberty to embrace this unsure feeling.

What if you get your finances right?

My finance professor at University told that if I memorized the formulas and made clear predictions about earnings into the future, we'd run out with A's and get the best jobs into travel or real estate consulting firms. She'd often say, *'smart people finish rich'* by which she subtly meant, get an A and you'd be able to buy those Burberry pull-overs because you work at CBRE. Well, most of us cleared the subject by the skin of our posterior and still can afford those expensive coats.

Back in school, the answer to anything was *'Padlo! Baad bada aadmi ban jayega'*. I didn't know what I wanted when I was 15, so I studied. I studied night and day so that I could become rich some day and ape the things my parents had: buy a bigger home, a car with blaring speakers and a special social status among the family. I have most of them already, and I'm only 24.

The big difference was: I did not anticipate the *'experiencing things'* part when I envisioned those dreams. What mattered to me with a car when I was 15 was that it should be black, muscular and 'cool'. What I didn't care about were the EMIs, resale values and gas prices. When you look at how our preferences have evolved over the years and will continue to keep evolving, the problem seems to beguile us.

When people say, *"Did I really dress like that when I was 7?"*, they don't realize we are probably going to say the same a decade later about the man-buns. When we go to a store, one of the favourite lines we ask is *"What is* *new?"* Oscar Wilde famously quipped on fashion: *"A form of ugliness so intolerable, that we have to alter it every six months."* And yet, we adore familiarity. We like familiar routes to office. We like buying from the same company for years and years. Yet, when Steve Jobs said, *"A lot of times, people don't know what they want until you show it to them",* he was right as well. No one anticipated the revolutionary technology Apple would put in our hands. If people liked familiarity, Apple would never have existed as the giant it is today. When you had the first sip of beer, no one has ever exclaimed *"Where has this been all my life!"* It probably runs along *"Yuck, you guys drink so much of this??"* We started having it because, well, we just did. When the Sydney Opera was built, people couldn't fathom if they 'disliked' it or it was just plain 'ugly'. Fast forward now, architects pronounce *'why can't we build like this anymore?'*

Our perceptions and priorities over art, life, philosophy, philanthropy, work, money, rich, poor, relationships, social status, men-toys change and evolve as we undergo life. In a fascinating turn of events, you might want to change industries at work, pick up your childhood talents, travel the world, take a sabbatical, volunteer in Africa, teach high school, inspire the next generation, have a mid-life crisis, and retire early. With varying interests, we might not want the home we always dreamed but would like to go on a mini-retirement. As life evolves, we would like options to go along and if you're financially savvy, there's no boundaries.

Where's the financial savvy?

When imagining a financially savvy person, we'd all picture a geeky middle-aged supply chain manager who is very conscientious about money. But the mid-20's guy, perfect in finance is in-fact a couple of desks away at your work. In-fact, more and more youngsters have started showing interest at managing their finances. The bright recruit for Flipkart from IIT-M knows more about his money than my mate who works at ICICI and who has an MBA.

Looking at the Flipkart recruit: he scales twelve hours a day on average with his data analytics job. By weekend, he spends about 2k on leisure in and around Bangalore. In another 5 years, he sees himself getting an MBA and later scouring the globe on management consulting gigs. For Diwali and other festivities, he travels home (Jaipur) and buys his family gifts that make him the Rockstar-jaan of the family.

Currently, his modest salary of 40,000 (post tax) a month makes him the world's happiest guy. With this salary, he uses his credit card wisely, rides a new motorbike, saves for retirement, provides for his family and lavish spends on his girlfriend. He even has a monthly SIP (Systematic Investment Plan) of 10,000 invested in 3 Mutual Funds and pays his PG rent of 6,000.

To further exacerbate my frustration at his perfection, he savors food at top restaurants - his girlfriend makes a claim for an expensive Italian restaurant date every month, as her end of the bargain in the relationship.

When Pratik explained this, I had to envy him. He doesn't even shop at Big Bazaar, rather he goes to Indian Terrain showroom to buy a pair of jeans for 2000₹. And he does it without any external help while taxes make a 20% dent in his paycheck. When someone balances so much in life with consummate ease, the hierarchical order that he assigns to his good life needed a close look. He's decisive as a fox at what he does and that's what sets him apart.

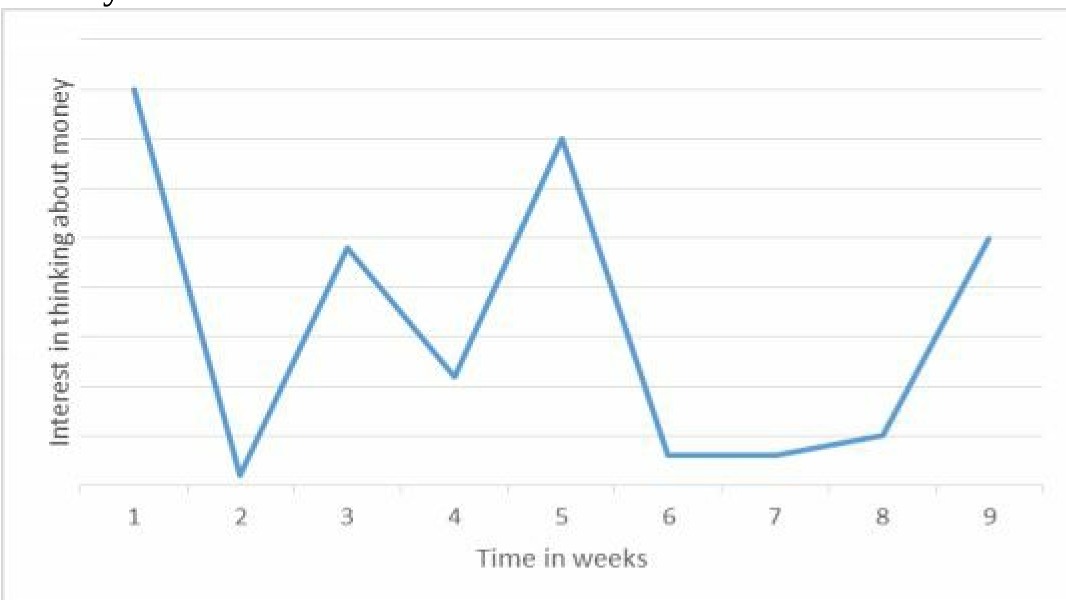
The best part about him is that anyone could adopt his money habits into their life. In fact, others could even go a step further as they live with their parents, thereby spending nothing at rent and food. Although Pratik was one of those geeks who are the envy from all sides, a common person like me can be just as successful in personal finance. Which means you too, can gorge on a couple of walnut waffles even though your ATM balance reads 145.01, knowing you've funded all the major goals in advance.

Becoming savvy

One of the main reasons to be savvy and plan years ahead is that you can counter the inflation demon. India, being a developing country will have inflation at the high end of single digit score compared to other countries. Yes, we've all gotten a raw deal over this one but it's nothing compared to the hyperinflation of 1920's Germany or present day Zimbabwe.

To give you a simple example: let's say your grandma pops to the bank, opens a FD (Fixed Deposit) of 1000 at 10% interest. After one year, the money will compound to 1100. Inflation being the demon, will bring the cost to 80 (if it's 8%). Your gain is now only 20. In essence, your grandma believes that she's gained 100 for keeping a FD, whereas in-fact she's made only 20. Add taxes, handling charges of the bank and you'd barely break even.

But, there is a way to exact revenge which takes a combo of strategy, patience and panache. The answer lies in compound interest over a long period of time that inflation can't catch up with its lower interest year-on-year. (We will deal with this in detail, later) The more pertinent problem is: if you'd draw a scale of my interest in money-management plotted against time, it'd probably look like this:



It flows and ebbs for a continuous period. Looking back, the first introduction to money management came during my first job as an intern. The only escape or respite I got during 14-hour work days, was taking my phone to the bathroom and reading up blogs under the guise of *'an upset stomach'*. Dashing to the nearest washroom I'd read a blog-post or two, come back to my workstation and feel proud.

Little did I know, I was running on an elongated caffeine rush toward learning about money management. As time progressed, my interest shrunk and wound up like sunflowers during the anti-season. And then I had a period when I'd just stay away from anything related to finance. Needless to say, I very soon learnt this is how people felt over several issues such as fitness, office work and relationships. So, I made a foolproof scheme to tackle this.

The scheme: When there is a 'flow', I make sure that everything is setup to run on automatic so that when I start ebbing, I don't need to pay attention. And that meant doing the dirty work up-front so that I can set sail without worries.

How the dirty work's done?

"If the whole world was equal, people earned similar wages and had similar desires throughout, it would be a drab. But there are flaws in this world and that's why knowledge is the reason to earn and prosper better. Now, tell me something about the spending habits of your generation, I don't know already."

- Kimberly (name changed), 29, *the very first conversation with my manager in the hotel industry*

I found that one of the best ways is to learn from the mistakes made by others so that we don't repeat them. And where better to start than from home.

Home: Many of our parents bought a home, paid EMI's, paid EMI's and then paid more EMI's. Some of them were not satisfied with one ride and wanted another home with another round of EMI's. Did they get to take vacations? Not much. Did they become finance greats? - Not many. Do you want to copy their finance ideas - yes? Should you - no!

Friends: They buy a 2-wheeler even before they get out of college, buy a 4-wheeler right after they get married and copy their forefathers' method of buying everything with EMI's and work for the banks most of their adult life. *Ahem*, you know where I'm going with this.

Relatives: Most think that tax saving is money-management and getting returns on an insurance policy is paramount. Travel or foreign vacations are considered as something for the rich while they expend abnormal amounts on a child's marriage as a prestige play. *Ummm*, my dear uncles and aunts, thank you. It's been invaluable.

Thus on, I had a crash course of the mistakes made by my brethren. Upon digging a little more, the skeletons kept coming. What looked like a small problem on the surface, turned out to be a deep prejudice when it came to money. What was even more revealing was: I had made several errors in judgment when it came to money and acted with biases I didn't know I had. To bank a clean slate, I had to de-learn everything I knew about myself when it came to money. It all started with me believing that I'm a special unicorn and am different from the world. And this feeling resonated with the masses. We all thought we are abnormally good with money-psychology, but were actually far from it.

Mistakes we make with Money Management

Bride: *Where were you?*

Groom: *Playing roulette*
Bride: *How did you do?*
Groom: *Not bad. I lost 500 rupees.*

We have changed the way we eat, drink, socialize but irrational behaviour has seeped through our genes. ₹1000 in roulette winnings, 1000 in tax refund and 1000 in salary should have the same significance. In fact, the 1000 from all 3 sources will buy you the same quantity of chai. But it never is taken in the same vein.
In fact, if managing money had been about crunching numbers into a spreadsheet and following the plan to a T, we'd all be masters. *What trips us is the psychological hurdles that are set up to impede our journey.* But if you can pause and identify the different cognitive biases that you undergo, then you're all set to jump into financial stardom. Here are a few to get you started:

1. Rationalizations: Choice supportive bias

When my friend Hari joined the workforce, he was keen on settling his college debt first and racked up credit card debt without realizing the consequences. When the people who joined with him explained that he was dealing with it in the wrong way, he'd rarely see beyond his reasons. Besides racking up some debt, he'd also never invest and preferred to rely on the EPF provided by his company alone. The education loan was taken at a simple interest of 7.5% while EPF compounded[5] at 8%. He'd settle the student debt with chunks out of his salary and didn't invest more because he felt uneasy having debt on his mind. Finally, it took him a year, to admit that he could have done things better.

An effective remedy is to have an open mind. *Duh, Pranav I knew that. Anything else you have up your sleeve?* Oh well, maybe this would help: *"Better to remain silent and be thought a fool than to speak out and remove all doubt"* - Abraham Lincoln

Some of the little babies of this cognitive bias are:

- **Denial:** *"This one time isn't too bad"* despite racking up credit card debt.
- **Bargaining:** with ourselves that we'll set up a stringent week to compensate splurging right now.

2. Bandwagon Effect or Herd Mentality

My friend Barath bought a car within 18 months of joining the workforce. *"Why not save up a little more and buy a used car after a year?"* was posed by me and his father. *"Everyone buys a new car with EMI's. Who waits that long? Anyway, do you have anything for a down-payment?"* was the reply that he shot back. This is bandwagon effect in full glory. Without thinking through, we make decisions on the spur because people around us do the same.

The cure: The easy way to clear out this bias is to research all outcomes of the purchase (emotional, material and financial) and make a learned decision that suits your needs.

3. Anchoring Bias

You would have experienced anchoring bias when you were shopping, but very rarely you realize that it had an effect before you made the purchase decision.

- Let's say, you look at the menu of Baskin Robbins. The rep asks you Small, Medium or Large? You look at the prices and see 150 for large. Suddenly, the medium for 120 seems a lot more palatable.
- Before you go to a job interview, if the HR guy says base pay is 20,000, he's already anchored. You can negotiate on amicable terms with a 10% increase at best.
- You go to the bazaar, and your small cousin wants the water gun. The shopkeeper says it's 550. People good at negotiating, will buy it for 150 and boast the purchase *(while I close my sister's eyes before she sees the gun)*.

Ever been on The Economist site? It has 3 options: Online only: 75$, Print only: 149$, Print and Online: 149$. That middle option of print only is to trick your brain into thinking you're getting online version for free by paying the same cost.

When people around us started telling that a foreign vacation would likely be north of ₹40,000, we accepted it without challenging the underlying costs. Similarly, when our mind has set a price, we tend to accept these without rationing.

Countering anchoring bias takes a lot of mental effort - questioning the price rationale behind every purchase is tough. Our brain likes to automate and carry out decisions without expending too much brain power. Hence being alert, knowing that anchoring exists and doing a bit of research of the prices will help in your decision making.

4. The Stay-Put Bias

Stay-put mentality means to indulge in decisions that don't require you to alter anything in life. The ways it can harm your financial life are numerous:

- You spend more than you earn and you don't want to give up the *'All channel subscription'* on your Dish.
- You only invest in a Bank RD/ FD or a PPF and hope to save enough for retirement.
- You activate 50GB WiFi at your home when you barely use 10GB to check mail and WhatsApp.

The cure: Pore through your receipts and review credit card statements for ways to cut down spending.

5. Sunk-cost mistakes

The best example is if you've been stuck in a toxic relationship, you've dealt with sunk-cost. You invest your time and resources and despite it going south, you refuse to give up. They occur in your daily life in various forms:

- You go to the bazaar to buy an ear accessory whereupon you don't like anything there. You still end up with another needless jean, a Bluetooth headset and a powerbank because you made the trip.
- **My favourite:** Choose a wrong colour of paint. Brush half the bedroom, don't like it. Instead of choosing a fresh selection, I go to Asian Paints and buy another litre to finish the room thereby justifying the first purchase. Finally, dislike the output, go to Pepperfry and buy stickers for ₹600 to cover the whole wall.

The key to negate it is to find the trigger (or 'cue' like Charles Duhigg in 'Power of Habit' calls it) when you decide.

An example looks like, *"I have already spent 8000 on the paint, I might as well spend another 8000 on something that I'd would hate looking at."* When you frame it like that, your initial purchase will be taken as sunk-cost and you'll move on.

Little babies of this cognitive bias are:

- **Avoidance:** Holding onto a loser stock. *"I couldn't have made this bad decision. So, I can't get out at this price."*
- **Categorization:** Money lost on an extra cinema ticket. Money regained via Income Tax rebate. Both scenarios will be handled recklessly.

6. Blaming the Society, Administrators or Financial institutions

My favorite of all biases and the most dangerous of all, easily pushing me into non-action mode. When people mention India was rich with culture, spices and natural wealth, it immediately throws me into nostalgia. My work gets paused and I begin daydreaming about what-if scenarios.

The cure: I'm turning empty for this one. If anyone does know a cure, tweet me out!

"Poverty is not the result of rapacious financiers exploiting the poor. It has much more to do with the lack of financial institutions, with the absence of banks and not their presence."

- Niall Ferguson, *The Ascent of Money*

For a generation after people realized that smoking would kill them, many smart, informed people still smoked. Then, many of them stopped.

After discovering that an expensive luxury good is made out of the same materials as a cheaper alternative, many people stick with the expensive one. And then they gradually stop going out of their way to pay more.

After a technology breakthrough makes it clear that a new approach is faster, cheaper and more reliable, many people stick with the old way. Until they don't.

And inevitably, it doesn't matter how much people discover about their favourite candidate, they seem impervious to revelations, facts and the opinions of others. For a while, sometimes a very long while. But then, they assert that all along they knew something was amiss and find a new person to align with.

Computers don't work this way. Cats don't have a relationship like this with hot stoves. Imaginary logical detectives always get the message the first time.

For the rest of us, though, the flip isn't something that happens at the first glance or encounter with new evidence.

This doesn't mean the evidence doesn't matter.

It means that we're bad at admitting we were wrong.

Bad at giving up one view of the world to embrace the other.

Mostly, we're bad at abandoning our peers, our habits and our view of ourselves.

If you want to change people's minds, you need more than evidence. You need persistence. And empathy. And mostly, you need the resources to keep *showing up, peeling off one person after another, surrounding a cultural problem with a cultural solution.*

- **Seth Godin**

The Fix - smooth sailing all financial aspects

Alright, you realize and recognize you've got certain biases.
Now, you really want to make changes in your life.
Let's get this financial stardom monster!

Borrowing James Clear's idea: Quite often problems have a well-established, rarely working, widely accepted solution and another solution which is widely negated but is often effective. From that axiom, as much enticing it is to pin success on will power, knowledge and grit, it is equally tempting to allude failure to a lack of hard work and dismiss environment.
What a thousand experts, parents and teachers tell you is: you'll never win if

you don’t work hard. What I want to show you is: hard-work is a cog but, environment is much more effective.

Human Accounts

A few years back, I argued with my high school teachers over the importance of teaching stuff that’s useful. They get back: it’s never important what they teach, it only matters what skills the students learn. Years later, I got what they meant. If I had been homeschooled, my chances of surviving in the real world would be zero: yes, a big round nada. Even though what I have applied in the working world was never taught at school, ‘*what I am*’ is because I went to school. In the closed gates of a community that was glowing with supreme talent, lax listeners and gritty workers, I found my own identity amidst an eclectic group.

An interesting exercise that Warren Buffett once lectured at UF (University of Florida): If you had to buy 25% of a person’s future, what kind of a new graduate would you buy?

To be fair, when you grind it down to the real factors, you’re not going to pick the person with the most IQ or the best initiatives. Your bet is probably going to be on a person who is primed to achieve as he’s in a place surrounded by achievers - environment matters more than brains.

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Whip out an atlas and author Jared Diamond would point to the various shapes of the continents to say that the shapes have an impact on anthropology. Your first perception might be to dismiss it as another theory by a wannabe scientist.

But dig deeper and these shapes do seem to have an important contribution to human behavior and hence to our history. To take an example, Asia and Europe are spread across the atlas while Africa and Americas are spread in an up-down pattern. What interests me is that Jared says this shape has contributed to the history of civilizations.

When the age of agriculture happened, we looked to expand acres of land into edible crops. What’s often spoken is: agriculture was done around river banks. What was not spoken was: people found it easier to plant crops in close vicinity where the temperature and conditions did not vary. This meant planting crops across the latitude, through tons of land where humidity, temperatures and rainfall could be replicated. For example, if growing wheat was possible in Sindh province, it could be done in Myanmar as well. But it couldn't be replicated easily in New Zealand as it posed new technological questions, for which we weren't ready.

All this meant we could bring-up similar crops across vast areas and did not need new inventions. The entire region from the Middle East stretching to Far East Cambodia through India could advocate rice as a chief crop. But if you traveled through the longitude, the climate varied greatly. Picture how contrasting Srinagar and Chennai are across the seasons. This led to more people across continents which were horizontally spread like Asia, Europe and Middle East.

Mass food cultivation meant civilization grew at a rapid pace and people didn't die of hunger and isolation. Although people tried to spread, early civilizations occurred only in Indus, Mesopotamia, Egypt, Persia, China and Greece as they spread across river beds with a similar, ideal environment.

◆◆◆

Try to grow cotton in the Himalayan wilderness. No matter what you try and be the most talented, some things do not happen. Let's dive into the topic of business. You can place a room chock full of geniuses who on an IQ test would score 200 each but the organization will conclusively fail, if you set the wrong environment.

Take the hedge fund, **Long Term Capital Management** as an example. Led by geniuses across domains of investing, economics and mathematics who designed infallible algorithms, worked out every probability of failure, covered every base and still ended in an uproaring failure. With a combined experience of 350 years in the field, these geniuses failed because they forgot to set up one thing that mattered most: environment. When they came together, a room full of egos, bruised reputations didn't decide why they wanted to make more money, despite having tons in the bag already. While making money is never a bad idea, their failure can be alluded to an environment of stupidity developed around taking risks they typically didn't need to take.

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When you realize human behavior in vapid accounts, you'll notice talent and willpower are elaborated stunts; but environment impacts more.

The fact is that we are quick to recognize hard work when things go well and forget the role environment played. When we get a job, it’s because we’re the perfect fit for the role. When we win a game, it’s because we’re talented and produced the goods on the day.

But when things turn sour, environment takes the blame. When we lose our job, it is the competition forcing job cuts or the always dreaded economy. If we lose the game, it’s because the opposition resorted to funny little tricks or the ref was impossible.

When it comes to personal finance and managing your money, yes I could write something like

- Procrastination is the enemy; get inspired and start saving.
- Keep a track of all your expenses, even the little ones.
- Maintain a budget.

All these are brainchilds of will power and are effective for a few days, at best. Instead, *what I’ll do is devise a clear system with an environment where you’ll be able to cut down errors and excel with minimum effort.* This means that you:

Automate the good stuff: Be it vacation funding, SIP (Systematic Investment Plan) in mutual funds or physical goals like losing weight, automation is highly useful. We will automate in detail in Week 4.

Isolate the negative impacters: Like Toyota introduced *Just-in-time manufacturing* and improved efficiency, you can remove things you don’t need now. For example, if CNBC and moving tickers, make you buy stocks at a whim, do not pay for the channel.

Bringing it together

1) Decide that you’re going to be awesome with money.
2) Do the dirty work upfront - realize when we make bad money decisions and change them overtime.
3) Sit in a suitable environment that helps you make good decisions.
4) Minimize willpower-backed habits.

The ideas that will follow are synthesized within a 5-week format, so that you can take action right after reading them.

What week 1 entails?

Mapping the roadmap to big expenses
What is compound interest and what's the hype around it

WEEK 1

“You know the detective’s curse? The solution was right under my nose but I was paying attention to the wrong clues.”

- *Marty Hart*, Woody Harrelson, True Detective

When we type the words *‘how to lose weight’* on Google, the result is millions of articles that guide us on the time to eat, how much to eat, optimum size of the plate, what gym to join, to break dance or zumba, what ketosis level to hold, which yoga guru to hire and what to look for in them. And we’d barely have covered the first page’s search results.

If we looked for advice on personal finance, the first stop would be to search for the best blogs which will lead us to Cashoverflow’s blogpost[6] prescribing 99 blogs. ‘*Whoa, I came for simple ideas and there are 99 sites??’* Afflicted with decision fatigue we choose one and open a few tabs with starry eyes. Right then it gives you a jolt.

The stuff that’s written looks advanced. There’s so much information about how to save, where to invest, options to save tax, what banks to trust, bear-bull phase, what vehicle to buy, when to get married, when to retire and even neighbourly opinion on best jobs. Most likely, we wouldn’t have crossed the *‘Most Popular posts’* on the homepage and we will already be in a dizzy spin. At this point, it’s easier to get lost and divert to the blue-iconed Facebook Newsfeed waiting for us. And so, the finance tabs give way to funny cat videos and film fiefdom talk. Later that night, bored of mindless scrolling you think, ‘*I’ll log back in tomorrow and give it another shot.’* After several weeks of reading, we are close to understanding the writer’s jargon, their biases and the motivations for running the blog. We understand a little about the topic and reach a point where we believe we are doing the right thing and feel bad at other people's half literate comments. Months later, we make assumptions that our own portfolio is sorted and go back to square one (doing nothing tangible).

The amount of information written on both these topics would likely make it the most complicated (on par with rocket science). *"If you don't understand why x happens, it means you stumbled at y when you were z years old."* Phew.

What we Do

Fitness/ Body	**Money/Mind**
Eat beyond optimum point	Spend without realizing
Read selected articles and implement the plans there	Listen to advice from parents or random people on TV who don't know the full picture (your situation)
Put the blame on various professionals for not giving you the right plan	Blame the company for low wages, government and banks for taxes
Debate which process and fatty acid is more important rather than experimenting what works with your body	Confuse why interest rates, stocks, CCI (Consumer Confidence Index), CPI (Consumer Price Index) would conspire against you, instead of starting a simple process to invest
Complicate the simple process of *'eat less and run more'* with grand theories	Complicate the process of *'spend less than your income and invest the rest'* with web of reasons

(Idea resourced from Ramit Sethi's *'I will teach you to be Rich'*)

There is good reason for this and it's quite understandable why we stumble and make it a complicated process. Our brain functions in a way that defuncts simple solutions. We'd like to lose weight but cannot give up the fortnightly barbecue buffet. We'd like to save more but do not want to cut back on beer nights. Most problems have a solution that when implemented on a long timescale brings great results. But we also want to do that counter-step which causes us to ditch the simple solution and search for complex ones.

How to find simple solutions

Very much around the time that Facebook was going public (having their IPO), I came across this 20th century economist, Vilfredo Pareto. He was an Italian engineer, sociologist, economist, philosopher and so much more. Like the baby-boomer Indian, he was an engineer early in his career and later moved into management and economics. He taught at Lausanne University and was the one who found that 80% of the wealth was held by 20% of the people. He applied this principle to various fronts which won him accolades that would fill any 3BHK flat in sub-urban Mumbai. But his most notable theory according to me was:

- 80% of the results can be obtained through 20% of effort.
- 20% of effort brings 80% results and in some cases, up to 90 – 95%.

In the digital age, Tim Ferriss decries that 80-20 means:

- For SME sales people, the 20% is in making your existing customers lifelong fans, instead of long-hours cold call outreach.
- With your work, this will be the 20% time you allocate for output your boss has a tangible measure on - not the time spent on email, Trello or Slack correspondence.

With your finance, this 20% of effort will involve understanding the 3 ideas described below:

1) Identifying your big goals (money-wise) in life
2) Understanding Compound Interest
3) Consistency (done is better than perfect)

The above 3 points have been around for more than a century. In fact, this would be rudimentary for in-the-know people. But hey, when something so simple works, why complicate it? Here's a small snippet about them while I dig deeper in the coming chapters

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1) The totem pole of the big expenses in your life

The big expenses in my life will be:

- Marriage
- A car
- A home

- Child’s College
- Child’s marriage
- Retirement

Add post-graduation and you’ll have an entire scope of the big expenditures possible. Knowing the big expenditures in your life and an estimate of how much they’d cost[7], mean you’re 33% en-route to the ‘Good Life’.

Much like constructing a home, when you’d plan according to your total money outlay, life’s totem pole requires allocations. To me, the most important goals are retirement and paying for children’s college. Retirement, because there will be no influx of money for a long period and child’s college, because I believe in letting them choose their career path not based on financial impetus. The remaining expenses - a car, a 3BHK home are fungible and depend on time and circumstances.

Retirement, being a common goal, will probably take top priority for you as well. For the rest of the big expenses, you can do play-doh, as you burgeon or lessen the amount, based on situations and necessity. We will look at this in detail by week 3.

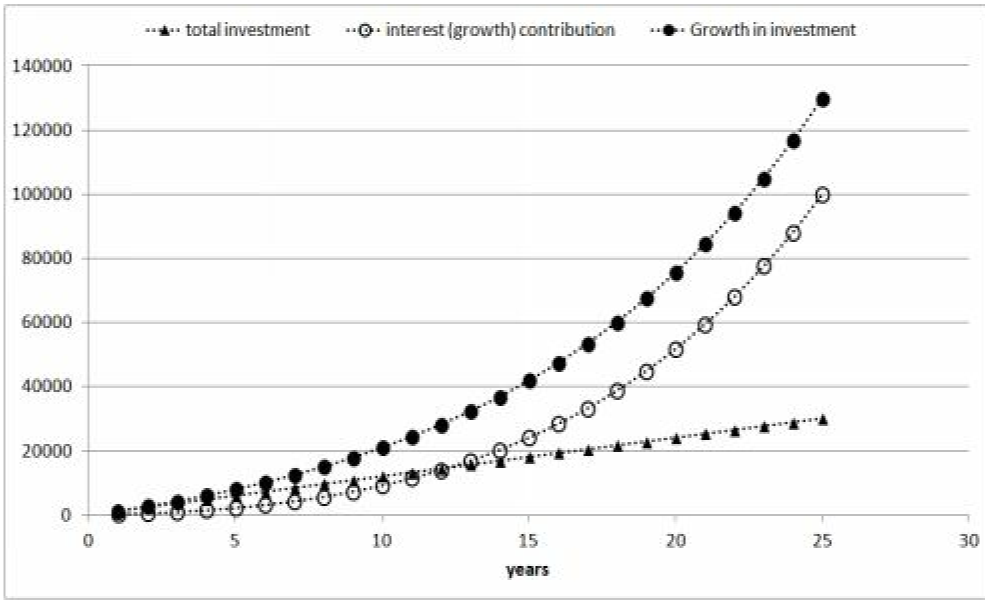
2) Compound Interest

<imagine a gif of Warren Buffett saying, ‘*most important*’ with fingers pointing out the book>

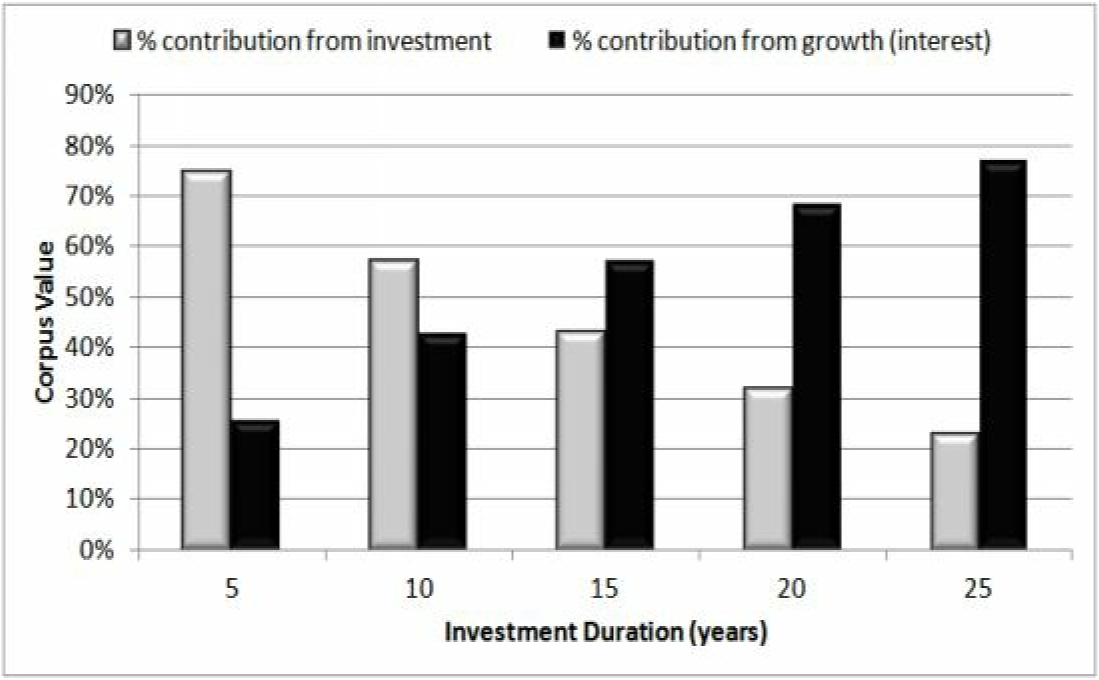
As 2014 approached an end, I spent days listening to financially-literate adults professing their wares of wealth accumulation. I was involved in a seminar where one financial blogger and his colleagues giddily discussed the landscape of financial knowledge. In their opinion, the country had moved on from a few nerd heads to an entire ecosystem of financially-smart people because they understood compound interest. And they led me into this shiny, new world brimming with optimism as I explored the maze. Critically, what they told me that day was no longer considered as difficult but an extension of common logic prevailing over greed. What convinced me beyond reason was the simplicity that by being lazy and not doing anything stupid I could fund my yearly vacation 20 years in the future.

Any calculation didn’t amass to *‘#@$%-you’* money in the Silicon Valley or the hedge fund circuit but it was certainly wholesome. And it didn’t require big allocations, just small portions from my regular salary.

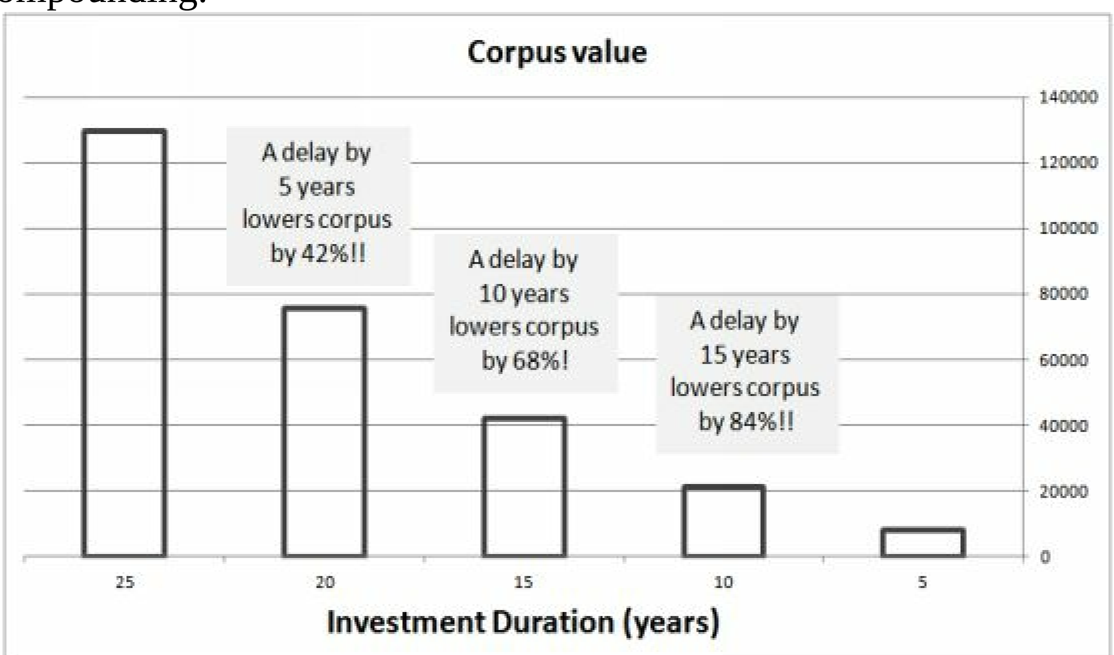
It was good enough that I contemplated working in one of the lowest paid industries and decided to make my mark slowly, instead of the radical hyper-hysterics surrounding me. Here are a few graphs to purr over its brilliance:



The graph above depicts a yearly investment of ₹1200 (100 bucks a month) with an annualized return of 10% over 25 years. The growth of the investment (black dots) has two contributions: the principal or the amount invested (black triangles) and the interest or gain/growth (white dots). Notice how interest contribution begins to overtake the principal after a few years and zoom ahead. This is the power of compounding at work.



The two contributions for investment durations of 5,10,15,20 and 25 years are shown above. The ratio keeps getting ridiculous as time goes on. Quite simply, the longer we stay invested, the more we can benefit from the power of compounding.



Time plays a key role in determining the wealth one creates. If you start 5 years late and have an equivalent monthly investment for 20 years toward retirement, it results in a corpus 42% lower than a similar investment over 25 years. A delay of 10 and 15 years result in corpuses 68% and 84% lower than

a 25-year investment.
A yearly investment of ₹1200 for 25 years at 10% annualized return results in a corpus of about 1.3 Lakh. If I start investing 5 years later and hope to achieve the same corpus after 20 years, then I must invest ₹2060 each year. In other words, my total investment over 20 years will be 37% *higher* than the total investment over 25 years if I wish to play catch up. If I do not start early, I must pay a price - either put in higher amounts, or settle for a lower corpus and often a lower return.

The numbers added up to astonishing levels and the combinations were crazy. For example, you could contribute for 30 years of retirement with 10% of your salary invested consecutively for 15 years now. Historically, people did retirement funding with last-gap measures and lived off pensions. And I had this new-fangled concept flashing across me, ticking off several dreams and possibilities. At this moment, several trains of thought led to one conclusive decision: I decided to hop on this journey and swing for the fences.
As I learnt more, I realized the practical world never works like the uniform rise as depicted in the graphs but with deep valleys and long plateaus. It is filled with people: their emotions splattered on financial press, dreams run amok, opinions vomited with little introspection, personal propaganda promoted, professions derided and a noise-filled sanctuary where clear thoughts are at a premium. Staying sane, not listening and making contributions every month was made more difficult by the increasing hypocrisy of information accumulation. It felt like I had to cross this river of immaturity to remain sane for the rest of my life. To help you cross this river much easier than I did, Week 5 will cover step-by-step best practices with clear action plan pointers.
This leads us into the final solution

3) Consistency in financial decisions

When Facebook eulogized the term, *'Done is better than perfect'*, they intended to move fast and break things. TripAdvisor also thrived on similar la-vie for their growth. Drawing yet another business analogy: Jeff Bezos often tells the public that any innovation has a two-year head-start before the market starts to replicate, duplicate and improve the product. But with Amazon Web Services and so many other Amazon ideas, they had a period of 5-7-year head-start *'luckily'*. Luck had a little role but their two-year work entailed so much advancement that any behemoth found it worthless to try and compete against. Amazon was the seven-hundred-pound gorilla rolling down the hill because of the momentum it gained over the first two years. Tremendous effort is needed to even break the speed and reduce the velocity. To impede their journey, Microsoft or another huge gorilla had to allocate huge resources to cut down Amazon's market share.

With your investing, when you start young and with the least amount of responsibilities, you form a head-start. Rolling down, the momentum gets impeded a little as you run into marriage. Big expenses occur but all that is part of the plan while you're executing money decisions like a Mozart at his pomp. As years wear by, the automation process gains momentum and you customize the amounts based on recent developments.

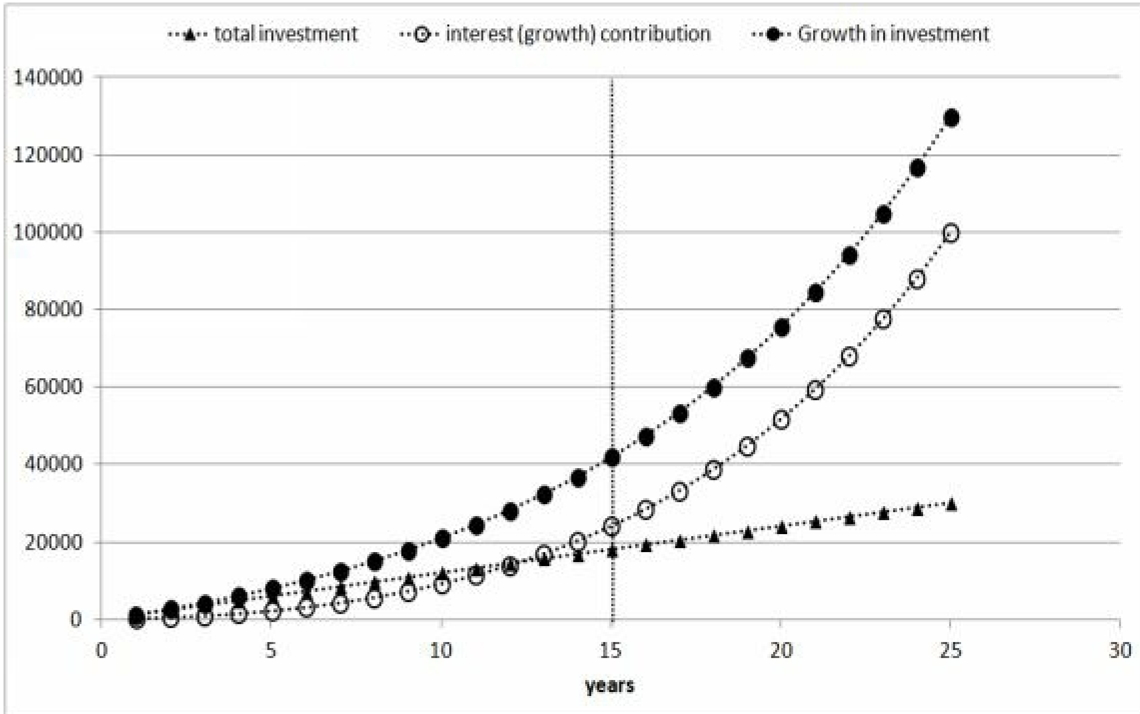
At this point, you're about to ask *"Just these ideas? If it's so simple, why hasn't everyone already been rich?"*

Reason #1: Procrastination

The answer lies in fascinating behavior psychology. When asked the question: *'Will you go to the gym today?'* we nod in the affirmative but in an abnormally disproportionate ratio we end up binging on 'House of Cards'. We make resolutions in January that fizzle out by March. Procrastination makes it almost improbable to predict how one would react in a certain situation but combine a million situations over a few years, it's near impossible to inculcate a steady behavior. Add money into the mix with greed, jealousy and dreams, you get a roller coaster with absolutely no discipline. The difference between <u>**reading**</u> the benefits of being a disciplined investor and <u>**doing**</u> it in perpetuity is like the difference between a street cricketer and a professional. We all think we are good at it until we play the real game.

Reason #2: Impatience

Compounding takes time and the action doesn't begin for a considerable period.



Looking at the graph, the first 15 years bring about no magic. It's easier to get dismayed at the lack of improvements in the bottom line. 15 years on a graph is viewed in an instant but during this period, expenses grow wherein it's easier to go on that big Europe trip than wait for money to accumulate. To be fair, it doesn't help that most of our big expenditures (home, car) occur early and it's easier to spend and figure out things as they come. Personal finance people like to advice to not buy that car but who are we kidding? We can delay it by a year or two but we know it's coming. In contrast, if we could delay big purchases, the saving increments add up to form a bigger corpus after the 15 year threshold.

Reason #3: Social norms

The people I knew, on getting an IT job after graduation even though they didn't have the slightest conviction that they were worthy of a job offer, were all too suddenly sure of what their future entailed in relation to money. And it wasn't because they had studied economics related to Nehru's staunch socialism or realized how India opened FDI post 1993. It was because they had parents whispering the things they ought to do, to be a success.

When most of us start earning money, we figure out *'how to spend'* only after we've dispensed quite a lot. Although we aren't ready to make the best use of money, we are, in a funny way left into the wilderness with half-baked ideas. It then made sense that we learnt *'how to spend'* first more than *'how to earn'*.

Our entire upbringing was about learning science and math which translated to picking up the talent enabling *'how to earn'*. But it is in spending that we derive the most pleasure and 'ulta'ing the process to **'how to spend'** is the 20% effort to a lifetime of happiness.

Bringing it Together

The 3 simple solutions:

1. Identify the big expenses you'd have in your life and make a rough estimate of the money needed
2. Learn about compound interest and how you can temper it to your big-expenditures
3. Done is better than perfect

More than any other generation, the question that obsesses the current one is: How do I live a life to the fullest? The three solutions shown above work for every generation but complications arise from indecisiveness. I have seen my father's generation, accumulate PPF intended for retirement but stop that gravy flow for other needs. Identifying the right question and finding the right answer is often lauded. What makes the difference is acting on the answer and executing it. In part, because we believe money to be complicated, we stop the good things we are doing. Clearly, being efficient personal-finance wise means: speed and action over intelligence and indecision.

Although I have written the 3 solutions upfront, we will learn what to do with the major expenses and how to automate in Week 3 and Week 4. Right now, let the concept of compound interest sink in as we joyously learn preferential spending in Week 2.

What week 2 entails?

Absorbing the idea of a rich life and personalizing it
How credit cards are a hidden secret to paying less on a home purchase
The ultimate travel guide - super cheap flights, hotels and many more

WEEK 2 – LEARNING TO SPEND

"We want the finest wines available to humanity. And we want them here, and we want them now"

- *Withnail*/ Richard E Grant in Withnail & I (1986)

As I huddled with the boys by the corner curb at the intersection of Lamar and Cesar Chavez, it was the time of Austin City Limits: the biggest music festival in the 'World Capital of Music'. The sun dripped into the horizon, looking over the shoulder, the lineup of musicians and singers summed up to 50 for the day; imagine 50 different bands in one day. As darkness slowly dawned, Austin strode into its vibe: the constant yell, the tears of joy, pizzas smattered around the street, laying atop the crumbled tacos, hippies, wannabe musicians drinking themselves to death, UT students drinking and vomiting in spray forms, bats flying across your face from under the bridge, Latinos manning the bars, clubs lit up by 'crazy live music' performances, prostitutes trying to pry a lonely guy, artsy beggars, women from out of town looking for a hot story to tell their friends back home, ale-filled Irishmen, chicks wearing seductive transparent tape dresses, broken paper cups previously filled with whiskey manning the curb of 6th Street, policemen on horse-back trying to look Macho-Texan, local made bourbon on trucks, business executives making a loud scream to show their superiority, public toilets filled with adultery more than toiletries, responsible looking bicyclers, jealous looking mid-wives, drunk looking teenagers, vexed looking Uber drivers, hip looking DJ's, youngsters sitting on street lamps and mailboxes, health freaks kayaking on the lake, marijuana dealers trying to sell another 'package for you', brides getting slutty, horny men chancing their luck, laser lights blaring out the city, execs laughing to a made-up joke, benevolent other-city people buying every-one a drink, chilled-beer sold from locally made joints, music to your heart's content, stand-up comedians to your joyous vent, the opulent, the sparers, the musicians, the guitarists, the young, the young-wannabe, the heavy lipsticked, the tall, the blonde, the dark, the latino, the forgotten beauty, the next Marley and the clear lake; while music filled the soft-everyone compatible city, Keepin' Austin WEIRD.

How I define Rich

To me, being rich is to travel at will. My ideal life is: bust my ass at a corporate job for 11 months where I make meaningful contributions, see the city I live in and take a month-long vacation for the remaining month. While working, I don't mind living in a dump provided it has lights, running water and Wifi. My priorities are:

1. Travel (my main savings go here)
2. Good food (I'll accept lower-pay if they have good food in their campus)
3. Keep my parents going (send something by month end)
4. Public transport (when I'm bright and early) or Uber (if I have no time) — I simply hate driving

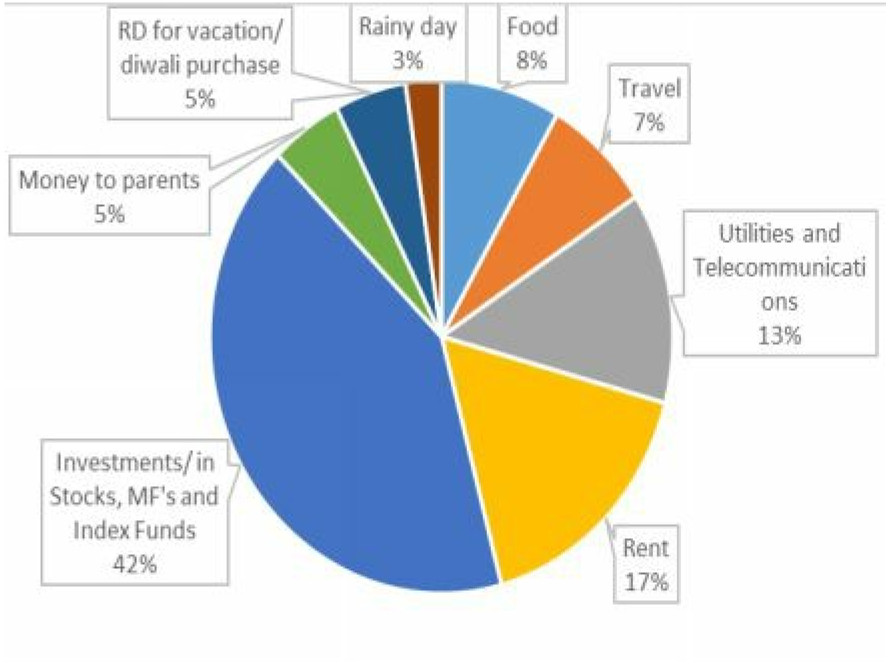
Other things like a decent home to live in, new furniture, great clothes to wear, come lower down my priority list and that's why I scrooge down every penny while paying for these items. But, some like to buy a big house and ask a top-draw designer to decorate the interiors. A few like to buy the flattest screen, the fastest car or the fattest milkshake after every meal. Trying to conform the good life, to a wide variety of people is impossible. Hence the first step to finding the inner nirvana is to find which combinations make you feel bountiful. The basic values such as family, friendship and relationships remain while you try to define the rich life you'd like to lead.

Finding Your Rich

The following table will help you figure your Needs and Wants Matrix

Needs and wants	**Options**
Food	Home cooked (cheap) or External (expensive)
Shelter	Small place to sleep (PG or parent’s place) or Big place
Transport	Utilize public transport or Buy a bike/ car
Entertainment	Big-time parties or Book in hand, come Saturday
Friendship	Chai shop conversations or pizza stakeout
Clothing/ Apparels	Big brands or copies of big brands
In work	Start a Business or scale rank at a Corporate set-up
Travel	Luxury living or Bed & Breakfast places
Electronics	Most expensive ones or utility ones
Partner	Marriage now or delay, kids now or delay so that, DINK (Double income no kids) is planned (and awesome)

Once you put down the hierarchy of your desires, it is easier to define your richness quotient and to begin taking control of your finances. As you define the things that make you happy, it becomes easier to cut down on categories that don’t make much sense. For example, this is how my own money gets divvied:



When Chuck Palahniuk wrote, "*The things you own end up owning you*" in the 'Fight Club', I took it to heart and decided to live as minimalistic as possible. Right now, the company I work for, provides housing and food while doling minimal amounts as remuneration. When this is the case, the rent portion goes to charity and I spend 8% for food on weekends.

To me the big priorities are investing for the future, vacation and sending money to parents. The rest 45% gets irrationally spent based on the month and instances. If you're about to ask: *"I don't see you paying any premiums for insurance?"* The answer is, wherever I go, the company has insured me thus far. Also, I maintain a very healthy lifestyle and live with a cocky belief that if something happens, my parents will take care of the emergency (*errr, touchwood*). Hence, I don't bother on insurance.

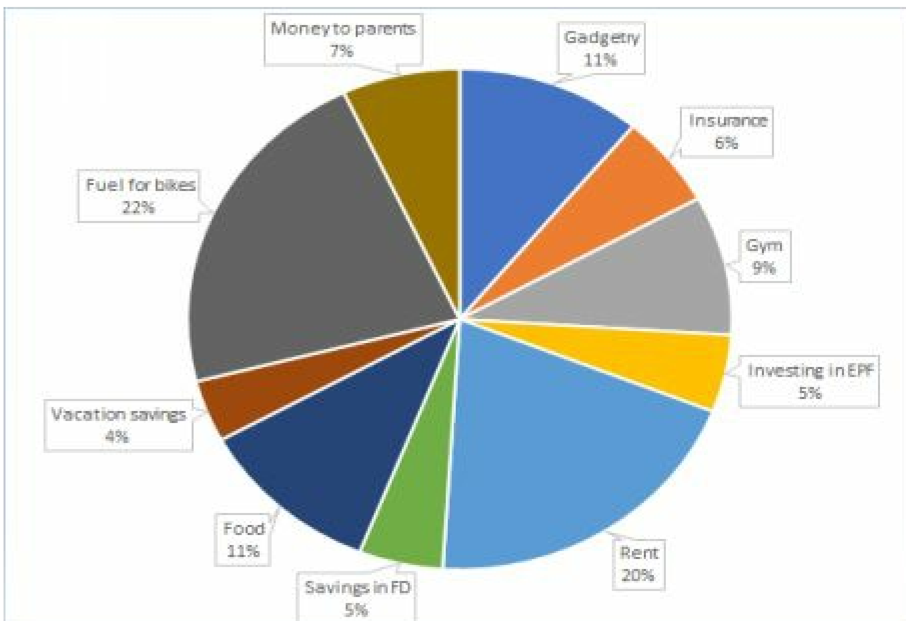
Working in the travel industry, I might be moving often and might never buy a home. This ratio works in my current role at this chapter of my life. With thousands of professions differing in geography, working-hours and compensation, your rich life will vary significantly. As I spoke with hundreds of youngsters, there was an underlying desire to travel extensively but each person differed when it came to other preferences.

What They Say

Here's the hierarchy some of my friends assign to the good life.

- **Gopal**, *a twenty-three-year-old automobile engineer at Renault, Chennai*

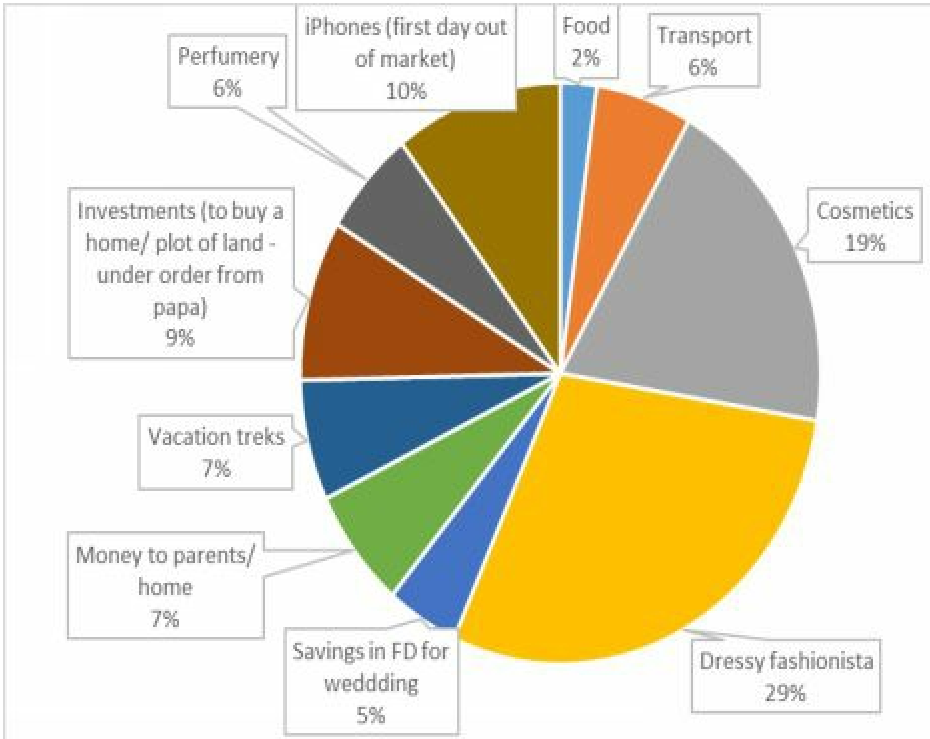
Big priority: Bikes (owns 3 and even calls them an investment: no way you can convince him that it depreciates), spicy food, weekend drives, high end gadgetry
Lower priority: a dump of an apartment is OK, gym membership, football merchandise, savings



He's contributed toward EPF but has learnt about investing and just started a SIP in an Index fund.

- **Monisha**, *twenty-five-year-old junior analyst of Marketing strategy at Pepsico India in Gurgaon*

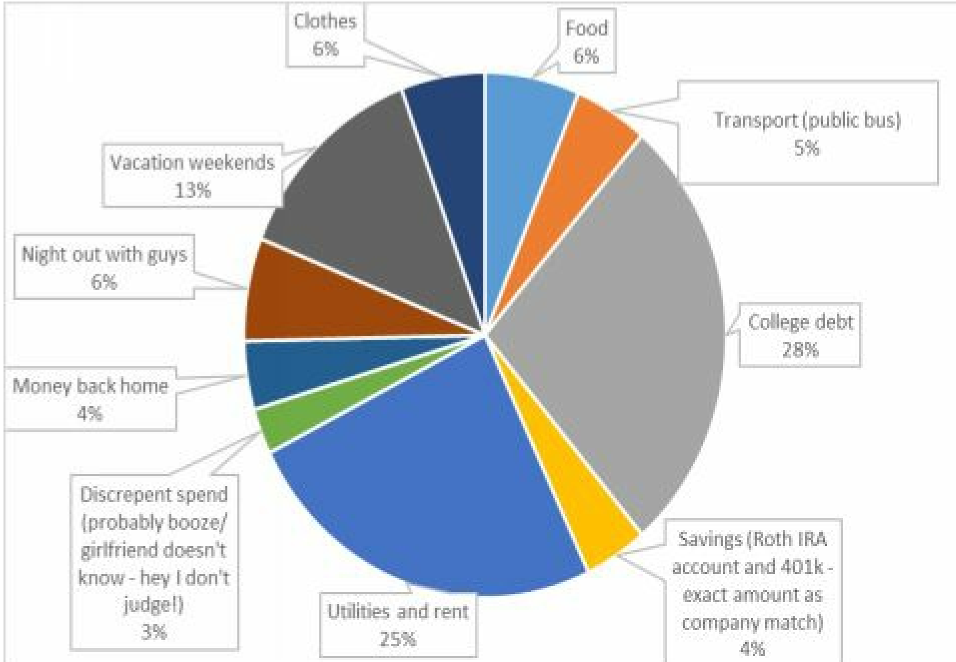
Big priority: Make up, clothing, perfume, iPhone, vacations – Manali treks
Lower priority: stays with her parents, dines at home mostly (lunch at office; prepared by mum), marriage



- **Akshaye**, *a twenty-seven-year-old data scientist at PwC in Seattle*.

Has a girlfriend who takes him on far-flung weekend vacations and settles college debt with aplomb.

Big priority: College debt, 2-day weekend, time with girlfriend, EPL games
Lower priority: 401k (retirement fund), vacations, rent, food - has Sun ramen, car (transport)



What You Can Do

Establishing the things you love is the first step toward financial brilliance. This might be a little daunting at first but keep in mind, we are only learning *'How to spend'*. Allocating resources is for next week but right now, we're prioritizing the big desires.

When looking up the tree of desires, it often seems like we need all the branches to remain happy. But some branches have bigger, better fruits and identifying them gives you a leg up in being the happiest you can be. As you're reading through, you might already have an iota of opinion on your hierarchy. To help you make the right choices backed by research, I'll share one insight from the ground-breaking book *'The Millionaire Next Door'*. Quite often the people who look the most successful: the one with the fancy job, high end car and quirky real estate ended with sub-par savings account. On the contrary, the unfashionable truck drivers ended up as millionaires because they knew what they wanted: <u>family and education comes first, savings matter more than expenditure and 20% of salary goes like taxes (automatically) toward retirement investing.</u> When the book uncovered thousands of interviews, the results offered great hope: you don't need a high paying job to be rich, but a clear head, on where you want your money to go.

Domesticating the inferences from that book, it's easy to see that the same ideas have achieved massive traction. We all know or have been through the story of how an Indian mum saves every penny so that she can send us to school.

Despite common rationalizations, it still holds true that in places of remote geography, the people look to save more and stigmatize opulence. In the umbrella of modern neighborhood, peer-pressure makes us expend our guilt along with our money.

Being educated and salaried, we are bound to make purchases every other person does: expenses such as a car, better furniture, interior decorations for the home. While it's easy to refute that you're skilled and won't be as bad with money, I feel our ability to penny-pinch is overrated. To live with the times, we must side-track the truck driver's outlook at life and bring a balance accompanying our desires.

As you decide the kind of rich life you want, it pays to *'Feel Sexy and be Rich'*. Even though it's not the ideal money situation, being brutally honest will help us in the long run.

<u>When we want to feel sexy and be rich</u>, there are two components of life that produce them in abundance: travel and credit cards. What follows is a primer on the 'best ways to utilize credit cards' and a 'guide to yearly vacations'.

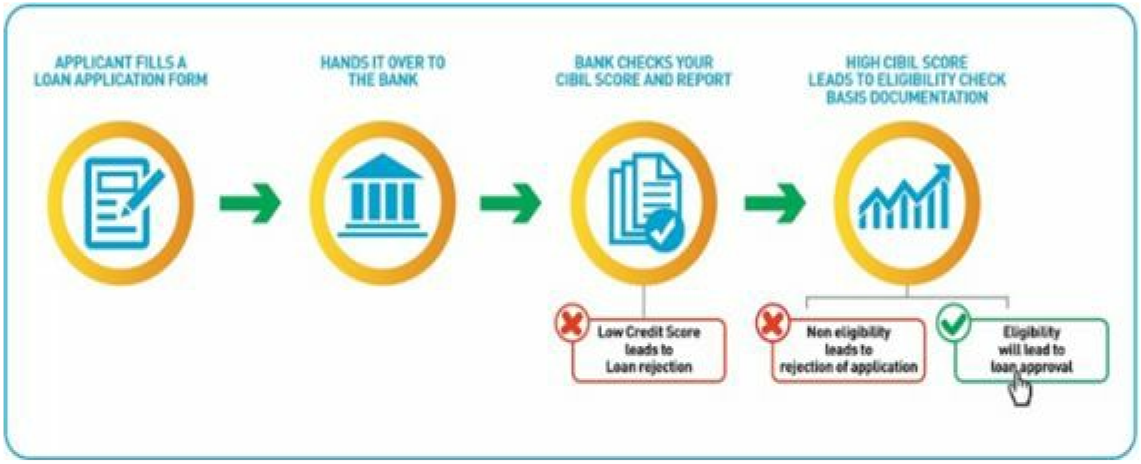
Best kept secret

Few months back, a friend asked me, *"Tell me something that can help me financially but is a well-kept secret - kind of like a secret sauce."* The longer I thought, I could come up with only one answer: **Credit Cards**.

Credit cards are a polarizing topic. On the one hand, they feel like a convenient solution to track all our expenses, take a short-term loan for free and build a source of credit. But ask the public opinion and the words, *'unnecessary evil', 'stay away from them like the plague'* occur with regularity. The truth is somewhere in between. The difference maker is you and how you manage it. If you're paying the entire balance every month then they are worth it. But if you default, you'll owe a huge amount of interest (generally above 30% per year).

As it stands, most of us utilize cards at random without a plan. We clear out balances after paying huge interests and get fed up with the concept of credit. Mostly, it's quite easy to do things as they happen. And that's why the whole point of building a line of credit is neglected. As a result, we function without realizing the wonders credit cards can do.

How credit score affects what you pay for a home



CIBIL website info for a loan evaluation process

From the above infographic, at the last step, when the bank concludes that you have good credit history and are trustworthy, they hash out the terms of the loan. Outside of India, the banks offer lower-interest for a good credit score. In India, people infer that a good credit score doesn't offer leverage in interest negotiations and only acts as a gatekeeper for loan approvals[8].

But you can negotiate a lower interest simply because you were prepared and have a good credit score. Consider the following narration:

The way every commercial bank works is: they take deposits at lower interest and prepare loans at higher interest. During bad patches or periods of high NPA's (non-performing-assets) the bank will look to deleverage its exposure (cut down bad loans and make secured new ones).

This means their interest spread can be a little narrow: offering a lower interest for a sure-fire customer is better than a greater interest from high-risk, no record customer. Just like every negotiation, it pays to do your homework down to the bones.

Things you need to know/ carry into the manager's office:

- The rates offered by competing banks and other financing houses
- Your credit history (payment schedules, amounts and credit utilization percentage (ex: 20,000 of a 40,000 limit - 50%)
- Your situation at work and a letter of recommendation from your boss (a glowing report of your work aka *you're unlikely to be fired and will have a steady income*)
- The relationship with the bank (years of RD, FD and credit cards held)
- Your automation plan: you'll be paying the EMI's right after you receive the monthly salary (just like automated systems for retirement investing, credit cards etc.; more in detail by week 4).

Diffusing every insecurity the bank can have, you can negotiate your way into a lower rate.

As it stands, 80% of Indians do not have a credit score and can't get access to credit. It's a big mistake and I hope the trend reverses. Right now, you might say *"But Pranav, I don't have any use for a credit score."* True, but down the line, when we hope to move up in life by buying a car or a home, this will come in handy. Most of our big purchases will be with some percentage of credit and building a report from the outset is prudent. The process is very simple: just pay what you owe on your card statement every month and your credit score will be high enough for the bank to sanction your loan with lower interest.

How Credit Cards can make you Rich

Illustration: Imagine you and your friend popped to the bank looking for home loans. You have a credit report of 4 years where you promptly paid the credit card balance on time every month. But your friend took his parent's advice and stayed away from credit cards. The bank will quote you around 9% and your friend will almost always be quoted 11% or above. At best, he can negotiate it down to 10% if he has a Checking Account in that bank and at worst he might be rejected for no credit history. If you think the 1% in interest isn't much, whip out an excel sheet and you'll see the big difference.

Interest Rate	**40L Home loan, over 20 years, the interest payments will be**
10%	52,64,208
9%	46,37,369

Over 6L in interest payments (EMI) if you don't have credit history

Becoming rich is about controlling the big expenditures as much as getting big sources of income.

Missing a due date: As you realize the wonders being diligent can do, simultaneously missing a payment affects the score adversely. It impacts you financially with late fees and high interest rates. While you can negotiate into reversing the late fees, the credit score takes time to sort out. During the period of repair, a small difference in the score can mean an extra 2L in interest payments for your home. Not letting your guard slip with due dates makes more sense as getting your score on track can take anytime between 12-24 months. Plus, that red-mark on your credit history will remain forever.

But I don't want to scare you into thinking how much a missed payment would affect your credit score or what percentage of your maximum credit you should utilize on your card. Disregarding the clichéd fears, I want to encourage utilizing credit cards through the 80-20 principle. Right now though, the fundamental la-vie is to spend within means and pay the due balance every month. As you've etched *'I will pay the entire due amount every month'* into your subconscious, let's move onto choosing a card.

How to choose a card?

Make no mistake, owning a credit card is prestige play. Everyone looks forward to that moment of sinister butterflies when you get approved and have the plastic in your wallet. If you've never had a card before or already own one, there are a few things that should be in your consideration:

Never accept the card from a solicitous call: If you have a checking account (salary deposited account) with a bank, you're not far from a phone call. The person on the other end will goad you into accepting a card but it's often on unscrupulous terms. When the caller says, *'you've deserved this card'* let's talk real: most youngsters would be glad we got to a stature where the banks deem us worthy of something. But, with regards to a function as hugely important as credit building, do the research and get a better one under your terms and not under the terms of the caller.

Don't fall into cashback trap: Yes, we don't have the signing bonus of 25,000miles that cards from US have and cashbacks are the most popular features of Indian credit cards. Hence, it's easy to accept a cashback card blindly. But if you're getting your first card, start with a cashback one and then expand your repertoire based on spending patterns. Keep in mind that purchase protection and superior customer service come in handy and are also to be weighed when choosing a card.

If you have no credit history previously: This is a tricky one because getting a good card is very difficult. Banks accept an application if you have a FD with them or have a checking account with a regular salary. No matter what any customer tries to reason, if I were the bank I'd feel like getting into wedlock over the first girl that kissed me. With no credit history, the banks run the risk of lending you without knowing your financial scene. Settling for any card sounds tolerable but there are ways you can negotiate yourself into better options (we'll discuss more, later).

Waiving the Fees/ Surcharges

Choosing a card is about getting the best benefits. As we've established that we'll be paying the monthly balance on time, the APR (annual percentage rate) is of no significance. The other issue is the Joining fee/ retainer fee of the card. I dislike having to pay the bank anything. When this is the case, you can negotiate with the bank during your credit card application.

You: I understand the APR is 40% and the welcome bonus is 500 points. Let's talk about the joining fee. I'd like to have this waived. (Never finish with a question: can you waive it? Will it be possible? This just makes it easier for them to say no)

Rep: I can't do that, sir. In fact, you're paying a lower fee than our other customers.

You: Sure you can and I'll tell you why!

1. I spend north of 15,000 a month and this is the only card I'll have. So I'll be using it extensively.
2. I'll set up an automatic transfer from my checking account to pay your bills 3 days prior to due date. That takes away any uncertainty of payment.
3. I chose you because your customer service is good. Now I have seen the other bank's card and they don't have a joining fee. I'd hate to transfer my interests for something as small as this.

Rep: I'll check in with my superior on this.

You: Sure, I'll wait.

Rep: It seems we can make an exception and waive the joining fee. BAM

Negotiate on facts and not on interests. Most of the time the fee gets waived but sometimes they play hardball. It's totally understandable as a senior might have briefed them to cut down on rebates and refunds that morning. In that case, ask to be transferred to the supervisor and explain it, one more time.

But if the rewards outweigh the fees, I keep mum and stop negotiating. You'd want a cordial relationship as you'll be talking with them quite often in the future. After talking with any representative, I take their name and record the details of the call onto an excel sheet. It is not significant right now but 6 years down the line, when you're a loyal customer, you can track all the promises offered and negotiate with zeal. In fact, you can bring the foreign currency commission to 0% or something similarly extraordinary because you were a loyal customer who paid his bills on time and are a favorite with the reps.

Remember the Rewards

The most exciting part of owning a credit card has plenty of options: cashbacks, miles, reward points that can be redeemed for gifts. Often you will hear stories with cashbacks of 5000 on monthly spend of 60,000 or even more in some instances. Getting caught up in the haywires of reward options is often overwhelming and choosing a card can be a long drawn out process. But if this will be your first credit card application, it is a *'credit building card'*. The decision can be quite straight-forward.

Forego the importance to rewards and get a card with a high limit so that you'll only be utilizing 50% of the limit. That way, your credit-score will remain high irrespective of having just one source of credit. Citibank Premier Miles is an ideal card for first timers while ICICI Instant Platinum Card card runs a close second[9]. Look them up, research your needs and choose between the two. Getting approved is a task but it helps if your company deposits the salary into an ICICI account or you have a FD open with them. Right now, if you're thinking, *"Really, a FD? Are you kidding me?"* you wouldn't be alone. Bear in mind, the rewards of building a credit line far outweigh the opportunity cost of having 1lakh in a FD for a couple of years. Plus, you could use this 1lakh as your safety net, in case you lose your job (explained in Week 4). So suck up, find a lakh from your parents or save some money and get your first credit card.

When it comes to a secondary card, people have different strategies. Some choose multiple cards in their wallet as they like to utilize each card's specialized benefits. I prefer one secondary card with a high credit limit. I know that I’m not getting the optimal usage of rewards, but I prefer to 80/20 the credit building process and having more than 2 cards is just too much work. The credit report will only have one source of two credit cards and that isn’t bad. At least the credit score will be very high and that feels like a bullet in my gun during negotiations. At best, I will be quoted 0.5% more when I request for car loans as compared to someone who has multiple sources of credit (personal loans, credit cards, etc.)

For secondary cards, hit up Cashoverflow.in’s post on the *‘Best credit cards in India’*. Pardeep updates it yearly and he has a good pulse on the best options around. As a consensus, Standard Chartered Manhattan Card is widely used along with HDFC Regalia. Oh, and since you’re looking at secondary cards, these can only be applied down the line, after you’ve established a solid credit report.

Action Plan

1. Not owning a credit card is a huge opportunity missed. You’re losing valuable time in building credit history that’ll lower interest rates when you apply for a car/ home loan.
2. Identify the credit card you’d like to have, call the bank and ask them what you can do so that they’ll approve your application. If it’s a FD, suck up and open one. Alternatively, some banks let you have their card if your employer credits salary with them.
3. Credit cards are worthy only when you pay the monthly balance on time. Automate the process of paying the balance, 3 days prior to due date (more in Week 4).
4. Negotiate any joining fee/ second year fee. Be prepared and make an informed argument instead of bland requests.
5. Keep a track of all the conversations with the customer reps and years later negotiate like a baller for 0% foreign currency fee etc.

As we finished looking at credit cards, let’s move onto the other part of a sexy life - travel. Brace yourself, this portion is going to be an oxygen boost.

Vacations & Travel

“I’d have a passport full of stamps more than a house full of collections”

- An Instagram favourite

Travel can be approached from 2 important dimensions

1. Date of travel
2. Length of travel

If your work permits only weekend trips, not much planning is necessary. Sign up for weekend fares from your location on Skyscanner and it will send you the fares in a bundled email every Monday. Also, sign up for emails from SpiceJet, GoAir, Indigo, AirAsia, Scoot and every budget airline as to make travel plans when there’s a price war. Use unroll.me and bundle all travel emails into a single mail received during a convenient time of the day. Or better, set up a separate mailing account such as pranavtravel@gmail.com and login before you go to sleep.

But let’s say you’re ball to a big-ass vacation. Now, this needs planning on several fronts. It is paramount to reduce big expenses so you get to travel frequently for longer time-periods. In fact, I often get the urge to stand up and ask aloud *‘How much did you pay for your ticket?’* mid-air to thrash any insecurities. But the risk of being banned from flying made me go through a peaceful alternative and I buried myself in research on the mistakes we make, so I would not make them. Here’s a few:

Why is travel expensive? Mistakes we do

1) **Approach travel with the dates first:** Our decision to travel is often catalogued by the number of national holidays attached to the weekend or the exam holidays of our siblings or children. When a large number of people think the same way, prices reflect the seasonal demand.

What to do instead: The dates to travel will be the last thing you decide after spotting a sale or discount prices. They often occur 6-9 months in the future and you needn't worry about a quick turnaround (more on how to find these prices later).

2) **Choose a destination and then look for flights:** While we dream of a summer vacation in Mauritius, more often the origins of wanderlust occur via Instagram, magazines or in-person recommendations. When making travel plans at a whim, the flight expenses reflect average prices and not discounted prices.

What to do instead: Have a list of destinations in your dream list. As you search for prices, choose the destination that offers discounted flights during a period of your convenience (don't worry discounts occur more often - once in 2 weeks at-least). Instead of approaching travel with one destination in mind, having options will give you leverage to reduce the biggest expense: flights.

3) **Make plans when we are almost near burnout:** Much like the advice to not go to the supermarket when we're hungry, making travel plans when we're near exhaustion, makes high expenditure acceptable to us. This means most of our savings are wiped out and the next trip will take at-least another 2 years where we may get into the same cycle again.

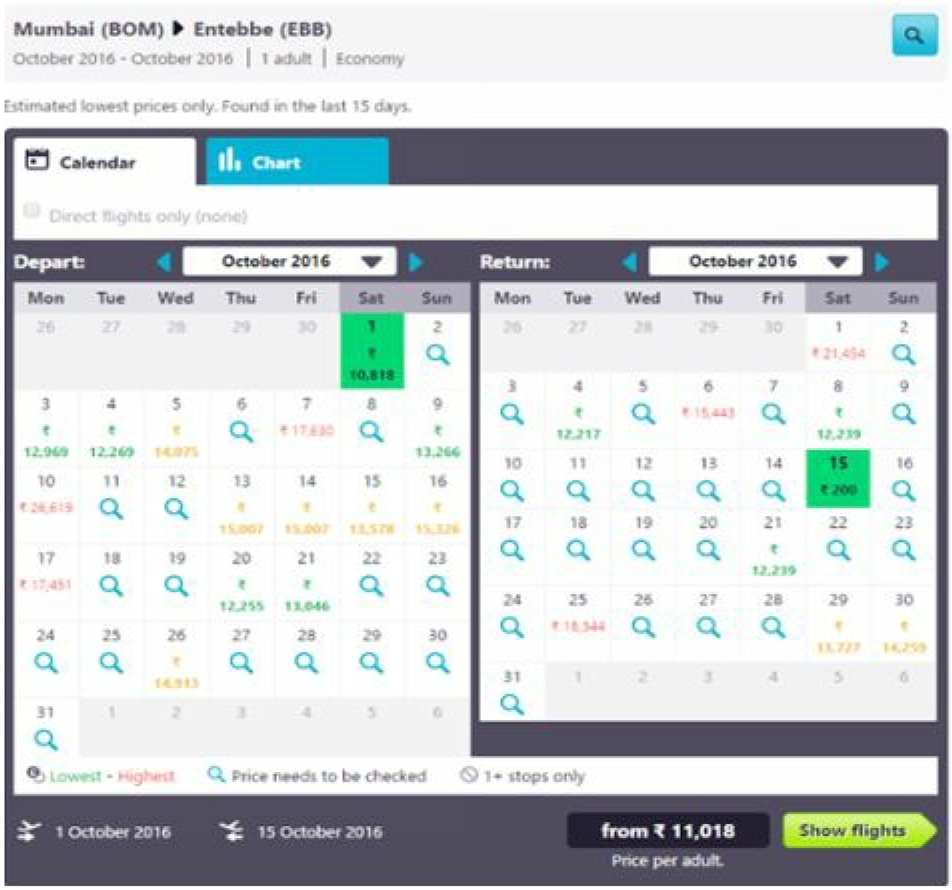
What to do instead: If you have 40k in savings, finish this trip for 30-33k and start accumulating for next trip (more on how to set this up, shortly).

Finding Cheap Flights

Before we dive into the nitty-gritty there are the two kind of fares for cheap flights:

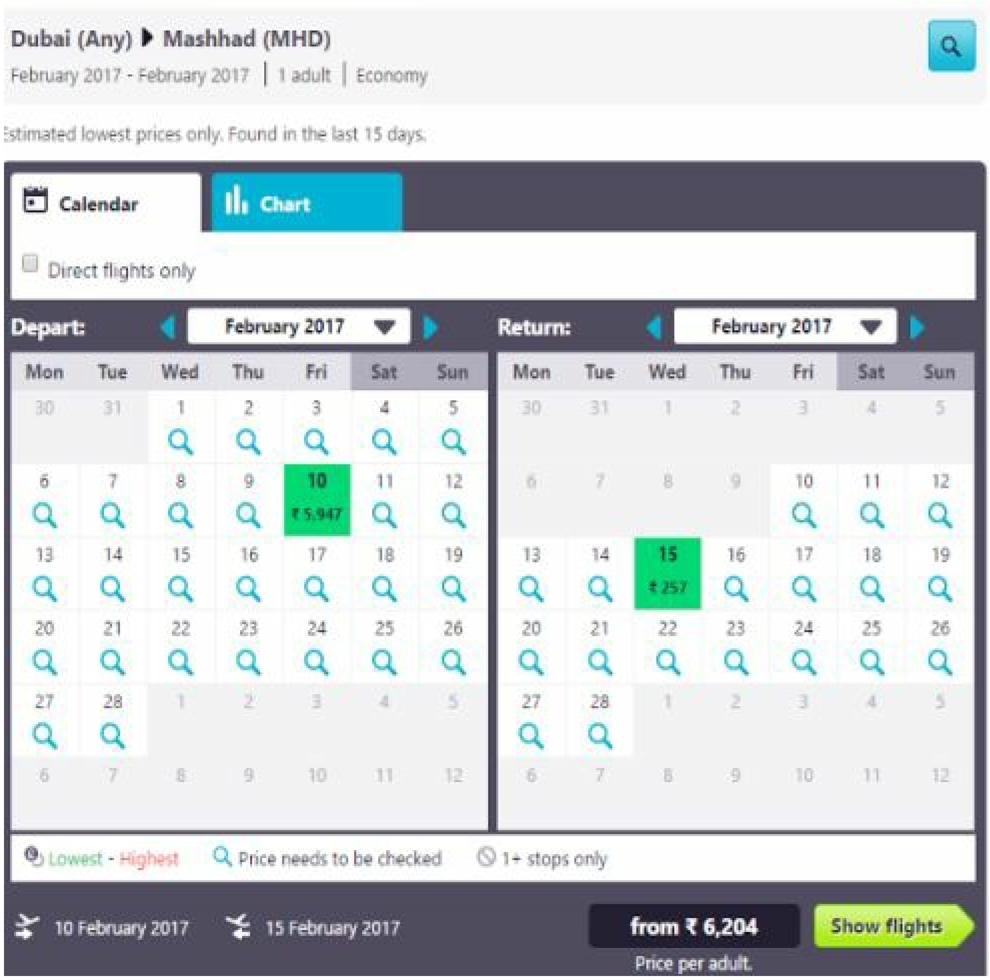
1. **Mistake fares:** Occur rarely and the fares are 70-80% discounted because someone made a fat-finger mistake, the XML connectivity malfunctioned or the airline released a 2-hour promo to fill-up base revenue. Here's an example[10]:

Exhibit #1



Traditional round trips usually cost just over 21k for the route between Mumbai to Entebbe. When you see, the return leg has a mistake fare as 200, make travel plans immediately. These fares usually occur 6-9 months in the future and that leaves ample time to cover visa processes, work handovers etc.

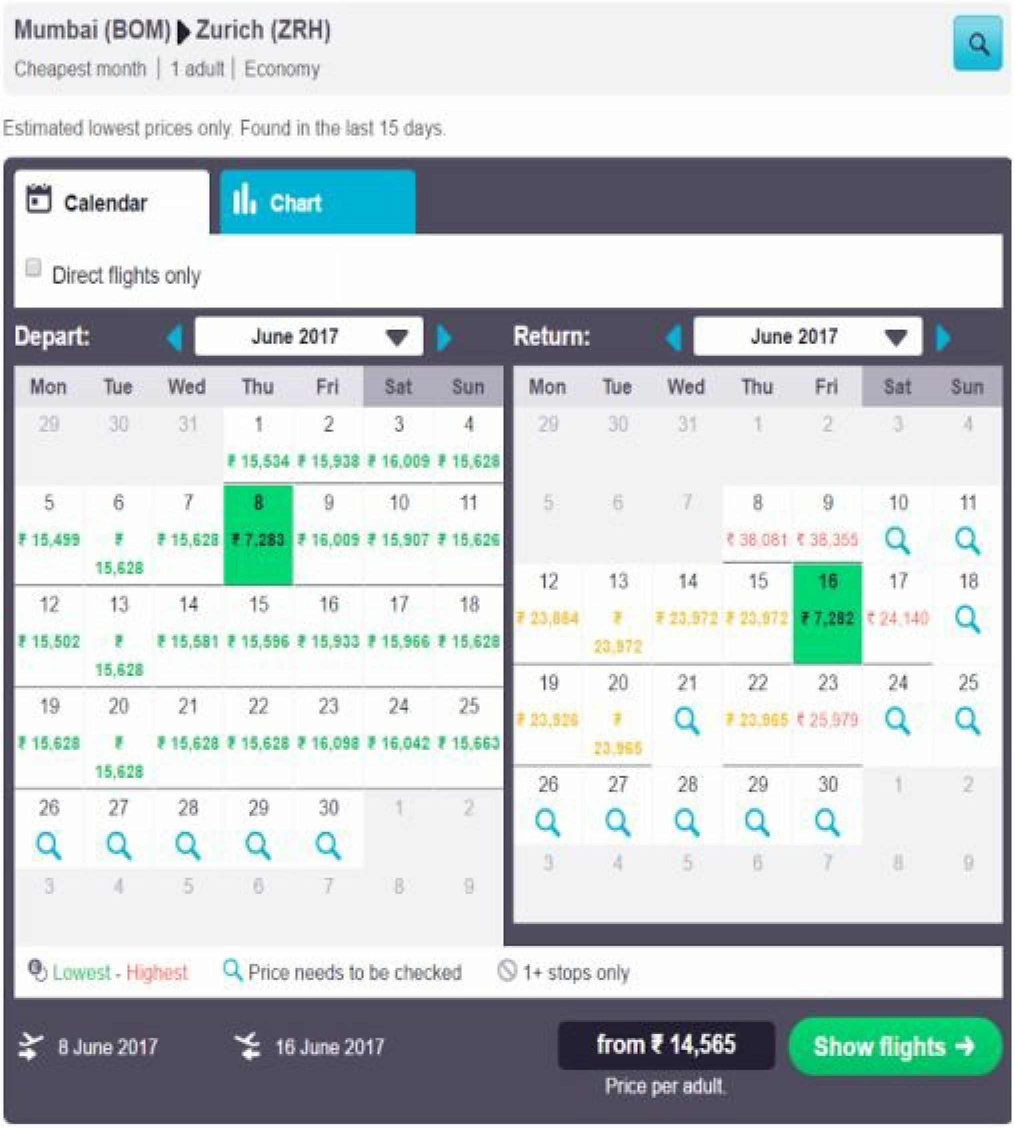
Exhibit #2



Pro tip: There's usually a 24-hour free cancellation in case you decide not to make the trip. They occur maybe once in a month or even lesser. Airlines correct the prices once an employee finds the mistake and change it immediately. Hence, they don't last more than a day or in most cases a few hours. Being swift in booking the tickets will help you secure these prices. There have been a few cases when airlines refund the booking citing various reasons. So even if you've got the confirmation, wait 24 hours to be sure before you start applying for visas.

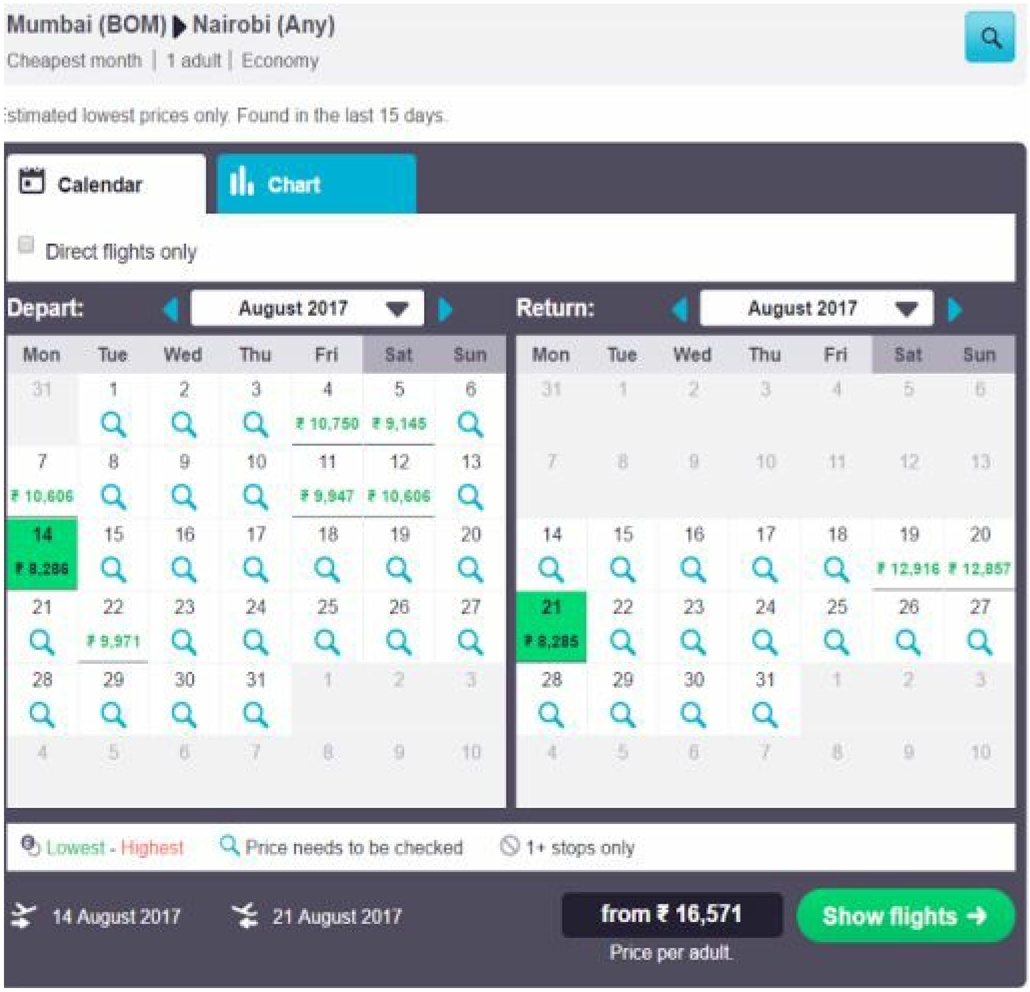
2) **Discounted prices/ Promotional fares:** Can occur more frequently where the fares are 30-40% discounted and some tickets can be availed at 60% discounts compared to normal prices.

Exhibit #1:



This is a classic example of normal prices on rest of days and discounted prices on specific slow dates

Exhibit #2:



Discounted prices for booking 7 months in advance and only on Mondays for holiday destinations - (very slow day)

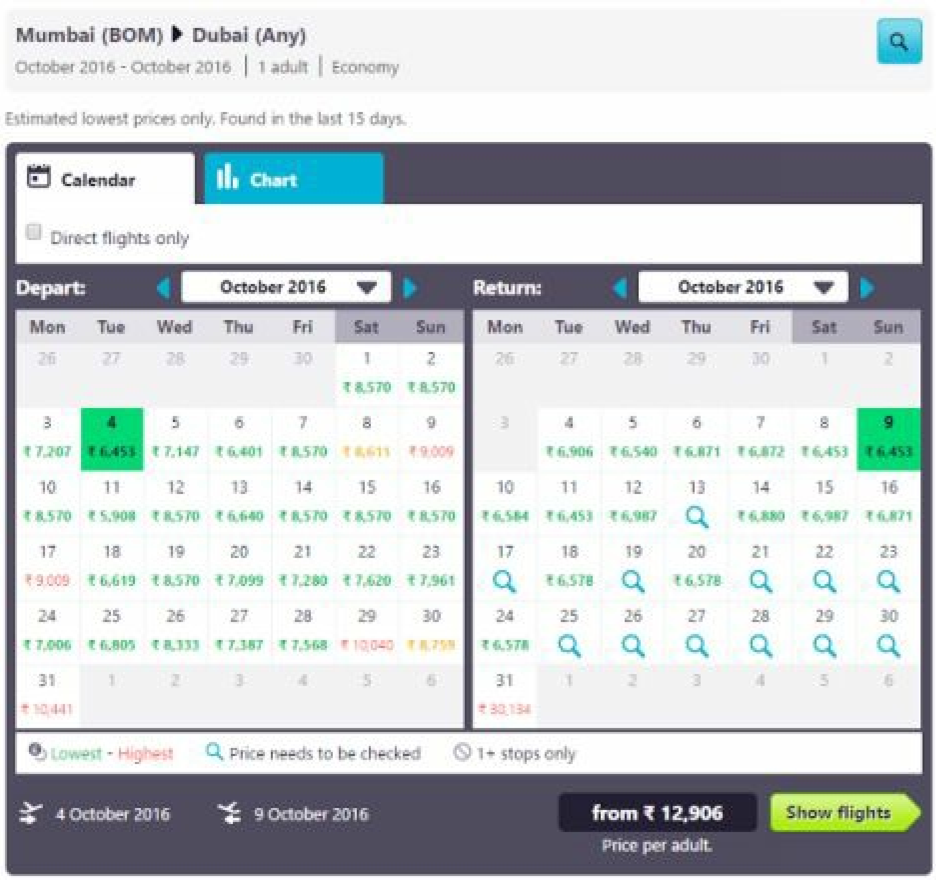
Mostly, online experts like to say, '*book after midnight on Tuesday*' because the inventory gets revamped after Monday. To be clear, discounts and promotions can occur any minute and come unannounced. Revenue managers look at occupancy of flights and make pricing strategies which can change depending on so many situations:

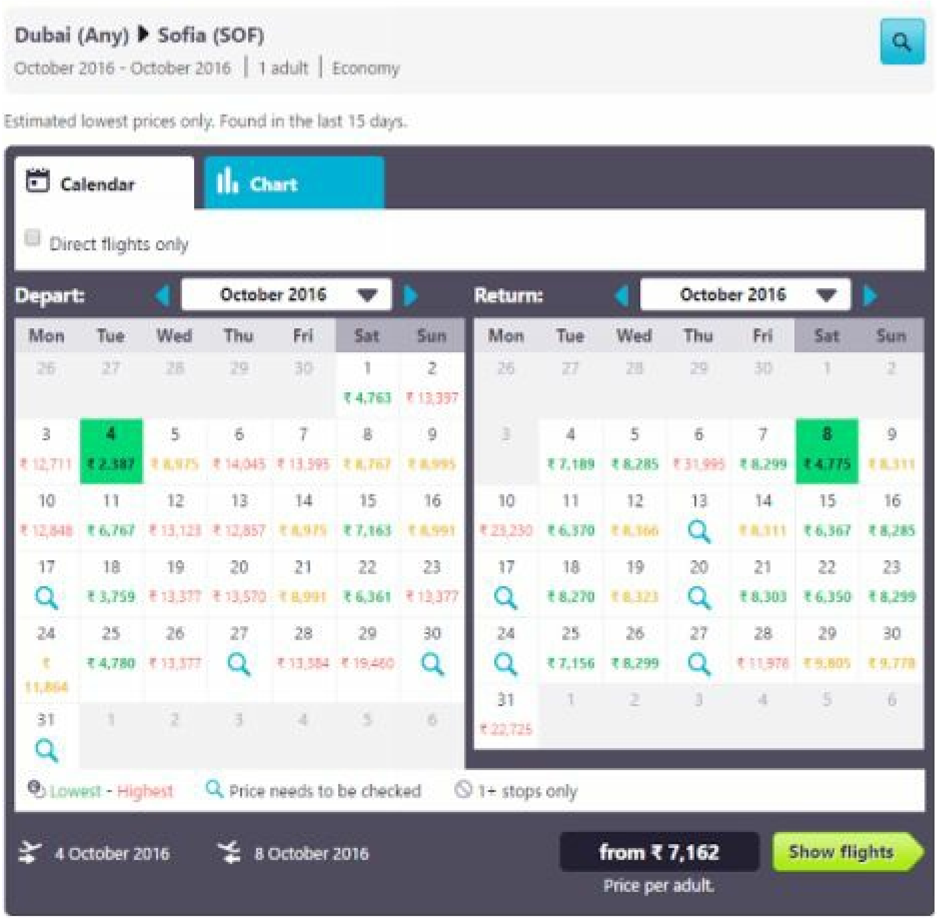
- Superiors pushing for a safe quarter
- Macroeconomic situations (ex: ruble losing value)
- Demand for specific route (ex: sudden spike in Chinese flying to Paris)
- Brilliant marketing campaign by a city or an attraction
- Letting new hires (Revenue executives) learn to ply the trade

If someone can game this knowledge and produce an equation that prices drop every Tuesday, I feel they'd have a bigger leg up by trading securities (like Bobby Axelrod in 'Billions'). I do the hard-work of looking up prices every-day and that is so much easier than speculating random strategies.

3) Multi-city fares:

These aren't exactly advertised but if you're looking to make that big trip to Europe and feel the prices are too high, it is a good alternative. You could do multi-city searches directly with the OTAs (Online Travel Agent: Booking.com, MakeMyTrip etc.) but they often turn expensive. So, I turn my base as Dubai or other similar cities and make my own plans. It works like this: If your destination is Sofia, you could stop-over at Dubai for a long period (ex: 26 hours).





Ideally, this is a 20k euro-trip and you'll have seen Dubai as well. But I feel this kind of a vacation is a last resort as it involves extra planning and visa-coordination. I like to totally switch-off when traveling and hence mostly see one country during a trip. But, you could have day-off constraints at work and might want to see multiple places all at once. In that case, here are a few airlines that promote multi-city travel:

- Turkish Airlines: connected with 251 cities 106 countries. Best option for multi-city.
- Icelandair - advertises it pregnantly/ People living in US can make best use of this if you're looking to go to big European cities.
- Qatar Airways - offers free tour of city if a 24-hour layover exists.
- JAL - Japan airlines; call them to get better quotes. Japan still believes in phone deals
- Emirates - getting visas is a little extra legwork; prices for a layover cost 50$ per person per night.

- Finnair - better as a stopover compared to pricey places like London. Helsinki offers cheaper stay options and lower-priced airfares into Central Europe
- Singapore Airlines promotes multi-city and like Emirates; 1 night stay starts at 30$

These are the 2 kinds of fares and 1 travel-hack using which I travel. Now, onto the modus operandi of *how I make my travel plans.*

How I make my Travel Plans

While making plans for travel, I'm the biggest propagator of finding cheap flights so that we have greater leeway with experiences. The process of finding cheap airfares starts with listing the budget airlines that inhibit your city's airport.

1. Go to your city's airport site and you'll get the list of airlines that camp there.
2. Use the wiki's page for a list of budget airlines and compare them with airlines at your home airport.
3. For example: Chennai has Mihin Lanka which means unusually cheaper flights to SriLanka, Bahrain and Seychelles.

I start by searching meta-search engines that scour other websites for great deals.

Metasearch sites pore through direct sites, OTA (Booking, Expedia, Makemytrip etc.), wholesalers, tour operators and give you aggregated results. Examples are Skyscanner, Kayak, Hipmunk, Google.

Step 1: Start with Kayak and click on the 'explore' option. Have the city you live-in as the home airport. Choose 'any month' option and this gives you an overall panned view of which place is cheaper to travel from your home. After making a generic search record down the average prices to various destinations. With this method, hidden gems are easily located. For example: if Mumbai is your hub - Cape Town, Madagascar and sometimes Morocco offer two-way flights for under 20k. If Delhi is your hub - St. Petersburg, Moscow (Pegasus Airlines), Perth, Tokyo (Air Asia), Kyrgyzstan and Kenya offer sub 20k two-way flights. These aren't special offer prices that stay on for a week and then go back up. These routes are traditionally cheaper because of several reasons such as

- High volume of travellers
- Hub of an airline
- Administrative convenience of the airline
- Revenue meetings convene and top executives decide on these prices (maybe refueling in Moscow cold is beneficial!)

After you finish your search in Kayak and found some hidden gems, keep abreast of the places. Move over to Step 2 for more choices.

Step 2: Proceed to Skyscanner. Do the same search with your home airport. Choose the 'flexible - anywhere' option as the destination and the 'cheapest month' for travel dates. This will give you a comprehensive list of places you can travel from your home. If you don't like the options available now, keep searching. Log back tomorrow and do the same. Within a few weeks, you'll find either a mistake fare or a discounted fare to a destination you've never been to.

PRO TIP: Once you've decided on the place and dates to visit, go to the top right corner of the Skyscanner website. Change the options of country from India to your destination country. Do the search and sometimes the prices can go lower. Then select various countries such as US, UAE, Norway etc. Play around with countries and currencies and sometimes you could hit upon a lower amount. For ex: flights from US to Europe constantly get quoted a lower price if you revert through Norwegian Airlines and choose the Norwegian language version. Do the same if you're traveling to Europe (change the website version to that local language and use google translate).

Any metasearch engine collates results from the past day and displays on their site. Hence some mistake fares may still be visible after the airline has corrected the fare. Don't get bogged down with a single failure - do a quick 5-minute search every-day for two weeks and you'll hit upon a great fare to a new place you've never been to.

Step 3: As you've got the dates and the routes decided, the next step is to avail the best rates around. This includes:

- Check on other OTA's and directly with the airlines website too. There's no website which offers best deals all the time.
- Try separate one-way searches on Skyscanner and also on the airline's website.
- Go through other meta-search engines like Momondo if your trip covers Europe or Hipmunk for Americas.
- If you find something lower on a OTA, take a screenshot, email it to the airlines and they'll match it for you. By booking through them, you'll get the miles and better legroom seats (if they haven't been taken already).

Search every-day for 2 weeks and you'll hit upon an itinerary you like. Always remember, as a common threshold, never to make travel plans until your flight prices are on a price war or mistake fares.

Now, all this content about traveling is juicy but you might roll onto a few stumbling blocks:

- The place and the price will be ideal but the dates might be 6-12 months in the future. You can't do that.
- The travel days (eg. weekdays) might not be comfortable for your friends/ family.
- You're afraid to book too early/ don't have the cash at hand.

The above 3 reasons are only the tip of the iceberg with many more concerns on safety, familial finances and biological cycles hindering plans. As tempting as it is to read '*Just quit everything and travel now*' on Facebook, it is true that travel isn't accessible to everyone. But if you're in a decent space professionally with no health issues, the money and calendar issue can be ironed out with a small change in mindset.

- First, being flexible about travel dates is key to securing a cheaper flight. That's why booking 6 months in advance is useful. You could talk to your boss several times and make the transition easier. No more flying only on weekends and spending a king's ransom on flights.
- If you have a regular income, no matter how small, then money is the least of your worries. Next chapter will show you on ways to allocate your income stream.

Now, as you've booked cheap flights, the next big expense to take care is accommodation.

Ways to find cheap accommodation

Finding cheap ways to stay is all about getting out of your comfort zone. Quite often, we have traveled with family and stayed in lodging capacities where we overpaid. A standard room in any Indian city now costs 1500 for a night. Stay for a week and your finances are drained by 5 figures already. Once you take a longer vacation, these smaller costs add up to large numbers. On the contrary, if you can find cheaper stays, the small savings add up to something that can be dispensed for a longer travel plan or for food at exotic restaurants.

I'll list down the free stays first and then small expenditure options later.

Free Stays

Just Free, No caveats

1. **Couchsurfing:** Worldwide, and can experience the city with a local. If you travel frequently, pay the $20 membership and become verified. It's easier to attract hosts.
2. **BeWelcome:** Designed for Europe and run as a community.
3. **HospitalityClub:** An extremely engaged community that lets you stay for free.
4. **GlobalFreeLoaders:** Great for European backpacking.
5. **Servas:** One of the oldest but still in the game.

Home Swaps

1. **Trampolinn:** If you've watched 'The Holiday' and are game to swap homes, this is the perfect site. It's typically like Couchsurfing but with better listings. You have to pay for your stay using virtual points but you earn them through registration, profile update, listing your home etc.
2. **GuestToGuest:** The same as Trampolin. If you don't find anything there, come here.
3. **MyTwinPlace:** Less famous but the same as Trampolin.

Volunteer & Get Free Accomodation

This is less desirable because you'll have to do some work in return for accommodation and food. But if you have zero budget and still want to travel, this is ideal.

1. **Staydu:** There are 3 options: stay and pay, stay and help or just stay for free.
2. **AnyworkAnywhere:** Is very much global. Work for a few hours and keep traveling.
3. **VolunteersBase:** A sophisticated place for travelling abroad.
4. **GrassRootsVolunteering:** Free and paid opportunities.
5. **WWOOF:** My favorite. You'll get to work in the wild in exchange for great food and shelter.
6. **Helpx:** Same as WWOOF where you work 4 hours a day and get food & accommodation.
7. **PickingJobs:** Get to work on a winery!
8. **HostelTravelJobs:** Check for the ideal job in your location, contact the location directly. Don't pay the membership fee of $10.
9. **CampInMyGarden:** Homeowners will provide you camps, food, water to stay in their gardens. You can give them $5 as a token of gratuity.

Sometimes problems turn up and plans change at the last minute. Try finding a hostel to sleep the night or talking to the people in the neighborhood. You'll be pleasantly surprised at how few slammed doors and loads of ‘welcome’ await you at the doorsteps.

By now, you could have sorted out an accommodation plan for your vacation. If you still haven’t snagged one of your choice at a great location, the next option is to pay as low as possible at hostels.

1. **Hostelworld:** the best, as it has global listings
2. **HostelBookers:** Rival to HostelWorld and has a huge database as well
3. **YhaIndia:** Check it out if you haven’t already
4. **Agoda:** For Asian travel
5. **Booking.com:** For European travel
6. **HomeStay:** Live in an extra bedroom of a big family for hugely subsidized rates
7. **Bedycasa:** Same as HomeStay, great for students
8. **WorldwideHomeStay:** Same as above
9. **HomeStayFinder:** Same as above

Sometimes, we move with a bunch of friends or with family. While you may be up for volunteering, others may not. In that case, here’s a list of short term rentals:

1. **Airbnb:** Don’t forget to sign through a referral to get $20 as welcome credit. If you’re moving as a group of 4, refer one friend after another, so your welcome credits are 80$.

    a) Book the same listing but under each profile for 1 night each and ask if your Host is game. Let the Host know, you’ll give 4 excellent reviews after your stay. This gives you room to negotiate for a lower rate also.

2. **Tripadvisor Rentals:** New options that don’t exist elsewhere. Never understood why people would post their listings only here.

Pro tip: *How to pull down the rates:*

Since there are so many listings for paid stays, I usually hunt multiple avenues on several sites at once. I start contacting hosts, 2 months prior to the trip. I write an email saying:

“Hey [Host],

Trust you’re doing great. Loved your listing and would be happy to stay between 9th-14th Feb. I see you’ve backpacked to Serbia while I was in Czech the same time. I feel we’d have a great time talking about backpacking experiences; plus, I’m very clean and will leave your space better than I found it.

I noticed it’s a vacant slot and am pre-registering my interest.

The big problem is: your listing price would drain my budget within a couple of days!

What I suggest: If nothing else turns up until a week before, I’d love to stay and still pay half of what you’ve advertised.

If it’s not possible, no worries. I’m all game. Thank you for patiently reading through.

Looking forward to merrier days!

- *Pranav Surya*”

Most people agree to this warm approach. In big cities like San Francisco, my friends follow a 2-day waiting list instead of a week. Airbnb is still nascent in India and you can use the same email and get better success rates. Plus *‘athithi devo bhava’* still holds true in a lot of households and people accept lower rates if you’re a great guest.

If traveling with a big bunch

1. **Wimdu:** Perfect for European travel with a huge gang. Rent with multiple people
2. **Flipkey:** Great for a big family. You'll have apartments for short-duration renting
3. **HomeAway:** Under Expedia, this encompasses huge listings. Should be your first touch base before trying other sites
4. **Roomarama:** House listings for a month
5. **HouseTrip:** Home vacation rentals. Some people just buy multiple homes and give it to us at discounted rent rates
6. **OnlyApartments:** Cheaper options in Apartment genre
7. **WayToStay:** Niche and expensive. If you want to live like a European, this is an option. But like First Class in an airplane, I'll never get to see these homes

Hotel Stays

1. **RoomerTravel:** I've saved the best for the last. I work in Hospitality and there's nothing like being pampered by luxurious service during a vacation. And this site provides deep discounts: sometimes 80-90%.

***How it works*:** If someone has bought a non-refundable stay and is unable to make it, cancellation is often the full night's rate. On this site, they can sell it to you for any discount to recoup some of the losses. I know of people who have stayed at The Plaza (NY) for $100 (rates are 800$ north)!

Usually, I don't prescribe staying at hotels unless it's listed on RoomerTravel. But, if you rarely take vacations and are looking to impress your better half, this is the way to travel.

If you've exhausted all options and don't find anything interesting, there is one last option. My guess is you don't like the land anymore. In that case, it's time to meet Capt. Jack Sparrow[11].

1. **SailingPoint:** Boat owners seek crew members actively
2. **FindaCrew:** You can enlist your services (amateur sailors welcome)
3. **CrewBay:** Forum to learn about voyages in your region

40 resources are quite a handful. This amount of over-load causes an information load but lowers action. Because of this reason, I could have given a couple in each section and that's usually enough for a lifetime. But, I wanted to go above and beyond so that you will resonate with at-least one method and make it the go-to way of traveling. The fine way to do a vacation is to book the flights, months in advance when the rates offer attractive margins. This means we don't laze over and stay back home reading more blog posts. That initial ₹ commitment, takes us to our next step of finding accommodations and smoothing the transition at work. Every year my vacation timetable looks like:

1. Come back from a trip and put my head down at work for 2 months.
2. Start hunting for low fares.
3. Usually within next 2 months, I book the flight tickets for next vacation.
4. Next 3 months: Read about the place and start day-dreaming.
5. Another 3 months later: start contacting accommodation places and have back-ups.
6. 2 months prior to travel date: get visas ready and let the boss know about transition plans.
7. Get going!

Now that we've already covered the two big expenses of flights and accommodation, let's talk about adventure and new experiences.

Food & Misc Expenses

This totally depends on how much you have left. Since I've skimped down on flights and accommodation, I go big on trying out the cuisines and exploring around. But if you want to cut down, go to a small hostel whose owner will tell you about cheap places to eat and tips to have a great night-life.

Packing gear

Once I'm ready to travel, I'm a big fan of moving light. For packing light, google *'tim ferriss: how to travel the world with 10 pounds'*. Also, I hate planning too much. I just go and figure out by asking the locals over what to see. This often brings new elements of surprise during the journey.

Funding the vacation

If you don't have any savings right now, take a small vacation this year. Then set yourself up for a big one with prudent planning.

How to set yourself up: If your next big vacation is in 12 months, divide the total expenses by 12 and establish that as your RD amount. If the total plan costs 40,000, make 3500 go into the RD automatically from your salary account. You'll be booking the flights sometime in-between but don't stop the RD. Pay for the flights by downsizing other expenses. When you have 42k+interest in 12 months, take 30k for this trip and leave the rest in a FD (you should pay for the flight by skimping for a month when it's booked). This 12k+interest in FD will serve as your next vacation flight money. Keep repeating this RD cycle of 3500 so that you can take vacations every year. Prices for travel and flights rarely increase as inflation around the world is abysmal. Plus, several budget airlines are arising, that put customer's needs for cheap travel at the forefront of their operations.

On occasions that you're unable to take big vacations, lower the RD amount and travel domestically. Most of the Indian origin flights are cheap many months in advance and you can follow the same methodology outlined.

From an external viewpoint, travel seems expensive. But once you start traveling, things always are much cheaper than they are from the outside. Here's an illustration:

Expenses for a week in Bali	**Things to do**

1. **Rent:** 10,500 for a 4-star hotel or 3,500 for a hostel 2. **Round trip:** 15,000 - 18,000 on a Air Asia flight. Discounted prices occur for 12,000 3. **Food:** 1000 per day 4. **Transport:** 300 per day 5. **Visa exempted, so Stupid expenses:** 1000 per day Total expenses for a week: 35,000 max Target Monthly income: 3,000 Target weekly income: 750	Break it down to a Target Daily income and it becomes ₹110 per day - easy peasy. Now, do you need that cafe lunch or can you brown bag something? Open an online RD from your salary account and funnel 4000 into it. Withdraw 35,000 for this trip and let 13,000 gather interest for your next vacations' flight If you were home and didn't make the trip: (Food + Transport + Beer) * 1 week = 5000. If you are in Bali, you don't spend this amount. Actual savings needed = 30k and not 35k.

If only sleeping through the day, come weekend wasn't that comforting![12]

Bringing it together

1) **Finding your rich life:**

a) Draw your own idea of a rich life and the priorities you'd allocate to every want and need.

b) Design the hierarchy of desires with the mindset of feeling good and being rich - present joys equally important to future expenses.

2) **Setup your credit card scene and make sure you're handling it**

effectively:

a) Apply for one by having a FD with the bank or establishing automatic payment from salary account. Negotiate foreign currency fees down the line.

b) Automate every payment schedule in time and in full amounts.

c) Keep an overall track of expenses using the card statements. This will help us to optimize cash-flow during next week.

d) Holding more than 2 cards is a pain in the neck. We forget dates and miss payments. Always 80-20 the process.

3) **If travel is your way of living:**

a) Find which budget airlines operate out of your city and which destinations they fly-to. Kayak will give you an immediate view of normal prices around the world.

b) Scour the Skyscanner website ‘anywhere, anytime’ option and only book vacations when there’s a sale, mistake fare or price war going on. 50-60% discount from normal prices is a good deal.

c) Always price match with the airlines directly as you’ll be able to earn miles and score better leg-room seats.

d) Fund the travel constantly by having a RD setup every January, for 12 months. Once the RD matures, take only a portion out for this vacation and keep the rest in a FD for the next vacation flights. Alternately, if there’s no possibility of a big expense vacation, RD a small amount, travel locally but don’t stop the habit gravy.

What week 3 entails?

How to set up the monthly cashflow
Ideas to control spending, if you need more by the end of the month
Tried and tested negotiation scripts to bring down TV, internet and phone bills

If you haven't already applied for a credit card, stop right here. I sense you're one of those vanilla lurkers who reads blog post after another while dreaming how awesome life can be. This book is written especially for people like you with specific *how-to-do's* and that means you drop the smile on your face, open that expensive laptop and crunch a few tabs of Bankbazaar's credit card offerings. After you've applied for the credit card of your choice, get back in here as we're going to talk some serious adult stuff.

Adult Business (full attention)

In my short sojourn, I've believed in two things when it comes to personal finance:

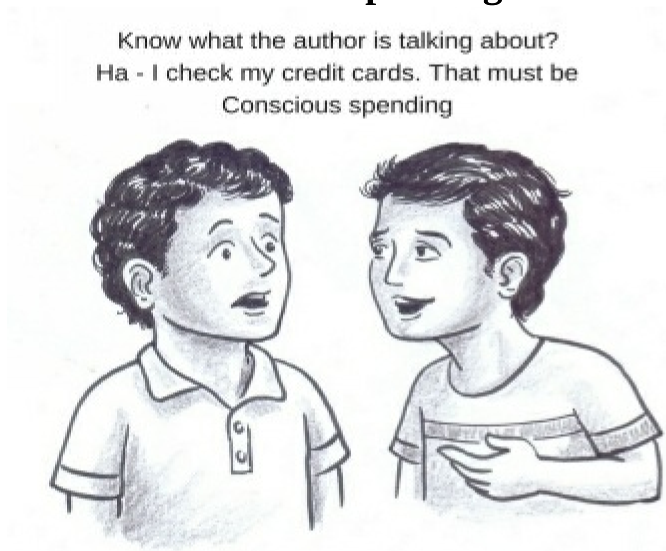
1) Never go into debt for something that will depreciate (vacations, electronics, car etc.)
2) Pre-plan and allocate cash-flow to run on auto mode.

When it comes to thumb rules, personal finance authors write down several opinions. Beyond the above two, there's just one more after which I promise I'll tap out. You will roll your eyes when reading this because you might have heard it a million times but ***pay-yourself-first*** is a great concept. To the uninitiated, '*pay-yourself-first*' means you identify which big goals (retirement, child's college, a home etc.) you'd like to achieve in the future and invest toward them. The difference is: you invest towards it immediately after the salary hits your bank account.

Once you do this, the balance in your salary account remains for current expenses. From the previous week, we realized that living sexy now and funding the big-goals in the future are equally important. Hence, we will establish a cash flow that prioritizes both the present and the future with equal importance. The way to do this is inculcate a 'Conscious Spending'[13] plan.

CSP is about having a mental map of your money allocation like Sherlock Holmes. This way, you know you're not forfeiting the future by overspending now or you're frugal'ing too much and giving the future overdue importance. Dear astonishingly attractive reader, welcome to the world of 'Conscious Spending'.

The Conscious Spending Plan



Conscious spending doesn't mean looking up card statements at the end of the month. Insofar, as the things related to finance were concerned, they were in the past tense:

- *How much did I spend last week?*
- *How am I going to stop spending so much?*
- *Is it movies or jeans? Where does all my money go?*

From here on, we look forward. **We take a glance at the past, slide the sunk costs and charter plans for our future.** People become rich in the future because they made plans for it today – exactly what we're going to do from now. And that starts with us thinking over our conscious spending plan.

As we learnt last week, the things that made us happy and the things to sacrifice, we got an overview of our interests. Based on them, CSP is going to assign a number to those desires from your salary account. This in-turn is going to help us live our version of the Rich-Life.

A few of my friends actively live the rich life: they were brave in choosing the things they loved and mercilessly gave up the things they didn't care about. Their modus operandi to a rich life goes like this: *"I have automated my savings/ investments. What remains, I spend carelessly and I live without*

any guilt of not being good with my money". Once they had attained a control over the things they valued most and invested toward their big expenditures, living the Rich Life seemed easy.
Here are a couple of examples of my friends who massively conscious-spend but have no regrets over the way money is spent.

How Gopal can afford 3 bikes on a 30,000 salary

When he first told me that he was going to buy a Yamaha Yezdi as his 3rd bike, I choked and blurted, "ARE YOU INSANE?" (exactly what you'd have said too). He already had a vintage and also a KTM that consumed petrol like a thirsty cricketer on a dry summer day. When a group of friends and I questioned the logic behind the purchase he had nothing to say. In fact, he had pre-planned investments toward retirement with his company's provident funds and some more with index funds. To top it all, he had saved for buying the Yezdi by giving up on eating out for four months. On the surface, buying the Yezdi looked like a stupid decision, but was a result of pre-planned conscious spending.

How Monisha affords 15k worth make-up on a 45,000 salary

Monisha comes from a long family line of *'men go to work, women take care of the household'*. This meant, her father never expected her to work or provide anything for the family. And that left her to expend every inch of the salary she was earning. Upon graduating, she got into marketing at a top tier firm and that resulted in hanging out at Starbucks more often than she'd have liked. Being presentable was seen in her industry as a great way to position yourself and she started getting a taste for 2,000₹ lip garnishments. A couple of years later, her father asked Monisha to save toward her wedding. She agreed instantly, as up until then she wasn't saving anything and it seemed like a good idea. Then over-time, slowly, the saving request progressed to buying a flat in the city for her to live-in after marriage. She kept her head down and plodded along. Right now, 3 years later, she keeps up her expensive lifestyle with aplomb while simultaneously funding her father's demands in equal measure. Like many daddy's daughters, the moment her salary gets credited, she transfers 20,000 to her father who takes care of the saving/ investment part. Whatever remains, she spends as erratic as rainfall during a non-Monsoon month.

My friends are an exception few that have sorted out their heads around the financial mess young people get entangled in. What they did well,

is they paid-themselves-first or their futures first and then moved over to spending. Maybe they differed in amounts and instruments they used for investments, but they did have a head-start. While that may not be much, it still is a desirable position for many of us youngsters.
Here's what they're doing good:

- ➔ *They're clear on the things they like.*
- ➔ *They know what their big goals (money-wise) in life are and fund them.*
- ➔ *Spending comes only after investments and savings.*

A simplified equation to replicate their rich life is
Salary = Investments to **savings** to **expenditure**
The explanation: When the salary hits your account, fund the future investments first. Then, take care of saving for short term expenses such as vacations and down-payment for a home. Finally, only after you've taken care of the future, expend whatever you have, irrationally.
The reason that I write 'irrational spend' is because it can be as varied as possible. January might be for paying gym subscriptions after New Year resolutions, while February might be for cancelling gym accounts and buying a new cycle. Each month is different to another and that's why we allocate resources for irrational spending.
While Week 5 will detail into complicated topics such as '*CAGR to expect for various instruments*', they're more of theoretical learnings. They are easier, compared to what we're looking to do this week as this involves human psychology with money. If you've mastered this simple aspect, you're on the path to money stardom.

Initial 20% of effort and time taken	- Fund your retirement and big expenses in future - Save toward short term goals (down payment) and repetitive expenses (Diwali and other festivals)
Remaining 80% of time and effort	Spend it irrationally. Just make sure to last through the month

This approach gives us a great head-start but we're not there yet. To get there (pro level), we must take it a step further and divide the Cashflow into a few divisions.

Establishing the cash flow

The cash flow will majorly involve four partitions:

1. Inescapable fixed costs
2. Investments
3. Savings
4. Guilt free spending

1. Inescapable fixed costs

Fixed costs are the damage triangle: rent, transport and food.

- The rent on a PG or a home that you inhabit is an inescapable cost. If you're living with your parents (lucky you), you could arrest a big part of the fixed costs that others spend on rent.
- At the same time, the transportation costs depend on how you commute to the office.
- While eating out comes under guilt free spend, having three meals a day is pretty default. A basic percentage of your salary must go toward consuming food and that is the fixed cost we're talking about.
- Other fixed costs are monthly bills such as mobile phone, credit card balance, internet, utilities etc.

We know that budgeting sucks and maintaining a scorecard is like acid rain on your brain. But combing through the finances once in 3 months shows that you're serious about living the rich life. The simplest way to do this is to open the bank statements and record what you see into a back of napkin calculation. It provides a decent amount of accuracy of your expenses and that's 85% of job done (remember, 85% done is very well done).

Once you finish measuring fixed costs, add a couple of thousands to that amount for expenses such as bike repair, new mobile etc. These expenses come with a longer timescale regularity but do not come in monthly repetition. When you divide these expenses into a monthly timeframe we usually get 2000 (8-10% of a youngster's salary) as its monthly equivalent.

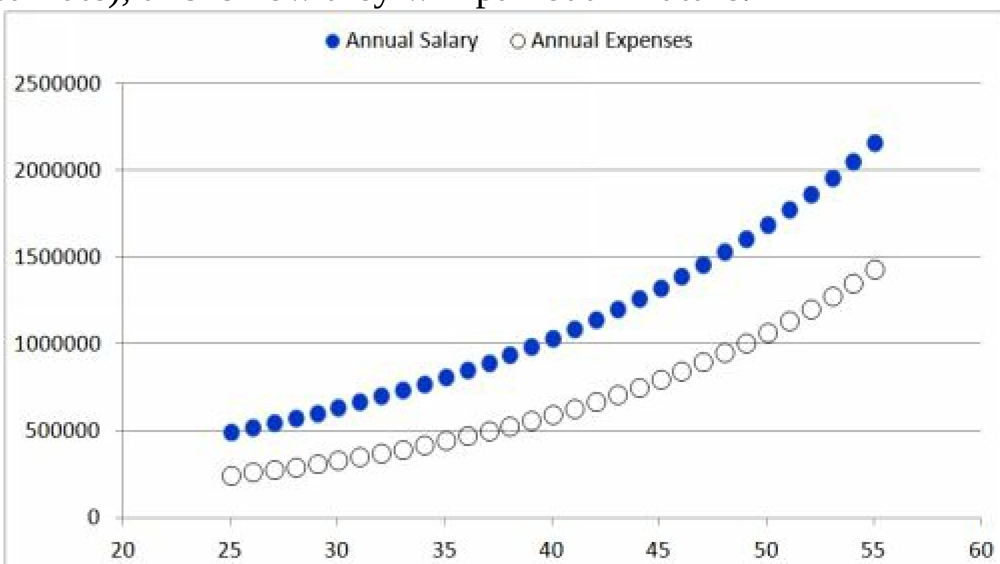
In personal finance, there are no hard and fast rules and personalizing it to each individual is the fascinating part. But maintaining these costs within the confines of 40-65% of your total salary is an indicator of healthy management. As you finish adding a couple of thousands, minus this total amount from your take home pay. The amount that remains, is for investing, saving and spending.

2. Investments

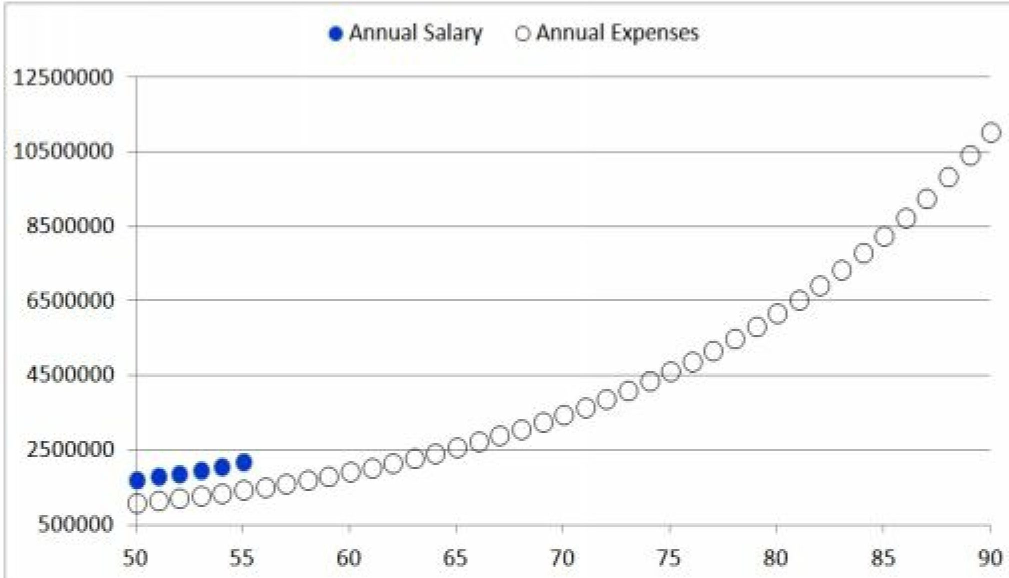
In week 5, we'll see where (mutual funds, EPF etc.) to invest (totally awesome) depending on the timescale of the life goal. Right now, though, we'll identify which goals demand more importance and the cash flow percentage you'd like to allocate toward that.

Why is retirement a big deal?

Let's say you are a 25-year-old earning 5 Lakhs a year and spending half of that toward essential needs. If we assume your salary will increase at a conservative rate of 5% a year and your expenses at 6% (possibly an underestimate), this is how they will pan out in future.



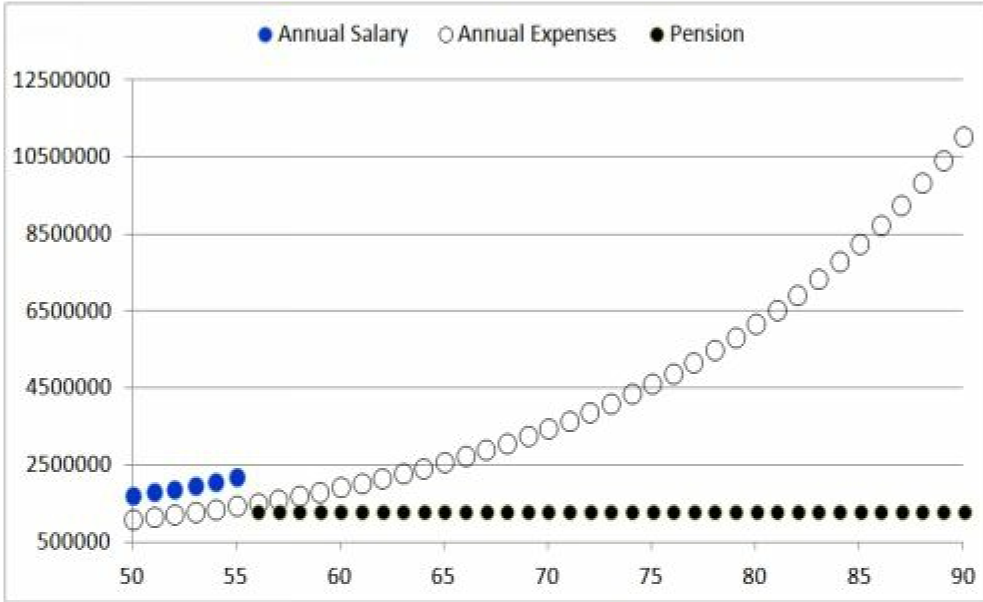
If we assume you no longer wish to work after age 55, then your ledger will look like this



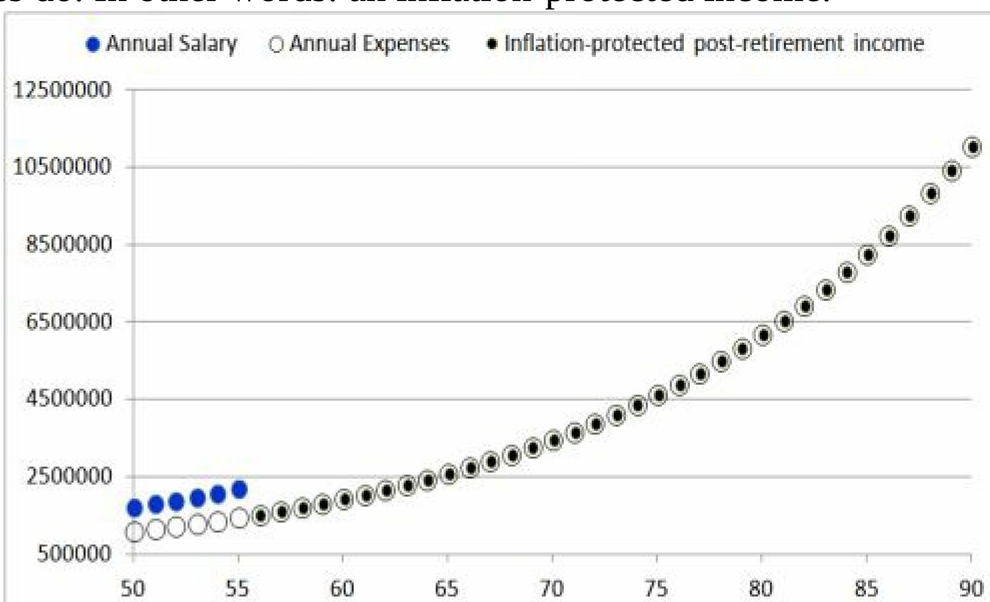
Notice that your expenses will not stop when your income stops. They are going to continue till the day you die (we have only considered your *present* essential expenses, new such expenses will come - car, home EMI, school for child).

Retirement is a big deal because, your income drops to zero while inflation keeps rising every year. Unless you have assured means to generate income that keeps up for essential expenses and medical emergencies, you will have to continue working or depend on your relatives/friends. Now, nobody wants that!

With the previous generation, post-retirement income typically meant - a pension. Pensions are a flat income - the equivalent of about 50-60% from the last drawn salary. If you pan it across the same chart, pensions would not be enough to cover the expenses of the next year.



While the minimum post-retirement income should match your expenses, we must be prudent to cover for unexpected medical emergencies as well. This means that the income post-retirement must increase at the rate at which your expenses do. In other words: an inflation-protected income.



Since no *'pension plans'* will provide you with inflation matching income, we have to invest toward it. We must invest right, invest early and create a finite corpus from which we can draw inflation-adjusted income in perpetuity. Although it sounds like big-time math, this is not as hard as it sounds. In fact, you can live like Rajasthan Rajputs if you start investing today! (we will see how to do this by Week 5)

Similarly, by investing early, we can fund any future big expenses. For example, you could have children and their school expenses, college expenses can be invested toward by utilizing time factor of compound interest. Maybe you wish to get an expensive car, or take a 3-month long international holiday - any financial goal can be invested toward if we plan and make contributions early.

Pranav's Personal view
Child's education

"I want to give my kids enough so that they feel they could do anything, but not so much that they would do nothing"

- Warren Buffett

A child's college is a faraway goal like retirement. But I personally feel it's as important if not more important than retirement. If your child gets a good education without the burden of student loans:

- She can try and sample a career without worrying over the pay
- She has the courage to take risks and even if it renders her unemployed, she'll just come live with you. No big chip on her shoulder to toe the line and do mundane tasks
- She can pursue artistic ambitions without the burden of EMIs or other setbacks

On the other hand, if she is saddled with student loans:

- She starts work-life with the aim to save every penny and job security is paramount
- If her friends plan a big foreign vacation, she must turn down so that she can quickly repay the loans
- In case you fall sick or need help in old age, leaving her job to come visit you is highly impossible.

Comparing the two outcomes, I'd give up buying a car or a home so that the kid goes to college without a worry. I'm a big fan of letting people have their freedom over decisions and the biggest decision of a person's life, post-graduation, should not be decided because of money. For that reason, I consider investing for child's college to be one of my top goals.

Juggling all these priorities from the onset is not possible. Moreover, this kind of complexity often leads to inaction. In investing jargon, *'time wasted due to inaction is like sitting on a gold-mine but waiting for a shovel'*. You can start dirty by digging with your hands and focus on just one goal: retirement. As you plod through, you can acquire the tools and balance various priorities.

Personal finance writers believe 10% of your income is a good amount for investments. Again, if you figure you'd give more importance to future goals over current expenses, you can buck the trend. In fact, you can make investing as much as 30% of your monthly paycheck, as I've often done in conducive times.

In 2017, my investment portion is in high 40 percentiles

When you've shortlisted the major goals you'd like to invest in and then proceeded to fund them, what remains from your monthly salary is for short-term savings and finally, current expenses.

3) Savings

Often misunderstood and misinterpreted with investing, we save in places where we should have been investing in the first place. To avoid this mista

The savings bucket can be categorized into two:
1) Recurring expenses and
2) Short Term Goals

Expenses that are recurring every year (Diwali, NY bash, vacation) come under the recurring expenses umbrella. We will save toward these expenses by opening separate RD’s in their name drawing from your salary account.
Short-term goals such as a car, downpayment for a home, your wedding come under this umbrella. While these are not repetitive, they are forecast to happen a few years down the line. The reason we don’t invest in the equity market for these goals is because they’re too near. Returns over the short term in equity is not guaranteed and that’s why we save under the safer neighborhood of a Bank’s RD. The returns are definite, risk is negligible and we can save with precision.
To differentiate short-term goals from long-term, take the golden number as 5 years. If your goal is only 5 years away, save using a bank’s RD. If longer, always invest some portion in the equity market. (reasons explained in detail, by Week 5)
Now, as you’ve detailed into the saving bucket, you can allocate the percentage to each goal. Depending on the importance you have for each expense, you can divvy the amount accordingly.
From the monthly salary, as you take out fixed costs, investments and small-term savings, the balance remains for irrational expenditure – FINALLY!

4) Guilt free Spending

Imagine the feeling you’d have when someone gives you money with no chip on your shoulder: No worries over the future nor any pre-determined commitments to fulfill (ex: parents’ home loan). This is guilt free spending.
You could take the money, buy shoes, or you could do an impromptu bike trip. You could do peanut butter fingers all night, every night or slam-chow cheese pizzas at will. Whatever you do, this question no longer hangs over your head: *‘Am I spending too much?’* The feeling of having money that I can spend irrationally sometimes makes me the happiest person on earth. You could feel the same, if you’ve followed the money allocation process: **Salary = Fixed costs - Investments - savings - expenditure**
Being brought up in a middle-class environment made me acutely aware that there is some responsibility perennially hanging over one’s head. As I grew up, my mom had to keep working to keep me educated. As time progressed she wanted something for herself but it wasn’t possible always. An impulsive purchase or miscalculated expenditure stung for days. Seeing what my

parents had been through made me realize that having some amount for irrational expenditure is a saner version of living life. Funding my future needs first, I could rely on this feeling of being assured for the remainder of the month. This sort of represented, that I have done my homework before I spent the evening at the park.

Most of the friends I know, have kept 15 percent to guilt-free spending. But you can accord this portion depending on your conscious-spending plan.

Constituents of your Conscious Spending Plan

Category	Expenditure
Investments – (≥ 7 years to event)	Retirement, Long term goals – eg. child's college etc.
Savings (<5 years to goal)	Recurring expenses: Vacations, birthdays, Diwali etc. Short term big expenses: buying a car, wedding, down payment for a home
Fixed Costs - Monthly	Rent, utilities, cellular service, internet, petrol, EMI – home, TV Bills etc.
Guilt free spend	Clothes, shoes, weekend trips, eating outside, anything bought at a whim

Tweaking your CSP

Considering, we've had a basic rundown of the 4 envelopes, let's play around with them.

As you read through the 4-part CSP system, the first step anyone will take is to look at the current financial situation. We'll pick up the credit card statements to understand where all the money is going. There will be a head-scratch followed by a hard-ask over why you never have enough by month-end. Then you'll make it a point to stop spending on random things and get things sorted. You'll aim for a sharp improvement from a previous total of 5% savings to a new, remarkable *'20% investment and 15% savings'*. And sometimes you'd be able to hold it together for a couple of months. But like any fad diet that brings your weight down for a small period and balloons soon after, your lazy money habits creep in slowly.

That's why it's important to move in small increments toward better money management. A few of my friends say, *"I'm going to stop eating biryani – putting on too much weight here."* When they make half-serious statements like this, they maintain it for 2 months and give in to normalcy later.

It would have been better if he reduced it to 50% first (once in 2 weeks instead of weekly), and then proceeded to cut it down to once in 4 weeks. That would have been a sustainable habit instead of the *hell or high water* approach.

Likewise, when it comes to investing, we learn about the magic of compounding and try to invest as much as possible. But then, current expenses often take out large portions of our salary to knock out investing plans.

From the 4-buckets, in-order to contribute more toward saving or investing – fixed costs or guilt free spend must come down. The easiest step is to say, *"I'll reduce the guilt free spend – eating out, shopping."* Since it's the conventional option, we will look at this a little later. Right now, let's dive into reducing fixed costs first.

Cutting down Fixed costs

Fixed costs primarily involve the damage triangle – food, rent and transport. Making small changes in-terms of moving into a smaller apartment or getting a roommate can reduce your rent by at least ₹1000 per month. This change means you've saved ₹12,000 over the year which can be a small vacation or contributions toward retirement based on your conscious-spending plan.

The reason we target fixed costs first is because, they are repetitive. If you make alterations to it once, you can feed off the nectar for a long time. This is in line with our 80-20 finance. Let's do the 20% of work upfront: instead of focusing on a wide swath of cost-cutting areas, we'll note down the big wins and work presciently. The fixed costs that are repetitive include

1. Internet, TV and phone bills
2. Rent
3. Food & Transport

1) Bills:

When Reliance Jio rolled out their plans of unlimited calling and bundled data, I had several friends who were over the moon. And it was not because of Jio's 4-month introductory free offers. Rather, it was because they genuinely had a plan that would save them money. These guys were on the phone for a lot of their work and had bills from other service providers amounting to ₹1100-1200 per month. The plans Jio rolled out for 900, meant they could use internet without worrying about data, make unlimited calls and still be able to save 200 per-month. The 200 amounted to 2.4k every year for doing 30 minutes' work upfront. The lesson here is not to find the cheapest plan (although you should do that), but to find ways to cut down repetitive costs by doing work upfront. And one of the effective ways to do that is to call the customer care and ask them to lower your bills.

I've worked in customer care centers and have enough friends in these roles wherein the guys taught me the tools of the trade. Using them, I've cut down my TataSky bills from 800 to 450 per month, reduced Vodafone's postpaid bills by 40% and got my yearly credit card fee waived.

When you give them directives (*"I'd like to have this waived"*) and not propositions (*"Can you please do something? or Are you sure?"*), they'll knock down fees. Being polite and smiling in the conversation while staying firm is better at yielding results.

For credit card negotiations, it is better to be firm handed. But when you call in to cut down on Dish or Wifi charges, follow the opposite. Get them on your side and let them empathize with you. They have people barking into their ears all-day and following the opposite route gets you higher success rates. Before you make the call, make sure to do your homework on the company's offerings to new customers (which is usually better than your plan) and similar deals by their competitors. When you call them, appreciate their quality service and show gratitude.

You: *"Hi George, I'm sorry, I'm almost embarrassed to make this call. I love your service and its total value for money. (Go on for another 2 lines about how the service you experience is). It's worth every paisa I pay and that's why I feel bad to ask even more"* <be silent>

Rep: "*Yes sir tell me what I can do for you?"* (BAM! First big win: he feels he owes you something because he's connected with you. If you bark or demand, they will play hardball as usual)

You: "*George, this is going to sound harsh. But I feel I'm such a loyal customer, always pay my bills and am a great ambassador for your service.*

In that scenario, do you think it is fair that you guys are offering better rates to someone who just joined you from the street?" <BIG PAUSE, totally shut up, even if it takes eons, let the rep speak first>

Rep: *"I do think what you're asking is reasonable. Let me knock down those charges. You'll get a month free for your loyalty"*

Sometimes, you'll get this: *"I can't do anything, sir. It's not possible to change anything"*

Your best response is: *"Sure you can. I'll give you 3 reasons and then I'll let you decide:*

1) *I just lost my job and the economy doesn't look bright. I can't afford this payment*
2) *I've been a loyal customer of yours for X years and recommended your service to more than 10 people (this is very helpful, sways even the stubborn reps)*
3) *I know customer acquisition 'costs' run into 5 figures. But retention is very simple here. It has zero costs and all you have to do is say YES.*

Rep: *"Ok…Hold on, let me ask my supervisor….It looks like we can do this for you this time alone sir."* WOHOO!

90% of the reps give in when you mention that you can't afford it along with info of customer acquisition costs. But you'll still end up with the stubborn NO. Your best option is to put down the phone, call again and be handled by a lesser close-fisted rep (My usual success call rate before I get the job done is: 5 calls over 3 days; be patient with this system).

With satellite TV negotiations: The main customer service department aren't empowered to lower prices or provide offers. Hence, ask to be transferred to the retention department immediately. Ask the retention department to lower your bill by 300-400 per month and let them know you'll pay for the entire year right now. Drop the same info of unemployment – *'not affordable'* and mention customer acquisition costs. They will say they have your request on file and will provide offers on a rolling basis with the loyal customers. Don't give in yet. Call once a day, every-day for a week and they'll offer you a subsidized bill along with the chance to cull a few channels from your package. Be willing to trade and sacrifice a few TV channels to get this done. I've traded down channels worth 150 to reduce monthly bills by 400[14].

Internet and Phone Bills: Let them explain why they can't reduce the prices. Then counter those reasons with your *'5-figure customer acquisition'* stat. You could score majorly, if you can secure the same company for satellite TV, WiFi and phone connections – eg. Airtel. This will give you great leeway in negotiations as you've already scored brownie points by being a top-notch, exclusive customer[15].

2) **Rent:**

If your idea of a rich life is living in a fabulous home, then go ahead by all means. If that rich life also means contributing enough for the future, then cutting down on rent is an 80-20 solution. Once you take the step to move into a smaller apartment or bring in another room-mate, your savings is on automatic for the remainder of the year.

What you were paying previously	What you've downsized to	Amount saved on automatic (per year)	What if you invested just 12,000 toward your retirement?	Is it worth the trade off?
6000	5000	12,000	4.3L after 37 years off 10.2% returns	*Yes for me! Your decision?*

3) **Transportation:**

It is common knowledge that public transport will always be economical as compared to private transport. Hence using the bus or metro even once every week, will bring in small savings – enough to fund your weekend dinner. But, one of the jeers of life is traffic and I highly recommend getting a private transport if it lessens the transit time.

Cutting down guilt-free spend

There is an eerie case of judgement, when it comes to cutting down guilt free spend. When we try to save more and cut down spending, quite often, the Jekyll and Hyde approach seems enticing: we move from no savings in the past to cutting down 40% expenses within a month. Motivation of this kind works as a fine graduation speech. But in the day-to-day expanse, we lose steam within hours and get back to the bad habits of the past.

Action Plan: If you decide to cut down money on eating out and save more, start by cooking at home for one meal this Sunday. Then a few months later, slowly proceed to eating at home for the whole day. If a Sunday meal costs you 200, you'd be saving 800 every month by making this small change. A few months later, you'd cook for the entire day and cut expenses by 300 wherein you're saving 1200 monthly. This slow habit ingrains itself into your schedule and you'll always have one weekend day's meal at home.

Work in increments

Month 1: 1 meal per Sunday at home – saves 800 pm – 9600 PY (rough)
Month 4: 2 meals per weekend at home – saves 1200 pm – 14,400 PY
Month 6: 1 meal of weekday packed from home – saves 300 pm
Month 12: cook a big meal on Sunday that can be re-heated to work on Monday – cumulative savings 1500 pm, 18,000 PY with small habit changes.

Depending on your interests, this small change in habit (9600 PY) can mean you've saved for new Diwali clothes and multiple boxes of sweets or it can mean you've invested for a 65k big-ass vacation (10% returns), 20 years later.

When you put it in perspective, eating one meal every Sunday this year, has contributed to an entire vacation plan. As we try to cut down spending and improve our savings, we also have to balance our emotions with saving. While you may believe, saving is just putting money in the bank's RD or FD for a short duration, we need to annotate the reason for saving. Here are a couple of pointers on why reasons for saving are highly important.

Be smart with saving

Tip #1: Always save toward a goal

I have two friends - Nanda and Swami who graduated with me, joined IT companies on same salaries and had similar expenses. Three years down the line, one of them has saved enough for a 30% downpayment toward a piece of land while the other, spent his savings on a trek in Uttarakhand. In fact, both were on the trek in Uttarakhand when Swami posed the question on how Nanda had saved this well. Nanda gave a brilliant answer, "*The minute I started working, my parents wanted to buy a piece of land, beachside along Pondicherry's coast. They wanted to move there so that it would be my* *parent's retirement home. This definition of why I'm saving made all the difference as I had strong motivation and emotional reasons behind it."* Simple but highly effective.

Swami, on the other hand, was saving because he had to save some percentage of his salary. Spending everything was considered immoral, so he saved at random and in minimal amounts. When the opportunity arose for a 2-week trek, he leaped at it as he had saved enough. After the trip, most of his savings had been wiped out.

The jarring difference was: when Nanda was cooking at home on weekends, he was eyeing that piece of land, instead of having expensive dine-outs with friends. When Swami would bring home-cooked meals on a weekday to the office, he was thinking about saving for saving's sake. This difference in motivation paves the way for a clear habit structure. In fact, putting a perspective to saving makes the difference between *'stars and dogs'* when we try to save more.

Tip #2: Break it down and automate the RD

If I tell you to

- Pay a monthly house-rent of 6k.
- Buy a 90k bike without EMI.
- and still finish with 3L of savings in 3 years on a 24k take-home job, you'd scream expletives back at me.

But this is exactly what my friend Nanda did with consummate ease. He wasn't a miser and would spend at will during weekends. In fact, he worries much lesser about finance than a person who counts his pennies to save dramatically. To help you, here are 2 ideas from him, that'll make it possible for you too:

i) From your salary account, open a RD and name it *'Land Downpayment'* or any tangible goal. Make sure to automate this process as you can't interfere with this gravy train

ii) Break down the numbers: 3 lakhs in 3 years for any new IT recruit (3.8 LPA CTC) might sound audacious. But break it down and it is just 8000 per month. This is certainly doable considered you're willing to put in the hard yards of making sacrifices elsewhere (public transport/ cooking at home etc.)

This idea of forecasting the savings numbers he'd need and breaking it down to a monthly target, made his goal achievable.

As you give yourself a head start on the saving process this week, we'll look at automating the entire cycle in week 4.

Bringing it together

1) **Create your Conscious spending plan based on your version of Rich Life**

- Your thoughts about finance will move over from past-tense to future. When the salary gets deposited, have a mental map of where you want the money to go.
- After having a conscious spending plan, you're sure that money is going to places that make you happy and you no-longer have to worry if you're overspending.

2) **Establish the cash flow process within the 4-buckets**

- Look up the credit card statements or do a back-of-napkin calculation of your monthly expenditures.
- Make pointers on where you're spending too much and how you could save more.
- Make sure you follow the cash-flow method of **Salary = Fixed costs - Investments - Savings - Guilt Free Spend.**

3) **Play around with your Conscious Spending Plan**

- If you notice that you're spending too much and would like to save more, make changes in gradual sustainable steps.
- Start saving small and improve gradually. Always keep a goal in mind. Having a goal with emotional reasons to save is easier to sustain and helps keep discipline.
- When you end up short on the saving or investment bucket, fixed costs have to be cut down first. Clamp down on rent, call the customer service for bills - TV, internet and cellular services.
- Proceed over to cutting down on guilt free spend - make small and slow reductions in expenditure. Gradually improve over-time.
- Use **<u>Perfios</u>** to keep a track of all expenditures and your financial situation.

What week 4 entails

How to automate your finance life

Automating the cash-flow

When Ned Stark died on ‘Game of Thrones’ in 2011, it turned a cult following into a world sensation. After that, several TV characters started dying. As a statistic, 409 characters were culled on TV in 2015. Numbness set in after a few deaths and now a character’s demise is like a ritual passage to keep a show alive. Likewise, when personal finance writers advise to cut down spending and keep budgeting, it feels like an eye opener at the beginning. After reading about the same advice several times, we become numb and indifferent to it.

If you’ve ever thought to yourself:

- ➔ *I never know if I’m spending too much*
- ➔ *I think money is important but I can never get around to it*
- ➔ *All this money stuff bores me, so I ignore it*

I know, I know. I feel like this every-day too.

I don’t know a sane person who woke up one morning and said, *“Today I want to learn about balancing my portfolio by learning how gold works. Oh maybe, I shouldn’t forget to add fixed income instruments into the learning module!”*

Wrong, wrong, so very wrong. *Who ever invented capitalism?!*

Let’s not kid ourselves. We hate spending time to figure out how to cut down spending money. If there is one wish god granted, it’d be to send someone who’d manage money for me. But then it turned out, automation is like a god-send for us with minimal attention habits. I’ll tell you why:

If you’re an engineer or have friends who work in the core sectors of engineering, you’ll often note them saying, *“I do everything at work. My manager sits around, signs approvals and has an eerie frog-like sense of knowing when things aren’t working out. A few years down the line, I’m going to be just like him – come to office and monitor everything.”*

The same approach is going to apply with your money management. Once you put in the hard yards of knowing everything and automating them, you're going to coast until something isn't working. In fact, once you've automated, you'll have more time to spend on useful things like commenting *'Congratulations'* on the Friendship notification between a girl and a boy or you could graduate from stalking your crush on Facebook, 3 times a day to 5 times a day. Once automated, you've enabled the inner Joey to come out and take centerstage.

Setting things up with Automation

Here are a couple of reasons why automation is important:

1) We are inherently lazy with money decisions.

This affects us in a financial sense but we are still too hard-ground to understand it. Remember Hari, who didn't invest utilizing compound interest without asking what it meant? There may be thousands of examples like him who don't do the right thing because of inaction.

2) We overestimate motivation that we have at present.

After reading this book, you might feel empowered to act and might even contemplate doing the same in perpetuity. If you've ever watched TED Talks, how long did you feel motivated? A total of 3 grand hours? Maybe even lesser. We will never be as motivated as we are in the current instant. After a week, we return to film gossips, harmless fun rumors and guilt-pleasure flirting.

Due to the above two, we are always blighted with bad money decisions. But, what if right from the retirement investing to the last bill you pay is automated. Your money management will happen by default without your inputs. Yuval Noah Harari in 'Homo Deus' says we're going to automate everything and move toward Universal Basic Income (UBI). It's time we automated our finances first.

Recent Example: Ashwath was a classmate of mine with whom I walked through the 4-bucket system. I told him about the next-100 idea. He asked me what it meant and I replied: *"It means you know where the next 100 is going to go."* He decided to allocate his salary in terms of

Category	**Percentage**

Fixed Costs – *car EMI and petrol, telephone bills*	15%
Investments – *EPF, Index funds*	10%
Savings – *House downpayment, vacation treks*	30%
Guilt-free spending – *eating out, clothes, movies*	40-50%

Per his next-100 breakdown, 15 would be toward fixed costs like car EMI and petrol. He doesn't have more fixed costs because he stays at home with his parents and has no student debt. With his investments, 5 goes toward the employer match EPF[16] and another 5 toward a Nifty 50 Index fund for retirement. 30 of savings, splits between 25 for house downpayment and 5 for Himalayan trekking expeditions that he does every year. The remaining portion of 40-50 from guilt free spend gets spent irrationally. When he finished working this out he exclaimed, *"Unbelievable!!!"* and stopped speaking for a few minutes.

Since he works in technical sales at Saint Gobain, he gets to travel a lot and eating out is his second-giving of life. To impress clients, he spends quite a lot on clothes too. When he automated this allocation, it seemed unreal. Previously, he used to do things with money haphazardly. Now, he knows how much he can save, how many designer ties he can buy and how many times he could eat-out. Automation made sure the money from the salary account was disbursed into each bucket appropriately without him thinking about it.

After automation, this is how his cash flow works:

1. Right when the salary is to be deposited, 5% goes toward the employer EPF match.
2. A day later, an additional 5% gets pulled out for investing in a Nifty 50 fund – towards retirement in addition to EPF.
3. 3 days later, the fixed costs are paid from the salary account – car EMI (he has a lot of travel).
4. 1 day later, he pays the credit card balance for the irrational spend and fuel costs of previous month.
5. The same day, 30% of savings are siphoned – which automatically spread into 25% for home down payment and 5% for vacation treks into 2 separate RD's.
6. Whatever remains, he gets to spend it irrationally. Nominally, he

uses a credit card/ Paytm wallet to pay so that he can keep tabs of his financial situation.

When the 20th of the month rolls around, he looks at his bank balance and makes a frugal living for the remainder of the month (if he's over-spent before). After he's automated everything, I've seldom heard him say, *"It's the month end and my finances are tight, bro."* In fact, he never cancels on an eating-out plan due to finances and he's spent a grand total of 1-hour managing money. This is automation at its finest exploitation!

What you Should DO

Seeing how a real-life example works, you can put a similar model into your practice. If you're salaried, things are about to get brighter in your life. You're about to enter the Jumanji world of automation and financial stardom.
Let's get down to the nitty gritty.
Open a Google Sheet and note down the URL, Login and Password for the following

i) Credit Cards
ii) Salary Account
iii) Bill payments – electric bills, rent etc.
iv) Paytm or any other wallet
v) Online RD's for savings
vi) Mutual Fund Direct login (for your investing, described in next chapter)

Start the process by talking to your HR department. Get everything sorted with regards to your employer match when it comes to EPF. Set up the exact amount you'd like to contribute to your EPF based on your next-100 plan. It is prudent to contribute the full quota available from your employer's match. Some employers will have NPS as their preferred method of retirement account. Either way, set up the percentage of salary you'd like to go toward retirement and let HR know of your intentions. Once you've set it up, it's time to start linking the accounts.

Linking the payments: With online accounts for everything, linking them is going to be a simple process. If not, you can call the bank and ask them to set-up the funnel process manually. This is the order at which things will work:

- Money will automatically come from your salary into the EPF account. You can customize the amount based on your employer's match.
- Set-up the transfer from the salary account to the short-term RD's.
- Set-up the systematic transfer (SIP) from the salary account to Mutual Fund's Direct Portal purchase page for investments.
- Pay as much as possible with the credit card and link everything with the salary account so that you pay on-time.
- If you can't pay rent with your card, try convincing them to go digital. You can load the Paytm wallet with your credit card and get a lot more in return for the hassle - credit card rewards.

Automated FLOW Table

From here	To here
Paycheck	EPF/ NPS through the employer – assigned in relation to company's match
Salary Account	● Future Investments – linked to MF's monthly SIP ● Small – term RD's for recurring goals like NY, Diwali, vacations ● Any present EMI's running for vehicles or for a home ● Pay the credit card balance ● Random small spends that don't take cards/ Paytm – ex. Corner street Vada Pav, soup stall, bazaar weekends etc.
Credit Card	● Fixed costs: Petrol, transport and rent through Paytm if they don't take credit cards. ● Guilt free spending: use credit cards mostly If not possible: transfer to Paytm from Credit card and pay

As you’ve linked all your accounts and automated the payments, you have a total premise of the cash-flow process. There is just one more step of arranging the payment dates to revolve around your pay-day.

Rearranging the dates

Upon trying to implement automation, we stumble onto a familiar problem: salary gets credited on the 1st, credit card companies bill you on 27th, EMI’s are due on the 5th and rent is required by 3rd of every month. This unregulated confusion creates too much mental tyranny and thus, we forget due dates. The simplest way to avoid all that is by calling the billing companies – credit card, your landlord, utilities etc. and switch their billing around your pay-day. When I called everyone, they were happy that I was concerned about paying on time and switched the billing dates instantly around the 1st - my payday.

You can call and make sure everyone works around your payday. This takes no more than 10 minutes and will leave the rest of your life in peace. As every billing company changes their dates, you’ll have a random cash-flow arrangement for the next month. Make sure you have enough cash at hand as you ask them to switch dates. Frugal a month so that the credit card balance and other bills can be paid in full when the dates change.

Let’s take the month as January and see how it will work.

January 1st: Your EPF/ NPS will be automatically deducted from the paycheck and be matched with the employer’s portion. Also, your future investments are siphoned automatically – whether you choose index funds, stocks or mutual funds.

January 3rd: Fund those repetitive expenses like NY party, Diwali, holiday vacations with separate RD’s. Setting up the amount for each expense is the interesting part. If you can’t afford too many wings of savings, save 1000 monthly for vacations right now. As time goes by, you’ll barely notice the 1000 and you’ll learn to spend what’s remaining. A year later, you can make it 2000 and you’ll only feel a small pinch instead of a big part, missing from your paycheck. This small increment can be branched out as Diwali, B’day party, flight tickets to travel home etc. based on your conscious spending plan.

January 4th: Ideally, you’d be paying the rent on the 1st of the month to make your landlord happy but many give you a grace period until the 5th. Together with the rent payment either through credit card or Paytm wallet, pay all the other fixed bills. Bills like flat maintenance, utilities, water taxes will be paid.

January 10th: If you've convinced the credit card company to bill you on the 1st, you usually have until the 14th to make your payment[17]. As a responsible smart youngster, we always pay our bills in full. To do that, you can log-into the credit card account and assign the 10th of every month to draw the total due amount. The due amount can be paid by linking your salary account to the credit card's payment schedule. The buffer of four days is to make sure that if anything wrong happens with the automatic transfer, you will have time to rectify and still make the due date. All your previous month's fixed costs, guilt free spends made on credit cards will be paid by 10th.

January 20th: Review your finances and balance your guilt-free-spend for the remainder of the month.

That's it. As simple as that but predominantly effective. Congratulations!

As you've automated the entire process, you can sip tea and watch SaaS Bahu episode #1091. The system will function with German precision and nag you like an Indian when something goes wrong. Only when the improper functionality starts nagging, you must wake up from your slumber and work on it. At best, it takes 3 hours of effort every month and at worst it takes 10 hours if you're slow. But you're not slow, you've picked up this book. That's why I'm sure you're about to become financial superstars and change the landscape of our economy!

Before you step onto stardom: "*Anyone who has become rich twice is dumb. Why would you risk what you need for what you don't need? If you are already rich, there is no upside to taking on a lot more risk, but there is disgrace on the downside.*" – Warren Buffett

There's quite a lot of Warren Buffett quotes that can be incorporated into the book. But this one is highly important at this juncture. As we've learnt to minimize mistakes and automate the process, we mature with experience and may try to take on risky positions. As Warren says, it's always better to get rich once, rather than '*do it once, lose it all and build again.*' Incorporating the habit of not taking too many risks is going to make you very rich. In fact, I love this kind of lazy life: do the 9-5 with enthusiasm, money runs on its own and not shed a worry about finance. Besides investing my money, one of the ways I get to be like this is because I've a safety net in case something goes haywire: *I lose my job.*

Specialists like to say '*3 month – 6-month salary*' should be in your savings account as your safety net. I prefer to keep a RD running that matures at 3-

month salary. When it reaches that amount, I then intend to store it in a FD and not touch it. Alternatively, the FD required for getting a credit card could double as your safety net.

I've been jobless twice to know that when it happens, I rebound to my parents' home, cut expenses into bare minimum and survive easily until I get my next role. Similarly, you can get-through with less than 3-month salary until the next job comes around. But in case you're married, you might have to do a lot more; it would make sense to cover as much as possible (3-6 month expenses).

Bringing it together

1) **Setup the automation funnel**

- Collect the URL, password and login details for every account.
- Make sure to talk with your HR and get the NPS/ EPF match handled first.
- As per your next-100 plan, link the online accounts across systems.

2) **Key in the dates and watch the marvel happen**

- Ask every handler to bill you around your salary date. Have a month's reserve as you switch the dates around.
- Plug in the funnel corresponding to the due-dates of each bill. Sit back and relax - your finance is sorted.

What week 5 entails?

Why invest and not just save

What are the instruments to invest in? Which one's the best?

How to invest to achieve every major goal - retirement, child education etc.

The purpose of life maybe debatable, but the purpose of money is crystal clear: money is there to be spent. In this chapter, we will look at simple techniques to invest money on auto-pilot so that we have enough for the future. Previously, we've learnt, how to save and spend for the things that we need now. But for our future dreams, the only possible solution is to invest money toward it. The ideas mentioned here should take no more than 1-2 hours to set up. But wait, it gets better - after you've set it to run on autopilot, you'll only need about 30 minutes a year (maybe even less) to review and if necessary, course-correct.

Why Invest?

Quite often, as new graduates, we have starry-eyed dreams upon entering the workforce. We believe we are gifted unicorns that can achieve great things, see places, meet people, grow relationships, donate generously. We look at those who have a 9-5 job, deride them for being stuck in a rut and dream of everything awesome that we're going to do. As time passes, the dreams start to fade slowly. It feels like we're beginning to be drained of choices and give in to the numbness of regularity. In a nutshell, we feel like the team bowling at Pujara: those leg-side glances, back foot cuts, ugly forward nudges seem to be repeating themselves without grace, forever. Any hope that the misery will end is nullified when you look at your family, *"Taking risks are for people who have it sorted - maybe I'll read entrepreneurship books and further compound my misery"*. But then, there's a way to pull the cord on this repetitive misery of a video game: be smart with money right from the outset. Investing by utilizing compound interest is how we can make sure, our futures define glory.

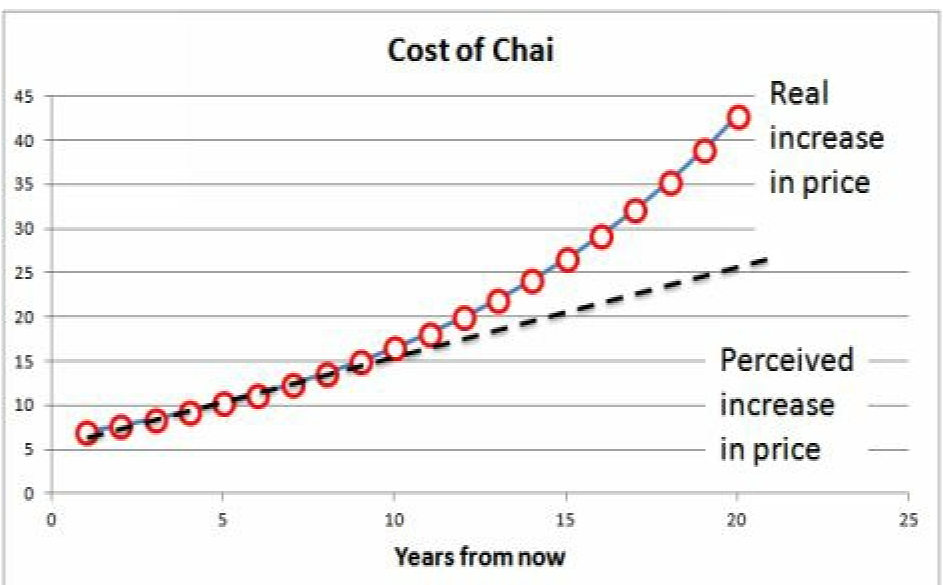
Here's an analogy: Imagine your life as a slice of bread; apply a rich serving of peanut butter to one side and take it close to the mouth; the mountain of deliciousness is the fun that we can have today. It is so inviting that we often fail to recognize that much of the slice is still barren. It is only after we zoom out, we recognize the need to spread evenly across the slice. The point is: the last bite is going to taste awesome if it has some spread on it. So instead of spending everything that we make today, why not spare a little for tomorrow? Just as we all need to *'live the moment'*, we need to *'zoom out'* a little and consider our expenses 3 years from now, 5 years from now, 10, 15 and 25 years from now. And while we are at it, go ahead and list the dreams, goals, the places we wish to visit, the cars we want to own, the partner we want to marry etc. The first step in making them a reality is to define them as clearly as possible.

The next step is to realize that our essential expenses in the future are not going to go away. Let's take the example of the cost of a corner street chai to emphasize why investing is paramount. Priced at ₹7, we can afford it without thinking twice. If I think back to the days when I graduated, it was priced at ₹1.5. The monetary difference maybe small but in terms of yearly increase it's 10%. Even better, in percentage terms, the past 20 years have seen tea prices increase anywhere between 10% to 13% (on average) depending on your location.

Extrapolating this info for the next 20 years, the estimated price of chai is ₹47[18] in 2037. **An astonishing 571% increase** - just like it has gone from 1997-2017. The reason why we won't worry about it, is because the increase occurs in baby steps spread over years/decades. When we complain about rising prices, we never stop, take stock by how much they have risen and how much they can rise in the future.

Like how the French make frog legs: slowly heat the water container until the frog's legs go numb, we don't realize until it's too late. If the chef had rapidly increased temperatures, the frog would jump out. Instead, as the temperature gradually increases, the frog settles down in the lukewarm water only to endure death at the end. While most of us are capable of sensing danger that's immediate, but the gradual lukewarm increase of inflation goes by unnoticed.

Inflation is like the mystery in the dark corners of our under-nails. We know something's in there and whatever it holds, is best left uncatered. When chai sells the next year at ₹8 instead of ₹7, we do take notice. But our mind tends to sum up these small changes and assume that the price would increase linearly. The mind makes grave errors in mental calculation by thinking that in 20 years, it would be about ₹25-27 for a cuppa (one rupee more for each year), and not close to 50 bucks as shown by real math.



One other reason we fail to take inflation seriously is in fact our salaries. Our salaries increase gradually every year, wherein we believe that it’s enough to keep up with the rise in prices. This increase in salary gives us the false impression that we can afford the similar *‘small increase in the price of chai’*.

The trouble is: our jobs in the private sector are not guaranteed and no one in their right mind would expect to see salaries increase by 10% year after year!

If you think I am making too big a deal about a cup of tea, please bear with me. Imagine that you have ₹15 with you today. You get a cuppa for ₹7, a mint for ₹1 and are left with ₹7 with which you are going to conduct an experiment. You invest the remaining ₹7 and forget about it. Twenty years later, you suddenly remember and net the profit. Excited beyond measure, you head to the same chai shop conjuring past memories.

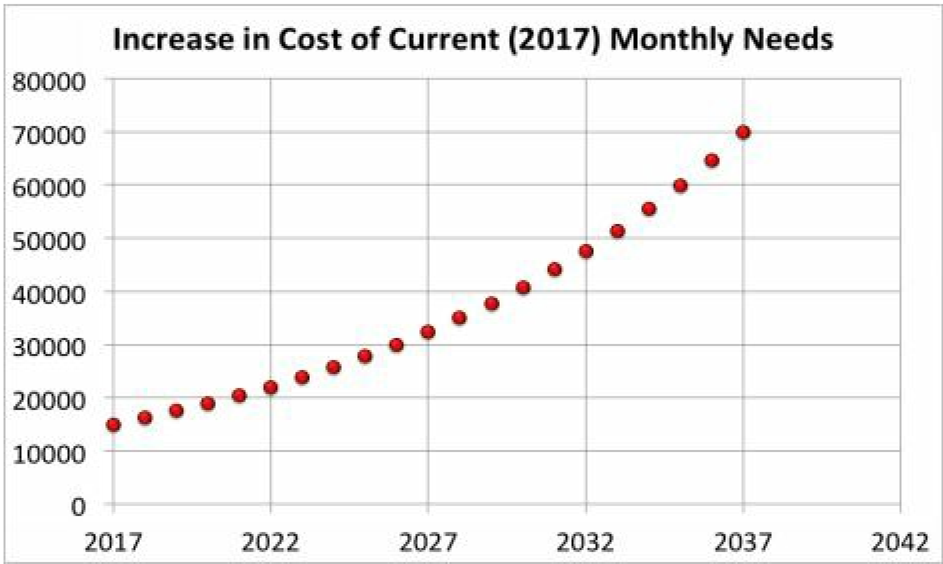
In-order to buy the same cuppa, you would need a post-tax return of *at least* 10% matching the estimated chai price of ₹47. And it is only an estimate! Often, life doesn’t pan out like a spreadsheet. Perhaps, due to overpopulation and lack of resources, a cuppa could cost much more, or maybe someone invented artificial tea that you could grow from your homes!

When you extrapolate this experiment with indispensable monthly expenses – groceries, vegetables, petrol, cooking gas, electricity, phone, internet, cable maybe costing you 15k currently, the cost of each item is likely to increase in the future, but not at the same linear rate. A hard look at my family’s ledger report reveals that the price of rice has only increased by about 3-4% over a 20+ year period (1995-2017). However, the price of vegetables has gone up by 9-10%, while electricity is up by about 9%. The overall rate at which our monthly expenses have grown is roughly 8-9% yearly.

This means that if I spend ₹15,000 in January 2017 towards monthly expenses, I should safely expect to spend 16,200 in Jan 2018

~ 17,500 in Jan 2019
~ 18,900 in Jan 2020
~ 69,900 in Jan 2037.

Of course, the expenses may not *actually* increase 8% each year. It may be the same (15,000) for the next 3 years and in 2020 shoot by 36% (~ 20,400). If you look back, the year on year increase is still 8%. This R (8%) is known as the *compounded annualized growth rate* or CAGR. The real-life representation follows this kind of a model, wherein prices don't increase for a considerable period and then, shoot up vertically. When you spread it across and calculate CAGR, you'll note that expenses notably double every 9 years.



Looking at the graph, you'll note that prices increase to ridiculous amounts from 2030 onward for basic necessities. But what about those dreams we had upon graduation - big home, flexible job, travel plans? Plus, we are likely to have family additions, new technology and new needs too, instigating a lifestyle creep. In-fact, the actual increase in monthly expenses would be much higher than the graph-model.

The arsenal of weapons that we have, to counter inflation are very limited. You could do the tried and tested, *'earn in a foreign currency'* for a number of years, come back and live like a prince. If that's not you, then investing is the bike that can help you de-lever inflation.

With many things in life, we need a reference or a benchmark. When it comes to investing, **inflation is the key benchmark.** Since investing is for personal expenses, our efforts need to better expense-inflation.

To put a number, it would be safe to assume an inflation rate of at least 6%. Although, to be more realistic 8% is the rate at which basic expenses increase. Keeping 8% as our benchmark would mean factoring in our starry-eyed dreams into the calculations.

With a benchmark of 8%, the goal is to grow money (after taxes) at a rate greater than this. So the *net return* from your investments should be about 9-10% (after taxes). With no banks offering savings or fixed deposit rates anywhere near 10% (post tax), investing is quintessential to keep up the lifestyle.

As a wise man once said, *"Investing is nothing more than common sense, once we recognize the demolishing power of inflation."*

How Do I Invest?

So, we're all warmed up and eager to start investing. But then, we should remember there are primarily two must-do's in investing:

1) Choose a suitable instrument by considering its '*risk and reward*' ratio
2) If the cuppa is ₹7, we have to invest ₹8, manage to get 10% post-tax return, and then drink it in peace, 20 years later. The **amount** to invest is often overlooked but highly important.

Now, onto the ways of investing to achieve such a return. There are 4 instruments for investing.

1) Buying a small piece of a company - equity/ stock in it
2) Receive fixed income by becoming a money lender to a company
3) Buy Real Estate
4) Gold

We will look at them, see how they operate and zone in on one option to best champion our 80/20 personality.

1) Buying a small piece of a company i.e. equity:

It can be done via acquiring stock in a publicly traded company (aka equity). This kind of ownership means that if we own 2% of a company we have 2% of profits or 2% of its losses depending on the company's performance. The profits to our personal portfolio depend on how well the company is doing.

The stock prices vary based on the earnings generated and on the demand from people wanting to buy parts of the company. Thus, the gains we make also depend on the demand and supply forces in the stock market.

Given that the value of the shares we purchased should increase with time and we sell at a greater price, the gain is our profit. This is referred to as a *capital gain*. Capital gains are taxed in the short-term and are tax-exempt if the period is greater than 1 year.

2) Receive fixed income as a money lender to companies (Bonds)

Most companies need money to expand their operations. Expansions can be organic (build new factories, hire new people) and inorganic (complete an acquisition of another company). In the inorganic case, stock of the parent is offered to the company being acquired. But in a lot of cases, cash outright is the major driver of the deal (tech companies offer cash + stock to sweeten the deal. For instance Trello, Whatsapp acquisitions). To raise this cash, the parent company issues bonds. If we buy those bonds, they promise to pay us a fixed amount once (or twice) a year decided by a fixed interest rate. These bonds can also be held by banks who issue huge loans to finance these takeovers. The main reason for a company to issue bonds is to try and make profits well above the borrowing rate. When the interest rate of the bond is 8%, the company will hope to make a total gross profit of say, 15% (after tax and expenses). After honoring its debt, it will still be left with tidy net of 7%.

An interesting caveat is: if one calculates the return on investment, a bond may sometimes yield higher return than equity. If the company is not doing well, its share price will take a dent. But your fixed bond interest payment will give you better returns as compared to stock-ownership until the company reverses its balance sheet’s bad status.

Now, unlike ownership of a company (shareholding), where your returns can fluctuate wildly, the income from a bond is fixed. It is certain we will get the payment *provided* the company is doing well. Fixed income is a lot more stable, but likely to be less rewarding.

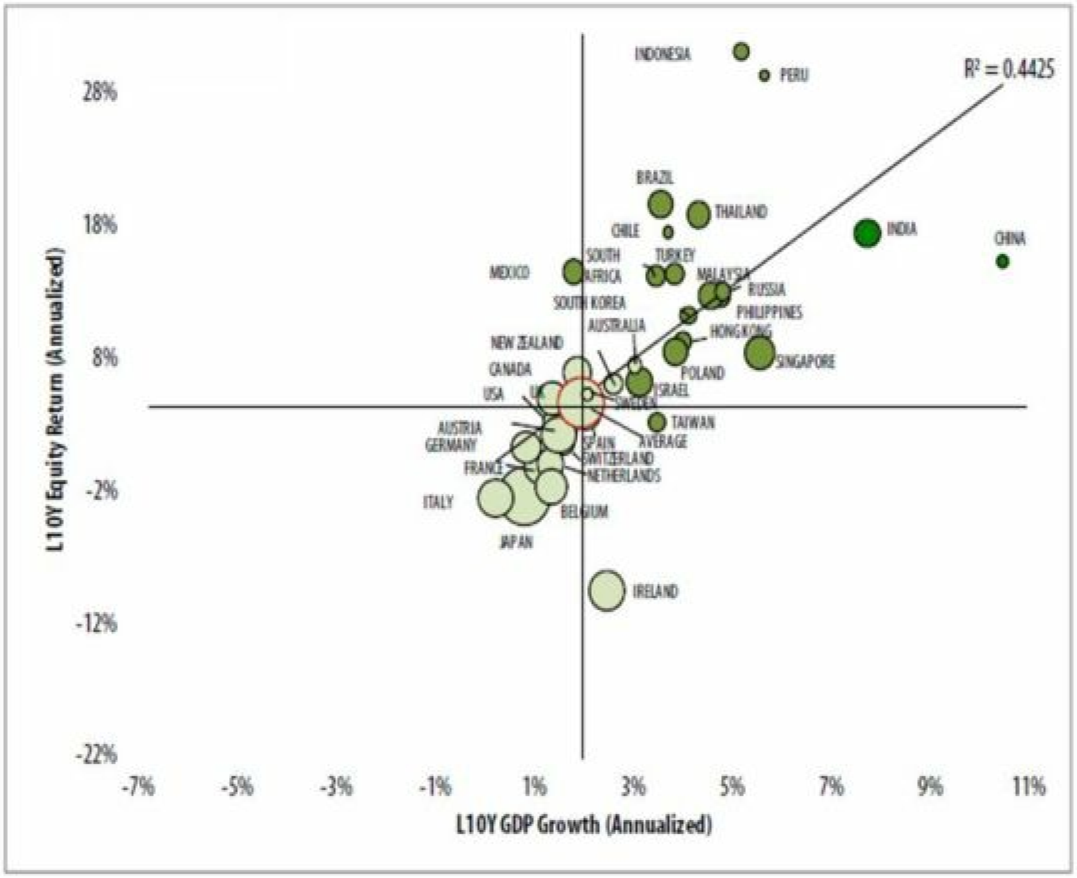
What returns do Bonds generate? The interest from fixed income instruments tend to reflect current inflation levels declared by the government. And since the Government declares inflation at lower percentages as compared to personal expenses inflation, investing in bonds is like eating the corner crust of a pizza devoid of cheese or sauce on it. You can say, you've invested for the future but in-reality you've lost out.

Besides, any income from bonds will always be taxed as per your slab rate. Unlike capital gains (from equity) which are either tax free or taxed lower, bonds get the full tax treatment. As you factor in tax and inflation into your calculations, then the purchasing power has decreased over time. This is an invisible risk that we often overlook.

On comparison, shareholding can beat inflation because profitable companies typically generate returns much higher than the rate at which they borrowed[19]. Their earnings rate far outgrow inflation rates and holding a piece of the company rewards us better.

Some Proof: The GDP (Gross Domestic Product) is the total market value of all final goods and services produced in a country in a given year. If the GDP grows at a good pace, this essentially means the product manufacturers and service providers are doing well and the government has enough money to fund future expansions.

Plotted below is the 10-year returns from stocks (equity) vs the 10-year growth rate of the GDP for several countries.



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Two observations can be made:

1) The GDP growth rate for the developed countries is not so high. This reflects in their stock market returns. The growth rate is much higher for developing countries and this in turn, reflects in the stock market. While I will not advice to take this relationship literally[21], it should be enough to motivate anyone to profit personally from a country's overall growth.

2) Current GDP estimates show that India's GDP is at least 3-4 times lower than that of developed countries (USA, Scandinavian countries, Japan, Australia)[22]. This points to a fairly obvious fact: there is a lot of *room* for our infrastructure to grow. This in-turn means a lot of profit is up for the taking.

In such a situation would you be a moneylender, afraid of the company's fortunes, or would you be a shareholder, daring but getting better returns?

Given the circumstances, deciding to be a shareholder and not a moneylender seems prudent. This automatically implies that we need to invest in companies that are likely to be hugely profitable in the future. Since we cannot see the future to any certain degree, we will have to take a calculated risk.

Considering Calculated Risks: While we cannot buy one company and place all our hopes on it, spreading the risk by buying a basket of shares is smart. For eg. shares from an automobile company, from a paint company, from a sugar company, from a bank, etc. This is known as a diversified stock portfolio. This kind of a distribution greatly reduces overall volatility.

As simple as this concept works, there have been several high-profile individuals who have taken a crack at it and failed. Here are a few examples:

Sir Isaac Newton who gave us so many wonderful discoveries in Science including gravity had a major défaillance with money. By the time he had achieved the award of Highest Officer of the Britain's Royal Mint, he discovered a fallacy with the South Sea Company's fortunes. The South Sea Company had gained monopoly of trade to South America (silver mountains) and people were bullish over the company's prospects to create massive wealth. Stories of Spanish plunder in South America had reached Britain's ears and the public went crazy over South Sea Company's future earnings projections. Newton made public defamations over the ever-growing demand for the shares of the company and sold his holdings for 7,000 pounds, netting him a near 100 percent profit over the trade. As time went on, the interest never subsided and Newton finally gave in to the public frenzy by buying more shares. When the bubble finally burst, Newton had lost an amount of 20,000 pounds which led him to say, *"I can calculate the motions of heavenly bodies, but not the madness of people."*

Benjamin Graham, known kindly as the 'Father of Value Investing', had a rough experience too. To give a perspective of his acclaimed fame, Warren Buffett said that Benjamin Graham's book was *"the best book on investing there is"*. Warren, as a youngster, was so keen to work under Graham that he'd write letters daily for months asking to be an intern-of-sorts under him. Graham's fall to humility was an interesting one. He had become enamored by the growth stocks of the 1920's that he started to trade daily. He bought a luxury home on Central Park, New York, and hired a butler to take care of his domestic needs. Little did he know that things had become overvalued when the market crashed and he lost 2/3rd of his huge fortune, during the great crash of 1929. After the highly irreparable event, he changed his ideas. Such changes impacted the people around him and further editions of his book *'Security Analysis'* with Graham Dodd, have become the Bible for Value Investors.

Jesse Livermore had bucked the great fall of 1930's and shorted stocks which netted him a profit in the range of 100$ million. He was one among the few who saw it coming and profited. Later in 1934, he had lost it all and announced himself bankrupt whereupon he shot himself to death. His suicide note said, *"Tired of fighting… my life has been a failure"*

George Soros, the much-acclaimed hedge fund manager famous for profiting off the British Sterling's downturn, had a humbling experience. He and his close counterpart Michael Steinhardt had realized that the tech craze had gone for too long in 2000 and wanted to dump the stocks. And they did just that in early 2001. But Druckenmiller, the fund manager at that time, felt the high prices would go on a little more and a Greater Fool would arrive to buy off them. They dipped once again into the markets. The bubble pricked and left them with ash in their mouth. This led Soros to proclaim *"Maybe I don't understand the market. Maybe the music has stopped but people are still dancing."*

We often try to undercut the long research process by buying stocks of companies prescribed in news outlets. Getting tricked is one thing; but being tricked by a game as old as the internet is stupidity. The book *'Flash Boys'* in 2014 shows how the world has moved onto High Frequency Trading and the like. In 2017, *hedge funds* like Citadel are recruiting ultra high-IQ scientists and data miners from college to gain the slightest edge from the market. But if you're still looking at recommendations and free stock-picks by analysts, this deserves a special moment of silence.

"Those who know don't tell and those who tell don't know."

- Michael Lewis, *Liar's Poker*

Stock markets are hard to explain. The prices of a company's stock depend on a human's ability to project the future earnings. It is quite an impossible task to project earnings, judge competition and value if the price is currently cheap. Add to it that an investor also must judge the madness of the public. Even if you're right on earnings projections, bought it cheap and saw that it has no competition, the public has to realize it soon enough so that the stock prices improve. To get a decent R (rate of return), we must research, predict their future, pass judgements on their management team, pray to god we were right and wait patiently. And then proceed to do it consistently day-in, day-out for years.

Imagine doing that for 4-5 companies while constantly monitoring its performance every quarter. Most of us have better things to do like eating a Maharaja Mac in 3 bites. For the likes of us, we have vehicles called mutual funds. Here, a portfolio manager takes money from small investors like us, pools it into a bigger corpus and uses it to buy a basket of securities. The securities maybe stocks, bonds or gold depending on what they decide and elicit the same in their prospectus. Before dipping our toes into the best Mutual fund to consider, let's dive headfirst into the world of Real Estate.

3) **Buy Real Estate:** Given that Real estate enjoys a darling status as the investment of choice, we're going to dive deep into its analysis. Strap on!

Bear with me, we're going to pivot toward human psychology for a moment. After that, I promise it's all about kicking some '*convention thinking*' a***

SHE: I have nothing to wear tonight!
HE: Whaaaat? This whole wardrobe and you have nothing?

The feeling of having enough but nothing suitable for the occasion arises often. We think that such a feeling stems from brilliant marketing of the brands, while the truth is the opposite. All their life, marketers wish to trick you into that feeling you think you're experiencing. They even conduct mass surveys and experiments to make you buy stuff you don't need. The simple truth is, they're clueless when they started and are likely clueless now. The best we can do is make educated guesses and the fallacies of our mind have been documented at length by Kahneman and Tversky. But, it is possible to make people buy things they don't need now but might need in the future. When I think about it, I feel I can make-do with 2 button down shirts for work. The best-case scenario is that I alternate between white shirts and no-one notices. If I could alternate between 2 shirts, chances are I become a butt of jokes when someone finds out. Given the odds, it is most likely to happen. And that means when I buy multiple shirts with varied designs I am avoiding insults - not duped by marketers.

When you look at a scene of 'Downtown Abbey', the *maids* dress the 'lady' in varied dresses and jewellery that the lady flaunts at grand balls. Back then, the ultra-wealthy had options. When we headed to the grocery store, we knew what we were going to buy. If the store didn't have atta, we simply returned home and didn't look at that bottle of perfume. Whatever we owned we cherished, as the money was limited and production wasn't grand-scale to make things cheap.

But the concept of *shopping* changed all that. Suddenly, things that were only accessible to the ultra-rich were opened to all of us. We didn't need a brown leather glove and a black woolen one - but we liked to match them with outfits. That same maid from Downton Abbey who has worked in a shabby maid's uniform, now has the choice to buy something for herself from years of hard work. Suddenly, that dress and necklace that she dreamt of, is within reach. Although deep down if you ask: does she need it? No. Why? Because she's never going to a Ball and find Mr. Dashing Diplomat.

In fact, we buy things because of the emotions that go with them. Buying several shirts mean I'm Mr. Sharp and not Mr. Pickeasy. Getting a gym membership means you're not buying time to lift weights but you bought an idea of the dream body. When you buy drinking glasses, you're thinking of cricket night with friends and not the value of glass in your hand. If it came to drinking juice while watching cricket matches we could all have done with aluminium glasses but the glassy glasses elevate the happiness emotion.

Quite sadly, *'We're never buying what we think we're buying.'* We buy stuff because we believe we need them. On the contrary, we buy things because we desire the emotions attached with them.

To Buy or Rent a Home

Likewise, when it comes to buying a home, we often hear statements like

- *Rent is throwing money down the drain.*
- *Buying is any-day better than renting.*
- *Most of the people became rich because they invested in real estate.*

Your home will be your best and biggest investment.

Home purchase has been made legit by throwing clichés like these to satisfy an emotional decision. We don't need to buy a home but we desire the curry of prestige and emotions that tangle with it. But what if these emotions were built on an unsteady foundation? What if someone showed you that renting is not wasting money but allocating a wise percent of salary for better use later-on. The following pages will do these and much more.

Upon debunking these myths you'll be convinced that buying a home is indeed an emotional decision and not a logical one. Like looking at a closet full of options, we choose to ignore the necessity of warmth and go for the jugular of emotions when buying a home. And when it becomes an emotional decision it borders more on the 'need' than any 'want'. At the end, you'll decide that a home is a purchase and not an investment as people make it out to be. When it gets perceived as the most expensive purchase of your life, you'll start looking at it through a different lens.

Now, onto breaking age-old myths.

Debunking Assumption #1: Rent is money down the drain

Here is the oft-heard line, *"Rent is a useless expense while buying a home builds value. If you rent, it is forever and renters can never benefit from the incredulous increase in home prices"*

Here's what's wrong: Conventional thinking goes - renting is 0% money towards an asset but paying for a mortgage is x% towards building an asset.

Let's consider a 50lakh home:

- Down payment: 10 lakhs
- You owe: 40 lakhs within a 20-year period
- Interest 10%

The payments in the form of EMI you're making will consist of the four:

1. Principal

2. Interest
3. Taxes
4. Insurance

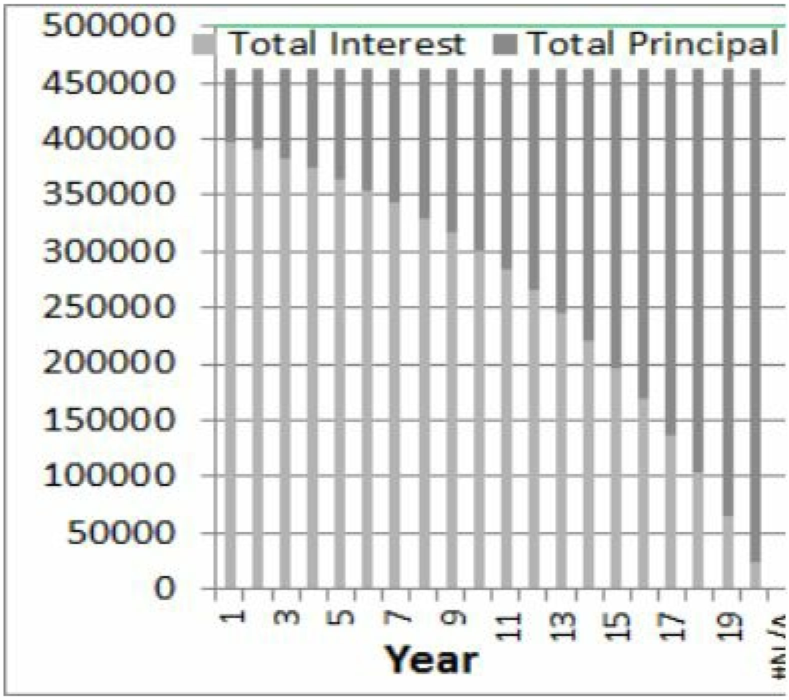
As you start paying the mortgage, only a small portion of your payments go toward equity (Principal) for a seriously-long time. Principal is the equity that you're building on the home. The other 3 expenditures are well, expenditures - down the drain. While you may get some relief on the taxes front in the form of 80C and section 24 deductions, it is still expenditure that you wouldn't incur if you were renting. Let's see the payment plan in detail with the amortization (loan repayment) schedule to further the point.

Amortization schedule excel sheet

Monthly Schedule									Annual Schedule				
Month	Loan Disbursement	Floating	EMI	Interest	Principle	Regular	Irregular	Balance	Year	Total Emi	Total Interest	Total Principal	Year-end balance
0	4000000	rate*				payments	payments	4000000	1	463210	397021	66190	3933810
1	0	10%	38601	33333	5268	0		3994732	2	463210	390090	73120	3860690
2	0	10%	38601	33289	5311	0		3989421	3	463210	382433	80777	3779913
3	0	10%	38601	33245	5356	0		3984065	4	463210	373975	89236	3690677
4	0	10%	38601	33201	5400	0		3978665	5	463210	364631	98580	3592098
5	0	10%	38601	33156	5445	0		3973220	6	463210	354308	108902	3483195
6	0	10%	38601	33110	5491	0		3967729	7	463210	342905	120306	3362890
7	0	10%	38601	33064	5536	0		3962193	8	463210	330307	132903	3229986
8	0	10%	38601	33018	5583	0		3956610	9	463210	316390	146820	3083166
9	0	10%	38601	32972	5629	0		3950981	10	463210	301016	162194	2920972
10	0	10%	38601	32925	5676	0		3945305	11	463210	284033	179178	2741795
11	0	10%	38601	32878	5723	0		3939581	12	463210	265270	197940	2543855
12	0	10%	38601	32830	5771	0		3933810	13	463210	244543	218667	2325188
13	0	10%	38601	32782	5819	0		3927991	14	463210	221646	241564	2083623
14	0	10%	38601	32733	5868	0		3922124	15	463210	196351	266859	1816764
15	0	10%	38601	32684	5917	0		3916207	16	463210	168408	294803	1521961
16	0	10%	38601	32635	5966	0		3910241	17	463210	137538	325673	1196289
17	0	10%	38601	32585	6016	0		3904226	18	463210	103436	359775	836514
18	0	10%	38601	32535	6066	0		3898160	19	463210	65763	397448	439066
19	0	10%	38601	32485	6116	0		3892044	20	463210	24145	439066	0

During the first ten years of loan payment,

- The equity you've built on the home: 10.7L
- The amount of interest you've paid: 35.5L



The inflection point of where your principal builds faster than interest is not until 14th year.

In the end, when you have paid off everything and you own a home

- Total interest payments: 52.6L
- Principle: 40L

Right now, if you're looking to say, *"some equity toward an asset is better than nothing at all"*, look at the opportunity cost (alternative) you're missing out on. When paying for a mortgage, typically, people spend about 50% of their monthly salary on it. If you were renting, you'd have other options to do with money than pay large EMI's.

Best alternative: That 50% of your monthly paycheck going towards mortgage payments could have been divided into 30% rent, 10% equity market investing and 10% yearly vacations. If you think *"Housing reached unbelievable prices during the boom of late 2000's,* consider this: during this same period, the Nifty 50 moved from 1266 to 8475 at a rate of 12.6% per annum[23].

Nifty50 is a broad-based collection of the top 50 companies in India

“But, but housing is always on the up. It has been tried and trusted”

It is true that some people caught the unbelievable upturn during the first decade of the 21st century. No one predicted the rise and until then, housing prices didn’t keep up with inflation too. It made a lot of people keep primary homes, buy secondary properties and count on history to repeat.

The fact is: **if you’re going to hand-pick specific dates**, I can down you with an equity-wallop. If you had bought 1 Wipro stock at ₹ 100 during its initial offering (1980), you would be holding 4.6crores now (36 years later). It has returned over 46% year on year while real estate got nowhere near it. With hindsight, everyone's a genius; besides there’s no assurance that the same events will repeat itself.

If you’re going to hand-pick locations: Bangalore did brilliant with huge returns previously, but is hungry for new owners now. At any time, we can find cities that don’t do well but have done well in the past. Some of them made people rich but now have unprecedented levels of empty apartments (*ahem*, Mumbai).

The cost of tying up your cash to a huge purchase is always problematic. It is two-fold:

1. With no wriggle room, other pleasures -ex. vacations, buying a car take the back seat in priority.
2. Plus, you miss out on investing in higher-returns generating equity.

I'm just trying to show you that looking at outlier cases and making ignorant clichés to justify a 7-figure decision isn't the way forward. Renting is not money down the drain. In fact, renting is segregating money flow, while allocating the least gravy flow toward the drain.

Assumption #2: Buying is always better than Renting

Here's the symphony of thoughts that lead to this cliché:

➔ Renting means always giving money away
➔ If you're buying, then the loan will end within 15-20 years
➔ Fewer payments and a tangible asset in hand makes buying better any day

Right off the bat, let's get the mother of all lies upfront. When you're done with mortgage, your expenses don't stop like a hand-brake. Miscellaneous expenses occur at such an alarming regularity that makes you wish you never bought the home in the first place.

When you finish paying off the loan, it means that you're done with principal and interest. Other expenses occur at regular intervals that you wouldn't incur if you were renting. Expenses such as:

★ Maintenance *(a 20-year-old flat needs a couple of white-washes; have you looked up the Asian paints catalogue? Great business, skyrocketing prices)*
★ Repairs *(20 years old = leaks, plumbing issues and clogged drainage. Add re-doing the kitchen, new furniture and electronic accessories into the mix)*

- ★ Property taxes
- ★ Homeowner insurance
- ★ Municipal bills (water, sewer etc.)

To profit from the home as an investment, we have to sell the home and move on. In that case, there are transactional costs, broker fees, etc.

Transaction fees, closing fees, broker commissions: total costs usually amount to 5L[24].

The home you would have bought might have been with a 20% down payment. For further argument sake, let's say it's 20% and you put down 10L on a 50L home. But as an alternative, let's say we took 6L (remaining 4L for a memorable trip to China) and invested into Nifty 50 which returns 5% **above inflation** in the long-term. In 20 years' time this will amount to 15.9L after **accounting for inflation.**

Opportunity Cost: 15.9 Lakhs and a month in China

Key takeaway:
#1 Your principal and interest payments are not the be-all, end-all of payments
#2 We have short sightedness when it comes to money: we concern ourselves with cash-flow and not the entire Profit/Loss statements

For ex: when we have a big renovation project (kitchen makeover), the 1L that we dispense with hurts badly. Likewise, when the regular bills such as utility-1000, property taxes-400 occur monthly, we fool ourselves that the total expense is only 1400/ month. Whereas the total expense in this case is 1L/12+1400=10K per month. Also, if we don't pay attention, we completely discount invisible expenses such as opportunity costs. With half-hearted calculations like these, we convince ourselves that '*costs of buying are definitely lower than renting in the long-run*' when all evidence points to the contrary.

Perhaps, not zooming out and panning through the whole picture has made us poorer.

“Giving someone no map is much, much better than giving him a wrong map“

- Nassim Nicholas Taleb

Inference: Buying is almost, always never better

Assumption #3: Most people became rich because they invested in real estate

Here’s the problem: The elder generation bought some piece of real estate and sold it for several multiples later. This concept worked like a charm and it involved least effort from the human brain. Knowing about equity markets meant we had to put in effort to understand the ways and means. Real estate meant buy, forget and pray until it rose in value to several multiples. Doing least work + price appreciation = happy human!

Where we go wrong: Quite a lot of people have second apartments as an investment option for their retirement. This makes them financially and emotionally committed to paying the EMI’s and sticking to the tale that real estate is the best option. When you search for reasons, it would be easier to advocate *‘availability bias’* as the primary source of their opinion. It’s not very often you hear common men say they became rich from investing in equity markets. But everyone knows that one family member or community friend that bought a plot of land which sold for 40x when they sold it 30 years later. This makes us buy that second apartment as an investment for our retirement and as an insurance for elder years. In fact, if the second apartment is valued at a crore right now, it is practically unsalable as there’s no willing buyer at that rate. Besides, the rental yield on the apartment is a paltry 3% per year which at best can cover only a part of the EMI. As you see, this is a vicious cycle problem - I buy home, I pay EMI along with rent obtained, I believe it is best investment, I buy more homes.

Let’s dig deeper: Real estate value creation grows in five stages as commonly pointed out by the CEO of Value Research, Dhirendra Kumar. It goes like this:

1. Change of State - unused land to commercial land
2. Creation of surrounding environment - new buildings and infrastructure
3. Improvement in habitability - population increases and better amenities (great restaurants, schools, hospitals) open
4. Overall economic growth coupled with inflation - people’s spending ability improves
5. Sudden surge in demand, slump in supply - all these can increase prices

Those family members who had bought a plot of land for pennies essentially bought them before stage 1. As they bought it and forgot the purchase for decades, it allowed the greater municipality to expand the city’s perimeter. This meant that the land could increase in value through all the stages. But most primarily, it had the multiple growth available within stage 1 and stage 2. But if you’re going to buy apartments at an already posh location in the city, it means you’ve skipped stage 1-3 and are banking on stage 4 and 5 for price appreciation. Now, if you buy an apartment in an established environment, you can’t even get lucky with timing. Your returns will barely beat inflation (i.e. 6-8%) as the price people can afford is the increase in their salaries.

After reading this line of reasoning, people will most likely shoot me down on twitter or send a barrage of emails on how they’re different. Any unique prima donna case will have lower interest rates, greater flexibility on EMI payments or a higher salary taken home. To nip any such advances, the above narration is for a larger audience (single, unmarried and no responsibility youngsters who prefer flexibility to security) and meant to be an eye-opening exercise. Being in denial because you’ve already bought a home or arguing that I’m totally wrong will not be productive. I like to think of myself as Samwell Baggins to you, Mr. Frodo. Whatever decision you take, I’ll be with you and help you see clearly.

Given these factors, it makes **NO SENSE**[25] to buy a property as an investment. Buying a house to stay in is an expense - a really huge expense. When you start pivoting your idea of a home as an expense instead of an investment the whole earth beneath you shifts. The math will become more important and the emotions will take a back-seat. Any appreciation that the house obtains during the time you gestate is a lucky break. With inflation jamming on us hard, lucky breaks are not ideal[26] - we need assured solutions.

But, if you feel you have to buy a home, here are a couple of factors to help you make the decision:

Factor #1: Before you decide to throw money on rent forever, or pay ‘EMI’s and expenses’ forever, consider how effective both renting and buying costs are:

Price of apartment: 50L[27]
Rent: 20k per month = 2.4L per year
P/R ratio = 50/2.4 = 20.8

As a fast hand rule[28], if this number is:

P/R is 20 - buying is expensive - wait for it do drop
P/R is 25 - Rent forever, eat KFC daily and buy that latest iPhone without busting your kidney

If I buy a home, I will buy when the ratio drops to 13 or lower (30L home at 20k rent). When that’s the case, renting has become expensive and buying is a better option. Until then, I’m better off building up my savings by renting an apartment and investing in the equity markets.

Factor #2: The whole concept of this *buy vs. rent* argument is a forever game with people leaning on either side of the fence and staunchly defending their views. In fact, if you’ve done the math, and renting seems expensive then it’s time to look at the qualitative reasons. Instead of sitting on the fence about buying or renting, think about:

- How long you’ll be in the neighborhood?

- Is the neighborhood the ideal location for work transit?
- Do your children have the ideal place to grow up?

"I'm glad you are here with me. Here at the end of all things Sam"

- *Frodo*, J.R.R. Tolkien, The Return of the King

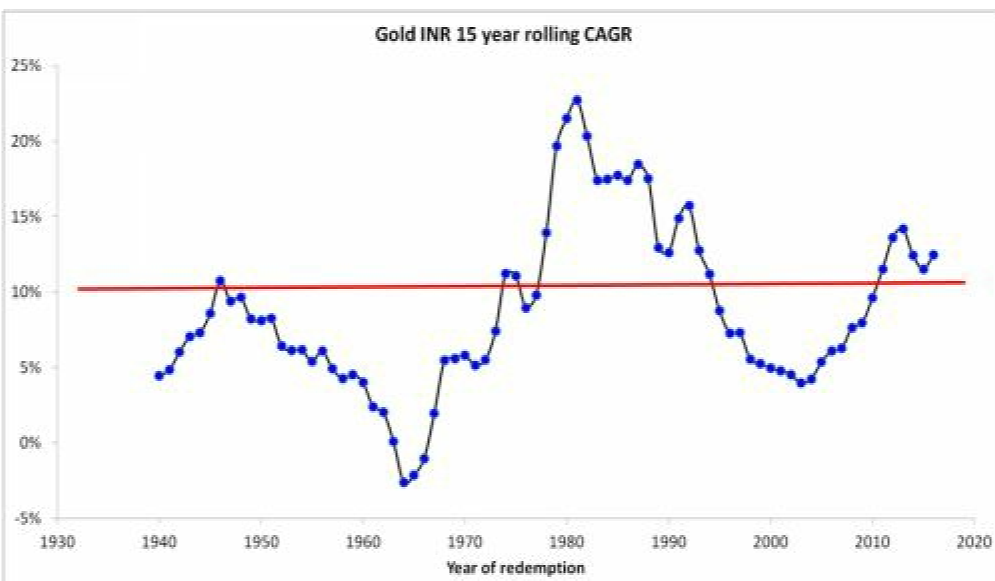
Before finalizing 'how to invest', let's look at gold.

4) Gold:

Two factors that determine whether gold is a reliable investment idea:

1) Gold in Indian Rupees depends on US Dollar rate of gold and the USD-INR exchange rate. Both these have their own ups and downs. As a result, more often, tracking gold prices in INR is more volatile than stocks[29].

2) Long-term returns from gold (before tax) have varied so much in the past that it is impossible to predict what will happen in the future. Sometimes, keeping money in a savings bank account has been comparatively more profitable!



Each dot is the return from a 15-year investment in gold. Past returns have varied from spectacular (24%) to abysmal (-3%) over 15 year periods.

Some amount of physical gold will come in handy if there is a war or if our economic system collapses and the rupee becomes worthless. Then gold will become a currency. However, gold as an investment where we expect to profit from price changes is an entirely different ball game. Unlike the stock market where long term returns reflect the productivity growth of a country, returns from gold depend on various factors and are harder to peg down. This is because the intrinsic value of gold is debatable as it is not as widely used in industry as silver.

The stock market is risky but over the long-term, companies tend to do well as the nation's output improves. On the other hand, gold has undue risk but doesn't deliver returns consistently.

These are the annual returns from tracking gold price from Mar 1982 to Mar 2017.

From the above graph, Gold INR resulted in an annualized return (CAGR) of ~ 9.5% after taxes, which has just about kept up with expense-inflation. But during the same period, Sensex gave an annualized return (CAGR) of ~ 15%. History tells us that over the long-term, equity provides adequate returns for the risk involved, while gold does not hold any guarantee (sometimes returns are as low as -23%).

If investing in something that is the riskiest with no definite upside is your kind of thing, consider gold. To compound misery, there are so many more reasons to avoid it - scratch ratio, losses upon redeeming them, taxes, black market forces *(Google: Chile Gold)*, Bretton Woods Law etc. Skipping gold altogether might seem anathema to you but it will make many of you *'Wiser and Richer'* in the long run.

Bond - Matches inflation but sub-performs expense-inflation
Real Estate - too expensive and restricts flexibility
Gold - Lady, please!

This leaves us with equity as our preferred mode of investment to beat inflation. To balance out the volatility in stocks, we can add some percentage of fixed income to the total composition. This is where NPS/ EPF come into the picture.

Why add fixed income instruments at all?

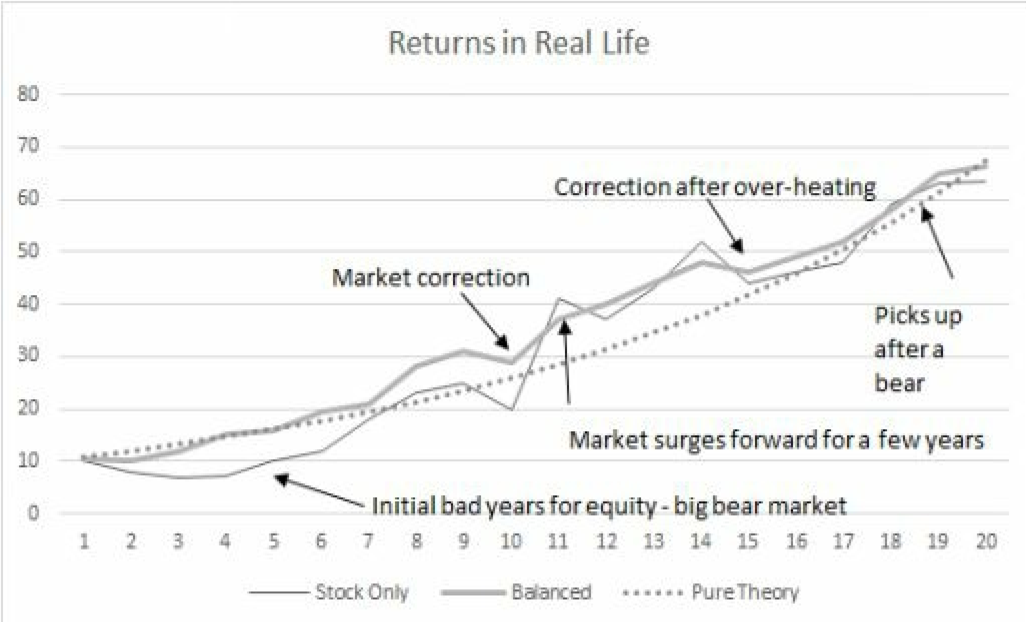
Consider this example of loss aversion from Amos Tversky & Daniel Kahneman:

You are given Rs. 50 at the beginning. Then you must choose one of the 2 options

1) Keep Rs. 30 for yourself
2) Bet on a coin flip. If you're right, you can keep the 50. If you lose, you lose the Rs. 50

In a disproportionate ratio, people chose option 1 and decided that any loss (even with free-bonuses) was unbearable. If you had asked me the question, I'd avoid losses as well and would have chosen option 1. Bringing in fixed income is the process of ensuring that even imaginary losses won't occur to our portfolio. But, once we diversify, our returns meter will go down because the risk goes down.

Having a purely equity-only portfolio is not a bad idea: it may give better returns than a diversified portfolio. But, volatility reduction is important to keep mental sanity (avoid loss aversion). Given that most of us are inherently lazy with money decisions, balancing returns with risk is important so that we can automate and not worry about it. See the graph below to understand the significance of balancing.



A simulated returns graph (depicts real world scenarios but is hypothetical) is shown above. From the graph, you will see that when having a '60% equity and 40% Fixed income' theme in a balanced portfolio, the ride is going to be smoother - when correction happens, the fall is not so steep, when market recovers, the rise is steadfast and at any time the returns hover steadily instead of rapid movements. This in turn means stress free investing journey!

Balancing is done by adding some form of fixed income so that when equity markets turn sour, you'll still be getting steady returns. For salaried individuals, the fixed income part comes naturally. The EPF or NPS, depending on the instrument offered by your employer is the obvious choice. For others, the Public Provident Fund (PPF)[30] is a good fixed income product to include. As we've seen that fixed income stabilizes portfolio returns, let's move onto finding the best equity investment vehicle.

Including Equity

"If you like spending six to eight hours per week working on investments, do it (buy individual stocks). If you don't, then dollar-cost average into index funds."

- Warren Buffett

When trying to include equity portion into our portfolio, there are two options to go with - buying direct stocks or giving money to a fund manager who invests in the best companies with his expertise. Being an individual stock-picker involves loads of time and there’s huge possibility of things turning sour. In that case, we can look to invest in a fund that will manage the money for us under a defined set of rules.

An active mutual fund has a fund management team that picks stocks after analysis. Active funds are more expensive and are also expected to beat passive funds because there is active human participation.

A mutual fund that simply tracks an index is known as a passive mutual fund. Here, there is no stock picking skills thereby making the expenses low. If the index maintenance body (India Index Services & Products Ltd) makes a change and says a new company has entered the top 50, while another company has dropped out, the mutual fund will try and reflect that change as quickly as possible.

An index mutual fund is a passive fund that tracks a stock market index. The index value is the combined market value of the stocks in that basket. Like any industry, when there’s least human intervention, the probabilities for mistakes are minimized.

The biggest advantage of index mutual funds is that they are independent of *who* manages them, or *which* asset management company (eg. Kotak, Reliance etc.) provides them. The returns from such funds will always be close to that of the underlying index (bunch of companies’ performance) except for a small expense fee deducted by the AMC. The big question is: which index to follow and what are its expenses?

Choosing the fund

Before we choose the fund, some background information on market capitalization (cap) is necessary to dig deeper. If a company has 1 Lakh shares available for trading and each share is currently priced at ₹100, the market cap of the company is 1 Lakh x 100 = ₹ 1 Crore.

Companies with *large* market cap are established players that have been in existence for many years; eg, Reliance Industries, Infosys, Apollo Tyres, etc. Any company with a market cap greater than 20-25 thousand crores can be considered a large cap stock. The returns from them may not be spectacular, but they are solid.

Stocks with lower market cap are those from newer companies. Some of them can be expected to grow at a larger pace than large cap stocks. However, the returns from these can fluctuate wildly.

Just as our total portfolio combines the stability of fixed income and the growth potential of equity, the equity part of the portfolio should combine the stability of large caps and the growth potential of small cap stocks.

Keeping the above axiom in mind, one of the wisest choice is an index of the Nifty Next 50 - a passive mutual fund, that consists of 50 stocks – from the 51st highest market cap stock to the 100th highest market cap stock. Or in other words, the top 100 stocks with highest market cap are filtered and the bottom 50 is made up of the Nifty Next 50 (the top 50 makes the Nifty 50 index).

The Nifty Next 50 is likely to be more volatile (more ups and downs) than the Nifty 50 as the closing price chart reveals. However, the bottom 50 stocks are not illiquid (easily transactable at any time). That means, even if there is a stock market crash, it should not be too difficult to find buyers for them. This also means you can get out even at the worst situations and salvage some face *(although traditional wisdom conveys that during a crash you should invest more than usual so that you can profit when the prices bump again).* This index combines reasonable stability, with reasonable growth profitability.

These are the closing prices in log scale (Source: NSE) of the Nifty Next 50 and Nifty 50. Notice that during the 2008 crash, the Nifty Next 50 fell much more and later, grew much higher than the Nifty 50. One inference from the graph is that investing in Nifty Next 50 is a bumpy ride - a necessary evil to beat inflation in the long-term.

Why choose a passively managed index and not active funds?

- If you see the performance graphs, funds that track the Nifty Next 50 have had an impressive record. Over the last three years (at the time of writing), the ICICI Nifty Next 50 Fund Direct Plan has bettered 110 funds in the multi-cap category of 128 funds (Source: Value Research). The ICICI Nifty Next 50 Fund Direct Plan has *passively* beat 100+ actively managed funds! Impressive, if not incredible! A few actively managed funds might have beat the index in the past but consistent human excellence is rare.

- There is a much older index fund that tracks the Nifty Next 50 – the R*Shares Junior BeES (formerly Goldman Sachs Junior BeEs). This is an exchange traded fund. Here, one can buy an unit of the Nifty Next 50 at 1/100th of the index price. And this unit can be traded during business hours just like a share with the help of a broker (not needed for index mutual funds). Over the last 3 years, it got the 17th return rank out of 128 funds. Over the last 5 years, it got the 9th highest return, but now out of 62 funds. At the time of writing, for the last 10 years (calculated from previous business day), the R*Shares Junior BeES got the 9th highest return out of 42 funds. That is, it beat 33 active funds. Again, what's impressive is that it withstands the test of time while actively managed funds drop dead. Besides surviving, it also currently outperforms ⅔ of the existing survivor pool!

I point this out only as proof of how effective the Nifty Next 50 fund is. I do not recommend R*Shares Junior BeES as it is an exchange traded fund. Instead, the **ICICI Nifty Next 50 Fund Direct Plan** is an *index fund* and is like any other normal mutual fund and easier to transact with.

Choosing ICICI Nifty Next 50 will keep your fund management expenses low and there is no need to worry about what the fund manager is doing – his job is to track the Nifty Next 50 index and it might end up beating a good number of actively managed mutual funds in the future.

Being a market linked instrument, it will be volatile and cannot be left untended forever. However, such tending can wait. You are decades away from retirement and still have at least 5-6 years to become "responsible" (marriage and parenthood). You can worry about portfolio performance then.

"Active investment management by professionals – in aggregate – would over a period of years underperform the returns achieved by rank amateurs who simply sat still. The massive fees levied by a variety of "helpers" would leave their clients – again in aggregate – worse off than if the amateurs simply invested in an unmanaged low-cost index fund."

- Warren Buffett

Before you get to jamming the joystick because you lost in FIFA, let's say your contribution toward your EPF account each month is ₹2000 and your employer adds ~ ₹611 (3.67% x 2000/12%) - that would be your fixed income contribution. A good benchmark is to contribute *at least* 150% x 2611 ~ 4000, from your take-home pay into an index equity mutual fund. In other words, if X is the total monthly contribution to EPF[31], try and contribute 150% of X in an equity index mutual fund.

The proportion is known as **asset allocation** – the linchpin of an investment portfolio. What’s shown above is just an illustration. You can opt for say 30% in EPF and the rest in equity or 50-50 or 10-90 - it is totally up to you. The best asset allocation widely followed is ***‘Whatever lets you sleep peacefully at night.’***

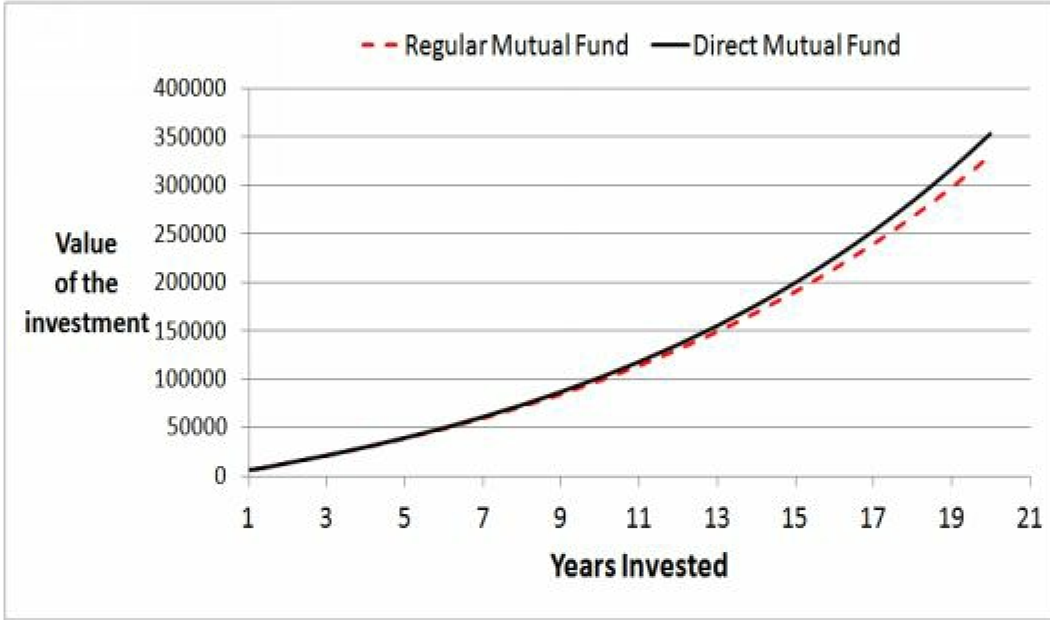
As you consider your Conscious Spending Plan, sync it with the Next-100 Plan - move over to investing your monthly salary accordingly.

That is it! Three-huts, Hurray! If you can manage to keep this up – 40% in EPF + 60% in next Nifty fund, you stand a pretty good chance of beating inflation in the long-term.

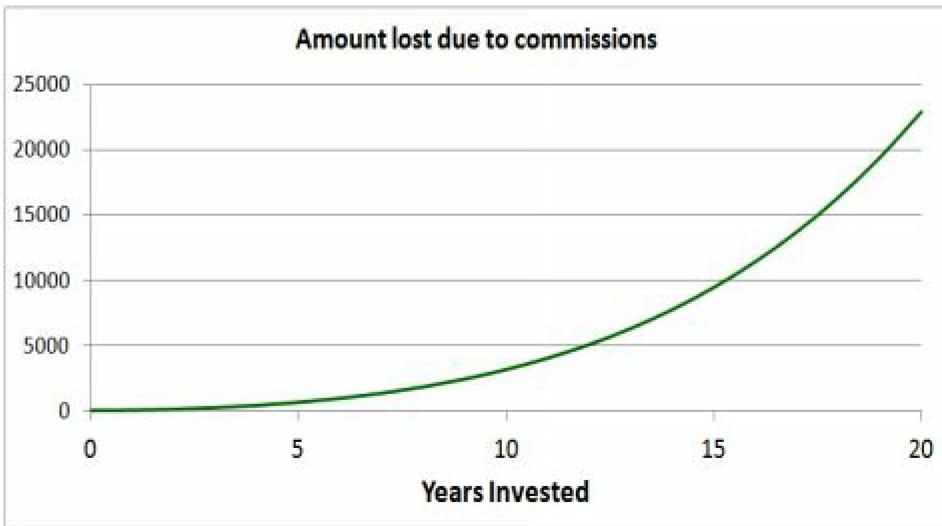
What is the impact of Commissions?

While investing, you should buy it directly from ICICI Mutual Fund. Not ICICI Bank, not ICICIDirect or through any middlemen because they take commissions which are paid from your investments, reducing your returns significantly.

A commission-based mutual fund is known as a ‘regular plan’ (though, nothing regular about it!). If the regular plan fund charges an additional fee of 0.5% (of the amount invested) to be paid out as commissions (often hidden and never in plain sight), then this is how the investment values compare over 20 years for a monthly investment of ₹6000 and annualized return of 10%.



Although both the lines don't differ by much, you could lose over ₹20,000 because you called the wrong office.



To illustrate further, the direct plan fund ends up with a corpus that's ~ 7% higher. In other words, ₹23,000 or close to four times the monthly investment is lost because you bought mutual fund units via the bank, distributor or a 'free' online portal and not *directly* from the mutual fund house. That number lost on commissions becomes huge as you increase monthly contributions.

Side Benefit to investing: Taxes automatically get saved by investing in EPF

When investing, the oft repeated question is *“What about tax savings?”*

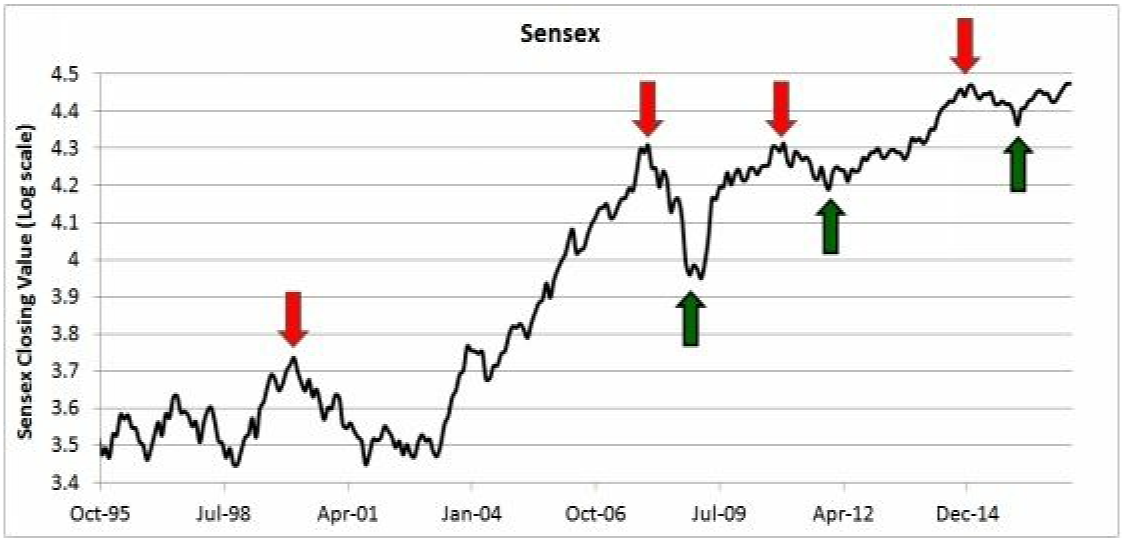
Well, what about it? Taxes are a way of saying *‘Thank you’* to the Government for having a robust economy with good future projections. Anyone who cribs about paying taxes has to grow up. There are better ways to focus your energy like having a small side hustle or impressing your boss onto your next promotion. But people tend to think that saving tax as finance’s main goal and only by saving tax, we are good with money.

In fact, it's better to not go searching for ways to save on tax. For eg. when trying to cut down taxes, we partake in home loans or insurance policies wherein you are spending in places you didn’t want to initially. But if you simply invest a big percentage of your take-home in equity instruments, you do not get taxed if your holding period is more than a year.

As we’ve already seen that the benchmark for investing is inflation, **tax-saving is a needless distraction.** They are like fries after a night-out - you absolutely would love to munch on a few but it ain’t helping us in the overall picture. But, if you feel, *“I absolutely need to save more taxes from my salary, I’m a total dimwit”*, go beyond your EPF contribution - begin contributions into VPF. If you have NPS[32], then contribute more there. Keep it simple if you want to do it.

Automating your investments

We have discussed where not to invest, where to invest and in what proportion. The next question is when to invest. To do that, let’s look at how the Sensex[33] has fared from Nov. 1995 to April 2017.



What we see is a graph with a lot of ups and downs. When we see a trend chart like this, our mind salivates at the prospect of selling at the market peaks (downward arrows) and buy during market lows (upward arrows). With hindsight, we conveniently tend to forget that these arrows have been drawn *after* the high or low has occurred. As such, it is not possible to predict peaks and troughs in real time. But then, let’s say you have an algorithm that helps you predict the highs and lows. While I, an average bonobo, decide that finding the highs and lows is too much work. And so, I invest on the 1st of every month.

If you and I start investing from Nov 1995:

A: You Buy-low: Buy Sensex units worth ₹1000 each month when the index is at the lowest.

B: You Buy-high: Buy Sensex units worth 1000 each month when the index is at its peak.

C: I Buy on 1st of every month: Buy for 1000 on the first of each month. No clue about the market situation.

Up until Apr. 2017 this is how we’d have fared,

Buy at low points in the	Buy at high points in the	Buy on 1st of every

month	month	month
12.2L @ 12.8% CAGR	11L @ 12% CAGR	11.5L @ 12.3% CAGR

If the effort associated with timing the market monthly was only going to yield 0.7L and 0.5% more over a period of 22 years, I might as well Buy on the 1st without doing any homework. In real time, there are ways to find average lows, but the reward for so much effort is not enticing[34]. When you can automate an investment, and obtain 94% of the buy-low value, why put in extra hours hunched over a screen. Because of market movements, sometimes we would buy when the index is lower than it was the last month and sometimes higher. This is the reason the returns of Buy on 1st every month, fell in between Buy-low and Buy-high. The process of buying units of any market-linked product (in this case, an index fund) on the same day is known as dollar cost averaging or systematic investing.

Just as an employer credits the monthly salary after deducting a sum that would be invested in the EPF, equity index fund investing can also be automated by setting up a systematic investment plan (SIP). Here, the fund house would deduct a fixed amount on a particular day of the month, eg. 5th, 15th or 25th until you ask it to stop. You can specify the date and the amounts you'd like to be withdrawn depending on your salary cycle (we saw this in Week 4)

If you are investing in mutual funds for the first time, then the fund house will have to verify your identity and address. These steps are known as Know Your Customer (KYC). The KYC can be applied by visiting the nearest branch of the fund house or their data handling firm - CAMS (in case of ICICI). Some fund houses also allow online verification using PAN or Aadhaar number. The paperwork for KYC and SIP would take an hour or so. After that, the investing process is automated, translating to more time for daydreaming and vacation planning.

Why your career is the best hedge to your Investing Journey

A hedge is something investors use to lower risk on their portfolio. It can be done by buying bonds, shorting stocks or utilizing options. These are far corners of finance which a lay person need not enter. In fact, being employed, the best hedge we can have is our monthly salary.

As we looked at the importance of beating inflation, the other important issue is investing the right amounts. Having the right amount is only possible when we have a regular supply of cash. This is what a corporate career offers us - not just a monthly salary to keep us on the lifestyle treadmill, but also a chance to eliminate our dependence on such remuneration, by investing.

A corporate career or any salaried profession is not the rat race or a pointless pursuit it is often made out to be. Having a monthly salary is a boon that is often overlooked - we can save towards vacations with precision, invest for future big goals by allocating peanut money now and still have some portion left over to enjoy life. Besides, having this gravy coming in on a set date every month, we can automate every aspect of money - present, near future and distant future and not have a single worry in the world.

Gripe, but no gripe

Congratulations! A huge percentage of youngsters don't have a clue on what to do with money but as you start investing, you have slowly secured your future in parts. Now, there are more sophistications that can be included to your portfolio – investing separately toward a particular goal, getting aggressive with portfolio allocation depending on the goal etc. You can start dealing with them after a few years. For now, plough as much as possible in ICICI Pru Junior 50 Fund.

One criticism with investing in a Junior 50 index will be that during certain periods, other Mutual Funds will be achieving better returns. Some have returned better in the past but replication of such results into the future is not a given. There are several factors that can go wrong in the future – the least of which is predicting future performance with hindsight bias.

> *"Two-thirds of professionally managed funds are regularly outperformed by a capitalization-weighted index fund, and those that do appear to produce excess returns in one period are not likely to do so in the next. The record of professionals does not suggest that sufficient predictability exists in the stock market to produce exploitable arbitrage*

opportunities."

- Burton G. Malkiel, *A Random Walk down Wall Street*

Even though Burton Malkiel was writing with respect to US markets, there seems to be some exploitable opportunities in the Indian markets due to certain inefficiencies. Some Fund managers have performed better in the long term but identifying them and sticking with them becomes tough when they have a few underwhelming years. Instead of 1nalysing a fund's performance and churning them at regular intervals, the Junior 50 fund will outperform ⅔ of competition over any timescale. Over the long-term, what makes a big difference to our investing corpus is the **'amount invested'** and the amount alone. If you were investing small amounts, any high returns (CAGR) from any fund, won't be a significant marker.

When fund expenses are low as is the case with ICICI Jr 50, we can keep ploughing irrespective of how the market is doing. Life's wonderful if we *'Keep calm and 80-20!'*

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Right now, you are an investor and have started to do things that you thought only the Rich do. As you progress, you can outperform the Rich by being a retail investor with a regular income.

This concludes our 5-week plan to help you live the Rich Life. You've learnt to find the things that make you feel sexy, allocated resources from your monthly salary based on Conscious spending plan, automated bill payments and also automated savings and investments. Along the way, you've also taken vacations and lived like a king! In the next chapter, we'll see about early retirement and talk about something more important than money: time!

Bringing it together

1) **Why to invest and not just save?**

- To buy the cup of tea (costing ₹7), ₹7 must be invested and our after-tax returns have to be at least 10%.
- Historically expense-inflation has occurred at 8-9%. Saving in

bank's FD or RD won't give you matching returns.

- When we are unemployed or looking to retire, sinister inflation will eat our purchasing power.
- Investing is the only solution to catch up with the inflation rates in India.

2) **What are the options when investing?**

Options to invest are divided into 4: Equity, Bonds, Real estate and Gold

- Direct Equity is too risky and volatile. Plus, a lot of research work is needed.
- Bonds have a fixed income but sub-perform expense-inflation.
- It's better if we consider Real Estate as an expense rather than an investment - restricts flexibility and we are caught in the web of EMIs.
- Gold underperforms with negative returns for large portions and then monster-performs for large portions. Too much volatility and unassured returns make Gold an unreliable option.

3) **Which investment instrument to choose in-line with our 80-20 lifestyle?**

- Mutual funds are headed by a fund manager who buys a bunch of securities that is elicited in the prospectus. It can be anything from stock, bond, commodities like gold, or even real estate.
- To reduce the dependence on the fund manager's picks, we can choose to invest in an index fund. An index is a collection of stocks. The ICICI Next 50 Fund comprises the bunch of 51-100 in terms of market capitalization within Indian companies.
- This index fund comfortably beats 2/3rd of its actively managed counterparts. Plus, fund expenses are low as there's not much human effort involved.

4) **How to invest in ICICI Prudential Next 50 Fund**

- Timing the market is a skill not even the best can do consistently. Plus the difference between investing at month-lows and investing on the 1st every month is negligible.
- Opt to invest with ICICI Prudential Next-50 Fund under the Direct Plan. Don't go to the bank or any 'free portal' as they take commissions. This difference in commission can mean money lost to the tune of 70k

over 20 years for an innocent mistake.

- Asset allocation - the linchpin of your portfolio helps you arrest the pain of loss-aversion.
- Allocate the EPF match and combine at-least 1.5X toward ICICI Next 50 Fund. This way you'll have a very good chance to beat inflation.
- This asset allocation also lets you sleep peacefully at night as the highs and lows of the equity market don't impact too severely.

5) **Automate investing and set sail (Galapagos awaits)**

- If you are investing in ICICI Pru Jr 50, then you'd have to provide info involving ID, proof of residence to either the fund house or nearest CAMS office.
- Set the date of withdrawal from your salary account immediately after your salary gets credited.
- The documentation of KYC and SIP will take an hour. Once done, sit down on your sofa and sip Nimbu Pani. Life's sorted!

What about time, senor?

While growing-up we were brought up with folklore - stories that romanticized an idea through creative liberties which churned the mind. We read Shakespeare - romanticize money and friendship, through Shylock and Brutus' characters. We read the Indian biggies - romanticize worship, loyalty and ethics through Ramayana and Mahabharata. In the personal finance world, one folklore remains a favorite. It goes like this:

A wealthy and successful American businessman works through a deal and achieves a major breakthrough for his company. He is duly awarded with a huge bonus and paid-time-off to celebrate the occasion. As he packs his bags, he hasn't decided on where he wants to go. An impromptu decision at the airport gets him on the flight to Mexico and hours later, he is inside bright and sunny Cancun. Hotel rooms booked, bags settled and body refreshed in the expensive shower, he heads to the coast to surf in the sea. As he approaches the sand, he notices a Mexican, laid back on a ledge, dreaming, with a hat over his head and beer in his hand. A sexy boat is anchored to the ledge on which the Mexican is slanted.

The American says, *"Nice boat. Do you know the owner?"*
Mexican: *"Si senor. It's mine"*
American: *"Wow. Would you like to go around? Tell me how much for the evening?"*
Mexican: *"200 pesos' senor"*
American: *"That's not much. You know you've got a prime spot and could charge more per ride?"*
Mexican: *"And then do what, senor?"*
American: *"Make some money, maybe buy another boat"*
Mexican: *"And then what, senor?"*
American: *"You hire people to handle the boat. You start a company, market your company, put yourself as a tour operator across America"*
Mexican: *"And then what, senor?"*
American: *"Damn, you must be dull. If you've built a business with people working under you, then you buy a home and drink beer all day. Ha, that's my dream when I retire"*
Mexican: *"Senor, what do you think I do every-day?"*

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Some of us can recognize our calling (what we wish to or are meant to do) while still in school but may or may not be able to pursue it in college. Many recognize it only when they are in college or a couple of years after earning. Some of us live our lives without ever knowing what we wish to *'become'* and tend to *'go with the flow'*.

The harsh reality is that very few of us know what we want to do early enough so that we can get into the right degree and graduate with enough distinction to start a career right. Most of us either need time to *’find ourselves’* or money to help follow our passions. A salaried job, even if it entails drudgery, provides a solid base to introspect - recognize what would make us happy, save up enough to fund our dreams, or stop working altogether (aka early retirement).

With anything in life, the grass always looks greener on the other side. Working in a corporate role, we tend to think that entrepreneurs are lucky as they decide what they work on and are their own boss. Entrepreneurs would like the assured income of a corporate employee because uncertainty is rampant. For both, there’s one entity that they value more: time.

In search of time

"Like Warren, I had a considerable passion to get rich, not because I wanted Ferraris – I wanted the independence. I desperately wanted it."

- Charlie Munger, *Warren Buffett’s right hand man*

In most instances, corporate employees like to have time to do 2 things: either pursue entrepreneurial ambitions with enough parachute or just retire early and travel. We’ll look at both the cases and see how much runway we’d need to do either.

Case 1: I want to start something on my own

The human desire to dream, create, innovate, break free from the established rules, wonder about how nature works and find new ways to get things done cannot be extinguished. Not by our school system which demands conformity, not by a corporate behemoth where individuality is undesirable and definitely not by financial insecurity.

For those who have a burning desire to become an entrepreneur, a salaried job is a stopgap arrangement - something that provides a means to build a moat around our dreams. When we want something badly enough, failure is not an option. This does not mean we must not or cannot fail. It only means we must be able to get back up on our feet each time we hit a roadblock. A comfortable corpus obtained by investing your salary, provides a cushion to bounce back. While we follow our dreams, we must assure our day to day expenses are taken care, irrespective of how the startup is faring.

When you start your venture - it could be organic food production, a cake shop, a marketing firm etc., it is not realistic to expect these endeavors to support your daily expenses right from the start. Some may take 3 years, some 5 or even 10 to pay your bills.

When your annual expenses are about 2.5 Lakhs *(just for the essentials)* and you estimate 3 years to see profit from the onset, then you would need about 2.5 x 3 = 7.5 lakhs (annual expenses x no of years payout is needed).[35] In essence you should have this amount as you start the venture. Bootstrapping and other ideas are gilded pathways but having enough cover is prudent. The inflation in your expenses matches the return obtained (after taxes) from the corpus and so, if you can save a corpus close to this number, you can work on your idea without worrying about bills for the next few years.

The question now is: How long it would take to accumulate 7-8 lakhs? This will depend on how badly you want to get working on the idea. If you wish to begin work right away, you could start by beginning to clock in after-hours while still being employed at a different firm. If you'd like to solely focus and go full throttle on the idea, you will have to postpone some desires - a holiday or two, or that bike - and invest as much as possible from your salary. It boils down to priorities.

Happy hustling!

Case 2: I don't want to work again!

"Mint money and retire at 40. That's the plan"

- Hrithik Roshan, *Arjun*, Zindagi na Milegi Dobara

Let's say you want to stop working for a salary altogether by age 40 and travel the world or join an NGO and teach underprivileged children - this would mean drastically different plans to our spending patterns.

Assuming you are now 25 and your current annual (essential) expenses are 2.5 L. By age 40, when you wish to retire, the *current* annual expense would shoot up to about 5.4 L (and there maybe additional expenses by then too, but we will ignore that for the moment).

Let’s say your expenses start at 5.4L and increase each year by 8% (inflation). You’d need a corpus that is invested in a portfolio generating 9% return after taxes post-40. In such a case, you’d need a corpus of about 1.5 Crores by 40, that’ll last you from age 40 to age 80 (you better be dead by then!).

Is it possible to get a corpus of 1.5 crores by age 40? It is quite hard because you must invest 1.25 times the annual expenses (3.06L) each year in investments that yield 11%. How ever, it is not impossible. If you have the right salary (at least 2.5+3.06L take home), you can cut your expenses drastically (public transport, no EMI) thereby allowing you to invest in huge proportions. If you can invest aggressively to this degree, you can have enough to retire early at 40[36]. Tread with caution though, life doesn’t pan out like a spreadsheet[37]. It would be better if we kept ploughing for a few more years and had enough runway to factor unexpected expenses.

“When a train goes through a tunnel and it gets dark, you don’t throw away your ticket and jump off. You sit still and trust the engineer”

- Corrie Ten Boom, *Dutch watchmaker and protector of Jews during Nazi Holocaust*

While we bide our time at a corporate role, we can still do something for ourselves at present. As we charter plans for our future and make considerable contributions, we can tinker our days a little to have more independence. Enter ‘Just in time’ reading.

‘Just In Time’ vs ‘Just In Case’ Reading

“Life’s tragedy is that we get old too soon and wise too late”

– Benjamin Franklin

I once spoke to my friend Laurie, a savvy writer for a big magazine in the US. She shared something that stood as a wake-up call. As we broke down the numbers, this is what we found:

1. There are 260 backlogged links in her Pocket account (after a

cleaning round)

2. She has subscribed to 24 podcasts (Only listens to Tim Ferris' actively)
3. Also subscribed to about 43 newsletters on her Gmail
4. She follows 38 sources on RSS feeds (though nothing purposeful is learnt everyday)
5. She browses 8 different social media platforms (Instagram, Facebook, Twitter, Snapchat, Tumblr, Reddit, Medium and Buzzfeed)
6. And most importantly there are 49 bookmarked tabs in her OneTab chrome extension for something that might happen or would be useful in the future (which will never come!).

To be productive, we quantified some of her learnings:

1. Previous experiences have taught her that the attention span in an article doesn't last more than 500 words.
2. Right from getting up in the morning until going to bed, she accumulates information (of which 99% is not useful and forgotten the next day)
3. She'd probably need 49 hours non-stop to finish all the information that is backlogged

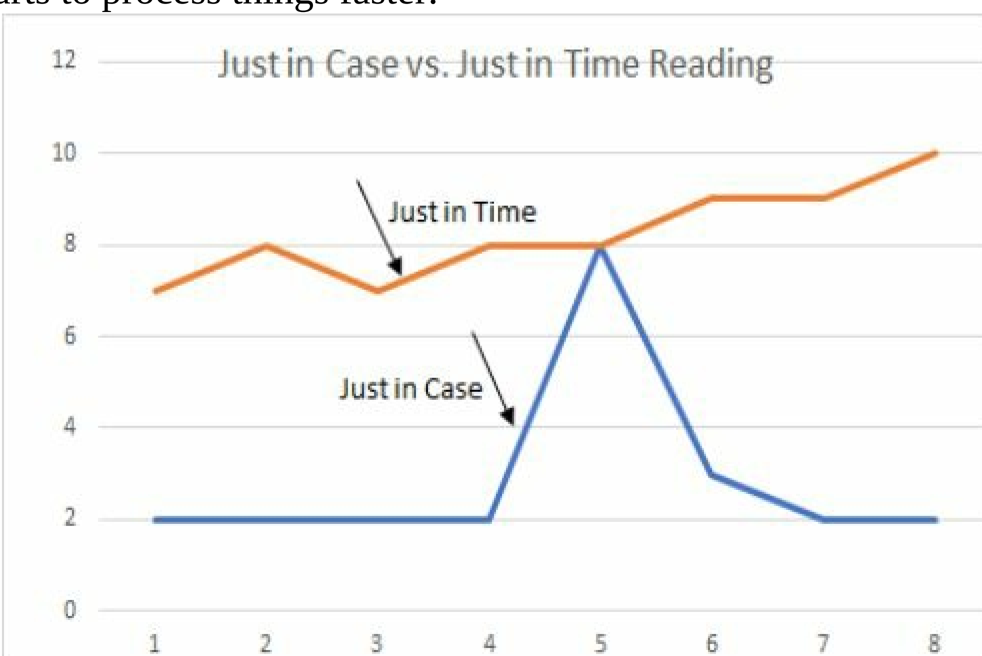
Thereafter, she mentioned something which remains etched in my memory till now because it made me think deeply. It was perfect and sensible all at the same time. *"When an employee mentions that her work-life balance is not well, it means crock. What one is saying is that we aren't able to manage the information-life balance."*

We love to gorge on books, online articles and glamorize it. Truth is very few books shake us and shift the ground beneath. We do a lot of reading involuntarily of which a majority is random and useless: we'd forget it within a couple of days. Articles like *'9 things every man should know'*, or wanderlust posts like *'10 destinations you could definitely do on a shoestring budget'* are a fantastic way to pass time while acquiring part knowledge. But, when we look back using hindsight, many of us read, got inspired but never made that trip.

Filtering the information you need (Information Diet)

Tim Ferriss expounds on information diet in 'The Four Hour Workweek' and elaborates on Meta-learning in 'Four Hour Chef'. We are going to combine both ideas and ensure we have time for everything in our lives.

Let's say you are looking to buy a house. Your conscious brain will take in every kind of information you hear or see, related to houses and the real estate market. Like a fish that takes in water it needs and filters out unwanted stuff, you only see real estate news. The brain filters information through the RAD – Reticular Articulating Device. This is the filter that blocks any unimportant information that the conscious mind does not need. You wouldn't normally do this on a given Sunday but the RAD makes sure the information you need, pops out of TV advertisements, Newspaper articles, Internet Blogs right into your conscious-memory storage. This happens only when you have a time-constraint coupled with a strong need. But as we scroll every-day through our Newsfeed and other online content locations, we tire out our brains with needless information. Just look back to your University days when we used to study at the last minute for our exams. Parkinson's law proves that *"work expands so as to fill the time available for its completion."* When we have a time constraint our goal fits the time remaining and our brain starts to process things faster.



The next time you start browsing mindlessly, note that you won't remember

99% of what you are providing to your brain. When we probe internally for the reason why we do this: reasons are that mindless scrolling fulfills two high-placed criteria on the Maslow Needs Hierarchy. They fulfill '*Belonging'* and it also provides '*Self Esteem'*. It's not that we are not productive but our brain has been designed to act in a way that prioritizes belonging and self-esteem over productivity.

If you ever feel you have no time to do the things you want to do, consider giving up on two feelings: the need to feel that sense of belonging through social media and have high self-esteem. Then we might just have a chance to experience everything we want to.

As legendary Tim Ferriss' pointed out *"Being busy is a form of laziness."* Once 'Just in Time' reading is implemented, we might just have time to do all the things we love.

One of the guilty pleasures I enjoy every day, is standing atop the club lounge *(on the top floor of our skyscraper of a hotel)* and look at people rushing in their automobiles across the Highway. That sense of slowing down when everyone else is rushing, fills me with contentment. Here's hoping you too find more such moments in your life!

"The only dream worth having, is to dream that you will live when you are alive and die when you're dead."

- Arundhati Roy, *The God of Small Things*

When people ask me the question, *"Will life be better for our children, and will they have it good?"*

I respond with, *"Hell yes, there's never been a better time to live (if we could be smart in utilizing compound interest!)"*

Will you do me a Solid?

If you enjoyed reading the book and believe it to be helpful in, would you be so kind as to leave a quick review on Amazon + share it on Facebook? Something as small as *"Incredible! This is a gift that keeps on giving"* would help, and leave us tremendously happy.

We tried to keep the price of the book affordable, so that it will reach a larger swath of people. If someone you know is struggling with money, kindly offer them the tips from the book. You could send them a torrent link or gift via Amazon. It doesn't matter: helping more people become better at finance is why we wrote the book!

With that being said, if you really loved it and would like to bulk order it for your company or friends, kindly email us at pranavwrites@gmail.com

Before you close the cover, if you'd like to be in the loop about my life's learnings, travel tips and many more, head over to pranavsurya.com. But if you'd like to become wise with your finance or still have lingering questions, head over to freefincal.com. There's no better place to secure your future.

Thank you!

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[1] Matthieu Ricard is a French born PhD holder in molecular biology who left the Intellectual Circles of France for a life as a Tibetan Buddhist. Often times called as the World's Happiest Man because he ranked brilliant on happiness scale of a University of Wisconsin study, he acts as the French interpreter for the Dalai Lama. Check out his Ted talk for a brief, definitive account of his life.

[2] Prolific Big History author of 'Sapiens' fame, he asked bigger questions of how humans evolved overtime and emerged as the forefront species after reading Guns, Germs and Steel. A history professor at Hebrew University of Jerusalem, he has been awarded for works on military history and unbeatable originality with his research. A true rock-star historian of our generation

[3] The numbers get worse when you elongate the survival timeline to a period such as 7-10 years

[4] Numbers are taken as an industry average and meant as an overall example. Individual cases will vary. Some may begin at a start-up and then move to a bigger corporate thereby scoring huge hikes after a couple of years. Example is of a pure vanilla styled employee

[5] Simple interest generates a fixed interest on a principal amount. Compound interest produces interest on interest and forms a greater corpus overtime. When repaying loans, the interest rate remains steady but while investing, compound interest combined with time, makes a bigger pile. Hence the wise argument is to repay lower interest SI loans slowly but invest in CI instruments as much as possible

[6] https://www.cashoverflow.in/personal-finance-blogs-india/

[7] Lookup 'goal based investing' on the search bar in freefincal.com. You'll be guided to a 4-part series with calculators to invest toward any goal in life.

[8] Various sources cite that the rates can't be lowered with a good credit score while some say it can be. And so, I started calling (continued next page) banks and people I know, who are in the profession. The answers were quite clear: when you enter the Credit Manager's office, it certainly pays to have a good credit score. The banks were fighting for anyone who knows his finance - managing good credit score without past blemishes. Being the guy with the good score you had the pick of the litter and not the other way around.

[9] If you're looking to get a credit card for the sole purpose of building a credit score, get one with zero membership fee - ICICI Instant Platinum

[10] Source of all these exhibit deals is SkyScanner. I explain later why I use them

[11] If you get inspired and take to the sea, tweet me out! We've got to get coffee together, once you're ashore.

[12] There's a travel e-book on my site, pranavsurya.com. The promise is that you'll find one cheap flight within 60-days of reading it. Check it out if you love travel

[13] The point of Conscious Spending is widely prevalent in the West where personal finance has bigger roots than in India. A few writers like Farnoosh Torabi, Suze Orman have expounded about Conscious Spending in detail. I'll be distilling their ideas with respect to the Indian market

[14] There's always room for negotiations - especially with a service like TV provider.

[15] It always helps if there is an established incumbent (Airtel) and a new disruptor (Jio) in the field. They'd be willing to budge during the present quarter and that means they'll treat customer retention with greater priority. You can call with confidence and get results in haste.

[16] 5% of his total salary is the 12% off Basic + DA (lot's of sales incentives). He utilizes the match completely

[17] Depends on the card and the terms set initially. Varies by each account

[18] Multiply (1+10%) with seven 20 times, we get: $7 \times (1+10\%)^{20}$ = ₹47

[19] Often this is at a rate higher than the official inflation rates.

[20] "John Mauldin's Muddled Stock Return Model", Forbes.Com, March 7th 2013. Url: https://www.forbes.com/sites/jerrybowyer/2013/03/07/john-mauldins-muddled-stock-return-model/#617add4655ba

[21] One-to-one correlation between GDP growth and the stock market is not possible because our economy is no longer closed. Our GDP growth depends on the economic health of other countries due to exchange of goods and services.

[22] http://statisticstimes.com/economy/gdp-nominal-vs-gdp-ppp.php

[23] The home that my parents got for 15lakh in 2004 quadrupled in value within 8 years but has been

stagnant ever since. If I calculate the CAGR it is 10.3% and I don't see big improvements here-on. The CAGR is only going to drop as people can't afford a home for more than 60 lakh in this area. But if they had put the downpayment amount of 10Lakh in 2004 in Nifty 50 giving 12.6% CAGR, 23 years later (2027) the downpayment of 10lakh alone would return 1.6 crores (retirement solved) and there'd be no interest payments. Add another 6 years (2033) and the downpayment of 10lakhs is now 3.2 crores. When you factor interest payments, CAGR goes down further.

[24] Rough Estimate; based on industrial averages

[25] It is important to recognize that real estate is just another asset class like stocks, bonds or gold. Its price depends on market supply and demand forces. In the last few years, prices have fallen sharply in Tier I and Tier II cities* and demand has decreased. The fact that rent yields (annual rent/property price) is extremely low compared to home loan interest rates suggests that the supply exceeds the demand. Therefore, even as a source of regular income, real estate is far from promising.
* http://reports.ambitcapital.com/reports/Ambit_Economy_Thematic_RealEstate_14Jul2015.pdf
* https://www.globalpropertyguide.com/Asia/India/Price-History

[26] Prior to demonetization, black money ruled the roost in real estate deals. It is still too early to understand the impact of demonetization on this sector, but it is expected to be more transparent now (especially with the rollout of the real estate regulation and development act). That is not much consolation because the prices are arbitrary - a person who (continued from previous page) understands the sector well, can get a better deal than one who knows little. The stock market on the other hand, has a well-defined market price – both the expert and the novice pay the same price.

[27] always take the total price you'd be paying including transaction costs, closing costs as the total buy price

[28] Arthyantra has a comprehensive paper on the Rent vs. Buy debate for 8 major cities. Google it if you want to get your hands dirty with math

[29] https://freefincal.com/gold-is-riskier-than-stocks/ and https://freefincal.com/gold-price-movement-usd-vs-inr/

[30] Both the EPF and PPF are pure fixed income products in which we lend money to the government and it pays back a fixed interest. This interest is reset each quarter in accordance with the prevailing economic conditions. The NPS on the other hand is a mutual fund with guarantee of returns (might get higher returns as there's equity exposure).

[31] Some employers only deduct minimum amount required by EPF - 12% off 15,000 - and not the suggested 12% of your basic pay to decrease their match contributions. In that case, your equity portion will be huge within the portfolio. Don't worry yet - just try to invest as much as possible in a 60:40 proportion. You can consider adding more to EPF on your own (voluntary provident fund) to maintain this ratio.

[32] Use the C (Corporate bonds) and G (Government bonds) option and invest in equity elsewhere.

[33] The Sensex contains 30 of the largest stocks in terms of market capitalization. The returns closely mirror the Nifty which has 50 such stocks.

[34] In fact, studies have shown that trying to find lows via averaging aka timing the market results in higher absolute returns only 50% of the time. Thus in real time, investing in market lows has as much probability as winning a coin toss. See: https://freefincal.com/possible-time-market/

[35] One can use the "Freefincal Financial Freedom Calculator" at Google Play to generate the corpus

required for any return and inflation assumption. An online version of this tool is also available at:https://freefincal.com/tools/

[36] Use the "Freefincal FU Money Calculator" at Google Play to check for your own numbers. An online version is also available here: https://freefincal.com/tools/

[37] Early retirement is a complex topic and all requirements for such a dramatic decision cannot be discussed here. You can consider reading more with the free e-book available at: https://freefincal.com/e-book-retire-early-india/