

PRADYUMNA K MOHAPATRA

PACK YOUR PARACHUTE

A JOURNEY TOWARDS FINANCIAL FREEDOM

FINANCIAL FREEDOM is our birthright.

It's our responsibility to ensure each of us attains it.



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BLUEROSE PUBLISHERS

India | U.K.

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ISBN: 978-93-7310-705-9

Cover design: Daksh

Typesetting: Tanya Raj Upadhyay

First Edition: October 2025

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About the Author



Pradyumna K Mohapatra, an engineer with vast experience in the Water & Wastewater Treatment field, is dedicated to empowering individuals towards their financial and overall well-being. His deep insights into *personal finance* and *life as a whole* help him demystify complex concepts in simple ways.

Pradyumna believes '*Financial Freedom is our Birthright*' and aims to shift the perception of *Money* from anxiety to a powerful tool. After realising "*Financial Freedom*", Pradyumna has written three books. This is his first book. The second one is titled "***Second Life, Second Chance***," which is on planning retirement and is very popular among readers who are planning for early retirement with a *Healthy & Prosperous* life. The third one is "***Relief from Stress & Anxiety***," which describes how he conquered these silent killers and guides readers to live a better Life with *Happiness* and *Mental Peace*.

As a continuous learner, he practices yoga and meditation, plays Tabla (*an Indian musical Instrument*), and writes books while contributing his services to the Water Treatment field. His blend of financial acumen and a relatable perspective about life makes him a trusted guide on the path to *Financial Freedom* and leading a better Life.

Preface

Who is packing your parachute??

This powerful metaphor and question comes from a true story about Charles Plumb, a U.S. Naval Academy graduate and Vietnam War veteran. Plumb's fighter jet was shot down over Vietnam, and he parachuted to safety. Years later, in a restaurant, a man approached Plumb and asked, "Are you Mr Plumb"? You flew a jet fighter in Vietnam from the aircraft carrier Kitty Hawk? Were you shot down? Surprised, Plumb asked how he knew this. The man replied, "*I had packed your parachute.*" He was the sailor who packed Plumb's parachute that day, saving his life. This encounter led Charles Plumb to reflect on the many people who indirectly contribute to our successes and survival, often without recognition. He incorporated this lesson into his speeches, encouraging people to recognise and appreciate those who '*Pack Parachutes*' in their lives.

For most of us, our parents, family, relatives, and friends support us (pack our parachutes) until we are financially independent. We need to master *financial planning* rather than readily trusting others to do it. To do that, we need to master all aspects of Personal Finance and the Money coming into our lives. ***We need to learn to 'Pack our own Parachute' (do our own financial planning) before jumping into the Financial Market.***

Foreword

Money: It touches every aspect of our life, yet it remains one of the most misunderstood and anxiety-inducing subjects for many. Whether we like it or not, our financial situation impacts our choices, our relationships and the overall quality of our lives. In a world where financial uncertainty seems normal, the search for **Financial Freedom** has become more than a lofty goal - *it's a necessity*.

I have the privilege of witnessing this journey and tasting the nectar of *Financial Freedom*. Please convince yourself that true **Financial Freedom** is within your reach. We will discuss it in this book. Some people start their journey for Financial Freedom with mountains of debt; others with an unclear idea of wanting 'more' from life. Regardless of their starting point, those who succeed share one common quality - ***the courage to take that First Step***.

This book is not about get-rich-fast schemes or complex investment strategies that work only for the educated and elite. Instead, it is a practical guide for anyone who wants to take control of their Financial Future and embark on a journey towards genuine *Financial Freedom*.

This book may be that *first step* for many of you. You have already taken that step by having this Book. It distils years of financial wisdom, practical experience,

and hard-learned lessons into a complete guide you can practise and achieve. This Book doesn't just tell you what to do; it shows you how to do it and, more importantly, why it matters.

As you turn the pages of this Book, you'll find more than just tips on income enhancement, budgeting, reducing expenses, saving and investment strategies. **You will discover new ways of thinking about Money.** You will learn how to build wealth sustainably and cultivate a *mindset of abundance* rather than *scarcity*.

Throughout the Book, we will explore the fundamental principles of personal finance and actionable steps that you can implement in your day-to-day life. We will cover budgeting, saving and investing to build *multiple income streams* to achieve *Financial Freedom*.

But be warned: this journey will challenge your conceptions, push you out of your comfort zone, and demand your commitment. Setbacks and moments of doubt will come. Still, if you persist and apply the principles outlined here consistently, you will find yourself moving steadily towards a future of *Financial Security* and true *Financial Freedom*.

Financial Freedom is not about having all the Money available in the world. It's about having enough Money as required and managing it well to live life on your own terms. It's about waking up every morning knowing that your basic needs are met, your future is secure, and you have the means to pursue what truly matters to you.

It's a journey about creating a life of purpose and having the means to pursue your passions without being constrained by financial worries. ***It's about building a future where your Money works for you, rather than you working to earn Money.***

As you embark on this journey, know that you're not alone. Millions of others are walking this path alongside you, each at their own pace, each with their own unique goals. This Book is your companion, your guide and your cheerleader.

So, take a deep breath, turn the pages and take that first step towards *Financial Freedom*. *The journey of thousands of miles begins with the first single step - **Your Journey Starts NOW & HERE.*** Are you ready to take the first step towards *Financial Freedom*? Let's begin this transformative journey together and unlock the door to a future filled with Financial confidence and endless possibilities.

FINANCIAL FREEDOM is not about Money- it is about creating the life you want. Stay focused, stay motivated and believe in your ability to achieve your goal. Your future self will thank you for the efforts you make today.

Wishing you true Financial Freedom.....

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Chapter – 1

Why are we making Money?



Money serves as an excellent tool for transactions, but its power as a ruler is destructive. We all need food, clothing, shelter, health care and education to live our lives on this Planet. Money is required to pay for all the things & services that make our lives possible and comfortable. Money ensures our freedom and autonomy. It ensures our privacy and gives us security. Some people love Money for the things it allows them to do. Others like to spend it, while some want to save every penny to feel more secure. For others Money is a way to gain power, status, and respect in Society.

Our upbringing shapes our perceptions about Money and its purpose. From the ideas & beliefs around Money in our family and our early experiences, we perceive what Money means to us. Money creates numerous emotions in us. ***We need to make an effort to become aware of the emotions Money creates within us.*** *Without this awareness of our emotions toward Money, they can override rational thinking and drive our actions.*

Financial planning from the early stage of life significantly reduces the risk of financial hardship. The sooner you prioritise saving and investing, the greater your chances of avoiding Financial Crises. In fact, with improved income, diligent saving and smart investments, you can achieve **Financial Freedom** early in your life. Then you can live the rest of your life pursuing your dreams and hobbies, and being useful to our society.

We have been taught by our elders, family and society that the '*Love for Money is the root of all Evil*'. As we discussed earlier, if you are aware of the emotions you carry towards Money, then love for Money will never be a problem for you. But contrary to the above saying, I believe '*lack of Money is the root of all Evil*'.

There is a Sloka in Sanskrit that goes like this: बुभुक्षितः किं न करोति पापं – '*Bibhukitahh Kim Na Karoti Papam*'. This verse means that a hungry person can do anything (any sin) to feed himself.

So, we need to stay aware of our emotions and our hunger for Money within us, and keep judging ourselves. Our hunger for Money can lead us down the wrong path in no time if we let this awareness slip, even for a short while. It can make us materialistic and obsessed with doing wrong things for our own financial gain. Remember that Money is simply a medium of exchange, an evolution from the barter system.

Why do we need Money?

Money fuels our lives. We endeavour to earn Money because it drives all our worldly activities. If someone becomes a Sage (Sanyasi), they may not need Money. But then they will depend on other people, from whom they will expect alms to live on this earth. They will still need certain items beyond regular food, even to live in a jungle. So these alms and items, which even a Sage needs, must be arranged by others, and in turn they will need Money to arrange them. *Thus, whether we actively pursue wealth or seek detachment, Money's influence remains in our lives.*

Money can get us many things and make life more comfortable. When we earn Money, we become independent. Earning Money allows us to stand on our own, lessen burdens on family and even support others. When we earn and use our Money in a way that makes it grow, we feel great satisfaction. Spending our earned Money wisely makes us cultured. It keeps us organised and gives us confidence to live safely, even during periods of reduced income if that happens for any reason. *Earning Money gives us an identity of our own.*

Where are you exactly placed?

At any moment in life, individuals find themselves in one of these three distinct stages of the *Financial Freedom journey*. Understanding your current position is the first crucial step.

These Three Stages are;

1- Not Started Your Journey for Financial Freedom.

This stage describes individuals who have not yet actively embarked on the path toward Financial Independence and planning for the final destination: Financial Freedom. This might mean they haven't set financial goals, haven't started saving consistently, and haven't planned to use their resources strategically.

2- Endeavouring to accumulate for Financial Freedom:

At this stage, individuals actively work to build their wealth with the clear objective of achieving *Financial Freedom*. They implement financial plans, save diligently, make informed investment decisions and continuously seek ways to increase their income and reduce their expenses. They also put significant effort into regularly educating themselves about all aspects of personal finance.

3- Achieved success in getting Financial Freedom

This represents the ultimate goal – a state where the individual's ***Passive Income*** from accumulated wealth is generating sufficient returns to cover their living expenses and desired lifestyle without needing to work for Money actively.

Achieving *Financial Freedom* requires discipline and strong principles. Despite your mind's inclinations, you must monitor your thoughts, beliefs, and actions to attract abundant financial prosperity. Regardless of

your current financial standing, monitoring all aspects of Money is crucial.

Contemplate - *Where do you stand on your journey to Financial Freedom?*

Why are you not seriously working to move towards Financial Freedom if you have not started?

What does Money bring to our lives?

Let's now discuss the roles Money plays in our lives;

Money is something we will always need. So, it is important that we make necessary plans as early as possible in life to ensure we always have regular streams of *Money* in our lives. We need to plan for the day when we can't earn any more by directly devoting our time & energy, as we all will become old one day.

Money is to be earned, saved and invested so that more Money comes your way. The sooner you begin saving and investing from your income, the more your Money can work for you, taking *advantage of Compounding.*

(*Compounding* occurs when the return from an investment is reinvested, and you start earning interest on the principal plus the interest you have already received. *In other words, Compounding is getting a return on the return.*)

Now let us discuss what Money can bring to our life;

1. **Security:** Having enough Money gives us security against basic needs - *Food, Clothing, and Shelter (Roti, Kapda aur Makan)*. It also lets us focus on other needs, including healthcare, education, travel, personal growth, professional pursuits, and contributing more broadly to society, fostering greater security and well-being.

2. **Freedom:** When we attain *Financial Freedom*, all our day-to-day monetary requirements are met by the **Passive Income** from our investments. With this passive income, we can live the way we want, pursue our dreams, and be free from 9-to-5 job obligations.

3. **Peace of Mind:** When we see the message of our salary transferred to our Bank Account on our mobile phone on payday, it sparks a unique, thrilling feeling in us. With each passing day, the Money in our bank account decreases, and as the month nears its end, we once again feel financial strain and strive for the sense of abundance we felt on payday.

You must have felt this close observation of our feelings about money too. So, when you have sufficient Money in your bank and investments, think about how great a feeling it will give to you continuously and what your state of mind will be.

4. **Health:** No doubt one must follow a disciplined life, exercise regularly, have balanced food and take proper rest for leading a Healthy Life. But to maintain a healthy

life, you also need money to join a Gym, Sports Clubs, hire a trainer for physical training, go to a health Spa, etc. Money also gives us access to the best advanced Medical treatment facilities, so we can take preventive health measures and get cures faster and better.

5. **Happiness:** Happiness generally rises with income for most. Financial Prosperity alone does not guarantee genuine fulfilment or happiness in life. But, having enough Money will enable you to pursue your dreams and the purposes of your life, which will give you long-lasting happiness.

6. **Comfort:** It is well understood that Money can buy you all comforts. We are now at such an era where the kind of comfort which a common person has today was not available to even Kings and Emperors in the past. We can control the weather of our houses through fans, coolers and air conditioners. We can have hot or cold food instantly. We can travel to distant places in hours and so on. All these comforts are available today in exchange for money.

7. **Social Status:** I believe people should be judged because of their behaviour and wisdom rather than the amount of Money they have. But in our society, it is a sad fact that Money is the main criterion for judging a person's status. More Money brings high status.

8. **Extra Time:** If you have Money with you, you can buy *time for other people* to get your work done, and you can utilise that time doing something more

productive or pursuing your goals & hobbies. To some extent, we all do this when we employ someone for services like a maid, sweeper, driver, cleaner, pressman, etc. With more Money, you can also hire many more people to work in your *business ventures* and use their time to generate more Money after paying them.

9. ***Self-Confidence***: When I started my work life, I started from ZERO. So, till the time I saved enough, I was always worried about the future - like what would happen if I lost my job. What would I do if the job market became uncertain, or if there was a prolonged medical issue in my family, and so on? But when I accumulated enough to sustain myself in this city even if I don't have a job for a considerable time, that gave me confidence. ***I can very well say that having enough Money boosts one's self-confidence in pursuing their work.***

10. ***More Money***: *The wealthy generate income from their Assets, whereas the poor and middle-class people earn income through direct labour.* If you have Money, then you can invest it and earn more Money. This principle is summarised in our Indian societal saying, **'Money attracts Money'**. However, for Money to attract more Money, it must be strategically invested in suitable ventures and monitored efficiently.

When you take a Home Loan or Vehicle Loan from a Bank, you need a 15-20% down payment, and the Bank finances the remaining 80-85% after verifying your

repayment capacity. This demonstrates how Money attracts more Money. Your initial 15 - 20% investment unlocks access to an 80- 85% loan from the Bank. Essentially, this involves leveraging 'Money of Other People' to fulfil your needs. This shows how having some Money opens doors to further Financial Resources.

Conclusion: Money significantly influences our journey for comfort and happiness. Thus, it is crucial to work efficiently, earn more Money, and build the expertise to save & invest it wisely, aiming to generate additional passive income. ***Ultimately, the objective is to accumulate sufficient funds to achieve Financial Freedom, pursue the hobbies and causes you care about, and secure a Happy Retirement.***

However, earning Money is the first step, and building expertise in financial management is equally important. This highlights two vital components: ***Saving and Investing wisely.*** Investing wisely involves a deep understanding of various financial instruments, market dynamics and risk assessment. It's about making informed decisions that let your Money work for you and generate additional wealth over time. This can involve various strategies like investing in stocks, mutual funds, bonds, real estate, or other ventures, each with its own considerations and potential returns.

The goal is to create a Portfolio that not only preserves capital but also ensures its regular growth and creates new streams of income for you.

What else Money can bring to our Lives

If we do not observe and control the emotions Money creates within us, they can override our rational thinking and create many problems in our lives.

Let us now discuss what disasters Money can also bring to our lives if we do not check our emotions;

1. *Obsession with Money:* In our pursuit to acquire Money at all costs, or trying to acquire as much Money as possible, can lead us to practising unethical or illegal activities. In some cases, people ignore family and friends and become too occupied with making Money. But in the end, they have only Money, and no one close to share their life with. At that level, one cannot enjoy their hard-earned Money and stay Happy.

2. *Disagreement:* Money significantly contributes to business partnership failures, inheritance disputes within families, family conflicts and also divorces in some cases.

3. *Unethical or immoral Decisions:* Financial abundance can lead to unethical or immoral decisions. The volume of resources and the power that often comes with greater wealth can create an environment where individuals are tempted to deviate from established principles of honesty and integrity.

4. *Wastage of Money:* Having sufficient Money in one's Bank may lead to making wrong buying or

spending decisions, and your Money can evaporate rapidly. You can't get it back once it is gone.

Conclusion: *The drawbacks associated with Money are not related to Money itself, but rather come from the owner's attitude and behaviour towards it. We must take a responsible approach to saving & investing it through proper channels to prosper, and not let Money create problems in our lives.*

What is Financial Freedom?

You have chosen ***Financial Freedom*** as your goal and picked this Book. ***Congratulations to you!***

When someone in our society pursues an external goal, like becoming a sports person, a Doctor, an IITian, a Politician, etc., people congratulate them. But this journey toward Financial Freedom is an internal journey, and nobody will congratulate you. I know that you have started your journey. You will not gain any name, fame or status in society by achieving ***Financial Freedom***. Many will never even come to know about your achievement when it happens. But the people around you do not know what you will achieve. You will achieve the state of *Financial Freedom* from which everything arises. Let us understand this.

***Financial Freedom* is regarded as the highest state in *Personal Finance*.** Everyone interested in managing their finances dreams of achieving *Financial Freedom*, and it is definitely possible. How long it takes to attain

this super enlightenment state of Personal Finance depends on where you are in the journey and how you manage your finances. Before we understand *Financial Freedom*, let us first understand *Financial Independence*.

Financial Independence means having sufficient wealth or resources to live comfortably without relying on others. We depend on our Parents and family until we start earning on our own. The day we start earning, we become *Financially Independent*. We now cover all our expenses from our earnings and no longer depend on others to fund them. But here we are not *Financially Free*. We've just become independent in generating the Money required to live. The day you stop working, the inflow of Money will stop, and you will become dependent on others again after some time.

However, ***Financial Freedom is a state where you have complete control over your finances and have enough regular returns from your Money to live the lifestyle you desire without worrying.*** It goes beyond Financial Independence by providing not just enough to cover basic needs, but also allowing for optimum spending and pursuing your personal & family goals.

Financial Freedom includes having multiple income streams, substantial savings & investments, minimal or zero debt, the ability to handle emergencies and the capacity to make financial choices without stress or restriction.

Financial Freedom means your investments and assets generate the **passive income** you need to cover all your expenses. You can travel when you want, pursue your hobbies, support the causes in society you care about, and help others & family members without compromising your financial security. If you generate income while pursuing your hobbies, that is a bonus, and it adds to your wealth.

The core idea behind achieving Financial Freedom is to build income streams that don't require your active involvement, allowing your Passive Income to cover day-to-day expenses and support life events as per your plan. The sooner you understand and work towards this goal, the earlier you can reach it and enjoy its benefits for the rest of your life.

Why is Financial Freedom Necessary?

Financial freedom is required for several crucial reasons;

1) ***Peace of Mind and Security*** - It safeguards against unforeseen life events, health crises and financial challenges. It empowers you to uphold your preferred lifestyle and chase your aspirations, free from financial limitations.

2) ***Freedom of Time and Career Flexibility*** - You have the freedom to choose how you spend your time, rather than being tied to a regular job solely for survival. You have the freedom to choose the work or profession you

are passionate about, rather than being driven by financial necessity. This can lead to a comfortable retirement.

3) ***Health Benefits*** - Financial Freedom leads to improved mental and physical health because of reduced financial stress.

4) ***Support the Family & others*** - You can offer enhanced opportunities for your children, support your family members and others as per their needs.

5) ***Charitable Giving*** - *Financial Freedom* empowers individuals to leave a lasting legacy and involve them in charitable causes which are close to their heart.

Attaining financial freedom requires discipline and commitment to sound financial principles. It involves monitoring your thoughts, beliefs and actions to draw financial prosperity. Regardless of your current financial situation, it is vital to foster self-control and consistently oversee all aspects of Money and its impact on your life.

Why are we not seeking *Financial Freedom*?

Now the question is: if *Financial Freedom* is such a crucial aspect of our life, then why do people not find it worthwhile and seek it?

The reason is that we are all imprisoned in the golden cage of our personal thoughts and beliefs. We have made our cage comfortable, and even if it is open, we

do not want to leave it to explore our Freedom. We have made agreements with our day-to-day struggles and have now made ourselves comfortable with them.

There are several reasons why people do not seek *Financial Freedom*;

1. ***Lack of Financial Education*** - Many people do not understand the importance of *Financial Freedom*, and priority is given only to the security and safety of their wealth, whether it is growing or not.

2. ***Limited Financial Resources*** - Many individuals have the misconception that a substantial income or a considerable amount of savings is required to attain a pleasant Financial Future. This belief often comes from a lack of understanding of *investment tools, the power of compounding, and the benefits of starting small*. They believe that the complexity of Financial Markets is only for the wealthy or those with specialised knowledge.

3. ***Lack of Discipline*** - Attaining *Financial Freedom* demands significant discipline and self-control, which many individuals find very challenging. They want to live by the whims and fancies of a materialistic life and lack control over their sensory pleasures.

4. ***Escaping Fear and Sorrows*** - Some people are hesitant to take risks to change their financial situation. They feel comfortable with their current financial struggles and do not want to make changes. They fear

taking even calculated risks and always prefer safety over growth.

5. *Prioritising Short-term needs* - Some Individuals sometimes prioritise immediate objectives, postponing crucial long-term financial needs such as saving & investing in long term to achieve *Financial Freedom*.

6. *Thinking their cage is their destiny* - Many people mistakenly believe that financial worries are an inherent part of their life and are convinced that "*financial struggle and sorrow are ways of life*". Seeing relatives, friends, and neighbours face similar challenges reinforces this belief, making it seem like an unavoidable reality.

For these reasons, many people cannot make *Financial Freedom* their goal. This illusory world leads them to believe financial struggles are natural. Even if they understand the necessity of *Financial Freedom at some point*, they cannot make the serious efforts required to achieve it. ***Understanding the need for Financial Freedom is very important. We will learn it here through this Book.***

Contemplate: *What hidden reasons are preventing you from moving toward the dream goal of Financial Freedom?*

What comfort zone are you unable to come out of?

Basic Guidelines for generating Wealth:

While earning Money, we should focus on two principles;

Am I earning in a Legally right way?

Am I earning in an Ethically right way?

Always ask yourself the above two questions.

Working for money can feel like a hassle when you are in a direct job you don't like or love. However, once you are on the saving and investing path, you will start feeling better and better. Early in life, the amount you save & invest will be lower because your income is lower. So you will also get less returns, which can be underwhelming. But believe me, with time and consistent effort in saving & investing, you will find yourself enjoying this process. Once this enjoyment sets in, achieving *Financial Freedom* and a stress-free life becomes unstoppable.

Here are effective guidelines for generating wealth:

- ★ ***Reside Within Your Financial Comfort Zone*** - Spend less than you earn and avoid increasing your spending with every increase in your income (*i.e. control lifestyle inflation*).
- ★ ***Save & Reinvest*** - Set aside a reasonable portion of your income to invest in profitable ventures, and ***reinvest the interest*** you earn from previous

investments rather than spending it on lifestyle needs.

- ★ ***Keep your principal amount secured*** - Always invest in ventures where at least the principal amount is secured; otherwise, take insurance to protect your Principal.
- ★ ***Invest Early*** - Take advantage of compounding by investing consistently from a young age or as early as possible.
- ★ ***Generate Diverse Income Streams*** - Don't depend solely on your salary. Develop other *Passive Income* sources.
- ★ ***Automate Your Savings*** - Set up automatic transfers to savings and investment accounts so your savings happen automatically, without your involvement.
- ★ ***Close all High-Interest Debt*** - Pay off credit card dues and personal loans quickly. Try to break the habit of taking on debt, except *good debt*.
- ★ ***Establish an Emergency Fund***- Save 8 - 12 months of your expenses or 6 months of income, whichever is higher, as an *Emergency Fund* for unexpected situations in life.
- ★ ***Education: A Worthwhile Investment***- Learn new skills regularly to increase your earning &

investment potential. Also keep learning about personal finance and financial investment tools.

- ★ ***Diversify Your Investments*** - Spread risk across different asset classes like FDs, RDs, Mutual Funds, ETFs, Stocks, Bonds, Real Estate, and Gold to build a well-diversified portfolio. The bifurcation percentage varies from person to person.
- ★ ***Stay away from "get-rich-quick" schemes*** - Focus on proven long-term wealth-building strategies rather than falling prey to controversial schemes.
- ★ ***Seek Professional Advice*** - Consult experienced Financial Advisors, tax professionals and legal experts when needed.

The basic rules for accumulating wealth are;

- a- ***Earn Money and Save***
- b- ***Invest your Savings to make more Money***
- c- ***Repeat the above Process***

Cultivate a positive and strong desire for Money.

When you complete reading this book, leave a review on Amazon based on your experience. Gift this book to your friends and relatives who you think need it to plan their Financial Freedom journey.

Chapter – 2

Different Aspects of Money in Our Life



Money has different names in our society, depending on how it is used and the situation it is in. It can be a donation, salary, allowance, loan, debt, tax, pension, fee, fine, tip, dowry, alimony, or ransom.

Before we learn how to save more and explore investment options, we must first understand the basics of how Money enters our lives. Money plays a key role in our lives, encompassing three core elements: ***Income, Expenses and Saving.***

Commonly, we perceive whatever is left after spending from our ***income*** as ***saving***.

We practice..... <i>Income – Expenses = Saving</i>

When one starts life, paychecks are generally lower unless the person is from a very good Business School or an Engg / IIT/MBBS College, etc. In those initial years, spending is nearly equal to, or slightly less than, income, and savings are very small after meeting all requirements.

In these initial years, one must invest in themselves and learn about all aspects of Personal Finance. One must pay oneself before spending. A minimum of 10% of income, regardless of the income amount, must go toward savings & investments. If a person's monthly expense is ₹ 50,000, then believe me, they can manage it within ₹ 45,000 (10% less) with a little prudence. If someone can start saving & investing at least 10% of their income every month from the beginning of working life, irrespective of their income amount, then they can save a good fortune. They will not have to worry about Money at the latter stage of life.

But we generally go by the philosophy that '*since my income is not handsome, I will start saving when my income is good*'.

We should deduct our targeted savings amount (minimum 10% of our income or more) from our Income and keep it aside before spending. We should practice the following.

<i>We should practice Income - Saving = Expenses</i>
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Types of Incomes

The dictionary's meaning of *Income* is '*the Money you receive regularly as payment for your work or as interest on Money you have saved or invested*'. So, income can come either from *work you have done* or from *Money you have invested* in an investment venture.

Income can be broadly divided into three categories:

- (a) *Active Income*
- (b) *Passive Income*
- (c) *Portfolio Income*

a) **Active Income**: This is the lowest form of Income wherein you have to put your effective time (*Life Energy*) into it. It depends directly on the time you spend working, and it stops the day you decide not to work. **Here, you are the Investment Tool**. Income from wages, salary, tips, bonuses, and commissions is considered *Active Income*. If you stop working, it stops coming to you.

b) **Passive Income**: As the name suggests, this income does not require your active involvement. You may spend a few hours in a week, a month or a year to generate this income. Income from Rental Properties, Royalties from creative works and Dividends from business ownership come under this type of income. This income requires an initial investment.

c) **Portfolio Income**: It is the income generated through investments such as RDs, FDs, Stocks, ETFs, Bonds, Mutual Funds, etc. It includes interest from Savings Accounts/ Fixed Deposits/ Recurring Deposits / Dividends & Capital gains, Profits from sale of Stocks / ETFs/ Mutual Funds etc. It is not directly tied to active work. Instead, it percolates from your investments. But the major prerequisite is investing a considerable amount of money to generate this income.

*To generate Passive Income or Portfolio Income, you must first establish a reliable Active Income stream. First, you need to generate Money through **Active Income** and save enough to invest in tools that generate **Passive or Portfolio Income**.*

Steps to Regulate Money in Our Life

Since most of us rely on *Active Income*, our objective must be to *increase our Income, reduce our expenditures, increase our regular monthly savings, and then Invest our Savings* to generate regular *Passive Income*.

Let us discuss it in the following three Steps.

STEP - 1: *How to increase Income*

STEP - 2: *How to reduce Expenses*

STEP - 3: *How to manage Savings*

STEP-1: How to Increase Income:

For a salaried person, salary is the main source of income. We all want to increase our income so we can meet our current needs, live a satisfactory life, and achieve our future goals. Here are several ways you can explore to increase your income, depending on your situation, ability, and interests.

a. *Critically examine all your Employee Benefits* - Check with your HR, Finance Department and colleagues to find out all the benefits your organisation is providing. See how you can avail those benefits to

enhance your income. Benefits like fuel, telephone, internet, gym reimbursements, childcare, critical illness benefits, etc. need to be understood and used, and they can add to your income.

b. ***Checking your Tax deduction*** - Check all components of the Income Tax and get it cross-checked by a Tax Adviser to reduce your Tax burden.

c. ***Asking for a Salary Increment*** - Ask for a salary increment or promotion if you have completed a certain critical job or Project successfully and your company has substantially benefited from it. ***Remember, it is always better to ask than to wait to be considered.***

d. ***Consider Teaching as an income booster*** - Teaching is a noble profession. We are all well educated, and I think we all can start teaching students of lower standards easily. Consider starting to teach some kids in your locality for the classes you are initially comfortable with, and then once you are experienced, you can teach higher classes. Remember, Home Tuition is a business where you need *NO Initial Investment* to start and run the show.

My Wife & Teaching: *My wife is an engineer, and she worked in her profession for the first 8 years. But after our second daughter was born, it became very challenging for her to continue her job, as I couldn't support her much because of my demanding, touring job. So, she decided to discontinue her 9-to-5 job.*

We had a maid whose kids were interested in studies, but she could not afford private tuition for them because of her financial condition. My wife supported her financially for her children's studies. One day, she decided to teach them herself and asked our maid to send her kids to our home after school. The maid's kids started coming to our house daily for classes. Soon, other maids approached my wife to consider their kids also, which my wife accepted with joy. Now a bunch of maids' kids came to our house daily for tuition, and we did it FREE as charity.

After a few months, Teachers from the School where the maids' kids were studying noticed phenomenal changes in those kids and came to our home to meet my wife. They appreciated her efforts and her teaching style. All those kids have improved dramatically in their class performance.

Then other mothers from our Society and nearby places started approaching my wife to teach their kids. Initially, my wife refused to take other kids as her class was free for charity purposes only. Those nearby mothers insisted on starting another paid batch for their kids. We discussed it, and my wife started two batches: one free batch for maids' kids and a second paid batch for our Society kids. Soon, all the kids benefited, and she became well known in our locality.

Then, in 2014, we shifted to another Sector in Noida to our own Flat. My wife started her Classes here and is now running multiple batches. She takes classes 7 days a week and is dedicated to her students' studies. She believes all students should devote considerable time daily to their studies, as they do for other chores.

My objective in telling you about my Wife's teaching classes is to give a practical example from my life about how one can add income by considering this possibility. Nowadays, both husband and wife are well educated. So you can plan and start teaching classes together or separately, depending on your availability. At least consider taking classes on weekends. Nowadays, parents are very busy with their jobs and want someone to take care of their children's studies. Teaching is a good option. I suggest you think about this.

e. ***Refresh your old Hobby (Hobbies)*** - Our next option to increase income is by learning new skills or completing the old skill/hobby which you could not complete due to your other commitments. You can think about starting a Coaching class on the weekends in an area where you have some expertise, like singing, dancing, music, sports, martial arts, painting and an English-speaking course, etc

Initially, you can start with beginner classes and then move on to higher levels. ***The aim is to start a new income source no matter how small it may be.*** You can pick up an old hobby and brush it up by joining professional classes in that field to start your new endeavour. Parents are very concerned about their children's overall development and want them to learn extracurricular activities apart from regular studies. There is a huge demand for such classes in all areas.

As a child, I was always interested in singing and music. I learned to play Banjo, Harmonium and Flute to some extent with the help of my friends. When my elder daughter joined Kathak Dance and Indian Classical Singing at the age of 6, one evening when I came back from the office, I saw a new pair of 'Tabla' in my Drawing Room. My wife bought a new Tabla pair for me to learn, as I used to tell her how much I wanted to learn to play musical instruments in my childhood. But because I lacked support, I couldn't.

She told me, "You have to learn Tabla and play it so that your daughters benefit from it while practising their Kathak Dance and Indian Classical Singing at home". Then I joined the same Music School as a fresher student to learn Tabla, where my daughter was learning Kathak, and I completed a 4-year Senior Diploma course in Tabla playing. I am still learning Tabla from my Guru and enjoying this journey. Now I can start a "Basic Tabla Learning Class" and add some income to my pocket.

f. **Learn New Skills** - You must have come across advertisements about multi-level marketing, Digital Marketing, Web Designing, Stock market courses, etc. You can join any such course based on your interest and start investing in that instrument with a small amount so you can learn and add some income to your pocket.

g. **Start a Side-Business** - You must have heard people saying to take a '**Part-Time Job**' to increase their

income, and some do this also. In my opinion, you are presently doing one job, and that is enough. In place of a *part-time job*, look for a '**Part-time Business**'. There are many ways to start a part-time business, and most of them require a small investment of time and Money. Depending on your locality, start searching for a *part-time business*. You can partner with someone and start a small business where your expertise and another person's time create a win-win situation for both.

h. ***Rent out your property*** - If you own a house or a flat and stay in it, see if there is any opportunity to make some modifications and rent out a small portion of it without much compromising on your dwelling. Don't forget to sign a Rent Agreement and get police verification done for the tenant before offering the facility. You can extend the service of providing food to your tenant if they are a bachelor. This can bring extra income to your family.

i. ***Open an Online Store*** - There are many online tools available nowadays that allow you to open your own ***Online Shop*** and sell products. If you partner with an inexpensive supplier, you could ***drop ship*** your goods. This means you can send orders to that Partner to fulfil them for you in exchange for a Portion of your revenue. *Drop shipping* is a business model where you sell products online without holding any inventory. It requires very little initial investment and can be done from anywhere through a Laptop / Computer with an

internet connection. With your spouse's support, you can start this business.

STEP-2: How to Reduce Expenses?

Do you know your exact monthly expenses ??

Most of you know approximately how much you spend each month on living. But only a few of you must be maintaining a detailed account of everyday expenses.

If you are not recording your daily expenses, then start doing this exercise from today. *Keeping a record of your daily expenses is a Millionaire's habit.* Write down your daily expenses in a sheet or diary and track your exact spending under different headings each month. You will find many formats for such sheets available online. Nowadays, lots of applications are available to keep track of daily expenses. Use them as you see fit. But the condition is that you must record all your expenses religiously every day before going to bed.

Once you start recording all your expenses religiously, be it of any small amount, you will be surprised to know about certain expenses or even about your total monthly expenses. You may find that your estimate of your average monthly expenses is far lower than what is actually happening.

It is better to involve all family members in recording their daily expenses to calculate your family's monthly expenses. Involving grown-up kids in this activity will teach them financial discipline. In my home, we have a common Diary for recording all daily expenses, and everyone in the family writes the expenses in it daily. My daughters find it very interesting and enjoy recording and monitoring our monthly household expenses. The younger one keeps warning me when we cross limits in any segment.

Now, since you have recorded each expense, segregate them under different headings. Find out your ***Family Inflation*** in all headings from the monthly expenses being recorded. Spread major expenses (like yearly Insurance premiums, kids' quarterly school fees, seasonal dress purchasing, yearly Mediclaim premiums, any major household item purchase, etc.) to the monthly level even if it is done once in a quarter or year (it is called ***Amortisation***); otherwise, it will skyrocket your monthly expenses in that month in which it is paid. You can have a joint family discussion on how to manage and where the expenses need to be controlled.

Here are some other ways you can practise in your day-to-day life that will reduce your expenses. No matter how small the amount is, if we practise them throughout our whole life, the savings will add up to a big amount.

Find some techniques below that I am following in my life;

1- **ZERO Day**: Choose any day of the week which you think is auspicious as per your belief. Try not to spend anything that day except for mandatory or emergency needs. We observe *Thursday* as *ZERO DAY* in my family. You can choose yours.

2- **Create a Budget** - Always make a Budget and keep track of your spending. First, identify *Needs* (*essentials*) and *Wants* (*nonessentials*). Cover needs first, and plan for wants separately.

3- **Lower your expenses**: After making the Budget, track your spending to see how actual expenses compare to the planned ones. Adjust the budget accordingly to cover any differences.

It is said that your Expenses will always try to catch up with your Income. It is a widely observed phenomenon that our spending habits often catch up to our earning capacity. This phenomenon shows up in various forms: upgrading to a larger residence, buying a more expensive vehicle, visiting restaurants more often, choosing more luxurious holidays, or investing in premium consumer products.

This tendency is often called '*lifestyle creep*' or '*Parkinson's Law of Triviality*' in personal finance. Understanding this dynamic is crucial for effective personal financial management. *We need to hold our expenses at a certain level, regardless of increases in*

income. Only then will our savings increase, and we can reach our Financial Freedom corpus early.

STEP-3 - Manage your Savings:

In Step 1, we tried to increase our income, and in Step 2, we tried to reduce our expenses, thereby increasing our Savings. Now we are at the third and crucial step, which is *managing our Savings*. This is the critical part, and all our effort should go into managing our savings and investing it in profitable Investment Ventures available to us. Our objective is for the return from our investments to beat inflation & applicable taxes, and for our money to grow day by day. We will discuss this aspect of '*why to invest our Money*' in detail in our coming *Section-4*.

We earn after working hard, burning our ***Life Energy***, and save Money by controlling our expenses. But when it comes to managing our own savings, we give it very little importance. I have seen people who don't think about growing their savings and instead follow one or two old-fashioned investment methods, like opening Fixed Deposits or buying Gold and land.

We have managed our employers' wealth well for many years and always ensure it increases year by year. *I suggest you appoint yourself as your '**Wealth Manager**' for your accumulated Wealth.* Today, make a comprehensive list of all your savings and investments, such as money in Savings Banks, RDs, FDs, PPF, EPF, Gratuity, Leave Encashment, Gold,

Real Estate, Mutual Funds, ETFs, shares, etc. Also list all your debts, like Home Loans, Vehicle Loans, Personal Loans, etc., to arrive at your **Net Worth**.

Net Worth = All Assets (Savings & Investments) – All Liabilities (Debts)

*Appoint yourself as your **Wealth Manager** and give a target to increase this wealth by at least 10% next year. You can issue an Appointment Letter to yourself for this task and assign a reward of 10 % of the yearly return as your payment. I know you will take this assignment seriously, as you are dedicated to your regular job, and you will give sufficient time to educate yourself and gain experience in money management and investment tools.*

In Chapter 5 of this Book, we will discuss the various investment opportunities available to us. We will discuss the investment tools we should consider to achieve double-digit growth in our savings. I will also give you two methods in two separate chapters of this book to generate regular monthly income after staying invested for a considerable period in *Mutual Funds* and *Exchange-Traded Funds (ETFs)*.

Frugal vs Miser

Two terms are widely used in our society to describe a person based on their spending habits. The first one is **Miser** (कंजूस) and the second one is **Generous** (दिलदार). But

there is a third word called **FRUGAL** (किफायती), which means '***using only as much as is necessary***'.

Being *Frugal* is far different from being *Miser*. But we generally confuse Frugality with Miserliness. A *Frugal Person* is very clear about their requirements and what they need. Whereas a *Miser* does not meet the minimum requirements and always tries to save, regardless of the demands of the situation.

While buying my second Car, everyone I knew, including my family and office friends, advised me to go for a high-end sedan or an SUV. But I knew my requirements and chose a mid-range sedan instead of spending a hefty amount on a high-end car or a large SUV. ***For me, financial freedom mattered more than the golden cage of the materialistic world.*** I wanted to spend only what was necessary, not show off, and not treat it as a status symbol. Some readers may have different opinions on this matter, but I know that since you are reading this book and you are concerned about your Financial Freedom, you will give it some thought.

Here I am mentioning another incident from my life which gives an excellent example of the frugality of a gentleman;

Because of some personal work, I had to visit an Assistant Commissioner in the Income Tax Department at Delhi ITO, who is one of the sons of the ex-MLA of our area. I got his contact number through some

sources and spoke with him over the phone. He was very supportive and invited me to come to his office.

I went to his office at ITO, and his assistant informed him about my arrival. He then called me immediately, and I was greeted warmly. He was so gentle and sober with me that I was impressed within the first few minutes of our meeting. I explained to him the matter for which I wanted his support. He comforted me and asked whether I would like tea or cold drinks. Since it was Delhi's hot summer in June, I preferred cold drinks.

He then asked his office assistant to bring a bottle of cold drink and divide it into two glasses. In those days, cold drinks were available in 250 ml glass bottles. I was very impressed by the gentleman's frugality. No doubt he is from an affluent family and is also an Asst. Commissioner in the Income Tax Department. But he didn't mind practising his frugality by sharing a cold drink bottle with me.

Generally, when someone comes to us, we try to show off by ordering several items in much larger quantities and ending up wasting items and Money. Here, this gentleman offered me a quantity comfortable for one person to consume and didn't try to show off. He listened to me and resolved my problem. Since then, we have been good friends and stay in touch regularly.

My purpose in sharing with you the above incidents is to give you practical examples of frugality. ***We should practice frugality in every aspect of life, not limit it to Money only. We can practice frugality while using resources like food, water, public facilities, services,***

etc. This way, we will use resources and Money wisely by spending or consuming only what is necessary. ***We should remember that resources belong to society.*** When we get food or buy any item, we are only giving our Money. But many people put in a lot of effort, and our country's resources go into it.

I believe that wasting anything is a sin. We are all guests on this planet for a limited time, and we should use its resources as needed and avoid wasting anything.

If everyone on this planet thinks the whole Planet belongs to them, then they will not pollute it. Then we don't have to ask anyone not to spoil the environment. When we visit our relatives' houses or stay at a hotel, we tend to use the facilities very cautiously. We avoid wasting anything and creating any embarrassing situation. So, unknowingly, we practice frugality in some situations; why not start practising it consciously in all aspects of our lives?

Some Tips for Expenses Control

Here are some personal expense control measures I follow in my life. Think of it as your saving and investing policy; if you agree with some of them, try following them.

(1) Turn off all lights, fans and air conditioners, etc when you leave the room. Teach your Kids to follow this.

(2) Replace all lights/bulbs in your house with LEDs.

You will have an initial cost to replace lights with LEDs, but it will drastically reduce your electricity bills and pay for itself soon.

(3) Always buy geysers that have thermostats to control the water temperature.

For optimal efficiency, set the water temperature between 30-35°C. This prevents overheating, extends the life of the elements by reducing scale buildup, reduces heat loss, and significantly lowers electricity consumption.

(4) Switch off and unplug the Electric devices from the connecting socket when not in use. Many electronic devices draw a small amount of electricity even when not in use.

(5) Run the air conditioners at 26 degrees C or more.

We were taught in our engineering course that *the purpose of the Cooling System is not to cool the engine but to keep it at the proper running temperature.* Similarly, the purpose of the Air Conditioner is not to cool the room but to keep it at a pleasant ambient temperature for living. I have seen people running the air conditioners at 16⁰ C - 18⁰ C and using blankets even on the hottest summer days. This is not medically advisable, and it also wastes extra money because the air conditioner runs for a long time.

(6) Always buy electrical appliances after checking their star rating. The higher the star rating, the more efficient the item is and the less electricity it consumes.

(7) *Repair leakages in all your plumbing fittings.* As per Vaastu Sastra, leaking taps are also considered inauspicious.

(8) *Always shop with a definite list.* Don't go to the market without a list and start remembering items to buy after you see them in the Shop. This will lead to compulsive buying. Prepare a list of items you need before you go shopping, and stick to it. Just because something is on discount doesn't mean you should buy it.

(9) *Check for discounts/sales before you start buying groceries.* Sometimes you get good offers on grocery items when you buy in bulk. Ask salespeople about discounts available on all products that day.

(10) *Cut back or quit Smoking and Drinking.* Smoking and drinking are habits that negatively impact both our health and finances. The Money spent on these vices is entirely wasted and often leads to higher healthcare expenses later in life, including expenses in the present. This affects our well-being and places significant financial burdens on our families.

(11) *Pay with cash when you are shopping and avoid using Cards / online Payments.* When we spend Money in cash, our mind registers all expenses properly. But when we spend with cards or online, we don't feel the spending and go beyond our budget. But nowadays online payments are common, and we have all developed control over this aspect.

(12) *Pay off your Credit Card debts at the earliest*, as they come with the highest interest rates (24% – 36 % per annum). If you have strong control over your spending habits, then only use Credit Cards and take advantage of the no-interest period available. Otherwise, stop using credit cards if you can't control yourself and use debit cards or cash for purchases.

(13) *Reduce or STOP eating out*. During the COVID-19 lockdown, you must have tried preparing some food at home. Build on that by cooking for your family on holidays and involving all family members. This way, you will have quality time together, eat healthy food, and keep expenses low.

(14) *Buy proper carry Bottles / Mugs for water and beverages* and take them along when you are going for an outing instead of buying packaged water.

(15) *Check the plans you have taken for Mobile phones, DTH connection and Wi-Fi, etc* and keep searching for better plans. Nowadays, service providers keep on introducing better plans due to cutthroat competition. If you don't review your plans from time to time, you may be paying more for less. Go for Family Plans where you can add 3 to 4 more members to your plan, and the combined bill will be much less.

(16) *Cut your landlines* as they are mostly not in use nowadays. But if it comes free with your Wi-Fi or DTH package, then keep it.

(17) *Renegotiate your Home Loan interest Rates* with your Bank from time to time. Banks have schemes where they charge a processing fee and reduce your loan interest rate.

(18) *Renegotiate your Home Rent* if you are in rented accommodation. Nowadays, because of the availability of lots of inventory in most cities, rents in some localities have dropped drastically. I was paying rent of ₹ 30,000/- in 2014 in Noida (NCR-Delhi), and now the same house is available at around the same rate even today, after 11 years. You can see how the scenarios have changed drastically in some Cities.

(19) *Try to use Public Transport* as far as possible rather than using your own vehicle to commute to your workplace. Also look for other healthy options, like cycling or walking, depending on how far your workplace is from your residence. *Arrange a carpool if public transport or walking/cycling is not an option.*

(20) *Keep your vehicle well maintained.* Also, keep tyre pressure at the optimum level. Did you know that low tyre pressure can increase your fuel consumption by 6-10%?

(21) *Negotiate your yearly insurance expenses* for vehicle and medical insurance, and check for better deals. Nowadays, you have many Apps available online that can compare costs for these services.

(22) *Find a cheaper place to live.* Some locations in every city have a higher cost of living than others. Try

to find a cheaper or more remote place. ***It is seen that most wealthy people stay in humble backgrounds. They do not change their home, even though their wealth has increased a lot and their neighbours have only a fraction of their wealth.***

(23) Cancel all unnecessary subscriptions and memberships or evaluate all of them. Keep subscriptions only if you use them regularly and get your Money's worth.

(24) Identify between NEEDs and WANTs. Cut down on shopping for unnecessary items. Ask yourself how relevant it is to spend on something and only buy those items if that expenditure is necessary. We will talk about this later in detail.

(25) Sell stuff you don't need to balance your budget. This will not reduce your cost, but it will help you balance your budget. It is said that if you have not used an item for more than a year, you may not use it in the future. Sell those unused and extra items online through various sites like OLX, eBay, etc., regularly and declutter your house. This will bring Positive Energy to your house and free up the space those unused items take up.

One Rupee saved is Four Rupees earned.

You must have come across the saying '***Power saved is Power Produced***'. If a family saves 10 KW of electric power every month by closely monitoring their Electricity consumption and practising the other means

we discussed, then we can say they have produced 10 KW of Power for the Country.

Similarly, in financial terms, if a person saves One Rupee, then depending on their savings percentage relative to their income, we can say they have added 4 or 5 Rupees to their earnings. Let me explain it with an example.

Suppose a person earns ₹50,000 every month and saves ₹12,500 after all expenses. He is saving 25 % of his income. Suppose this person, by practising ***a frugal lifestyle***, saves another ₹2,500 every month. Now his income is ₹50,000, but his savings have increased from ₹12,500 to ₹15,000. If we keep his earlier savings percentage (25% of monthly income) and add another ₹2,500 in savings, he would have to increase his income by ₹10,000 (i.e., from ₹50,000 to ₹60,000).

So, we can now say ₹2,500 saved equals ₹10,000 earned, or ₹1 saved equals ₹4 earned.

An inspiring Story from the Mahabharata: *After the Mahabharata battle, the Pandavas ruled the Land. Their capital was Indraprastha (it is believed to be located in the area of modern-day Delhi). Once, a severe famine struck their kingdom. King Yudhisthira asked his brother Bhim to visit Kuber (the lord of wealth) and bring food grains for the people, as people were dying without food. Bhim went to Kuber's palace to get the food grains.*

When Bhim reached Kuber's palace, he saw an older man sitting in a corner and searching for some food grains in the waste. He asked him to inform Kuber about his arrival. The person told him, 'Tell me, I am Kuber'. Bhim was surprised and doubted whether he should ask him for the huge quantity of food grains their dynasty needed, since he had seen him searching for a few grains in the waste. Bhim thought: the person who is collecting a few grains from the waste bin, will he be so generous as to meet his requirement of huge grains for their state?

Bhim, with doubts in his mind, told Kuber, 'I am Bhim, brother of King Yudhisthira, and I have come to ask you for a huge quantity of food grains, as people are dying in our dynasty because of the famine'. Kuber greeted him wholeheartedly. Asked him to freshen up, eat, and rest. He then asked his people to arrange for thousands of carts of food grains.

Bhim then happily left Kuber's place and headed towards Indraprastha with the carts of food grains. But on the way back, heavy rain made the roads muddy. The wheels of the Carts got stuck and could not move ahead. Bhim was in trouble and had no option but to go back to Kuber for help.

When Bhim explained what had happened on his way back, Kuber, without hesitation, asked him to go back and spread grains from some of the carts as needed on the road so it would dry and the carts could move. He also told him he was sending thousands more carts behind him.

Bhim was very surprised, as he could not believe what Kuber had just told him. He thought about this person who had been searching for a few grains in a waste bin and was now asking him to spread hundreds of carts of grain on the road. He wanted to clarify his doubt and asked Kuber, “Oh Kuber, I have seen you searching for a few grains in the waste bin, and now you are asking me to spread hundreds of carts of grain on the road?”

Kuber smiled and said, “Oh Bhim, at that time I had no work, and I saw a few grains were getting wasted in the waste bin. So I segregated them to recover those grains for proper utilisation. Here, in your case, people are dying in your dynasty because of a lack of food grains, and it is important to save their lives. I will not hesitate to spread all the carts if necessary to send grains to those dying people.”

Hope you got the message. We must follow this philosophy in our lives. ***When we have the opportunity, we must save whatever is possible. When faced with genuine need or emergency, we must not hesitate to use the resources we have.***

After all, the ultimate goal of our efforts to save is to live a better and fulfilling Life.

Chapter - 3

Why are we Miserable?



Many books are written and sold on the subject ‘*How to attract Money into your Life*’, ‘*How to be a Magnet to attract Money*’, and so on...

All Authors of these Books try to enlighten readers on how to become a ‘*Money Magnet*’ and attract Money into their lives. But the irony is that these Authors and Publishers earn handsome amounts by selling their Books and keep earning regularly. But the Readers of these Books seldom benefit from these creations.

Some Authors express their Point of View by defining those ideas as ‘*money-earning laws*’. However, that is not the case; what they say are *theories* only, not *laws*. Here we must understand what a **Law** is and what a **Theory** is.

When a thought comes to mind, and we pursue it to form a concept, that is called a **Thesis**. Then we work on that concept or thesis and arrive at a conclusion; that is called a **Theory**. This theory is not universal and has certain conditions attached to it.

But a **Law** is universal. *For a theory to be termed a Law, it must give the same results when practised (executed) by anyone, by any means.* For example, if you throw a stone into the air, it will finally fall back to the ground. No matter who throws the stone or how high it goes, it will always fall back to the ground. So, we can call this phenomenon a Law, and we call it the *Law of Gravitation*.

Many books and theories around the world say that *our thoughts create attractive forces*, and that we can attract anything and everything into our lives by constantly thinking about it. They call it the '*Law of Attraction*'.

But in my opinion, it cannot be termed a Law. It can only be termed a Theory. *I agree that if we think about something or someone continuously for a long time, it generates momentum within us and in the universe to move toward it.* But it does not guarantee when, or how long, it will take us to achieve that. No definite formula or calculation exists for this. Even if we get results from this practice, the results will vary widely from person to person.

To earn & save Money, we need to put all our efforts in that direction, along with positive thinking toward money and our Income.

Most people have negative views towards *Money* and *Wealthy People*. They think that all wealthy people are bad and practice unethical means to earn Money. In our society, we are often told that '*Money is the Source of*

all Evils'. We also have very negative thoughts about *wealthy people*. To some extent, I also agreed with that philosophy and always thought that Money is not the only thing we must run after. I gave more importance to relationships, goodwill, etc., than Money. I was miserable for much of my life until I read some Books about Money and changed my thinking and feelings toward *money* and *Wealthy People*.

Finally, I got convinced that '***Money is not the source of all evils; it is Lack of Money or No Money which becomes the source of all Evils***'. Lack of Money can make one feel miserable and can lead that Person to do any kind of Sin/Misdeed. We, humans are, by and large, genuine and law-abiding creatures. But this lack-of-money feeling sometimes overpowers our rational thinking and makes us do things or act in ways that lead us into more trouble. In Chapter 1, we saw what Money can give us. Now let's change our concept of Money and Wealthy people and see what positive changes it brings to our lives.

Try to be Wealthy, not Rich!

To most of us, the words '***Wealthy***' and '***Rich***' look similar. A ***Rich person*** has a high annual income, mostly from *active income* streams that require their full involvement. At the same time, a ***Wealthy person*** has a significant *Net Worth* and has invested their wealth in ventures that generate regular ***passive income*** with little active involvement. The wealthy person has

accumulated enough Assets that they are no longer worried about earning Money day in and day out to live.

So, the main difference between a Rich person and a Wealthy person is how sustainable their wealth is. A Rich person has a high annual income, but they might have a negative Net Worth because of debts. A wealthy person may have a lower annual income, but their wealth is sustainable, and their debts are much less than their assets, or they have no debt.

A good example of the difference between ***a rich*** and ***a wealthy*** person is when someone wins a huge lottery prize; they become rich. But how they use that Money to generate regular income determines whether they stay *rich*. If they spend all the money maintaining a luxurious lifestyle, they will soon end up in poverty. That is why most big Lottery winners are seen to reach their earlier life in 5 years. But if that person wisely invests that lottery Money to generate regular income, they can enjoy life forever and be called wealthy.

We can say a *Rich person* can become poor, but a *Wealthy person* can't, because ***a wealthy person's money works for them and makes more Money.***

Education (पढ़ाई - Padhai) and **Income** (कमाई - Kamai) are not related. Many people mistakenly believe that academic education directly correlates with financial success. History offers numerous examples to challenge this notion. Bill Gates, a name famous for immense wealth and innovation, dropped out of Harvard.

Similarly, Henry Ford, a pioneer of the automotive industry, achieved remarkable success with virtually no formal education. Even figures like the Ambani brothers, who helm one of India's largest conglomerates, were reportedly normal students in their academic pursuits.

Rich = High Income

Wealthy = When Cash Flow from Investments is more than regular monthly expenses

Our ultimate objective should be to be Wealthy, not Rich. It's about building a robust financial foundation that can withstand economic fluctuations and provide lasting prosperity, rather than just having a high income at a particular moment.

The path to wealth involves strategic thinking, calculated risk-taking, continuous learning outside traditional academic settings, and an understanding of how to create value and leverage resources effectively.

Why do we work for Money?

We all know that “***Time is Money***” and want to convert the maximum Time available to us into Money. This idea of burning ourselves to make money is widely accepted in our Society. Our parents and elders have told us that Money is not easily earned and that we should always ‘*Work Hard to earn Money*’ by burning ourselves. But there is another aspect: ‘***Time is Life***’. It

means the time you spend on anything or everything is the **Life Energy** you spend.

Let me explain it in more detail. We all have a definite lifespan on this planet. The **Present Time** is a Segment of that lifespan. Once this Present Time has elapsed, our lifespan gets reduced. In simple terms, we are all heading toward the end after we are born (*still, we celebrate our birthdays year after year, even as we move closer to the end* 😊). So, any moment which has passed is gone from our lives.

We all work by spending our **life energy** (lifespan) to earn, so we can live a happy and comfortable life **now** and secure our **future**. We all will grow old, but we will still need Money to live the rest of our lives. We work because next month groceries are to be bought, mortgages are to be paid, rent is to be paid, school/college fees of our kids are to be paid, entertainment expenses are to be paid, our medical needs are to be met, and so on. Our fear of **“Lack in Future”** drives us to work today. We fear that whatever we have accumulated so far will not be enough for the rest of our lives. We keep burning ourselves and keep spending our **Life Energy** for Money.

We all aspire to leave a legacy for future generations. However, at what price does this come? Is it truly a worthwhile endeavour? This is the critical question that often arises before putting significant investment of time, effort, and resources into any endeavour.

It is said that the amount of money left in one's bank account when a person dies directly reflects the amount of "Life Energy" they spent earning what could have been avoided.

Some will argue that how does one know how much will be required for the rest of one's life? And whatever they have now, if it becomes insufficient, then what should they do? Also, toward the end of our lives, we will be old and may not be able to work actively to earn Money.

This is where the role of 'Financial Freedom' comes in. *Financial freedom* means developing income streams that don't require your active involvement. Your **passive income** covers your day-to-day expenses, and you are free to pursue your hobbies and enjoy your life. Many books on this concept are *available*, and you can read them to understand it.

I was desperately searching for good books that would simply guide me to the destination of Financial Freedom. I then came across an excellent book titled 'From the Rate Race to Financial Freedom' written by Mr Manoj Arora and understood all aspects very clearly. He runs an excellent programme named 'ELITE PROGRAM'. I joined that programme and completed all the steps. This Elite program considers all your assets, liabilities, inflation, market behaviour, and requirements for all your life events until you pass away.

*After going through all the steps and providing all the necessary data, I came to know how much Money (**The Magic Number**) will be required for me in this life based on my present net worth & savings rate, and it also gave me the month and year by which I will get my **Financial Freedom**. I learned where I was on the path to Financial Freedom and continued my journey to complete the balance path.*

After understanding the concepts of *Financial Freedom*, my approach to life and money changed. The sooner you understand this and work toward it, the sooner you can reach this golden goal of *Financial Freedom* and enjoy its benefits for the rest of your life. The **Akshaya Patra** and **Planting Kalpataru** techniques I explained in Chapter 9 & Chapter 10 of this Book are my offering to you on *your journey toward Financial Freedom*. Understand these concepts and practice them for early relief from Money worries and to gain **financial freedom** in the least time possible.

Income vs Life Energy

I have written a lot about '**Life Energy**' earlier in this chapter. Now let us understand what *Life Energy* is and how it is related to your income. Let us understand how our *Earning* can be defined in terms of our *Life Energy*.

Those who work somewhere and get paid monthly or weekly often think their per-day income is total monthly income divided by the number of days in that

month, or, at most, total income divided by the number of working days.

First, let's find out how many days or hours we work in a year before we get into the details of ***Income vs Life Energy***. Please see the calculation to find the number of days and hours you work in a year.

Let's say you work for a company *5 days a week and 9 hours a day, for a total of 45 hours a week*. (The calculation will be more or less similar if you work for 6 days a week @ 8 hrs a day.)

Let us calculate the number of days (hrs) you are not working:

Total Nos. of Days in a year = 365 days

Nos. of Weeks/year = 55 (except leap year)

Nos. of Saturdays & Sundays = 55×2 = 110 days

Consider Paid / Privilege Leave = 20 days

Consider Casual Leave = 05 days

Consider Sick Leave = 07 days

Declared Holidays = 12 days
(including National Holidays)

Total Nos. of Holidays/Leaves = 154 days
(110+20+05+07+12)

Nos. of Working days available = 211 days per Year

Nos. of Working days in a Month = $211/12 = 17.6$ days

If you work 9 hrs a day at your workplace, your Company allows 1 hr for Lunch and Tea Breaks. ***So, Effective Working Hours are 8 hrs.***

Let us assume a person effectively puts 8 hrs daily into his work for 17.6 effective Working days in a month.

Effective Working Hrs in a month = $17.6 \times 8 = 140.8$ hrs.

The indirect expenses you are incurring for your job are:

- ★ You get your shaving done (for men) or makeup done (for women) daily before going to work, which may not be required on days you are not going to work.
- ★ You spend a lot on formal clothes and their maintenance because you go to work daily; at home, you could manage with simple home wear.
- ★ You are spending a significant amount on buying a Vehicle or Car to commute to your workplace, which should be added.
- ★ You are also spending on fuel and maintenance for the vehicle or car you use to commute to work, which should be added. Otherwise, you may be spending on Auto/Taxi/Bus/metro fares to reach your workplace if you don't use your own vehicle. Or it may be a combination of both.

★ You go out for entertainment on weekends because you get exhausted during the week. So, add this expense.

★ You need a long family vacation every year to rejuvenate and spend special time with your family, which you miss due to work assignments and commitments.

You can add any other expenses which you are incurring. Considering all of the above, I am preparing a Calculation Table for a person who works 20 days a month at 8 hrs a day and earns ₹1,00,000/- per month for your reference.

<u>LIFE ENERGY vs EARNINGS (Real Hourly wage)</u>					
Sl. No.	Description	Hrs / Day	Hrs / Month (20 days)	Rupees /Month (₹)	Rupees / Hr (₹)
A	Basic Job (before adjustments)	8 hrs	160 hrs	1,00,000	₹ 625
B	Adjustments (deductions)				
1	Commuting	3 hrs	66 hrs	6,000	
2	Costuming	0.5 hr	10 hrs	1,500	
3	Meals	1 hr	20 hrs	3,000	
4	Decompression	0.5 hr	10 hrs	2,000	
5	Entertainment	0.5 hr	10 hrs	1,000	
6	Yearly Vacation	0.6 hr	12 hrs	5,000	
7	Job-related illness	0.6 hr	12 hrs	2,000	
	Other Expenses	0.5	10 hrs	1,000	

(Total Adjustment)		7.2	150 hrs	21,500	
C	Job with Adjustments	15.2 hr	310 hr	1,00,000	₹ 322.5

You can use this Table and modify it to your situation to find your actual number.

*From the above calculations, we find that the person earning ₹1 lac as salary thinks his **per-hour income is ₹625**. But when we adjust all other expenses incurred for the job, we see his **actual income is ₹322.5 per hour**, which comes to approximately ₹5.35 per minute.*

***So every 10 Rupees spent by this person represents approximately 2 minutes of their Life Energy.**

The objective of this calculation is to relate our everyday Expense to the Life Energy we spent to earn that Money. If this person is spending ₹500 on any item or service, they should relate it to the time, which is **93 minutes (nearly 1.5 Hours)** of their life span, which has been spent to earn that Money, and rethink before spending. *The objective here is not to become a MISER but to be FRUGAL.*

You can discuss this Life Energy Calculation in your family. Let your Spouse and Children also know how many minutes of your life energy are spent for every 100 or 500 rupees they spend. This will bring discipline in family spending, and they will see all expenses in a justified way before spending. This frugal behaviour can also be supported by a simple method called the **NEEDS vs WANTS Test**.

*Some people may find this concept hard to digest and think it is too cheap. But if you follow the lives of wealthy people, you will find one thing in common: **they value each rupee, and they value their time.** Getting this calculation done and valuing our Money and Time is never a bad thing.*

Need vs Want Test:

Basic human **NEEDS** are Food, clothes, and Shelter (*Roti, Kapda aur Makaan*). We also need other items for daily chores, healthcare, education, transportation, communication, entertainment, etc. While fulfilling these essential **NEEDs**, we also develop certain other **WANTS**. However, what each of us needs for life varies widely because of our social/physical/economic status.

Nowadays, the market offers so many options for our NEEDs that they create our WANTS. If you go to buy a simple Mobile Phone, then you have so many brands, varieties, features, looks, etc. available in the market. You will never be satisfied with your purchase. All these Brands/varieties/features/looks come with a wide range of Prices. You can find a Smartphone ranging from ₹ 8,000 to ₹ 1,50,000 in the market. This wide variety across a huge price range always creates a **WANT** in us.

One person saves for a Smartphone. But when they save the required amount and go to buy the dream Phone, they never feel satisfied. Better versions & brands are

available at a higher price. They also get lucrative offers to buy a phone beyond their affordability by taking on spot-approved consumer loans.

We work hard, stay away from our family, and sacrifice so many life events. But sometimes we spend our hard-earned Money by just getting carried away by our *WANTS*. How many times have you gone to the market to buy certain things but ended up buying much more because you saw great discounts or deals?

We behave like this because of the ***Fear of Missing Out***. This Syndrome creates a *WANT* within us, leading us to buy unwanted things at a discount and spend more.

Many times, we come across offers like BUY 2 GET 1 or BUY 3 GET 5. We go to buy one item, but after seeing the offer, we decide to take the buy 2 get 1 deal. We convince ourselves that we will get 3 items by paying only for two, or 5 items by paying for 3 in the buy 3 get 5 offer. But if you examine it critically, you end up spending more than you needed, even though you now have more items. Whatever justification we give, this kind of *WANT*-based buying drains more Money from us. I am leaving this analysis up to you to conclude, as I feel some of you may have different opinions.

If a good offer is available on regular consumables or Grocery items that can be stored for a few more days and consumed, then going for that kind of offer is always beneficial.

If you buy more than you need just because it's on discount, you are actually losing Money, even though you think you are saving.

So, for every Rupee we spend on any item or service, we must ask ourselves whether this requirement is a **NEED** or a **WANT**. If it is an absolute NEED, then we can spend money on it then and there. But if it is a WANT, we need to analyse further and make a justified decision. Alternatively, we should avoid or delay it if we can.

Why are we Miserable?

The big question that comes to mind is: even after earning a handsome income, ***why are we not happy and not feeling financially secure? Why are we financially so miserable? The main reason is our lack of financial planning.***

We know the inflation rate in our country is around 6% on average, and we keep our savings invested in Investment tools that give us a net return close to this 6% after deducting taxes. We are happy that we have invested our money, and it is increasing year to year. But in reality, it is not increasing. That is why, even after working for so many years and saving money while maintaining a frugal life, we are still far from *Financial Freedom*.

We can save a good amount of money by practising a frugal lifestyle. But if we don't invest it in ventures that

deliver *double-digit returns*, our savings will erode and may not be enough for our future. We need to build our knowledge of these investment tools and start practising by investing small amounts. Then, later on, when we gain experience, we can invest in them.

Some steps are given below which you can start doing as your first step towards Financial Security:

1- Start learning about ‘Money Management’ - With the knowledge of Money Management, you can learn techniques to make your Money earn more Money from different investment options. This knowledge of Money Management will protect you from your financial mistakes.

2- Get yourself debt-free - Start paying off your debts to avoid paying hard-earned money in interest on the loans. Follow this simple rule to clear your debts: *find the interest rates on all your debts and pay the higher-interest debts first*. Credit Card Loans and Personal loans always come with very high interest rates. Then come your vehicle loans, then your Real Estate Loans, and so on.

3- Start your Investment Journey - With the proper knowledge about all investment options, you can now start your investment journey.

Remember, the mantra is;

- Start Small - Invest regularly - Stay invested

4- Get all necessary insurance - Insurance policies serve as essential safeguards for individuals and their families. Get ***term insurance for yourself and health insurance for your family, even if you get*** coverage from your employer. Don't forget to renew your *Vehicle Insurance* and *House & property insurance* on time.

5- Keep an Emergency Fund - The universe is unpredictable. You may face unexpected expenses for your home, family, or job. Therefore, create an ***Emergency Fund*** to cover at least 12 months of household expenses, including all your EMIs, or 6-8 months' monthly income, whichever is higher. You can invest this amount in any *open-ended liquid/debt mutual fund* you can use in an emergency. We will discuss mutual funds separately in Section 7.

Chapter – 4

Why to Invest Money



There is an old saying that *“The best time for investment was 10 years ago and the next best opportunity is NOW”*

In our previous chapter, we discussed in detail how to increase our income and reduce our expenses so we can regularly save more for investment. We save every day, every week, every month, and every year. Now that we understand the importance of Savings in our life, the next activity is to invest our hard-earned Money wisely to become Wealthy and become financially free and secure.

There is a sloka in Sanskrit which goes like this;

सेवितव्यो महावृक्षः फलच्छाया समन्वितः।
यदि देवाद फलं नास्ति, छाया केन निवार्यते॥

‘Svitavy mahāvṛkṣaḥ phalacchāyā samanvitaḥ, Yadi daivād phalaṁ nāsti, chāyā kena nivāryate’

The meaning of the above sloka is: if we plant a seedling and nurture it by regularly watering and manuring it, it will soon become a mighty tree that

begins to bear fruit. If, for any unforeseen reason, there are no fruits in season on our Tree, who can prevent us from resting in its shade on any day?

Similarly, if we invest our savings and monitor them regularly, one day they will become huge wealth. It will give us Financial Stability and freedom, along with regular monthly income from its returns. If, due to unforeseen circumstances, the regular income or return from our accumulated wealth is lower or absent for a period, we will still have the comfort of having the wealth. We can use part of it to get through that difficult phase smoothly.

This leads to our next discussion, where we will discuss in detail why we should always invest our savings, which we save after following strict principles. We need to plant Seedlings and grow them into giant Trees so we get the benefits of both their Fruit and their shade.

Four Reasons Why to Invest Your Savings

In this chapter, we will see how important it is to invest your savings, which you have accumulated by following a disciplined and frugal life.

1. It will make your Money work for you:

Imagine you are working for money, and the Money you have saved & invested from your past income is also working for you. This is like two people in a family working and earning Money for the family. This is what we call the *Double Income Group (DIG)*, and you are

now in that group. If this continues for a considerable period, the day will come when your Invested Money, working for you, will compound and generate such continuous streams of income that you will not need to work further to meet your daily needs. It will take care of all your regular expenses and will make you **FREE, really FREE** - you will get your **FINANCIAL FREEDOM**. *You are now free to pursue the goals and hobbies which you have been ignoring.*

2. It will beat inflation & Devaluation:

We know that the money you save today will buy less in the future because of inflation and devaluation. We will discuss ***inflation*** in the next section, and *Devaluation refers to the decline in a currency's value relative to its foreign counterpart*. So, you need to make your money grow faster than inflation.

3. You can get Tax Benefits:

There are some schemes declared by the Government which enable you to invest in them and get Tax benefits. Look for such opportunities and take tax benefits where available.

4. Generate Funds for your Retirement Days:

We all know we cannot predict our retirement tenure or how long we will live after retirement. Also, it is well known that whatever we save will run out if we keep spending it without making it grow or adding to it at intervals.

So, investing in avenues that provide regular monthly income when we are not actively working is very necessary. In the last two chapters of this book, I will introduce you to investment techniques that will make your retirement life safe and secure.

What is INFLATION?

You must have heard a folk song from one of the superhit Hindi movies, '*Peepli Live*', released in 2010. It goes like this.....

"सखी सैयां तो खूब ही कमात हैं, महंगाई डायन खाए जात है" (Sakhi Saiyan to Khoob Hi Kamaat Hain, Mehngai Dayain Khaye Jaat Hai).

Here, in this folk song, a lady tells her friend that her husband earns well, but the ***Inflation-Witch*** is eating it away. So, whatever we save after following a disciplined, frugal life, the value of our saved Money is getting reduced day by day because of inflation.

What is Inflation? - Inflation is the rate of increase in prices over a given period and is typically a broad measure of the overall increase in prices or increase in the cost of living in a country. The two main indices used to measure inflation in India are the *Wholesale Price Index (WPI)* and the *Consumer Price Index (CPI)*.

Wholesale Price Index (WPI): WPI measures changes in wholesale market prices at the producer level. It measures inflation based on prices before goods reach consumers. The primary goal of WPI is to monitor price

changes driven by supply & demand in Manufacturing, Construction, and Industry.

Consumer Price Index (CPI): CPI measures changes in the price level of baskets of Products and services that households purchase for day-to-day living. This CPI index is often used to adjust wages, pensions and government benefits to account for changes in Purchasing Power.

10 years of Historical Data of CPI Inflation in India

Year	Average Inflation Rate	Annual Change	Reduction in Money Value
2023	5.51% (Jan to May)	-1.6%	₹ 58.85
2022	6.7%	1.5%	₹ 62.29
2021	5.13%	-1.49%	₹ 66.77
2020	6.62%	2.89%	₹ 70.39
2019	3.73%	-0.21%	₹ 75.39
2018	3.94%	0.61%	₹ 78.32
2017	3.33%	-1.62%	₹ 81.54
2016	4.95%	0.04%	₹ 84.35
2015	4.91%	-1.76%	₹ 88.75
2014	6.67%	-3.35%	₹ 93.33
2013	10.02%	0.54%	₹ 100

The table shows that the **₹100 currency note** kept at home in **2013** fell to **₹78.32 in 2018**. The same ₹100 currency note kept at home fell **to ₹58.85 by 2023**. The ₹100 currency note has not changed, but its Purchasing Power has reduced over time.

This is why the lady in our folk song tells her friend that the *Inflation-Witch* is eating away at their income. In terms of goods, you can say that if you got **2kg** of Rice

in 2013 for ₹100, you would get just a little more than **1kg** for the same ₹100 in **2023**. You can relate this to our daily life. The fruit that cost ₹ 40 – ₹ 50 in 2013 now costs ₹90 – ₹110 in 2023. *This is the effect of inflation on our hard-earned Money. **To counter this Inflation Witch, our saved Money must grow at a rate higher than the Inflation Rate.***

If you look at India's inflation history from 1985 to 2025 and study the graph available online, you can see the trend. India's inflation rate averaged **5.85 per cent** from 2012 to 2025, reaching an all-time high of 12.17 per cent in November 2013 and a record low of 1.54 per cent in June 2017.

You must also account for the **Taxes** you will pay on returns from your investments before entering any investment type. We will discuss the taxes in the next chapter.

Three Basic Purposes of Investment:

The primary purpose of investment is to create wealth.

Investments allow you to meet your short-term and long-term goals. They also help you to lead a comfortable life. Investment prepares you for unforeseen emergencies and helps you meet your retirement needs.

Investment is done for the following three purposes;

- (a) **Purpose 1** - for *capital gains*.

(b) **Purpose 2** - for *Cash flow*.

(c) **Purpose 3**- for both *Cash Flow & Capital Gain*

It is crucial to understand the nature of any investment before committing to it. Each investment strategy has its own set of pros and cons. Also, setting clear priorities based on your desired outcomes is essential for effective investment planning. Let us discuss all these purposes in detail;

(a) **Purpose - 1** - For getting only **Capital Gains**:

Some investors go only for *capital gains*. I call them gamblers. Because getting capital gains from any investment is not in your control. *If everything goes right, then you will get your principal amount plus the profit at the end of your investment cycle.* Don't forget you will have to pay a handsome amount of your profit as Long-Term Capital Gains (LTCG) Tax. Buying land, investing in an under-construction Real Estate Asset, investing in Gold Sovereign Bonds, etc., are good examples of this type of investment for *capital gains*.

Here, you do not get any return during the investment period. You invest a fixed amount of your savings and wait till the end of the investment cycle to get your return. You get a return from this kind of investment only when you complete the cycle and exit the investment by selling it. While investing, you never know what will happen to your investment at the end of the investment cycle. It may increase or even decrease.

(b) **Purpose - 2 - For getting only Cash flow:**

If you choose **Cash flow** as your investment option, you will receive regular cash flow (monthly/quarterly/yearly) from your investments. You can reinvest that regular return to get the compounding effect if you are on track to *Financial Freedom*. Or, you can meet your regular monthly expenses with the cash flow you get from your investments. You won't be bothered by the capital gain you receive at the end of the investment cycle. That will be an additional gain. Rental Income from Rental Property, Real Estate Investment Trusts (REITs), dividend-paying stocks, Income ETFs, high-yielding savings accounts, index funds, and Bonds are good examples of Cash Flow Investments.

When an investment is returned in full, and you still own that income-producing asset, then your investment goes on an Infinite Return Cycle (i.e., infinite ROI). Now you get regular returns from your asset, even though you have already received back all the principal you invested in that asset.

Let me explain this with an example. Suppose you invested ₹1,00,000 and are getting ₹ 1,000 as Cash Flow return every month from that investment, assuming around 12% ROI. After 100 months (i.e., 8 years 4 months), you get your principal investment of ₹1,00,000 back. But the corpus is still there, and it will keep giving you a monthly return of ₹ 1000 forever. **This is called getting infinite ROI.** Now, after 100

months, your principal investment is zero, as you have received all your initial investment Money back, and you are getting the return every month. We will use this technique in *Chapters 9 & 10* when discussing how to generate regular income from investing in Mutual Funds and ETFs.

(c) Purpose - 3 - for both Cash Flow & Capital Gain:

This is an excellent type of investment where you get both regular ***Cash Flow and Capital Gains*** *at the end of the investment cycle.*

If you invest in a residential Flat or a commercial shop, you receive a regular monthly return in the form of rent. The property itself also gains value as real estate in that area appreciates. After a few years (say 5-10 years), when the property has appreciated well, you can exit the investment and make new, promising investments. During these years, you get ***cash flow*** in the form of Monthly Rent, and at the end you receive good ***capital gains*** from price appreciation. This is called '***having it and eating it also***', which many thought impossible. (But nowadays, due to excess inventory in most of the cities, it is very tough to get good returns from Real Estate investments. It is also challenging to sell it as per your necessity, and you have to always dissolve the whole investment as you can not sell it in part.)

Three Basic Requirements for Investment:

Investment in any era and in any investment tool has three basic requirements. There are three basic requirements for doing any prudent investment. They are;

- a. *Knowledge*
- b. *Experience*
- c. *Surplus Money*

Nowadays, to invest in any investment tool, you need to use online applications, mobile applications, investment websites, etc. After the COVID outbreak, most financial activities can be done online from home. All financial institutions and Investment Agencies have moved everything online. You can even complete your KYC (Know Your Customer) online for investment in Mutual Funds, etc. You can open Savings Accounts and *Demat accounts* without visiting the bank branch.

As for the first part, '***Knowledge***', anyone who has completed Senior Secondary School and understands English and basic arithmetic can invest in all these tools available in the market. You are not required to be highly qualified in the finance field to understand these investment tools. ***So, the education part is mostly done for all of us.***

For the 2nd part, '**Experience**', you need to start with small investments in the sectors and the investment tools you have chosen. Start gaining experience in it. You must give enough time to learn the various aspects

and techniques used in these investment instruments. In my opinion, it takes 1 to 2 years to study, research, and gain experience in any Investment Instrument. We take a long time to learn any sport, driving or any other activity. So, giving some time to learn investing is not a bad idea. This is going to support you for the rest of your life.

The third and main aspect of investment is the 'Surplus Money'. The word 'Surplus' is very important. We should use only that Money for investment which is surplus with us because we are planning for long-term investment. Our Money will be locked for, say, 8 to 10 years or more in the Investments so that we get the benefit of the compounding effect. It is never advisable to invest your *Emergency Fund* or invest by *Borrowing Money*. There is a concept of *Good Debt* and *Bad Debt*, which we will discuss some other time.

Please remember that you will end up in one of the two scenarios in any investment. Either it will give you '*Profit*', or it will cost you some '*Loss*'. So, investing by borrowing or using an *Emergency Fund* can lead to financial disaster if you incur a loss.

Uncertainty is always possible in life and in the Financial Market. So, only invest money in the market that, if it gets stuck for a few years, will not affect your way of living. After all, we are here on this planet to '*live a long and happy life*'.

Is Timing Important in Investing?

We saw in the old saying at the beginning of this chapter that the *second best time to invest is NOW*. There is a good thumb rule on the timing of the investment to follow, and that is ***‘the financial cost of delaying an investment often surpasses any benefit from attempts to time the market perfectly’***. So don’t wait to start your investment journey until the market is in the right condition; ***start it NOW***.

For fixed-return investment tools like *RD, FD, PPF, EPF, NPS, EIC, SSA, etc.*, the timing of investment doesn't matter much. Yes, you need to understand the day of the year when you should invest to get maximum return. For FDs and RDs, selecting the right tenure will offer little advantage - we will discuss these aspects of investment timing in the relevant chapter in *Chapter 5*.

For variable return investment tools like *Gold, Real Estate, Stocks, Mutual Funds and Exchange Traded Funds (ETF) etc.*, timing brings significant results in your return. However, there are ways you can catch the right time and get better results. We will discuss this in Chapter 5.

In general, it is difficult to time the market and find the best time to invest. But if you keep investing regularly for a considerable period and stay invested, then, based on past market performance, you will likely get a very good return, overcoming Inflation, taxes, and other deductions.

It is always advised to start saving and investing as early as possible when you start earning. Keep some Money in an Emergency Fund, bring order to your day-to-day life, and start your investment journey. Never invest by taking on debt or using credit cards. Also, never invest based on anyone's tips. Do your own research and start small. Keep gaining experience, and once you do, increase your investment moderately.

Our Indian economy is fast-growing, and the Indian market is relatively uncorrelated with other economies. Experts say the next 10 years will bring a major boost to our economy, which is favourable for investments. So be prepared, educate yourself and gain hands-on experience by investing small amounts in your chosen investment tools. Then you will not miss this lifetime opportunity to build a good fortune.

Future value of Money:

The Future Value of Money is a fundamental concept in finance that refers to the value of a sum of Money at a specified date in the future, based on an assumed inflation rate. Suppose you want to buy a car after 10 years, and its present value is ₹ **6 lakh**. So, at an inflation rate of 6%, you will need nearly ₹ **12 lakh** to buy the same car.

$$\text{Future Value} = \text{Present Value} * (1 + r)^n$$

FV = Future Value, PV = Present Value, r = Inflation Rate (in decimal form), n = Number of years

Understanding future value helps in making effective decisions about investments, savings, and financial planning. Many financial calculators and software programs are available online, which can quickly compute future values for various scenarios.

Rule of 70 – Rule for Doubling Money:

The Rule of 70, also known as the **Money Doubling Rule**, determines the number of years required for an investment to double in value considering compounding effects. ***It is an estimation and not an exact calculation.***

For example, if the Return on Investment (ROI) is 10%, then divide the ROI by 70 to find the number of years it will take to double your money.

Here, it is $70 \div 10 = 7 \text{ years}$.

If we apply the Rule of 70 in the example discussed on page 94, where we get a Net ROI of 2.5% on our investment, the number of years required to double our Money = $70 \div 2.5 = 28 \text{ years}$.

*My purpose in giving that example is not to dissuade or disturb you, but to help you understand these aspects of Personal Finance. You need to understand all these aspects and look for Smart Investing options that allow your Money to outperform inflation & taxes and increase in value. To build sizable wealth, we must take advantage of the **power of compounding**, which we will discuss in later chapters. But at any cost, never fall prey to money-doubling traps that promise to double your Money in a few months.*

Nothing comes free in life. So believe in yourself and keep educating yourself on personal finance aspects to get good results.

Chapter – 5

Where to Invest Our Money



We all know there are lots of *Investment Tools* available to us. But here, we will discuss the tools we will practice. You may have mastered some other investment tools, which you may continue with. Also, take a look at the tools we will discuss here. We will discuss the following Investment Tools;

<i>Recurring Deposit (RD)</i>	<i>Fixed Deposits (FDs)</i>
<i>Public Provident Fund</i>	<i>EPF and VPF</i>
<i>Sukanya Samriddhi</i>	<i>National Pension Scheme</i>
<i>Gold</i>	<i>Real Estate</i>
<i>Real Estate Investment Trust</i>	<i>Stocks</i>
<i>Equity Traded Funds</i>	<i>Mutual Funds</i>

Let us now go thoroughly through these Investment Tools. As most of these investments are well known to you, we will discuss only some important points on these products. Then we will discuss ***Mutual Funds and ETFs*** in two separate chapters, as these are critical for our investment and wealth-building journey.

Recurring Deposit (RD):

A Recurring Deposit is an excellent tool to build an amount to meet a particular short-term goal. *I have used this tool to meet regular requirements and save Money for buying household items.* We used to start an RD for buying any household item we planned for. Suppose you want to buy a Fridge after 6 months, which will cost you around ₹30,000. You can start an RD of ₹5000 today, which will give you a little more than ₹30,000/- at the end of 6 months. This way, you can buy your item without taking any consumer loans, and your monthly budget won't be disturbed.

The advantage of an RD is that it gets deducted from your Account regularly every month without any effort, making it a systematic investment. It promotes disciplined saving and can be started with a small amount of ₹100 with a wide, flexible tenure. You can open numerous RDs to meet your different requirements. RDs are less preferred for long-term investing because they offer lower returns.

Fixed Deposits (FDs):

A Fixed Deposit, also called a *Term Deposit*, has a tenure ranging from a few days to several years. The Return is guaranteed, and you can avail a loan against your FD if needed.

Interest rates on FDs are higher than those on a savings Account or an RD. You can expect interest rates of up to 6-8% in some banks, and the interest is taxable. Each depositor is insured up to a maximum amount of ₹5 lakhs. Based on this information, keep FDs in different Banks rather than putting all your FD investments in one Bank. Your investment stays insured for 5 lakhs in each bank.

Many Banks offer higher interest rates on FDs for special tenures. If you decide to go for a 2-year FD, look for interest rates on other options near your maturity period in all Banks where you have a savings account. A slightly higher tenure (maybe 750 days or so) can give you better interest. *Generally, park part of the Emergency Fund in an FD because of its liquidity.*

It is always advisable to choose multiple FDs of smaller amounts rather than one large FD. If you want to make an FD for ₹ 2 lacs, then it is advisable to go for 4 FDs of ₹ 50,000/- each or 2 FDs of ₹ 1 lac each rather than one FD of ₹ 2 Lacs. In an emergency, you can break one small FD instead of breaking the full amount.

Public Provident Fund (PPF):

PPF is a Government of India's savings scheme that offers a competitive interest rate and returns on investment. The best part of PPF is that it offers tax benefits not only on the deposits but also on the interest and the maturity amount. This comes as an **EEE (Exempt-Exempt-Exempt)** investment, and it is a preferred choice for many.

You can deposit 1.5 lakhs in 12 transactions in a calendar year. *If you deposit more than ₹1.5 lakhs in a fiscal year in your PPF Account, the excess will be refunded on maturity without any interest.* PPF investments qualify for tax benefits under Sec-80C of the Income Tax Act.

If you are planning to deposit yearly, then make the complete deposit between 1st and 5th April so that the deposited amount will attract the interest of that full year. If you plan to deposit every month, do so between the 1st and 5th of every month.

Employee Provident Fund (EPF) and Voluntary Provident Fund (VPF):

EPF (popularly known as PF) is a retirement benefit scheme in which both the employee and employer contribute a certain amount every month till the employee is working. It is Compulsory for organisations having 20 or more employees. It gives a higher interest rate than other savings schemes. EPF

interest rate is fixed at 8.25% for the financial year 2024-25 by the Employees' Provident Fund Organisation (EPFO) and keeps changing.

You can increase your monthly contribution to your EPF account, which is dealt with as a separate tool named “***Voluntary Provident Fund (VPF)***”. The interest rate for VPF is the same as EPF, and withdrawals are tax-free. If you take a premature withdrawal from a PF account, you will lose the tax benefit and have to pay tax on it.

By investing extra amounts through VPF, your Money is locked in for a long period, which is a disadvantage for a mature investor.

Sukanya Samriddhi Account (SSA):

SSA is a savings scheme run by the Government of India for the girl child and is mainly for their higher education and marriage.

Like PPF, you can open an SSA account for your girl child in any Bank or Post Office, and the girl child must be under 10 years old at the time of account opening. You can deposit up to ₹ 1.5 lakh a year. A parent or legal guardian will operate the account until the girl child turns 18, after which she can operate it. Open a separate account in the name of each girl child. If more than ₹ 1.5 Lac is deposited in any SSA, the additional amount will not attract any interest, and you can withdraw it at any time.

Partial withdrawal is allowed when the girl reaches 18 years of age or has completed 10th standard, whichever is earlier. Maximum allowable withdrawal amount can be 50% of the standing amount or actual admission fees, whichever is lower.

National Pension Scheme (NPS):

NPS is a Pension Scheme launched by the Govt. of India, w.e.f. January 1st, 2004. It is a market-linked, defined Contribution product. Under NPS, a Unique ***Permanent Retirement Account Number (PRAN)*** is generated and maintained by the Central Record Keeping Agency (CRA) for each subscriber. NPS offers two account types: *Tier-I* and *Tier-II*.

As with EPF, the Contribution made in NPS can only be used post-retirement. Historically, NPS interest rates have varied between 9% -12%. *After retirement, an individual can withdraw a maximum of 60% of the accumulated amount, and the remaining 40% must be kept in annuity schemes to provide a regular Pension.* This makes it less attractive if you focus on financial returns, as 40% of your account amount must be held in government annuity schemes, which offer the lowest returns (around 6%).

Gold:

Gold has been considered a safe investment asset throughout history. In Indian Society, people have a very positive view of gold and consider it a safe

investment for emergencies or life events like children's marriages. Gold prices, on the other hand, are more volatile and can fluctuate significantly based on various factors.

Gold became a darling for investors in 2020 during the COVID-19 pandemic, gaining as much as 40%. Gold has returned 18% in the last 3 years, 54% over the last 5 years and 41% over the last decade.

One can invest in gold in the following ways.

- a. Physical Gold
- b. Gold Sovereign Bonds (come with fixed maturity Periods)
- c. Gold Mutual Funds
- d. Gold ETFs

*It is not recommended to choose a fixed-tenure investment (Bonds) in Gold because it is a volatile asset. You may end up with a lower return if gold prices fall by the time your Sovereign Bond matures. **Instead, you can invest in GOLD ETFs, which are very easily available by opening a Demat Account and have no lock-in period.** You can also invest with a small amount. Nowadays, you can make monthly SIPs.*

Real Estate:

You will find many good Books on real estate investment that give you detailed knowledge about this investment option. Real estate investment involves Purchasing, Managing, and Selling or renting a

property to earn returns. Real estate investment is non-volatile. There are 4 types of Real Estates where you can invest:

- (a) Land
- (b) Residential
- (c) Commercial
- (d) Industrial

To master investment techniques in any segment, one must be in that segment for some time and keep investing. But the problem with the Real Estate sector is that the investment value is so high that you cannot practice this investment often and gain hands-on experience in a short period. Also, it is an illiquid asset, i.e., you cannot liquidate it immediately when needed. You can not liquidate a part/portion of it. You have to sell the whole property. The final disadvantage is that returns are taxable, and transaction time & costs are very high.

If you're looking for capital gains, real estate may be a good investment. But there is no guarantee of capital gains, and you may end up with a bad investment. Your investment is locked in for a long period.

Rental income in Residential Property gives around 3 to 4% ROI, and in commercial property, it can go up to 5 to 6% ROI. Most cities now have excess inventory.

Except for having your own house to live in, Real Estate is not a lucrative investment option in many cities in India. You have to research which city and which area within it will give you a decent return so you can invest

in Real Estate. Your investment return should beat inflation and give you extra income; otherwise, what is the fun in locking up a huge amount in expectation of capital gains, which can only occur at the end of the investment cycle?

My experience in the Real Estate Sector

I had booked an under-construction property at the end of 2010, and at that time I was staying in a rented accommodation. So I was paying both rent and the EMI for the Flat at the same time. After I took possession of my own flat in 2014, we shifted to the new flat. The rent I was paying earlier became an extra monthly saving. To utilise that Money, I booked a small 2 BHK Flat in a new under-construction society. Possession of that flat was delayed by 2 years due to the COVID-19 pandemic. After taking possession, it gave me a monthly rental income of around 3% ROI. Nowadays, because of the large amount of inventory available in most cities, rental income in some cities is very low compared to the capital investment in the property. I sold that flat in 2024 and invested in other high-return-fetching tools.

I read lots of books on investing in Real Estate. It boosted my confidence, and I bought a Commercial Shop in an upcoming Mall with my own investment of ₹20 Lacs and another ₹30 lakhs taken as a loan from a Bank. The Loan was approved at 7.5% interest, and the builder offered an assured return for 3 years. At the

beginning, my ROI (Return on Investment) was around 7%, but it fell to 5% when the Bank revised the interest rate to 8.5%. I expected a good capital gain from this investment, but that is also fading. I'm selling that investment and exiting, as it isn't generating a good return and there is no capital appreciation. I have initiated the disposal of this asset as soon as possible.

Owning a House is an emotional decision. We should think carefully before investing our Money to own a house. We can rent a house and invest that capital in other investment instruments that will give us a good return. I leave this to you to explore and decide... 😊

Real Estate Investment Trust (REIT):

Nowadays, **REIT** investment options are available in India, offering investors the opportunity to invest in Real Estate with a very small fractional amount. REITs are organised as a Partnership, Corporation, Trust, or Association that invests directly in real estate by purchasing properties.

REITs issue shares that trade on the stock exchange and are bought and sold like other Stocks by opening a Demat Account. You can buy REIT shares through brokers. REITs are easy to buy and sell like other stocks. REITs provide stable cash flow through dividends. Dividends are taxed as regular income, and the investment carries market risk. According to the

report, listed REITs in India saw 6-7% year-on-year growth and delivered 5-8% returns.

It is a good investment option if you want to experience real estate investment returns. Here, you don't have to lock in a huge amount and can exit anytime by selling your units.

Stocks (Share Market):

*An interesting definition of the Stock Market is that “**it is a place where an impatient investor loses to a patient investor**”. In other words, the Stock Market is a place where small investors lose money, and big traders make Money.*

My purpose is not to term or prove the **stock market** as a bad investment area. I believe that if someone wants to build a big fortune, this is the only place they can do it. *But it is always said that high returns come with high risk.*

For a person who is new to the stock market and does not have the requisite knowledge, then except in the situation where they are lucky, I can guarantee that they will always lose their money. ***To invest in the Stock Market, you need to study the market and its intricacies, then practice paper trading before putting your hard-earned money into it.*** However, in Chapter 6, I will share some basic ideas and initial knowledge about the stock market. It will be helpful for you to understand ***Mutual Funds*** and ***Exchange Traded***

Funds investments, which are derivatives of the Stock Market only.

Exchange Traded Funds (ETF):

ETFs, or Exchange Traded Funds, are exactly as the name implies: funds that trade on an exchange. Generally, they track a specific Index. A person who invests in an ETF gets a bundle of Assets that can be bought and sold during market hours through a Demat Account.

Several ETFs are available to suit almost every type of investor. **Index ETFs** are commonly used Exchange Traded Funds. Index Funds track the performance of their underlying Index.

Index ETFs are an easy and low-fee way to invest in Stock Markets. It might be the smartest and easiest investment you ever make. We will discuss ETFs in more detail in *Chapter 8* and explore different ETF investment techniques you can follow to generate regular income from this Investment Instrument. After understanding it thoroughly and gaining experience, you can plant several **Divine Wish Trees** discussed in *Chapter 10*, as per your investment capacity, and get Regular Income throughout the rest of your life.

Mutual Funds (MF):

We will cover Mutual Fund Investment basics and details in Chapter -7 of this Book. Please refer to that

Section for all information about this marvelous Investment Instrument. Also, in Chapter 9 of this book, I will introduce you to a regular income-generating technique by reinvesting in Mutual funds for at least 6 - 8 years or more. You may understand and consider following that technique for regular income in later years of your life, or consider it a regular Pension.

*You must have heard that ‘**don't put all your eggs in one basket**’ as it may lead to disaster. In my opinion, this principle works well if you have a handsome amount to invest and are concerned only about protecting your principal. You are less concerned about the return you get from the investment of that Principal. But if you are at the beginning of your wealth-building journey, this technique may not be very helpful. For the beginner who is on the path of wealth building should modify this advice to ‘**Put most of your eggs in two or three baskets and monitor it closely**’. This means you should focus mainly on 2 or 3 investment instruments that collectively deliver a good return, beat inflation & taxes, and monitor them closely. In personal finance, a Portfolio is a collection of various investments designed to balance risk and maximise overall return. Once you build a good corpus by maintaining a good portfolio, you should diversify further and invest in more instruments to gain the combined benefit of diversification and security.*

TAXES on the Return from Investments:

I included this Taxes section to make you conversant about the taxes you will pay on the returns from your investments. We pay income tax on our Income and then invest part of our savings after controlling our expenses. But we have to pay taxes again when our investments yield any positive returns. To show you the exact return from your investments after deducting applicable taxes and accounting for inflation, I have given an example at the end of this section. That will open your eyes.

Now let me show you how our Income Tax Department taxes your returns from various Investment Instruments.

SN	Investment Tool	Tax Rebate	Liability
1	Fixed Deposits (FD)	Nil	Interest earned is fully Taxable at the prevailing rate.
2	Recurring Deposits (RD)	Nil	TDS is applicable at par with FDs
3	Public Provident Fund (PPF)	Max investment of ₹.1.5 lac in a financial year enjoys tax rebate under IT Act Sec-80c	Comes under EEE (Exempt-Exempt-Exempt). The Money invested, the interest gained, and the withdrawal amount are tax-exempt

4	<i>Sukanya Samriddhi Account (SSA)</i>	Same as PPF	Same as PPF
5	<i>National Pension Scheme (NPS)</i>	Deduction of ₹.50,000 is allowed under sec-80CCD	Returns from NPS are fully taxable.
6	<i>Employee Provident Fund (EPF)</i>	Same as PPF	Withdrawals are tax-free when withdrawn after 5 years of continuous service.
7	<i>Stocks / ETFs/ Mutual Funds</i>	Nil for Stocks and ETFs. Amount invested only in <u>ELSS Mutual Funds</u> is eligible for <u>deduction under Sec-80C, up to a maximum limit of 1.5 lacs.</u>	Profit in Stocks / ETFs/ Mutual Funds comes under <i>Capital Gains</i> . For capital gains within 1 year of investment, <i>Short Term Capital Gains (STCG)</i> tax is levied @20% + cess. For gains on investments held over 1 year, <i>Long Term Capital Gains (LTCG)</i> is 12.5% + Cess, provided the gain in a financial year is over ₹ 1 lac; up to 1 lac is tax-free.
8	<i>Gold & Other Metals</i>	Nil	Short-term capital gain on sale of gold and silver within 1 year is @15 % + surcharge and cess, as applicable. You need to pay 20% tax + 4% cess on Long-Term Capital Gains while selling Gold if sold after one year.

9	Real Estate	-Principal repayments on House Loans owned under Sec-80C with a maximum limit of ₹ 1.5 lac. -Interest paid on House Loan EMI for the year can be deducted from total income up to a max of ₹.2 lac under Sec-24	Short-term capital gain on sale of gold and silver within 1 year is @15%+Surcharge and cess as applicable. LTCG is applicable @20%. Tax burden is relieved by reinvesting the capital gain in the purchase of up to 2 house properties or by reinvesting to purchase specific bonds as per the terms in Sec. 54, 54EC, 54B.
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Note: Please note that Tax Structures on different investment instruments keep changing from time to time. There are a lot of changes in the tax structure in the New Tax Regime. There may be changes in the information given above till the time this book is published. Always check for the current tax structure before investing in any investment instrument.

Example for the Tax on return from Investment:

Suppose your income is Rs.1 lakh per month. After paying the applicable income tax and covering all your expenses, you save ₹ 25,000 every month, which you invest in any investment tool mentioned in the table above. Let us see what your effective wealth will be after 1 year from this ₹ 25,000.

Capital Fund invested = ₹25,000x 12 = ₹ 3,00,000

Assuming you get a return of 10% per year by investing in any instrument, Return on Investment (ROI) @ 10% = ₹30,000

Suppose the Short Term Capital Gains Tax (STCG) is 15%; then tax to be paid on Return = ₹ 4,500

Return in hand after Tax deduction = ₹ 25,500

Now let us assume Inflation is @ 6%

Inflation on ₹ 3,00,000 capital @ 6% = ₹ 18,000

Net Return in hand after offsetting inflation = ₹25,500
- ₹18,000 = ₹ 7,500

Actual % of Return on Investment (ROI) after deduction of Tax & Inflation = 2.5%

So, the 10% ROI we were getting from our investment is now effectively 2.5% when we consider applicable Taxes and Inflation.

What is Portfolio Management?

In personal finance, a **Portfolio** refers to the collection of all the investments an individual owns. It's essentially a basket of different financial assets like FDs, RDs, Bonds, Mutual Funds, ETFs, Stocks, real estate, gold, and other investment instruments. The main purpose of a portfolio is to help individuals reach their financial goals while managing risk effectively, usually through diversification.

Portfolio management involves distributing an individual's total Net Assets across various investment

instruments. *This allocation is tailored to the person's age, risk tolerance, and anticipated returns.* While higher risk can lead to greater returns, it also carries the risk of significant fund depletion if investments perform poorly.

Therefore, portfolio allocation and management are customised to individual needs. For instance, a 30-year-old will typically have a different portfolio strategy than a 55-year-old nearing retirement.

Portfolio distribution is a debatable subject. Different experts have different views on this. However, find below an example of a typical portfolio allocation for a person in the age group of 45 to 60 years for reference;

<u>Investment Area</u>	<u>Weightage</u>	<u>Typical ROI</u>
Equity Mutual Funds	50 %	12-15 %
Debt Funds	15 %	8%
FDs / RDs	10 %	7 %
Savings Account	10 %	3%
Gold 5 %	8%	6%
PPF + EPF	10 %	8%

Overall ROI = 9.4 %

Portfolio Management is an ongoing process of creating and maintaining a set of investments involving Debt Assets, Stocks, Mutual Funds, ETFs, gold, and other assets to achieve an individual's financial goals, considering their risk tolerance. Strategic decisions about asset allocation and periodic rebalancing may be

necessary to achieve maximum returns with minimum risk.

I suggest you consult a qualified financial expert to determine your typical Portfolio structure based on your age and risk appetite.

*When the overall ROI (return on investment) from your Portfolio is more than your regular monthly expenses, **you become wealthy**. This shows your investment returns meet all your regular expenses and are still increasing.*

*When the ROI from one's Portfolio reaches nearly double that person's regular expenses, they can declare themselves **Financially Free**. Now the return from their investment can cover their regular expenses and other life-event expenses. It will also keep growing on its own.*

Chapter – 6

Stock Market



Before we go into the details of investing in products of the Stock Market, let me give you a brief idea about the Stock Market and the investment opportunities which we can consider.

In general, we fear the stock market's volatility, and most of us stay away from it. We think investing in RDs, FDs, PPF, EPF, NPS, Gold and Real Estate are the best options. But the returns from these investments often don't even keep up with inflation and applicable taxes. So what should we do? Where to invest our Money to beat inflation & taxes and grow our Money? We are left with only one option: investing in the Stock Market; if not directly, then through derivatives of this market.

What is the Stock Market?

The Stock Market is a component of a free-market economy. It allows companies to raise Money by offering shares or corporate bonds and allows investors to participate in companies' financial success. Investors

will make profits through capital gains and earn income through dividends.

Let us understand it in simple language. When a Company has a growth plan, they have three options to raise funds for that purpose.

1- Raise funds by borrowing from friends and family members: When the Company promoters want to generate funds from Friends & Family Members of the Directors, they may not get the required amount if it is a large amount. Also, depending on the relationship, the lender may ask for interest on the loan.

2- By taking Loans from Banks: In this option, the Company approaches Banks for the required funds. Depending on the company's net worth, Banks decide how much money they can lend and at what interest rate. Banks have set guidelines for processing and approving this type of loan and consider many factors beyond net worth. A Bank may or may not provide the required amount if the company's credentials do not meet its requirements.

3- By taking Money from the general Public:- In this option, the company registers with the Securities and Exchange Board of India (SEBI). It gets registered to trade its Shares in the stock market. At the beginning, the Company launches shares in small units (called Shares) and sells them to the general public as an **Initial Public Offering (IPO)**. Then Shares of that Company are traded (sold and purchased) in the Stock Market.

Example: Let us understand it with an example. Suppose a Company's Turnover is ₹20 Crore, and it needs ₹10 Crore for expansion. It gets registered with SEBI and proposes to dilute 49% of its shares to the public to raise this amount in the form of shares, each with a face value of ₹10. Launching an IPO involves many more complicated procedures and systems. But for our understanding, let us not enter into those aspects.

Once the IPO is launched, the company sells shares to the general public, and its shares start trading in the Stock Market. The company raises the required ₹10 Crore and uses it for expansion and other activities. Now, depending on the Company's overall performance, the value of its shares keeps fluctuating in the Stock Market. If the Company performs well and investors see future growth, they start buying the Company's shares, creating demand in the Market. As demand goes up and the number of shares available to the public stays fixed, the share price starts to rise. That is how you see Shares trading at many times their *face value*.

Similarly, if the Company's performance is poor and getting worse, demand for its Shares falls, and no one wants to buy them. The share price starts falling and can go well below its Face Value. I hope the above explanation has given you a basic idea of a company's shares or stocks and what a share market is.

What is a Stock Market Index?

A *Stock Index*, or *Stock Market Index*, measures the performance of a stock market. It helps investors compare current stock price levels with past prices to calculate market performance. India has two major stock markets. Those are the **Bombay Stock Exchange (BSE)** and **National Stock Exchange (NSE)**. In total, India has 23 stock exchanges, but these two are the main ones. Others are Regional Stock Exchanges (RSEs)

A - **Bombay Stock Exchange (BSE):**

Its Index is generally known as the **BSE Sensex**. More than 7,000 companies are listed on BSE. *The BSE index is derived from the performance of the top 30 selected, well-performing companies.* These 30 companies are the largest and the most traded companies in their Sectors. The size and trading volumes ensure that they are true representatives of their sector/industry. Moreover, the Index includes companies from a range of sectors and industries. This variety of companies enables the Index, like Sensex or Nifty, to mimic the trend of a country's Economy.

Each of the selected 30 companies is allocated a certain weightage out of 100% based on its importance in deriving the Sensex Index. Any company whose performance falls continuously for a defined period is removed from this league, and a new performing Company is added.

The base year for BSE Sensex is 1978-79. In this year, it is hypothetically assumed that Sensex was trading at 100 points. The Sensex launched on 01-Jan 1986. On this date, the Sensex traded at 561 points. What do 561 points mean? Compared to 1978-79, the index rose 5.61 times by 1986, in 7 Years.

Similarly, when we say the Sensex is at 75,000 points in 2025, this is a comparative number relative to 1978-79 (100 points). To understand how the numbers 561 and 75,000 points are derived, I suggest you read about the Sensex and enhance your knowledge in this area.

*Between 1979 and 2025, Sensex rose from 100 to 75,000 points. **This is a growth rate of about 15.5% p.a. in 46 years.***

B - National Stock Exchange (NSE):

Its Index is known as **NSE Nifty**. Nifty is also known as **NIFTY 50**. More than **3,500 companies** are listed on the NSE. *The NSE index is derived from the performance of **50 selected, well-performing companies** from different sectors to replicate the Market.* The 30 companies that are in the BSE Sensex are already in this list of 50 Companies. Each company is allocated a certain weightage out of 100% based on its importance in deriving the Sensex Index. Any company whose performance falls continuously for a defined period is removed from this list, and a new performing Company is added.

How to Invest in the Share Market?

One can invest in both the *Primary* and *Secondary* Share Markets. We can either invest in these stocks directly or indirectly. To invest in both the primary and secondary share market, you need to open a **Demat Account**. A Demat Account will carry the electronic copies of the shares you trade. Along with a Demat Account, you also need a **Trading Account**, which lets you buy and sell shares in the market. Both accounts should be *tethered to a Bank Account* to allow for seamless transactions.

Different Ways to Invest in the Stock Market:

There are many ways to invest your Money in the stock market. We will discuss only those routes which we will follow;

1- Buy Individual Stocks.

For those who enjoy researching and analysing markets, companies and their financials, investing in individual stocks can be a viable starting point. However, stock investments carry significant risk, as there are no guarantees of profit. A company's stock price can decline, and investors may lose Money if the company underperforms or loses favour with investors. A recent example is how a single report from a foreign agency impacted the share price of a well-established Indian Group.

2- Invest in Exchange Traded Funds:

ETFs, or "*Exchange Traded Funds (ETF)*", are exactly what the name implies: funds traded on stock exchanges that generally track a specific Index. When you invest in an ETF, you get a bundle of assets you can buy and sell during market hours, potentially lowering your risk and exposure while helping diversify your portfolio. *Exchange Traded Funds* buy those individual stocks which are in that Index to track an underlying Index. You can invest in ETFs through online Demat accounts, or buy a Fund of Funds (FoF) through the mutual fund route. ***Index ETFs***, whose theme is the respective Index (Sensex or Nifty), hold only the stocks that are constituents of the Sensex or Nifty portfolio, with the same weightage as shown in the Index Weightage Tables. ***If you're looking for an affordable, potentially tax-efficient way to access a broad range of asset classes, investing in ETFs might be right for you.***

ETFs are traded on Stock Exchanges. Their value can fluctuate throughout the day in response to market conditions. This means that if the market dips, your ETF's value could drop quickly, and you could experience significant losses if you redeem your investment at that point.

Because ETFs are more diversified, they tend to carry lower risk than individual Stocks. Like stocks, ETFs are also taxed as short-term or Long-Term Capital Gains. We will discuss ETFs in more detail in our

separate Chapter 9, which is dedicated to this investment instrument.

3- **Invest in Mutual Funds.**

All investments in the Stock Market carry some risk. But Mutual Funds are typically considered safer investments than purchasing individual Stocks. Mutual Funds hold many Company Stocks within one investment. They offer more diversification than owning one or two individual stocks. Professionals called ***fund managers*** manage them, monitor Market conditions, and adjust the investments as needed. This gives investors a good way to diversify with minimal risk. You pay fees, called ***the expense ratio***, to the Mutual Fund House for managing your investment, which can range from **0.5% to >3%** of the total investment value every year. Mutual Fund Schemes are not guaranteed or assured return products. Investment in Mutual Fund Units involves investment risks.

We will discuss Mutual Funds in much more detail in our separate Chapter 7, which is completely dedicated to this superb Investment Instrument. I will also introduce you to a unique *technique*- the ***Akshaya Patra Technique*** (in Chapter -9) to get regular returns from long-term investing in Mutual Funds for your Financial Freedom.

I personally do not advise anyone to invest in individual Stocks until they understand the companies, their financials, and the market mood, and can be fully dedicated & involved in their investment. You need to devote time to learn how to read financials and other parameters, assess company performance, and track them consistently to make investment decisions. If you are well-versed and can properly justify your investment, you can invest in individual stocks. Lots of people are doing that and earning a lot. For me and my Investments, I still prefer to invest mainly in the other two Stock Market Investment Instruments, i.e. Mutual Funds and Index ETFs.

Another segment of the stock market is called Futures & Options (F&O). There is a complete NO for Investors like us who do not know the F&O market.

India's education budget totals approximately one lakh crore rupees, nearly equivalent to the losses traders incur in the stock market through Futures & Options (F&O) every year. This kind of F&O and short-term trading poses a significant risk and can lead to financial ruin; therefore, it should be avoided at all costs. I don't even discuss that in this book. Let specialists handle it.

Difference between an Investor and a Trader:

There is a big difference between an Investor and a Trader. A **Trader** operates with the primary objective

of generating consistent profits through a volume of transactions. Their strategies are inherently short-term, with holding periods ranging from minutes (*scalping*) to days or weeks (*positional trading*). This requires intense focus, rapid decision-making and often relies heavily on technical analysis and high-speed execution. Regardless of the holding period, a trader's success hinges on precise entry and exit points and the ability to adapt quickly to market conditions.

An Investor, focuses on holding investments for years and seeks to build massive wealth over time. This patient approach builds substantial wealth over time, rather than seeking quick profits. An *Investor* considers investment as planting a ‘seedling’ that, when nurtured, will become a ‘huge Tree’ providing enough wealth for *financial freedom and Regular Income for early Retirement.* Long-term commitment lets compounding show its magic.

***Our objective is to operate as an INVESTOR and not as a TRADER.** We should allow sufficient time for any capital investment to grow, aiming for the compounding effect. This means resisting the urge to withdraw profits for materialistic uses.*

Chapter - 7

Mutual Funds



I am sure the ***Mutual Fund*** name is not new to you. Till today, you must have heard it again and again, and some of you must have investments in it at some point in your life. Some may still be continuing with their Mutual Fund investments, and some may have redeemed it with a minor loss or an insignificant profit.

Our objective in Investing is to generate passive income so our day-to-day expenses are met and we achieve ***financial freedom***. In our specific mutual fund investment technique, the **Akshaya Patra Technique** discussed in Chapter 9, we will see that by following it, you can have a **steady flow of monthly passive income**. Here in this chapter, we will discuss the basics of Mutual Fund investments.

You will find lots of books, articles & videos on Mutual Funds available in India and must go through them from time to time to expand your knowledge. Please do your research on this subject. Believe me, once you understand the details of Mutual Funds and know

specific Investment techniques, it will relieve you of all your Money worries.

Whether you are an experienced investor or just beginning your investment journey, Mutual Funds can be one of the best investment avenues to invest your hard-earned Money. Some of the key features of Mutual Funds are discussed here. These will help you understand the importance of Mutual Funds to make an informed choice. We will also learn how to select good *Equity Mutual Funds* and how to start investing in them to earn regular passive income. Let us now understand the basics of Mutual Funds;

What is a Mutual Fund?

A mutual fund is a pool of investors' money managed by a professional called a ***Fund Manager*** or ***Portfolio Manager***. It is a Trust that collects investment Money from various investors who share a common investment objective. The *Fund Manager* invests the money collected in different investment avenues available in the stock market, such as equities, Bonds, Money Market Instruments, and other securities, depending on the theme of the Mutual Fund. The gains (or losses) on investment are shared collectively by the investors in proportion to their contribution to that Fund. The Fund Manager charges a fee called **the Expense Ratio**, which varies from 0.5% to >3% depending on the Fund House and the type of Fund you select.

The catch is that the Fund House or Fund Manager charges expenses on your Total Investment Amount (not the profit), regardless of profit or loss in that Fund. So, if you invest ₹1 lac in a mutual fund with an expense ratio of 1.5%, the fund house charges 1.5% on your investment value of ₹ 1 lac as expenses, regardless of profit or loss, which comes out to ₹1,500 every year.

Let us assume you got an annual profit of 12% on your investment in that Fund, which means you got a profit of ₹12,000 on your ₹1 lakh investment. Then the Fund House will charge you ₹1,500 as expenses, which comes out to be 12.5% of your annual profit. So, you take home 87.5% of your profit, and the remaining 12.5% goes to the Fund House/Manager. But imagine if returns are low and you get only 6% or 5% profit. Then 33% or 40% of your profit gets eaten away by the Fund House.

So, we need to understand all the details about mutual funds and invest in funds that give at least a double-digit return year to year.

Now you understand how critical the *Expense Ratio* of a Mutual Fund scheme is. Now let us go through the other basic details of Mutual Funds and compare all critical aspects before selecting them for long-term investment. However, if a Fund is actively managed and gives you a return of 12–15% every year, then I think you will not mind paying 1.5% or 2% (₹ 1,500 or

₹2,000 per ₹1 lakh investment) as expenses to the Fund House/Manager every year.

Why to Invest in Mutual Funds:

Before we discuss the strategies available for investing in Mutual Funds, let us look at why you should invest in Mutual Funds. There are many benefits of investing in Mutual Funds, which are discussed below;

1. Professional Expertise: Mutual Fund managers are experts in the Equity Market and can manage your Money in a better way. Just as you pay a driver to drive your car, with Mutual Funds you pay professional fees to manage your Fund at a predefined value.

2. Good Returns: The biggest advantage of Mutual Funds is that they allow you to earn double-digit returns compared to traditional investment options available like RD, FD, PPF, EPF, NPS, etc. Unlike traditional investments, mutual funds do not provide capital protection and fixed returns. But the Stock Market, in the long run, is on a growing trend. So, *if you regularly invest and stay invested for a long time*, success is yours. You only need to research and invest in Funds that can help you meet your goal and keep monitoring their performance.

3. Diversification: When we invest in a single stock, our loss or profit from our investment is solely dependent on the performance of that particular Company. Mutual Funds come into play here, allowing

you to invest in multiple diversified stocks, managed by Professional Fund Managers. A Mutual Fund can hold more than 50 stocks, making it highly diversified.

4. Tax Benefits: If you invest in *Equity Linked Saving Schemes (ELSS)* Funds, you can claim an income tax deduction up to ₹ 1.5 lakh under Sec-80C of the Income Tax Act in the old Tax Scheme. Investing in an ELSS Mutual Fund comes with a 3-year minimum lock-in period.

Note - *If you wish to take the tax advantage under 80C and do not have any other opportunity to claim this tax exemption benefit, then you can create a chain of ELSS by investing continuously for 3 years in an ELSS Fund. After the 3rd year, reinvest ₹ 1.5 lakh from the return of the 1st-year investment. This is called the Laddering Technique in ELSS. This way, with a total investment of ₹ 4.5 lakhs, you can take advantage of the tax deduction under Section 80C of the Income Tax Department every year. I do not recommend investing more than ₹ 4.5 lakhs in ELSS solely for the Tax advantage (if available), and suggest investing the balance Money in other good equity-based mutual funds. **The new tax regime includes several changes. Please check them before proceeding.***

5. Properly Regulated. The Securities and Exchange Board of India (SEBI) regulates the Mutual Fund Market. Mutual funds must strictly comply with the

SEBI Regulations, 1996 for Mutual Funds to ensure transparency and protect investors' wealth.

6. Ease of Purchasing & Selling: You can invest in Mutual Funds easily through *both online and offline*. However, online buying and selling of mutual funds has made investors' lives much easier. You don't have to visit a Mutual Fund House's Office and can invest from the comfort of your home. Just visit the official website of the *Asset Management Company* (AMC), compare various Mutual Fund products offered by the Fund Houses and invest online. The entire process is easy, convenient and fast.

Nowadays, all Mutual Fund Houses offer mobile applications, making it more convenient to invest and redeem from your selected Mutual Funds through your smart Mobile Phones.

7. Investment Flexibility: One of the key features of Mutual Funds is the flexibility they offer. You can invest a *lump sum* amount at the beginning, or regularly invest small amounts (as low as Rs 500 per month) through a *Systematic Investment Plan (SIP)*.

8. Low entry & Exit Load: A nominal Fee that is taken when investors purchase Fund units has been phased out for most mutual funds by SEBI in India. A fee is levied when investors redeem their investments in Mutual Funds. This Exit fee can start from around 0.25 % or more and is determined by the Fund House.

Type of Mutual Funds:

Now let us discuss the types of Mutual Funds available in India. Though there are lots of varieties of Mutual Funds available in the Indian Market, I will try to give you a glimpse of the types. We will discuss in more depth the types of funds that we will choose for our regular long-term investments to generate Passive Income for our purpose of gaining *financial freedom*.

For every item or product we use in life, many types and categories are available in the market, depending on taste, preferences across age groups, and different segments of society. If you want to buy a car, you will find different types available in the market, like Hatchbacks, Sedans, SUVs, sports cars, and many more. Each type has further subcategories that serve different purposes, and people choose the type of Car to buy based on their requirements and usage.

Similarly, India offers different types of mutual funds. Each type serves a specific purpose. Here are some of the most popular types of Mutual Funds.

i- Based on Maturity Period

Based on the maturity period, Mutual Funds are divided into two categories;

a- Closed-End Mutual Funds

b- Open-End Mutual Funds

a - Closed-ended Mutual Funds - As the name suggests, these funds have a fixed investment tenure. It can be three years, five years or any other period. You can buy closed-ended funds only during their launch period and redeem them only after the fund's investment tenure ends. This increases the risk. There is no assurance that the Fund will achieve its investment objectives, and you can not redeem your units before its maturity period. ***I do not recommend Closed-Ended Funds, as the market is always volatile.***

b- Open-ended Mutual Funds can be bought or sold anytime. Open-ended funds, or schemes, are available for subscription and redemption at any time. The key feature of these Funds is liquidity. Moreover, these funds have no fixed maturity period. *I have all my Mutual Fund investments in open-ended funds only.*

ii - Based on Investment Objectives:

Based on the investment objectives, Mutual Funds can be classified into numerous categories. We will discuss here the important categories which we will use in our investment journey. Let us see those categories and discuss them;

- a- Equity Mutual Funds
- b- Debt Funds
- c- Index Funds
- d- Hybrid or Balanced Funds
- e- Liquid Funds
- f- Sectoral Funds

g- Global Funds

h- Equity Linked Saving Schemes (*ELSS*)

a- Equity Mutual Funds:- This is the most popular and rewarding type of Mutual Fund. A new investor or an investor who is on the path of wealth building should consider these Funds. Equity Mutual Funds invest largely in a basket of stocks from various companies to generate returns. They carry higher risk than other types of Mutual Funds. However, fund managers are experts in Stock Market Investments and select stocks of strong-performing companies. Returns from these Funds are higher when compared with all other categories.

We understand that even someone educated in any field can achieve good results with high-risk products. *After all, higher risk can lead to higher returns.*

There are various subcategories of Funds within the Equity Mutual Fund based on their market capitalisation. They are;

- ***Large-Cap Funds*** (top 100 company stocks)
- ***Mid-Cap Funds*** (101 – 250 company stocks)
- ***Small-Cap Funds*** (251 – 500 company stocks)
- ***Multi-Cap Funds*** (combination of large, medium & small-cap stocks).

By market capitalisation, 65% belongs to Large Cap companies, and only 35% belongs to Mid-Cap or Small

Cap companies. However, investor flow is nearly 50-50% in both segments.

Depending on the category of Mutual Funds, average returns may vary between 5% and 25%. *A well-managed Equity Fund can deliver 15%-20% returns over the long term if you stay invested for a long time.* You need to review the history of the Fund you choose to invest in and check all other important aspects before making any investment, which we will discuss in the next section.

Equity Mutual Funds come in different types depending on the investor's goal. These goals can be Capital Appreciation, Regular Income or Tax Savings. They also come with different options, such as:

1) Dividend Option

2) Growth Option or Dividend Reinvestment Option

1) Dividend option: Here, profits from investments are distributed to investors in the form of dividends. Dividends may be paid monthly, quarterly, half-yearly or annually.

2) Growth option or Dividend Reinvestment option
- Here, the investor will not get any dividends from the Mutual Fund investment. The Fund House shall reinvest the Money that would have otherwise been sent to the investor as a dividend. The dividend amount will be reinvested and help in compounding the investment.

This is THE BEST option for an investor who is on the path of wealth building for Financial Freedom and going to stay invested for a long time to get the benefit of compounding, as profits from your past investments are getting reinvested, thereby giving you a handsome overall return.

Please find below details of some good-performing funds, for example purposes only. Please note that this is not my recommendation, and I have no business interest in them, except for my investments in some of them. *You do your research and find funds which will suit your investment strategies;*

SN	Name	AUM in ₹ Cr	5 Yr Return (%)	10 Yr Return (%)
1	HDFC Flexi Cap Fund - Direct Plan - Growth	79,584	30.6	16.24
2	ICICI Prudential Large & Mid Cap Fund- Direct Plan - Growth	22,856	29.7	16.7
3	Nippon India Large Cap Fund - Direct Plan - Growth	43828	27	14.9
4	Motilal Oswal Midcap Fund - Direct Plan - Growth	33,053	37.4	18.8
5	SBI Contra Fund - Direct Plan - Growth	47,389	33.8	16.8

b- Debt Funds: A *Debt Mutual Fund* is a Mutual Fund scheme that generally invests in fixed-income instruments such as Corporate and Government Bonds,

Corporate Debt Securities and Money Market Instruments that offer capital appreciation. *Debt Funds* are also referred to as *Income Funds* or *Bond Funds*.

These Funds are safer and give lower returns, *as the rule goes: low risk, low return*. Top banks in India are currently offering Fixed Deposit (FD) returns of over 7%. Debt funds can offer interest rates between 6% and 10%.

c- Index Funds: An *Index Fund* is a type of Mutual Fund that replicates exactly the way stocks are weighted in that Stock Market Index and tracks the returns of the Market Index.

It is similar to *Exchange Traded Funds (ETFs)*. One difference between Index Funds and regular ETFs is how they are managed. ETFs are traded through Demat Accounts, whereas Index Funds are traded like normal Mutual Funds. Professional Fund Managers actively manage Regular Mutual Funds, but Index Funds do not require active involvement from a fund manager. Holdings of Index Funds automatically track an Index such as the Nifty-50 or Sensex. If a stock is in the Index, then it will be in the Index Fund too. Index Funds are managed with *very low expense ratios*, as are ETFs. Nowadays, Index Funds are gaining popularity as a better investment option.

Index Funds are recommended to investors with a minimum investment horizon of 6 - 8 years or more. These funds fluctuate in the short term, but they average

out over a longer term. With an investment window of at least 6 – 8 years, you can expect to earn returns in the range of 12 – 14 %

d- Hybrid or Balanced Funds:- A *Hybrid Mutual Fund* is a Mutual Fund that invests in both Equities and Debt Securities. It is also referred to as a Balanced Fund. Hybrid or Balanced Funds are comparatively safer investment options than pure Equity Funds. Hybrid Funds generally invest 60 to 70 % in Equity Stocks and balance 30 to 40% in Debt products. The average return from a well-managed Hybrid Fund varies between 10%-16%.

e- Liquid Funds:- *Liquid Funds* are Debt Funds that invest in Fixed-income Securities such as Certificates of Deposit, Treasury Bills, Commercial Papers and other Debt Securities that mature within 91 days. Liquid Funds do not come with a lock-in period.

Liquid Funds may offer higher returns than Fixed Deposits, particularly in a low-interest rate environment. However, Liquid Fund returns are not guaranteed and can fluctuate, whereas Fixed Deposit returns are guaranteed.

f- Sectoral Funds: *Sectoral Funds* are Mutual Funds that invest largely in the Equities of Companies belonging to *one Sector or industry, like steel, pharma, IT, etc.* Although they invest in stocks of different sizes, they are sharply focused on a particular sector.

Sectoral Funds are generally riskier than Diversified Funds because they are more narrowly focused on one Sector. The performance of the fund is heavily dependent on the performance of the Sector it invests in. If the sector experiences a downturn, the Fund's returns may suffer even if the stock market is doing better. Similarly, it can deliver good returns if the chosen sector moves positively.

g- Global Funds:- A *Global Fund* is a Mutual Fund or ETF that invests in companies located anywhere in the world, including the investor's own country. Global Funds seek to identify the best investments from a global universe of securities. It gives opportunities to invest in the global market while sitting in India.

h- Equity Linked Saving Schemes (ELSS): As the name suggests, the ELSS is a type of Mutual Fund scheme that primarily invests in the Stock Market or Equity. ELSS Funds come with a 3-year lock-in period, calculated from the day of purchase. Hence, you can only sell the units of an ELSS fund after 3 years from the date of your investment. Investments of up to ₹ 1.5 lakhs made in ELSS schemes are eligible for tax deduction under Section 80C of the Income Tax Act in the old regime.

iii - Based on Investment Plans:

1. *Regular Investment Plan*
2. *Direct Investment Plan*

1- **Regular Investment Plan:** A *Regular Plan* is when you buy with the help of an advisor, broker or distributor (intermediary) of the Mutual Fund House. If you buy any Mutual Fund from a bank, the Bank is the broker. The distributor/broker or Bank is paid a ***distribution fee*** by the Mutual Fund House, which is charged to the Plan. *The returns of the Regular Plan Mutual Funds are always less than the Direct Plan Mutual Funds due to this distribution fee.*

2- **Direct Investment Plan:** A *Direct Plan* is when you buy Mutual Funds directly from the Mutual Fund House. You can do this by visiting their website or by visiting their office in person. No distribution fee is paid; therefore, the overall return from a Direct Plan is always higher than from a Regular Plan.

*Both plans have advantages and disadvantages. **When you study Mutual Funds and gain knowledge, the Direct Plan is the option you will follow.** Believe me, learning about Mutual Fund investing isn't that tricky. You can gain good knowledge within 8 - 12 months if you invest time on weekends, do your research online, and read some Books. Finally, when you start a small investment in Mutual Funds, you will understand it much better. Nowadays, mobile applications have made it easier.*

How are Mutual Fund Profits Taxed?

Mutual Funds are often considered one of the most profitable investment options, and they help you reach your financial objectives more easily. One of their biggest benefits is that Mutual Funds are tax-efficient investment vehicles.

Mutual Fund taxation is much simpler to understand when broken down. Mutual Funds are divided into two groups for tax purposes:

- a. *Equity-Oriented Mutual Funds*
- b. *Debt-Oriented Mutual Funds.*

In *equity-oriented mutual funds*, the tax structure is very similar to the **Capital gain** made from individual Stocks. *Capital Gain* is calculated as the difference between the Purchase Price and the Sale Price.

$$\text{Capital Gain} = \text{Sale Price} - \text{Purchase Price}$$

Capital gains are divided into two types:

- i- *Short Term Capital Gain (STCG)*
- ii- *Long Term Capital Gain (LTCG)*

a) Tax on Capital Gains from Equity-oriented Mutual Funds:

Equity-oriented Mutual Funds have an Equity exposure of at least 65%. When you redeem your Equity Fund units within a holding period of one year, it attracts *Short-Term Capital Gains (STCG)*. Regardless of your

income tax bracket, these capital gains are taxed at a flat 15% rate.

When you sell your Equity Fund units after holding them for a year or more, you realise *Long-Term Capital Gains (LTCG)*. These capital gains are Tax-free up to ₹ 1.25 lakh per year. As per Sec 112A of the Income Tax Act, LTCG above ₹ 1.25 lakh is taxed at 10% without indexation benefit. This gives us a good advantage for investment in Mutual Funds.

b) Tax on Capital Gains from Debt Mutual Funds:

If a Debt Mutual Fund is sold within 2 years, it is treated as *Short Term Capital Gain (STCG)*. This STCG will be added to the income of the investor and will be liable to be taxed according to the tax slab rate under which the investor falls, without indexation.

If the Debt Fund holding period is more than 3 years, it will attract *Long Term Capital Gain (LTCG)*. It will attract a tax of 12.5% with indexation benefits.

Another important thing to note is that the Fund Manager will levy a Securities Transaction Tax (STT) of 0.1% if you plan to sell your Equity Fund units. STT does not apply to the sale of units in Debt Funds.

c) Tax on Capital Gains from Hybrid Mutual Funds

If the Hybrid Fund is equity-based and has equity exposure over 65%, it will be considered an equity-focused scheme. It will be taxed as per equity-oriented

mutual funds. And if the Hybrid Fund is debt-focused, then it will be taxed as a Debt Fund.

Table for holding period and type of Capital Gains Tax:

Type of Mutual Fund	Holding Period on STCG	Holding Period on LTCG
Equity Funds	< 12 Months	> 12 Months
Debt Funds	< 24 Months	> 24 Months
Hybrid Fund-Equity	< 12 Months	> 12 Months

Securities Transaction Tax (STT):

The *Securities Transaction Tax (STT)* is separate from the Capital Gains and Dividend Taxes. When you buy or sell Mutual Fund units of an Equity Fund or a Hybrid Equity-oriented Fund, the Government (Ministry of Finance) will assess an STT of 0.1%. On the other hand, STT does not apply to the sale of Debt Fund units.

***Note:** Taxation Rules in Stocks and Mutual Funds keep changing from time to time. Readers are advised to check the exact Tax they have to pay on their Mutual Fund Investments at the time of redemption with the Fund houses. The details given above may change.*

Investment Strategies in Mutual Funds:

We will now discuss the investment strategies which we can follow for Investing in Mutual Funds. We can invest in mutual funds in two ways, as with other investments.

- a. *Lump-sum Investment Plan*
- b. *Regular Systematic Investment Plan (SIP)*

a. Lump-sum Investment Plan:

Lump-sum investment is a one-time investment made all at once. Whenever we have *surplus money* from savings or receive Money from our company or other sources, we can make a lump-sum investment. This type of investment is most beneficial when we invest during a bear market (i.e., at a low). Now you may ask, how do I know the market is at a low? If you track the Stock Market Index value at regular intervals, you will learn when the Market is falling and when it is rising by spending 3 to 5 minutes on the internet every day, even on your mobile phone. If you have a Demat Account and use its Mobile Phone Application, then it takes a few minutes to get this data.

This regular exposure to the Stock Market will teach you basics like today's Nifty/Sensex value, how much it increased or decreased, etc. When you check market graphs, you will learn when the market fell and when it started rising. In general, stock markets undergo 2 to 3 big falls ranging from 3 to 5% in a year for various reasons, and when you study market graphs regularly, you can recognise those phases.

Our strategy is to keep accumulating *surplus money* in savings accounts and wait for a 3 to 5% fall in the stock market. On that day, you can invest your accumulated savings in your selected Mutual Fund Schemes to get the best results. *Alternatively, you can invest extra*

cash from time to time without monitoring the Market. Since our investment horizon is long-term (6 - 10 years), you will still get a good return from your investments.

There is no limit on the number of lump-sum investments one can do in a year in any Mutual Fund. You can invest as much as you want and as many times as you want in your selected Funds.

b. Systematic Investment Plans (SIP):

Systematic Investment Plan (SIP) is an investment methodology offered by Mutual Fund Houses. Mutual Fund Houses are also called an ‘Asset Management Company’ (AMC), wherein one can invest a fixed amount in any Mutual Fund scheme periodically at predefined intervals instead of making a Lump-sum Investment. The SIP instalment amount could be as little as ₹500 per transaction. The main difference between SIP and lump-sum investment is the investment frequency. The Term SIP is most widely used in Mutual Fund Investments and is an excellent way to mitigate market fluctuations and get the best Return from your Investments.

You will find SIP options in every Mutual Fund scheme while investing in Mutual Funds. ***SIP is a passive way of investing in which you give a standing instruction to the Fund House to present a Bill to your bank at regular intervals (weekly, monthly, or quarterly, etc.) and mandate your Bank to accept that Bill.*** This way, you invest regularly without direct involvement.

Nowadays, some Fund houses offer **daily SIP Schemes**. You can invest a small amount daily in your chosen Mutual Fund Scheme. This is very good and can mitigate market fluctuations effectively. (It will fill your SMS and email inbox with daily messages & mails for the transaction done in the Fund 😊).

It is always advisable to invest in your selected Mutual Fund through both lump sum and SIP methods. Let the SIP run regularly as per your selected weekly or monthly contribution capacity, and invest any surplus money through the lump sum method. Combining these two methods will give a great boost to your wealth-building effort.

We were travelling on an official trip. As usual, I bought a copy of the financial magazine “Outlook Money” from a store and started reading it. (I suggest all readers read this excellent magazine regularly or choose any other Financial Magazine to keep updated on all aspects of personal finance and especially keep updated about the Mutual Funds and their performance.)

My colleague sitting next to me asked, ‘Are you investing in financial products?’ I said, ‘Yes, of course’. Then the discussion started with some basic questions. I explained to him how beneficial it is to invest regularly in Mutual Funds. He told me, ‘Yes, I am also getting good feedback from my circle on Mutual Funds. I am thinking of starting to invest in SIP’. I replied, ‘it’s ok; you want to invest through SIP, but in which Fund?’ He again replied, “I will invest in SIP”. 😊

Perhaps the popularity of SIP has outpaced even that of mutual funds. I then explained that SIP is an investment method, and he needs to select the mutual fund he wants to invest in. He can invest through Lump Sum or SIP.

How to Invest in Mutual Funds

Nowadays, investing in Mutual Funds has become very easy and hassle-free. You can start investing in mutual funds from home using your Computer/Laptop or even Mobile phone. All fund houses now also have mobile apps for easy monitoring and investing for retail investors.

Here are the steps to be followed to start your investments in any Mutual Fund:

1. Sign up for a Mutual Fund Account from the online site of the Fund House you have chosen. Or download the fund house's mobile app and sign up there.
2. Complete your KYC formalities (for new investors).
3. Enter your details as asked on the website / App.
4. Select the Fund you wish to invest in based on your financial goals. ***Don't forget to select "Direct Funds with Growth Option"*** as we are looking for a long-term investment horizon.
5. Register your Savings Bank Account from which you will make the payment (in case of SIP investment) and receive the payment when you sell any unit of your Fund.

6. Maintain the required balance amount in your bank account for the Purchase.
7. You can do a Lump Sum Purchase and/or start a SIP.
8. Create standing instructions with your Bank in case you are investing in a SIP.
9. Complete the SIP Mandate Verification by visiting your Savings Bank Account online access and approve it there by logging into the Account.

Your investment is done, and now ENJOY 😊

You can visit the online website of your Mutual Fund Home and access your Mutual Fund Account to see the Fund status, generate the statement or do a new Lump Sum or SIP investment.

- ❖ You can top up your running SIP or stop it or pause it for some period.
- ❖ You can increase your SIP investment amount by a predefined percentage every year.
- ❖ You can start a ***Systematic Withdrawal Plan (SWP)*** to regularly withdraw a fixed amount every month from the accumulated Fund for your day-to-day expenses.
- ❖ You can also give instructions to ***Systematically Transfer*** or switch from one Fund to another Fund within the Fund House if you find your chosen Fund is not performing, which is also called a ***Systematic Transfer Plan (STP)***.

- ❖ You can withdraw the partial or whole amount and invest it in any other Fund or Fund House.

Also, download the fund house's mobile application on your smartphone and complete the registration process. Then you will be able to do all the transaction activities from your phone. *It's amazing to monitor your investments on your phone regularly and watch them grow.*

How to find Performing Mutual Funds:

- ★ Go to Moneycontrol.com
- ★ On the home page, click '**Mutual Fund Screener**' under the Mutual Fund Section.
- ★ Click on the '**Fund House**' button and select only those Fund Houses where you want to invest. Go to the bottom of the page and click on '**Apply Filter**'.
- ★ Click the '**Fund Category**' button and select the category of the Funds you wish to invest in, such as **Equity**, Hybrid, Debt and subcategories if you are aware of them. Deselect the '**ELSS**' button if you are in the Equity Section, as we are not going for ELSS Fund investment. Click on '**Apply Filter**'.
- ★ Click the '**Fund Rank**' button and choose 5 Star and 4 Star funds only. Click on '**Apply Filter**'.
(Please note that the star rating of the Fund

does not qualify it in all aspects. A less star-marked fund can give more returns.)

- ★ Then go to the **‘Fund Parameter’** button and, under the category **‘Show Funds with AUM * higher than’** section, enter **15,000 Crore**. Click on **‘Apply Filter’**. (AUM is “Assets Under Management”, which shows that 15,000 cr Money has been invested by the general public in this Fund. This shows people’s confidence.)
- ★ Go to the **‘Investment Parameters’** button and choose the **‘Fresh Purchase’** and **‘SIP Investment’** options. Click on **‘Apply Filter’**.

A long list of Mutual Funds will be in front of you on your screen. *Some Sponsor Advertised Funds will appear at the beginning of the list; check them, and if they don't meet our requirements, ignore them.*

Study the 1yr, 2yr, 3yr, 5yr & 10yr returns given in each Fund and compare. ***Only select those Funds which are in the market for at least the last 10 years.*** If you click on any fund, then a new window will open which will give you much more information about that fund line: NAV (Net Asset Value), Expense Ratio, Chart, etc. Keep exploring and learning about various funds, then select your Funds.

Our objective is to choose a **high-AUM** (> ₹15,000 Crore) fund that has been ***in the market for at least 10 years***, has a ***strong performance track*** record (5-year

and 10-year returns > 15%), and has a *low expense ratio* (< 2%).

What is AUM?

The full form of AUM is Assets Under Management. It is the total market value of the investments in that particular Fund by all investors. A Fund with large AUM signifies higher investor participation and public confidence in that Fund. Higher AUM indicates better investment inflow, quality, and management experience for a Fund House. Here, we choose Funds with AUM of ₹15,000 crore or more, reflecting investor trust. This eliminates the risks we face with low-AUM funds.

We also see that some Mutual Funds have very high AUM (> ₹50,000 Cr) but do not perform as well as smaller-AUM funds. This is because of general public sentiment. We see that the general public trusts the Fund Houses of Nationalised Banks more, and some schemes of these Banks attract very high public investment. ***So, high AUM alone does not guarantee strong fund performance.*** We have to consider many more aspects before choosing a mutual fund.

Please find below a list of some performing Mutual Funds only for your reference. These are not my recommendations, and I have no business interest in them except for my investments in some of them. There are several other good-performing funds. This list has been selected randomly. I want you to do your own

research and choose mutual funds that meet your expectations and risk appetite.

Fund Name	AUM (₹ Cr)	Returns (%)		
		1 Yr	5Yr	10Yr
A- Equity - Large Cap				
Nippon India Large Cap Fund-Direct -Growth	79,500	28	32	18
HDFC Large Cap Fund - Direct -Growth	37,315	8.8	25.8	13.4
ICICI Prudential Bluechip Fund -Direct -Growth	68,033	11.8	26.1	14.9
SBI Bluechip Fund -Direct - Growth	51,010	12	23.7	15.2
B- Equity - Mid Cap				
Motilal Oswal Mid Cap Fund - Direct -Growth	33,050	33	36	18.3
SBI Mid Cap Fund -Direct - Growth	21,720	17.6	28.4	15.39
HDFC Mid Cap Fund -Direct - Growth	84,060	26	32.	18.1
Nippon India Mid Cap Fund-Direct -Growth	39,065	28	32	18
C- Equity - Large & Mid Cap				
ICICI Prudential Large & Mid Cap Fund -Direct -Growth	22,850	23.8	28.5	16.4
ICICI Prudential Large & Mid Cap Fund -Direct -Growth	22,850	23.8	28.5	16.4
SBI Large & Mid Cap Fund - Direct -Growth	33,030	20	26	15.3
HDFC Large & Mid Cap Fund -Direct -Growth	24,326	9.7	31	14.5
HDFC Flexi Cap Fund -Direct -Growth	79,500	8.3	29.1	16

ICICI Prudential Value Fund - Direct -Growth	34,096	23	27	15.7
D- Equity & Debt				
ICICI Prudential Equity & Debt Fund -Direct -Growth	44,550	21	25	16.2
HDFC Balanced Advantage Fund -Direct -Growth	102,780	19.9	24.3	15
ICICI Prudential Multi Asset Fund -Direct -Growth	62,000	20.5	24.5	15.9
SBI Equity Hybrid Fund - Direct -Growth	78,700	17.5	17.5	13

NOTE: *These data are taken from information available online and may vary. Please check details of any Mutual Fund on the Fund House's Website for current positions. I have avoided **small-cap funds** because they are too volatile, and we will avoid them for our long-term investment plan. You may consider them if it suits your risk appetite.*

While it seems logical to invest in top-performing Mutual Funds, consistently chasing the latest winners can often lead to disappointment.

Let's explore why selecting the current "The Best" Mutual Fund is not always the optimal strategy;

1. Past performance does not guarantee future results.
2. The Best Fund may not be '*The Best*' suited for you.
3. Funds that are performing well consistently can be far more valuable than one that just performed excellently in the recent past.

4. Switching too often costs you the ***Exit Loads, short-term capital gains***, and you lose the benefits of compounding.

5. A single and best-performing fund will not ensure the best long-term performance. A mixture of Large Cap, Mid Cap, Small Cap and Debt Funds will reduce the risk of market volatility.

Some Investment Principles in Mutual Funds

A) 15 * 15 * 15 Rule :

Consider investing ₹ 15,000 per month for 15 years and earning 15% returns. After 15 years, the total wealth will be ₹ 92,60,337 (nearly ₹ 1 crore)

B) 15 * 15 * 30 Rule :

Suppose you invest ₹15,000 per month for 30 years, earning 15% returns. After 30 years, you will earn ₹8.46 Crore. For an investment of only ₹54 lakh, you get an interest of over ₹7.9 Crore. This is the power of Compounding.

C) 6 / 9.5 / 12 Principle in Mutual Fund:

Now let us look at a very practical example: investing ₹10,000 monthly through SIP in an Equity Mutual Fund, and staying invested for 6 years, then 9.5 years, and finally 12 years. This I call it 6 / 9.5 / 12- Principle in mutual funds.

This is the Money Multiplying Rule, which comes into play when we invest regularly through SIP in a Mutual Fund and do not withdraw any amount until maturity. SIP investment techniques help compound an investor's wealth when invested over a long period. ***The real magic happens toward the end of the SIP tenure, especially when the tenure is long.***

Let us now see the reason behind the saying that ***‘one should stay invested for a long time in SIP investment’*** to get the magical benefit of this tool.

Suppose a person invests in a Mutual Fund that gives an average return of ***12% per annum*** and regularly invests ***₹ 10,000 every month*** through SIP in that Fund. It will take ***6 years*** to reach the first ***10 lakhs***. But due to the magic of compounding, if the person stays invested in that Fund and continues his SIP of ₹10,000 every month, then it will take just another ***3.5 Years (total 9.5 years)*** to double that Money to ***20 lakhs***, i.e., to add another 10 lakhs.

Similarly, if the person stays invested in that Fund and continues his SIP of ₹ 10,000 every month, then it will take just another ***2.5 Years (total 12 years)*** to become ***30 lakhs***. Interestingly, if the investor stays invested for ***15.5 Years***, he or she will ***add ₹ 1 lakh every Year as return on the investment thereafter.***

‘Mutual Fund investments are subject to market risks, and returns are not assured.’ In our subsequent

chapter, we will discuss a unique technique called **Akshaya Patra Technique** in Chapter 9.

My purpose in giving the above two examples is to show the kind of miracle you can expect from regularly investing in Mutual Funds and staying invested for a long time. This is what we call the miracle of compounding.

Long-Term Accumulations in Equity Mutual Funds:

Now let us see what the accumulations will be in an Equity Mutual Fund when a person invests ₹5,000 *every month* through a SIP.

Case-1: Investment Plan -1

Systematic Investment Plan (SIP) @ ₹5000 per month

- Lump-Sum Deposit = ₹ 00
- Regular Monthly Deposit = ₹ 5,000
- *Expected Return* = 12 (conservative)

a. Term = 5 years

Total Investment Amount = ₹ 3,00,000

Total Maturity Amount = ₹ 4,05,946

Total Return = ₹ 1,05,946

b. Term = 7 years

Total Investment Amount = ₹ 4,20,000

Total Maturity Amount = ₹ 6,44,687

Total Return = ₹ 2,24,687

c. Term = 10 years

Total Investment Amount = ₹ 6,00,000

Total Maturity Amount = ₹ 11,21,364

Total Return = ₹ 5,21,364

d. Term = 15 years

Total Investment Amount = ₹ 9,00,000

Total Maturity Amount = ₹ 23,82,173

Total Return = ₹ 14,82,173

e. Term = 20 years

Total Investment Amount = ₹ 12,00,000

Total Maturity Amount = ₹ 46,04,151

Total Return = ₹ 34,04,151

*As shown above, the Maturity Amount **doubles every 5 years** after the SIP Investment is maintained for the initial 7 Years. **The final Maturity Amount becomes ₹ 46 lakhs after 20 years with a small monthly investment of ₹ 5,000.** If anyone can maintain this discipline and make at least **3 to 5** such investments from the beginning of their career, then the final corpus will be near **2 Cr.***

We all get salary increments every year, and after a certain age our monthly income surpasses our monthly

household expenses. If you stay frugal and keep a check on lifestyle expenses, running 3 to 4 such investments will not be a big deal.

Case-2: Investment Plan-2 :

SIP @ ₹ 5000 per month with No Lumpsum investment + 10 % increase in SIP amount every year:

Now let us check the returns we can get if the ***Regular Monthly investment increases by 10% every year, with no initial lump sum investment.*** I have chosen 10% considering the general increments of what we get in our jobs, which is in the range of 5 -10%.

Lump Sum deposit = ₹ 00

Regular Monthly SIP Deposit = ₹ 5,000

Increase in SIP Every Year = 10%

Expected Return (Conservative) = 12%

a. Term = 5 years

Maturity Amount = ₹ 4,85,102

b. Term = 7 years

Maturity Amount = ₹ 8,36,975

c. Term = 10 years

Maturity Amount = ₹ 16,36,178

d. Term = 15 years

Maturity Amount = ₹ 41,41,734

e. Term = 20 years

Maturity Amount = ₹ 93,25,544

By starting with an Investment with no Lump-sum amount and increasing the SIP investment by 10% every year, **you can see the return in Case-2 is nearly three times that of Case-1.**

If you run 3 or 4 such investments from the beginning of your career, the total return after 20 years will be nearly ₹ 2.8 Cr to ₹ 3.5 Cr.

Now our Table for comparison of the Maturity Amount for Case-1 and Case-2, considering a 12% lump-sum return, looks as below;

Case	5 years	7 years ₹	10 years ₹	15 years ₹	20 years ₹
Case-1	4,05,946	6,44,687	11,21,364	23,82,173	46,04,151
Case-2	4,85,102	8,36,9757	16,36,178	41,41,734	93,25,544

NOTE: Investments in Stock Markets always come with the disclaimer that returns will fluctuate with market conditions. However, in all stock markets, when you stay invested for a longer duration like 7 to 10 years, the market usually gives a good positive return.

Many online calculator applications are available for these kinds of calculations. You can calculate based on the amount and duration you want to get a first-hand idea. One such application available in the ‘**Play Store**’ of Android-based mobile phones is ‘**Financial Calculator India**’. You can download it and do your calculations.

I have chosen 12% returns from Equity Mutual Fund in my calculations, being conservative in consideration of

the market Returns. We have even seen returns in the tune of 18 to 25% in Equity Mutual Funds, which, if considered, would give more than double the amounts we saw in the examples above. But to be practical and conservative, let us assume 12%.

As we discussed earlier, every year we get some increment in our income in the form of a salary increase and so on. So a person can very easily choose at least **8 to 10 % of 'Increase in SIP Investment Every Year'**. In my opinion, after a certain level of income, if one can restrict their expenses and does not increase the lifestyle expenses exactly in proportion to the increase in the income and invests the major part of the additional income in Mutual Funds, then they can reach their cherished **Financial Freedom** very fast by the time they are in their 40s.

As a private-sector employee, I was always worried about old age and how I would manage my expenses then, since we do not have a pension facility. We all retire at 60 or 65, and who knows how much life expectancy God has granted us. Nowadays, we are all health-conscious, and also medical science has improved like never before. We can expect a good life expectancy and a good retirement tenure. We should not be financially dependent on our kids. Our kids are not our retirement plans.

We have a saying in 'Odia' that 'if you start eating river sand without adding anything to it, then one day all

sand in a river will also finish'. In financial terms, it doesn't matter how much you have saved for retirement; if it doesn't beat inflation and grow in double digits, it will run out quickly. Like many others, I was very sceptical about investing in the Stock Market, and for much of my life I stayed away from it. But when I researched personal finance, I learned that we can beat inflation and grow our investments by double digits by investing a significant part (40-50%) of our wealth in stock market derivatives like Mutual Funds and ETFs. I chose mutual Funds and ETFs (Exchange Traded Funds) for my market investments and continued investing in them. Investing in any individual Stock of a Company is still NO for me.

I suggest all readers read books and articles and watch videos available on the internet on Mutual Funds and ETFs. *I have included a list of books at the end of the book that you can read to build your personal finance knowledge.* I have gone through all of them and found them very helpful. We are all educated enough to understand the investment techniques used in Mutual Funds and ETFs. Even after graduating from college, we devote time to gain experience in a field so we can pursue our Job or business better.

To gain sound knowledge in Mutual Funds, you will need around 8-12 months if you spare a few hours on weekends. Try to understand the basics. Then start small and gain hands-on experience before investing more Money into it.

Mutual Funds provide a diversified, professionally managed investment option for achieving your financial goals. However, their performance is subject to market risks and influenced by many other factors, such as the fund house's investment strategy and the Fund Manager's expertise. So careful research, proper planning and regular monitoring to check alignment with your investment objectives are necessary.

Apart from the disclaimer that runs in the market that *Mutual Fund investments are subject to Market risks*, we must also listen to the tagline: '***Mutual Fund Sahi Hai***' (म्यूचुअल फंड सही है). Never fall prey to any scheme which promises hefty returns, and concentrate on your own knowledge and experience.

I wish you ALL THE BEST 

Chapter – 8

Exchange Traded Funds (ETF)



In this chapter, we will go into detail about ETFs as an investment strategy. In general, we fear the volatility of the Stock Market, and most of us stay away from it. We think investing in RDs, FDs, Gold, real estate, and land, etc are the best options. But in reality, investing in these options can reduce the value of our money over time.

So what should we do? Where to invest our Money to beat inflation and taxes and grow it? We are left with only one option: investing part of our savings in the Stock Market.

The safest and best option for most people is Exchange Traded Funds (ETFs).

What is an ETF?

<i>(E)</i>	<i>(T)</i>	<i>(F)</i>
<i>Exchange</i>	<i>Traded</i>	<i>Funds</i>

ETFs, or Exchange Traded Funds, are exactly as the name implies: Funds that trade on an exchange. Generally, they track a specific Index. A person who

invests in an ETF gets a bundle of Assets that can be bought and sold during market hours through a ***Demat Account***. You need to open a Demat Account to start your investment in this tool.

Advantages of Investing in ETFs

Investing in ETFs gives the following four advantages;

1. **Diversification**: ETFs give you exposure to a diverse mix of Asset classes, including domestic and international Stocks, Bonds, and Commodities.

2. **Lowest Cost**: The Fund Manager in the ETF does not have to use his prudence and only maintains the weightage as given in the Index for each Stock. Hence, *Operating Expenses (expense ratio)* are much lower than even actively managed Mutual Funds.

3. **Trading Flexibility**: ETFs are traded in the security market through a Demat Account like any other Stock. *ETFs offer the trading flexibility of individual Stocks while providing the diversification benefits of Mutual Funds.*

4. **Tax Efficiency**: ETFs are considered to be more tax efficient than actively managed Mutual Funds for several reasons. We shall discuss this tax part of the ETF separately.

Types of Exchange Traded Funds (ETFs)

Several types of ETFs are available to suit the needs of almost all investors. We will discuss only the major

types of ETFs which we will use for our investment purposes;

1. **Gold ETFs**: These *Gold ETFs* offer investors the path to hold Gold assets in digital form without making it necessary to purchase physical gold. You can also buy ETFs that focus on other precious metals, such as *Silver ETFs*. In India, both Gold and Silver ETFs are available for investment. If you research the returns from Gold, you see some surprising facts about the returns this investment Instrument has given;

- The return from Gold in 10 years has been 11% to 13.5 %, whereas in 15 and 20 years, it has been 11.3% and 14%, respectively. Interestingly, in one year, gold outperformed all asset classes, with 14.2% returns compared to 12.9% from Indian equities and 9.5% from US equities.
- Between January 1971 and December 2022, gold had average annual returns of around 8 %.
- Gold prices are more volatile and can fluctuate significantly based on various factors.

However, holding a portion of your net worth (around 5%) in this form is advisable.

2. **Index ETFs**: These are commonly used Exchange Traded Funds. Index Funds track the performance of their underlying Index. They are further subdivided into ***Replication Index Funds and Representative Index Funds.***

Index funds that invest entirely in the securities underlying the Index are called ***Replication Index Funds***. By contrast, ***Representative Index Funds*** invest a majority of their fund corpus in representative samples and the remainder in other securities such as futures, options, etc.

Index Funds are an easy, low-fee way to invest. It might be the smartest and easiest investment you ever make.

Investment Strategies in ETF

We will now discuss the investment strategies which one can follow for investing in ETFs. Like what we saw in Mutual Funds, there are three methods by which we can invest in ETFs;

(a) ***Lumpsum Investment***

(b) ***Regular Systematic Investment***

(c) ***Regular Systematic & Lumpsum Investment***

a) **Lumpsum Investment**: Lumpsum Investment is a one-time investment and is done in one go—details we have discussed in the Mutual Fund Section.

As discussed for Mutual Funds, here also, in case of ETFs, our strategy will be to keep accumulating our savings in the Savings Accounts and wait for a fall in the Stock Market of 3 - 5%. You can invest your accumulated savings in your selected ETFs as a lump-sum investment to get the best results.

b) Regular Systematic Investment: I am purposefully not using the most widely used term *Systematic Investment Plan (SIP)* in this chapter because SIPs are a way to invest in any instrument on a pre-defined regular interval basis such as daily, weekly, monthly, quarterly, or half-yearly. The Term SIP is most widely used in Mutual Fund Investments.

You will not always find a SIP option while investing in ETFs. Very few investment houses offer this SIP facility for investing in ETFs.

Here I am going to give you another **active way of Systematic Investment**. As you know, SIP is a passive way of investing where you invest regularly without your involvement, based on a pre-decided amount and frequency. But in this **Active way of Regular Systematic Investment**, you are actively involved and decide when and how much to invest in your ETF.

Let us assume you have decided to invest **₹10,000/- every month** in the ETF you selected to accumulate wealth. We all know the market is open only for 5 days a week, i.e., from Monday to Friday; there are **5 Market Days** in a week (excluding market holidays). To make our calculation easy, let us consider there are 4 weeks in a month. That gives us $5 \times 4 = 20$ **Trading days in a month**. With an investment capacity of ₹10,000/- per month, this comes to $₹10,000 \div 20 = ₹500$ for every trading day.

Now let us see how you will do your investments systematically in your selected ETF;

Option 1: You can choose any day you consider auspicious and invest $\text{₹}500 \times 5 = \text{₹}2,500$ *every week* on that day, regardless of market conditions (i.e., whether the market is low or high that day).

Option 2: Another method is to monitor the Stock Market regularly, and on the day you find the market is down by $\geq 1\%$, multiply the daily investing amount (₹ 500/-) by the number of days you were last invested and invest that much in your ETF.

Don't worry, I will explain it with an example to make this strategy simple and understandable. Once you understand it, you will not forget it, and you can apply it to grow your Money and wherever else you can use it in life.

Let us say on the first day of our investment, say the 1st day of the month, Nifty was 24, 500 and we decided to start our investment in an ETF. We made our first investment of ₹500/- (or whatever amount suits you) that day. After that, we keep on monitoring the Nifty every day. It takes only 3-5 minutes to access your Demat Account on your Mobile App and see the status of Nifty or Sensex that day.

Suppose on the **8th market day** we saw that the market fell by $\geq 1\%$. So now we will multiply our daily investment value of ₹ 500 by the number of Market Days passed (8 days), i.e., $\text{₹} 500 \times 8 = 4000/-$, and invest

it in our selected ETF. This regular investment strategy is called the **Active Regular Investment Plan** and gives a very good overall result, as we buy only when the market dips by $\geq 1\%$. Then you will keep monitoring the Market and say that after another **6 trading days**, if the market falls by $\geq 1\%$, you will now pump $6 \times ₹ 500 = ₹ 3,000$ again, and your investment will continue.

*Some readers who are new to investing in the Stock Market or new to investing itself may find this method a little cumbersome. For them, I would advise them to follow the Systematic Investment Plan discussed in option-1 above, i.e., **invest once a week on the auspicious day** they select. If investing every week is still difficult, do it monthly on salary day. You will still get a very good result because the investment is spread out and our investment horizon is very long (8 - 10 years).*

c- Both Regular Systematic & Lump Sum Investment

This third option involves investing by following both **Regular Systematic & Lump Sum Investment**. As the name suggests, it combines the first two techniques. By following this method, you can take advantage of both Regular Systematic and Lump Sum investing techniques.

Here, you are regularly investing according to your monthly investing target or capacity. You are also accumulating any *Surplus Cash* you get for any reason

in your Savings Account. You invest this extra accumulated money using the *lump-sum investment technique* when the market is low. This way, you get the benefits of both techniques, and your wealth accumulates faster and more effectively.

My Experience with ETF Investment

I was not aware of ETFs for a long time. I had only heard about stocks and mutual funds and had some intermittent investments in Mutual Funds. When I purchased my own residential flat in 2010, I needed money, so I redeemed all my Mutual Fund Investments, thinking it would reduce my loan burden. Then, while researching personal finance, I learned about this excellent Investment Tool. Though it is not for seasoned investors, it is the best for a newcomer. I have focused on Index ETFs and Gold ETFs and have seen good returns in both.

Then I learned about International ETFs. Nowadays, you can invest in international stock exchanges from India through International ETFs. You can invest in NASDAQ, the New York Stock Exchange (NYSE), and the Singapore Stock Exchange (Hang Sang) through ETFs available from Indian Fund Houses. After doing my due diligence, I started investing in the Motilal Oswal NASDAQ-100 ETF and have accumulated a handsome amount with great returns, as the NASDAQ has appreciated significantly over the last 2-3 years. You can do your own research and have some part of your investment in International Markets if it suits your risk appetite.

Investing and seeing your investment grow feels like planting a seedling in your garden, nurturing it daily, and watching it grow. When you see your planted seedling grow and it bears flowers and fruits, the feeling that is created within you can't be explained and can only be felt.

We saw that Index ETFs, which mirror the index they track, follow the index's ups and downs. We also know that stock market indices, such as NIFTY & Sensex, have grown at an average rate of about 15.8% p.a. over the last 43 years. So, investing through an ETF is definitely a better idea. Since an index-based ETF isn't tied to the stocks of any single company or small group of Companies, you are not risking your money on one stock. Yes, your Money may get stuck for some time if the stock market suddenly dips due to a crisis like what happened during the COVID-19 pandemic, but it will recover soon; so why not invest here.

How are returns from Index ETFs taxed?

Equity-based ETFs mainly invest in equities or related investment instruments. The tax structure is very similar to the capital gains from individual Stocks or equity-based mutual funds.

Capital gains are divided into two types:

- 1) Short-term Capital Gain (STCG)
- 2) Long-term Capital Gain (LTCG)

1. **STCG: Short-term capital gain** is a profit realised from the sale of an investment that has been held for one year or less (<12 months). STCG is the difference between the Purchase Price and the Sale Price. As per Sec 111A of the Income Tax Act, 1961, Short-Term Capital Gains are taxed at 15%.

2. **LTCG: Long-term capital gain** is the profit earned from the investment that an investor holds for more than 12 months at the time of sale. It is calculated as the difference between the sale and purchase price for the ETF held for more than a year.

As per Sec 112A of the Income Tax Act, for all LTCG, an *amount of up to ₹ 1.25 Lakh is exempt from tax*, and 10% tax is levied on any amount above ₹ 1.25 Lakh without any indexation benefit. *This gives us a good advantage for investment in ETFs.*

Please check the applicable Taxes on your ETF while investing in them. Tax rules keep changing from time to time.

Compounding effect of Regular Investment in Index ETFs

When we are on the path to wealth accumulation and *financial freedom*, we don't consume the returns (fruits) from our investments. We reinvest all the profits we earn, **letting compounding work** for us. We already know the splendid results compounding can deliver when practised on an investing journey. I'll give you a

feel for it with examples. So, during our Wealth Accumulation period, until we decide to retire or achieve *Financial Freedom*, we will not touch the returns/profits we get from our investments. We will reinvest them in the same Instrument. In ETF investing, let whatever fruits (profits) you get regularly accumulate and grow in your selected ETFs.

I have seen people get carried away when they see good returns from their ETF or Mutual Fund Investments and redeem them to buy material things. Please don't fall prey to the games your mind plays, and keep your emotions in check. ***Never withdraw or redeem profits from your investments; let them grow and compound.*** If you want to buy an item, plan for it separately and set aside savings. Never touch your long-term investments for it. You can invest a portion of your savings in a debt mutual fund to meet short-term life-event needs.

Let us see the Magic of Compounding.

Here's an example of how much wealth you can generate over 10, 15, and 20 years by starting with NO LUMPSUM Investment and investing ₹10,000/- monthly in any ETF, assuming a 14% return.

Lumpsum Investment = ₹ 00

Monthly Investment = ₹ 10,000

Expected Return Rate / Year = 14% #

(# Considering the increase in NIFTY & Sensex average of about 15.8% p.a. in the past 45 Years, I am

assuming a Return of 14% for our long-term investment of 8-10 years in an index ETF for calculation purposes only. Actual returns will vary as per the market situation during the investment tenure)

Case-1 – Duration = 10 years

Return Amount after 10 Years = ₹ 24, 96, 445

(Total Deposits 12 Lacs + Total Returns 12.964 Lacs)

Yearly Profit after 10th Years @ 14% Return = ₹3,49,502 (approximately ₹ 25,000 **monthly income** considering 0.85 % withdrawal every month)

When a person retires with ₹ 24.96 lakhs in an ETF Account, considering an average return of 14% in a year, every year they will book an average profit of ₹ 3,49,502, which can be considered easily as a retirement pension of **₹25,000 every month** (considering withdrawal of around 0.85% per month or 12.2% in a year). The accumulated amount will stay invested in the ETF to yield this return and will keep growing, as we are not taking away the full return this investment is gaining in a year. You can reduce the withdrawal to 0.6 % per month, as the market does not give a consistent return every year.

Case-2 - Duration = 15 years

Return Amount after 15 Yrs = ₹ 56, 60, 058

(Total Deposits ₹ 18 Lacs + Total Returns ₹ 38.6 Lacs)

Yearly Profit after 15 yrs @ 14% Return = ₹ 7,92,407
(approximately ₹ 56,000 **monthly income**, assuming a 0.85% monthly withdrawal).

When a person retires with ₹56.60 lakh in an ETF Account, considering an average return of 14% in a year, every year they will book an average profit of ₹7,92,407, which can be considered as a retirement pension of ₹56,000 every month (considering withdrawal of around 0.85% per month). The accumulated amount will stay invested in the ETF to yield this return and will continue to grow.

Case-3 - Duration = 20 years

Return Amount after 20 Yrs = ₹1, 17, 51,323

(Total Deposits = ₹ 24 Lacs + Total Returns = ₹93.513 Lacs)

Yearly Profit after 20th yr @ 14% Return = ₹16,45,185
(approximately ₹1,17,000 **monthly income**, assuming a 0.85% monthly withdrawal).

If you retire with ₹117.51 lakhs in an ETF account and assume an average return of 14% per year, you could withdraw an average of ₹16,45,185 per year, or about ₹1,10,000 per month (0.85% per month).

You can change the withdrawal percentage and amount to suit your requirements and consider the market return in that particular year. My purpose is to give an example to help you think in that direction.

In my opinion, the increment we receive every year is extra money and should be saved as much as possible, because we were already living on the salary before the increment and saving. We must treat our salary increment, or any increase in income, as Surplus Money and invest it rather than spending it on lavish things. Yes, if you have NEEDS, then you can plan for those expenses to enhance your living. In my life, after a certain income level, we didn't increase our lifestyle much and kept investing the maximum amount. It led to good savings after a few years. You can also start new investments in ETFs or Mutual Funds equal to the increment amount, minus what you decide to use for lifestyle enhancement. You can try this too if you like the idea.

Chapter – 9

Regular Monthly Income by investing in Mutual Funds



Akshaya Patra Technique in Mutual Funds

You might have heard about **Akshaya Patra**. It is a legendary Copper Vessel featured in the epic Mahabharata. God Surya gave it to Yudhishtira, and it provided the Pandavas with a never-ending supply of food every day.

During the 12 years of exile, the Pandavas wandered through the forests, and wherever they stayed, many Sages and local people visited them. Draupadi and the Pandavas found it hard to welcome and feed their guests in forests where nothing was available. Therefore, Draupadi prayed to the Sun God, and he granted her the **Akshaya Patra**.

As per the boon given by the Sun God, the Akshaya Patra provided unlimited food as long as Draupadi (the Pandava's queen) had not finished her meal, and this boon applied only for 12 years. The Pandavas were in

exile for 12 years, and at the end of those 12 years, the Akshaya Patra's power was exhausted, and it became a normal Vessel with no magical power.

The *Akshaya Patra Technique* we are going to discuss now has a boon *that supplies you with a never-ending, steady flow of Money* into your life till eternity.

In our Akshaya Patra, you just have to obey one rule, as in the example above from the Mahabharata. The rule is **'You will never make any Lump-sum withdrawal from this accumulated fund'**. The only withdrawal will be the monthly income through the *Systematic Withdrawal Plan (SWP)* when you reach that stage.

Principles of Akshaya Patra Technique:

Suppose you have saved ₹1 lakh and start withdrawing ₹1000 (1% of it) every month; it will last 100 months. Now, if you invest that ₹1 lakh in an Investment Instrument and get a return of >12%, it won't run out even if you withdraw 1% of the amount every month. ***This saving will now become an Akshaya Patra, as it was with the Pandavas in Mahabharata.***

Akshaya Patra Investment Steps:

Now let us closely understand this *Akshaya Patra Technique* in Mutual Fund Investment;

Step-1: Find out how many Years you have

Find out after how many Years you want your Regular Income from your Mutual Fund Investments. First,

decide how much time you have before starting regular income withdrawals, or how long you will keep investing to generate regular income later. It can be 5, 10, 15, 20, or more years, depending on your current stage of life.

Step 2: Choose a few good Equity Mutual Funds

Choose funds that have an AUM (Assets under Management) of more than ₹ 15,000 crore.

- It should be at least 10 years old, i.e. incorporated at least 10 years back.
- All its past 3yr, 5yr, 7yr and 10yr. returns should be at least double-digit, i.e., >12% or more.
- Check the expense ratio of that fund. It should be lower, preferably <1.5%.

Step 3: Check your monthly SIP capacity:

- Check how much you can invest every month as SIP in total. Divide that amount among maximum 4 Mutual Funds, depending on the number.
- Let this SIP investment run till the time you decide to start your monthly regular income.

In my opinion, you should invest at least ₹ 4,000 monthly in any one fund, which totals ₹ 48,000 a year (nearly ₹ 50,000). So, divide your investment capacity by 4000 to find the number of Funds you should invest in. It is always advisable to choose different Fund Houses rather than investing in just one.

Step 4: Keep Putting Lump-sum Investments in these Funds whenever possible:

To build a good corpus in your chosen Mutual Funds, make lump-sum investments whenever you have *surplus cash* available. If you do not have surplus amounts, then it is ok to continue SIP only.

Note that here, time span is the key. If you have 15 or 20 years, you can achieve that very well only with a monthly SIP. But if you have 10 years or less for retirement or regular monthly income, it is advisable to start a monthly SIP along with occasional Lump-sum investments.

Step-5: Keep monitoring your Investments:

Now you have selected the Fund or Funds and started a regular monthly SIP Investment with or without the initial Lump-sum Investment. Also keep making lump-sum investments whenever you have surplus cash and the market is low or in a bear phase. Keep monitoring your investments regularly every 2-3 months, which is also okay.

Since you have chosen a good Equity Mutual Fund with a proven track record of >10 years and all other aspects as we discussed earlier, I do not expect any negative performance in your Fund. Even if that happens and your chosen Fund/Funds perform poorly consistently, give it at least a year, then consider switching to another preferred Equity Mutual Fund without any hitch.

Our objective is to generate handsome value through the power of compounding over a long period, and for that we need at least a double-digit return (i.e., >12%) from our selected Fund.

Step-6: Stop the original SIP now and start a monthly Systematic Withdrawal Plan (SWP) of 0.75% of the lump sum accumulated:

Now the day has come when you want to start your Regular Monthly income from your **Akshaya Patra Investments.** Depending on how many Mutual Funds you are running under your Akshaya Patra scheme, you need to ***stop the original SIP*** now and ***start a monthly Systematic Withdrawal Plan (SWP) of 0.75%*** of the lump sum accumulated across all Funds.

We expect around 12% ROI from our Equity Mutual Fund, which is a conservative assumption. But we will be withdrawing approximately 9 % (0.75 % every month) yearly. This will ensure we do not withdraw more than our accumulations, and it will keep increasing even after our 9% yearly withdrawal. *You can also plan to draw a lower percentage (%), say 0.6%, based on your research and understanding. Also, the market does not give a consistent return every year. So withdrawing around 9% in a year will not deplete the corpus drastically if returns are lower in a particular year.*

Imagine running such SIPs in 2 or 3 performing Equity Mutual Funds at ₹4000/- every month for

10/15/20 years and completing it; your Fund value accumulation will be in the range of 50 to 60 lacs. Then you can expect ₹37,500 to ₹45,000 in regular Monthly Income (Monthly Pension) forever.

Step 7: Every year, access the Total Amount and make adjustments to the SWP:

Each year, access the Total Amount in your Funds and change your SWP to 0.75% of the accumulation till that date. This way, you will start receiving regular Monthly income (monthly pension) without depleting the accumulated amount.

Summary of Akshaya Patra Investment

Step-1: Decide how many Years you want Regular Income from your Investment.

Step-2: Choose a few equity-based mutual funds with AUM >10,000 Cr, 10-year returns>10%, and Expense Ratios $\leq 1.5\%$.

Step-3: Start a monthly SIP of ₹4,000/- in each chosen fund, depending on your investment target. Choose a weekly SIP investment if available. Go for Direct Investment Plans.

Step-4: Make a lump-sum investment in each fund whenever you have surplus cash and the Stock Market is down.

Step-5: Regularly monitor all your investments at least once every 2-3 months. If any fund starts giving lower

results, monitor it and switch to another good Equity Fund after waiting at least one year.

Step-6: When your target day has arrived, stop the monthly running SIP and start a monthly SWP of 0.75% of the Total Accumulated Value.

Step-7: Every year, assess the Total Amount and make adjustments to the SWP if necessary.

Note: There are multiple ways to take regular returns from your accumulated corpus. Here, for simplicity, I have given a formula to take out 0.75% of the total accumulated value every month through SWP.

*Since the Stock Market does not give consistent returns every year and the returns vary widely, we can consider some alternate plans. One such option is to link the SWP amount to the last year's accumulated profits. You can see the total returns your fund accumulated last year and **adjust the monthly SWP to 1/12th of that return.***

*Another option is to take out all last year's profits, keep them in a Debt Fund, and start a monthly SWP from there. Every year, you can take out only the profits your investment gains, **transfer them to the Debt Fund, and keep adjusting the SWP amount from there.** These are some of my thoughts, and you are free to decide your way.*

End of Akshaya Patra Story:

Kauravas, who never left any chance to put the Pandavas in trouble, asked Sage Durvasa to visit the Pandavas in the forest with this disciple and bless them.

Sage Durvasa is renowned for his short temper and used to curse people if anything did not go his way. The Kauravas made sure Sage Durvasa reached the Pandavas' cottage after Draupadi had finished her meal. As per the Sun God's boon, the Akshaya Patra would not work if Draupadi had eaten her meal. When Sage Durvasa arrived, Draupadi had just finished her meal and was about to clean the Akshaya Patra.

Pandavas received Sage Durvasa and his disciples. They asked them to have lunch, but they had no idea how to provide food instantly for so many people. Sage Durvasa went to bathe in a nearby river with his disciples, and the Pandavas knew they must arrange food now or face Sage Durvasa's curse. Draupadi sat in the kitchen and began to cry. Draupadi imagined that a curse from Durvasa would be terrible for them, as they were already in exile after her shameful disrobing attempt in the Kauravas' court.

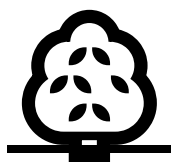
With tears in her eyes, Draupadi prayed to her friend and brother Krishna. Krishna appeared before her, and Draupadi explained the crisis. Krishna asked Draupadi to bring him some food, as he was very hungry.

Draupadi told Krishna that she was already in big trouble, and Krishna was joking with her by asking for a meal. She had nothing to offer to Krishna. Then Krishna urged Draupadi to bring the Akshaya Patra and check if anything was left in it. Draupadi found a single grain of rice sticking to the side of the bowl. Krishna asked Draupadi for that single grain of rice, and he ate it.

At that moment, when Krishna ate a single grain of Rice from Draupadi, all creatures in the entire Universe felt their stomachs full and satisfied. Rishi Durvasa and his disciples also felt their stomachs fill and went back after blessing the Pandavas. This way, the Pandavas were saved.

Chapter – 10

How to Plant *Kalpataru* (*Divine Wish Tree*) through ETF Investment



In Section 4 (why to save Money), we discussed that if you plant a seedling and nurture it, it will one day become a mighty tree that gives you both fruit and shade.

We all know about the *Divine Wish Tree (Kalpataru)*, a wish-fulfilling tree. This Tree appeared during the churning of the ocean (*Samudra Manthan*) by the Devas and Asuras. Indra (king of the gods) has this Tree in paradise. As a child, I also came across such stories and fantasised about having them. When we grow up and gain knowledge, we understand that such things are metaphors and do not exist.

In this chapter, I will reveal a technique already practised by several people that gives results like planting a *Divine Wish Tree* in your backyard. When you save and invest in planting a *Divine Wish Tree* (let

*us call it our **Kalpataru**) using the method we will discuss now, it will grow over the years. Then you will get **regular returns** from your **Kalpataru**, which will be the **Fruits of that Tree**. If, for any reason, there are *no or fewer fruits* (regular returns) from your Kalpataru, then at least you will have the comfort of a huge **corpus** with you, as **the shade** of that Tree.*

In financial language, if you have invested a fixed amount, say ₹1 Lac, in any Investment Instrument and over a period you get back your initial investment of ₹ 1 Lac from that Investment Instrument, then after that period your investment goes on an Infinite (*endless*) **ROI** (*Return on Investment*). That means ***you get returns without investing anything further, because you have already recovered your initial investment.***

We aim to plant **Divine Wish Trees** that give us **our initial investment back in 5 - 8 years**; *after that*, you keep benefiting from it for the rest of your life, and then you leave those Divine Wish Trees to your kids. Now let us start exploring the Divine Wish Tree idea without any further delay:

This Kalpataru *Technique*, which we're going to discuss here, involves investing in *index-based ETFs*. Since you have already gone through our dedicated Chapter on ETFs, I assume that you now understand what an ETF is and how this investment instrument works.

Procedure to plant your own Kalpataru (Divine Wish Tree)

To plant the seedlings of your *Kalpataru*, first decide how much you can invest as *a lump-sum investment*. The first lump-sum investment will be considered the *SEED of your Kalpataru*. You can start with any amount, whether it's ₹5000 or something else. If you have funds, it can be ₹50,000, ₹1 lakh, or more if your situation allows.

You must have come across the proverb, '*If you are too lazy to plant a seed, it is too bad when you have no harvest on which you can feed*'. So, we need to plant the seed of our Kalpataru with all devotion and without any further delay.

Once you plant the seed of your Kalpataru, you need to *nurture it with water and manure*. We will do this by investing regularly, following *the Regular Systematic Plan* we discussed in the types of investments section of this Book. So, if you watch closely, we are following the third option of the investment strategies given in the types of investments in the ETF Chapter of this book: investing through both *Lump Sum & Regular Systematic Investment Plan*.

After you decide how much Lump Sum Investment you can make to plant your Kalpataru, you need to decide how much *Regular Systematic Investment* you can make to water and manure it. Please understand that the amounts we decide for the *Lump Sum* as well as *Regular*

Systematic Investment determine the size and yields from our *Kalpataru Tree*. Regardless of your investment capacity, following this method will give you the best results. All investments involve some level of risk. But as we saw earlier, since we are planning for a long-term investment, this will mitigate our risk.

If someone wants to enjoy the fruit without further delay, they can plant a Big Kalpataru with a strong lump-sum investment. Alternatively, you can plant the Kalpataru by starting with a lump-sum investment followed by a Regular Systematic Investment every month. The overall objective is to build a strong corpus in the selected index-based ETF so it can start bearing fruit.

Steps to Plant Divine Wish Tree (Kalpataru)

- a) **Select a high-volume Index ETF** available in the market. I will give a list of ETFs which you can consider after your own study and research.\
- b) If possible, **invest whatever lump-sum amount** you can in that ETF. This will be considered as planting seedlings of your Kalpataru.
- c) **Select a particular day in a week** as per your convenience or a day which you think is auspicious. This must be between Monday and Friday (excluding holidays), as an ETF can be traded only when the Market is open.

d) **Decide how much regular monthly investment you can make** for watering and manuring of your Kalpataru. Divide that amount into 4 parts and start buying your selected Index ETF every week on the day you have pre-decided.

e) Once you plant your Divine Wish Tree, ***start tracking the investment.***

f) ***Now you keep on nurturing your Kalpataru by investing in it through Regular Weekly Investments*** and with Lump Sum amounts whenever you have some Surplus Cash in your hand.

g) ***Wait till the tenure you want to keep investing*** for your Kalpataru to grow and be ready to give you fruits. It should be at least **6 - 8 Years** or the Year you wish to take your retirement.

h) After your investment tenure is over or you have reached your retirement age, then ***start withdrawing 0.6 to 0.8 % of the total corpus*** every month. This will be your **monthly pension.**

i) ***You can start enjoying the fruits of your investment from the first month*** also if you have planted a big tree by investing a large Lump Sum amount into it. ***Start withdrawing 0.6 to 0.8 % of the total corpus*** every month. This will be your **monthly pension.**

There will be a period when the Sensex/Nifty dips continuously, so you may have to pause your monthly SWP. ***Hold on for that period and sit under the shade of your Kalpataru.***

As we all know, the Stock Market keeps going up and down. In some years, it has fallen by more than 30–40%. That happened in 1988, 2004, 2012, and lastly in 2020 during our break from the COVID-19 pandemic. But it is also proven that whenever the market has gone down drastically, it rises again in the next period and crosses its previous high within a maximum span of 1 to 1.5 years.

*The Stock Market has a history of alternating Rises with falls, and there is no doubt about it. **Investors who are prepared with a basic understanding of the Market and have trust in Stock Market investment, be it through Stocks, through ETFs, or through Mutual Funds and stay invested long term are rewarded with a return that can not be matched elsewhere.***

When we are on the path of wealth accumulation to achieve *financial freedom*, we do not consume any fruit our investments reap. *So, during our Divine Wish Tree growing period, i.e. till we decide to retire, we will not touch the profits (fruits) we get from this Tree and will keep investing as per our capacity.* This way, you can build a strong corpus in an ETF over a long period.

I advise all readers to understand this investment strategy and plant **one or more Kalpataru** to enjoy their fruits as regular monthly income. Besides planting Kalpataru in the Indian Market, you can also invest in **international markets** like NASDAQ, etc. You can study international markets and plant international Kalpataru Trees to have different types of fruits. ☺

There are several ETFs in Stock Markets. The following are some high AUM Index ETFs for your reference and study purposes only. These are not my recommendations, and I have no business interest in them except for my investments in some of them. I want you to do your own research and choose ETFs which meet your expectations and risk appetite. Please check all details before investing in any ETF.

SN	Name	AUM (₹ Cr)	1Yr (%)	3Yr (%)	5Yr (%)
1	Nippon India ETF Nifty 50 BeES	50,105	3.53	17.57	20.11
2	SBI-ETF Nifty 50	206,658	3.51	17.56	20.09
3	ICICI Prudential Nifty 50 ETF	31,378	3.54	17.59	20.12
4	HDFC NIFTY 50	4,761	3.52	17.56	20.10
5	UTI Nifty 50 ETF	64,150	3.52	17.50	20.10
6	ICICI Prudential BSE Sensex ETF	22,130	3.34	16.88	19.28
7	Axis NIFTY 50 ETF	1,017	3.51	17.56	20.09

CONCLUSION

Wealth accumulation is a slow and steady process. It will test your patience. You need to be educated, cautious and start early. No one will teach you about money, and you have to learn it by yourself. If you wait until you are 100% ready, then you will be waiting for the rest of your life. *Financial Freedom requires sacrifices. You have to make some harsh decisions to be Happy in life.* The best part comes when you start benefiting from the compounding effect on your investments. That comes from years of patience and consistent saving & investing. If you don't manage your Money properly, you will always struggle, no matter how much you earn.

Impress yourself; show yourself that you can do it and attain *Financial Freedom*. Everything gets a bit uncomfortable at the beginning. With regular effort, things will start to get better.

Every Journey starts with the *FIRST STEP*.

Take that FIRST STEP and Keep Going.

SUCCESS will be yours.

***“Be Brisk in moving slowly!
Then you will arrive soon!”***

- Milarepa of Tibet



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Now you have reached the end of this book. I hope you find it useful and practical. Start your journey to Financial Freedom without wasting any more time.

Please leave your honest review on the Amazon website.

Gift this book to family & friends who can start their Financial Freedom journey from where they are now.