PRADYUMNA K MOHAPATRA

PACK YOU₹ PA₹ACHUTE

A JOURNEY TOWARDS FINANCIAL FREEDOM

FINANCIAL FREEDOM is our birthright.

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

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Preface

Who is packing your parachute??

This is a powerful metaphor and question that originates from a true story about Charles Plumb, a U.S. Naval Academy graduate and Vietnam War veteran. Plumb’s Fighter Jet Plane 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 ? You were shot down ? Surprised, Plumb asked how he knew this. The man replied, "*I had packed your parachute.*" He was the sailor who had packed Plumb’s parachute on that day which saved 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 recognize and appreciate those who *‘Pack Parachutes’* in their life.

For most of us it is our parents, family, relatives and friends who support us (pack our parachutes) till the time we are financially independent. Our *Financial Planning* is something we need to master rather than readily trusting on others to do it. For that we need to master all aspects of Personal Finance and Money coming into our life. ***We need to learn to ‘Pack our own Parachute’*** *(do our own financial planning)* ***before jumping into the Financial Market.***

Foreword

Money: It's a topic that 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 overall quality of our life. In a world where financial uncertainty seems to be normal, the search for ***Financial Freedom*** has become more than just a lofty goal—*it's a necessity*.

I have the privilege of witnessing this journey and taste the nectar of *Financial Freedom.* Please convince yourself that the 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 debts, 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 only work for the educated and elite sections. 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 filters years of financial wisdom, practical experiences and hard-learned lessons into a complete guide that can be practiced and is attainable. 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 how to cultivate a ***mindset of abundance*** rather than of ***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 that this journey will challenge your conceptions, push you out of your comfort zone and demand your commitment. There will be setbacks and moments of doubt, but 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.

Its 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 the true ***Financial Freedom…..***

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Table of Contents

Chapter – 1
Why are we making Money ?

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Money serves as an excellent tool for transaction, but its power as a ruler is destructive. We all need food, clothing, shelter, health care and education to live our life on this Planet. Money is required to pay for all the things & services that make our life possible and comfortable. Money ensures our freedom and autonomy. It ensures our privacy and gives security to our life. Some people love Money for the things it allows them to do. Some other people like to spend it and 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 put some effort into becoming aware of the emotions Money is creating within us***. *Without this awareness of our emotions towards Money, it will override our Rational Thinking and start driving our actions.*

Financial planning from the early stage of life significantly reduces the risk of financial hardship. The sooner you prioritize 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*** at early stages of your life. Then live the rest of your life pursuing your dreams, 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 which goes like this: **बुभुक्षितः किं न करोति पापं** –*'Bibhukitahh Kim Na Karoti Papam'*. The meaning of this verse is that a hungry person can do anything (any sin) to feed himself.

So, we need to be always aware of our emotions towards hunger for Money within us and keep judging ourselves. Our hunger for Money in no time can lead us down the wrong paths if we leave this awareness even for a short while. It can lead us to be materialistic and create an obsession to do 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 you become a Sage (Sanyasi), you may not need Money. But then you will be dependable on other people from whom you will expect alums to live on this earth. You will still need certain items other than regular food even to live in a jungle. So, these alms and items which even a Saga needs are to be arranged by some other persons and in turn they will need Money to arrange those items. *Thus,* ***whether we actively pursue wealth or seek detachment, Money's influence remains in our life*****.**

Money can get us lots of things and comfort our living in this world. 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 it grows on its own, we get great satisfaction. Spending our earned Money wisely makes us cultured. It makes us organised and gives us confidence of safe living even during periods of reduced income if it happens for some reason. *Earning Money gives us an identity of our own.*

Where are you exactly placed ?

At any given moment in life, individuals find themselves at one of these three distinct stages concerning Financial Freedom. 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 yet to actively embark on the path towards Financial Independence and plan for the final destination which is Financial Freedom. This might mean they haven't set financial goals, not started saving consistently and not planned for utilising their resources strategically.

2- *Endeavouring* *to accumulate for Financial Freedom* At this stage, individuals are actively working towards building their wealth with the clear objective of achieving *Financial Freedom.* They are likely implementing financial plans, saving diligently, making informed investment decisions and continuously seeking ways to increase their income and reduce their expenses. Also they are putting a lot of 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 actively work for Money.

Achieving *Financial Freedom* requires being disciplined and guided by strong principles. Despite your mind's inclinations, you have to 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 not started ?***

What Money brings to our Life?

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

Money is something we will always need. So, it is very important that we make necessary plans as early as possible in our life to make sure we always have regular streams of Money into our life. We need to plan for the day when we can't earn anymore by directly devoting our Time & Energy as we all will become old oneday.

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 your investment is reinvested and you start earning interest on the principal plus the interest you have already received. *In other terms,* ***Compounding is getting 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 enables us not to worry about our other needs for life including healthcare, education, travel, personal growth, professional pursuits, and contributing more broadly to society, fostering a greater sense of 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 now live our life the way we want pursuing our dreams and are freed from 9-to-5 job obligations.

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

This close observation of our feelings with the Money you also must have gone through. So, when you have sufficient Money in our Bank & Investments, think how great a feeling it will give to you continuously and what will be your state of mind.

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 for joining Gym, Sports Clubs, hiring a trainer for physical training, going to a health Spa etc. Also, Money gives us the opportunity for the best ever advanced Medical treatment facilities to take preventive health measures and we can get cures in a faster and better way.

5. ***Happiness**:* Happiness generally rises with income for most. It is also a fact that Financial Prosperity alone does not guarantee genuine fulfillment 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 man 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 foods instantly. We can travel to distant places in hours and so on. All the comforts are today available with exchange of Money.

7. ***Social Status***: Though 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 prime criteria to judge 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

utilize that time doing something more productive or pursuing your goals & hobbies. To some extent, we all do this when we employ someone for any services like maid, sweeper, driver, cleaners, press man 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 will happen if I lose my job, if there is uncertainty in the job market, if there are prolonged medical issues in my family and so on and so forth. But when I accumulated enough so that I could sustain myself in this city even if my job is not there for 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 labor.* If you have Money, then you can invest that 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 investment ventures and efficiently monitored.

When we seek a Home Loan or Vehicle Loan from a Bank, a 15-20% Down Payment is required and the Bank finances the remaining 80-85% as a loan after verifying your repayment capacity. This demonstrates how Money attracts more Money. Your initial 15 - 20% investment unlocks access to 80 - 85% loan from the Bank. Essentially, this involves leveraging *‘Money of Other People’* to fulfill 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 for us to work efficiently, earn more Money and acquire 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 your hobbies and causes you care for and secure a Happy Retirement Life.***

However, simply earning Money is the first step and acquiring expertise in the art of financial management is also essentially required. 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 allow your Money to 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 incomes for you.***

What also Money can bring to Our Life

If the emotions which are created within us by Money are not observed and controlled, they can override our rational thinking and create lots of problems in our life.

Let us now discuss what disasters Money can also bring to our life 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 tend to ignore Family & Friends and make themselves too occupied in the process of making Money. But at the end what they have is only Money and they have no one close to them 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 frequently comes with higher wealth can create an environment where individuals might be 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 comes from the owner's attitude and behavior towards it.*** *We must take a responsible approach towards saving & investing it in proper channels to prosper and not make it create problems in our life.*

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 some external goal like becoming a Sports Person or a Doctor. an IITan, a Politician etc, then people congratulate them. But this *journey towards Financial Freedom is an internal journey* and nobody will congratulate you. I know that you have started your journey. You will not attain either any name, fame or status in society by achieving your *Financial Freedom*. Many even will never 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 the field of Personal Finance.** Every person who is interested in managing their finances, dreams to achieve *Financial Freedom* and it is definitely possible. How long it will take to attain this super enlightenment state of Personal Finance depends on at what stage the person is in the journey and how finances are being managed.

Before we understand what is *Financial Freedom*, let us first understand what is *Financial Independence*. *Financial Independence* means having sufficient wealth or resources to live comfortably without relying on others. We all are dependent on our Parents and family till the time we start our own earning. The day we start earning, that makes us *Financially Independent*. We now support all our expenses from our earnings and no longer depend on others to fund our expenses. But here we are not *Financially Free*. We just become independent in generating Money required by you to live. The day you stop working, the inflow of Money will stop and again you will become dependent on others after some period.

However, <u>Financial Freedom</u> 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, minimum 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 are generating the required ***Passive Income*** and all your expenses are taken care of from that. 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 some income while pursuing your hobbies, then it is a bonus and it is added to your wealth.

The core idea for achieving Financial Freedom is to develop income streams that do not require your active involvement, allowing your Passive Income to cover all your day-to-day expenses and support all your life events as planned by you. 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 being 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 freedom to choose the work you are passionate

about, rather than being driven by financial necessity. It leads to achieving a comfortable retirement life.

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

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

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 people not seeking Financial Freedom ?

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

The reason is we all are imprisoned in the golden cage of our personal thoughts and beliefs. We have made our cage a very comfortable place and even if it is opened, we do not want to go outside of this cage to eexplore our

Freedom. We have made some agreements with our day to day struggles and now made ourselves comfortable in it.

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

1. ***Lack of Financial Education*** - Many people do not understand the importance of *Financial Freedom* and priority is given to only 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 about the investment tools, the *power of compounding* and the *benefits of starting small.* They are convinced that the complexity of Financial Markets is only for the wealthy or those with specialized knowledge.

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

take even calculated risks and always prefer safety over growth.

5. ***Prioritising Short-term needs -*** Some Individuals sometimes prioritize 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".* Witnessing their relatives, friends and neighbors also facing such challenges reinforces this belief, making it seem like an unavoidable reality.

Due to the above reasons many people are not able to make *Financial Freedom* as their goal. The illusory world makes them believe that financial struggles are natural. Even if at some point of time they understand the necessity of *Financial Freedom*, they are unable to make the serious efforts required to achieve it. ***It is very important to understand the need for Financial Freedom. We will learn it here through this Book.***

> *Contemplate -* ***What are the reasons hidden within you that are preventing you from moving towards the dream goal of getting Financial Freedom ?***
>
> ***What is your comfort zone which you are unable to come out of ?***

Basic Guidelines for generating Wealth:

While earning Money, we should focus on two principles;

Am I earning in the way it is <u>Legally right</u> ?

Am I earning in the way it is <u>Ethically right</u> **?**

Always ask yourself the above two questions.

Working for Money seems like a hassle when you are in a direct job and you don't like or love your job. However, once you are into the saving and investing path, you will start feeling better and better. At the early stage of your life, the amount you save & invest will be less as the income is less. 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 what you earn and avoid increasing your spending with every increase in your income (*i.e. control your* ***lifestyle inflation***).

- ★ ***Save & Reinvest -*** Keep a reasonable portion of your income for yourself for investing in profitable ventures and always ***Reinvest the Interest*** that you get from your previous investments rather than spending it for lifestyle requirements.

★ ***Keep your principal amount Secured -*** Always invest in the ventures where at least the principal amount is secured else take insurance to secure your Principal Money.

★ ***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 that your saving is done directly without your involvement.

★ ***Close all High-Interest Debt -*** Pay off credit card dues and personal loans quickly. Try to come out of the habit of taking debt except Good Debts.

★ ***Establish an Emergency Fund-*** Save 8 - 12 months of living expenses or 6 months of income whichever is higher as an *Emergency Fund* for any 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 etc to have 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.

Chapter – 2
Different Aspects of Money in our Life

Money has different names in our society according to the usage and the situation it is in. It can be donation, salary, allowances, loan, debt, taxes, pension, fees, fines, tips, dowry, alimony or ransom etc.

Before we understand how to save more and explore various investment options, we must first know the basics about how Money enters into our life. 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*** is ***Saving***.

We practice…...…. ***Income – Expenses = Saving***

When one starts their life, the pay checks are generally less unless the person is from a very good Business School or Engg / IIT / MBBS Colleges etc. In those initial years, the spending is nearly equivalent to or little less than the income and our savings are very small after meeting all requirements.

Here in these initial years, one must invest in himself or herself and get educated about all the aspects of Personal Finance. One must pay themselves before spending. A minimum of 10% of the income irrespective of whatever figure the income is has to go for saving & investments. If one can manage my monthly expenses within ₹ 50,000 then believe me, he or she can very well manage a month with ₹ 45,000 (10% less) with a little prudence in expenses. ***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 and will not have to be worried 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 Saving amount (minimum 10% of your Income or more) from our Income and keep it aside before starting to Spend. We should practice the following.

We should practice .... **Income - Saving = Expenses**

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 we can very well say that income can come either against *work you* *have done* or the *Money you have invested* in any Investment Instrument.

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 is directly dependent on the time you spent on work and it stops the day you decide not to work. ***Here you are the Investment Tool***. Income from wages, salary, tips, bonuses, and commissions are considered as *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 or month or in a year to generate this income. Income from Rental Properties, Royalties from creative works and Dividends from business ownership comes under this type of income. Initial investment is required for generating this income.

c) **Portfolio Income**: It is the income generated through investments such as RDs, FDs, Stocks, ETFs, Bonds, Mutual Funds etc. It includes interest from Saving 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 that you need to put a considerable amount of Money as investment to get this income.

What we can see is to generate Passive Income or Portfolio Income, it is essential to establish a reliable Active Income stream. One needs to first generate Money through ***Active Income*** and save a prerequisite amount so that it can be invested in some Investment Tools so that the investments then generate ***Passive or Portfolio Income.***

Steps to Regulate Money into our Life

Since most of us are into *Active Income*, our objective must be to ***improve our Income, reduce our Expenditures*** in order to *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 contributor to their income. We all want to increase our income so that we can meet our current requirements to live a satisfactory life and meet our future goals. Here are the various ways you can explore to increase your income depending upon your situation, ability and interest.

a. ***Critically examining all your Employee Benefits*** - Check with your HR, Finance Department and colleagues to find out all the benefits your organization is providing. See how you can avail those benefits to enhance your income. There are benefits like Fuel / Telephone / Internet / Gym reimbursements / Childcare / Critical illness benefits etc which need to be understood and availed which will be added to your income.

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

c. ***Asking for 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 wait for your turn to be considered.***

d. ***Consider Teaching as an income booster* -** Teaching is a noble profession. We all are 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.

<u>My Wife & Teaching</u>: *My wife is an Engineer and for the first 8 years she was into her profession. But after our second daughter was born, we found it very challenging to continue her job as I could not support her much due* *to my demanding and 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 conditions. My wife kept on supporting her financially for the studies of her children. One day, she decided to teach them on her own 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 maid's kids were coming to our house daily for tuition and all was done FREE as charity.

After a few months, Teachers from the School where Maid's 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 performances.

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 had a discussion and my wife started two batches, one free batch for maid's kids and second paid batch for our Society kids. Soon all the kids benefited, and she got famous 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 all 7 days and is dedicated to the studies of her students. As per her, all students should devote some time daily for their studies as it is being done for other chores.

My objective of 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 both can plan and start teaching class combinedly or separately as per your availability. At least you can think about 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 think of taking classes for beginners 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 any of your old hobbies and brush it up by joining some professional classes in that field to start your new endeavor. Parents are very concerned about the overall development of their children and want them to learn some extracurricular activity apart from the 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 office, I saw a new pair of new 'Tabla' in my Drawing Room. My wife has bought a new Tabla pair for me to learn as I used to tell her how much I wanted to learn playing musical instruments in my childhood but due to lack of support I could not do so.

She told me "You have to learn Tabla and play it so that your daughters benefit from it while practicing their Kathak Dance and Indian Classical Singing at home". Then I joined the same Music School as a fresher student for learning Tabla where my daughter was learning Kathak and completed a 4 years Senior Diploma course in Tabla playing. I am still learning Tabla from my Guru and enjoying this journey. Now I can start "Basic Table 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 as per your interest and start your investment in that instrument with a small amount so that you learn that skill and add some income into 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 the locality you are in, start searching for *a part-time business*. You can partner with someone and start a small business where your expertise and other Person's time can be utilized and make 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. Do not forget to sign a Rent Agreement and get police verification done for the tenant before extending the facility. You can extend the service of providing food to your tenant if he / she is a bachelor. This will fetch your family some extra income.

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 your orders to that Partner to fulfill them for you against 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 the support of your spouse, you can start this business.

STEP-2: How to Reduce Expenses?

Do you know your exact monthly expenses ??

I think most of you know approximately how much you are spending every month for 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 record of your daily expenses is a Millionaire's habit*. You need to write down your daily expenses in a sheet or diary and find your exact expenditure in different headings every month. You will find many formats for such sheets available online. Nowadays lots of applications are available to keep track of daily expenses. You can use them as per your convenience. 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 come to know that your approximation towards your average monthly expense is far less than what is actually happening in actuality.

It is better to involve all members of your family to record all their expenses happening every day to arrive at your family's monthly expenses. Involving grown-up kids in this activity will bring some monetary discipline to them. 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 of the segments.

Now since you have recorded each expense, then 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 monthly level even if it is done once in a quarter or year (it is called ***amortization)*** otherwise it will skyrocket your monthly expenses in that month in which it is paid. You can have joint family discussion on how to manage and where the expenses need to be controlled.

Here are some other ways you can consider practicing in your day-to-day life which will lead to reduction in your expenses. No matter how small the amount is, if we practice them throughout our whole life then the savings from such practices will definitely be a big amount.

Find below some techniques 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 on that day except the mandatory or emergency requirements. 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 spendings. First priority of this budget is to identify ***Needs*** or essentials and ***Wants*** or nonessentials and go for the needs only and plan separately for your wants.

3- **Lower your expenses:** After making the Budget, track your spending to see how actual expenses goes on in comparison to the planned one. Adjust the budget accordingly to make up for any difference.

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 adjust to our earning capacity. This phenomenon can be observed in various forms: upgrading to a larger residence, acquiring a more costly vehicle, increasing the frequency of restaurant visits, opting for more luxurious holidays, or investing in premium consumer products.

This tendency is referred to as *'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 irrespective of the increase in our Income. Then only our Savings will 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, that is *Managing our Savings*. This is the critical part and all our effort should be to manage our savings and invest it in profitable Investment Ventures available to us. Our objective is that the return from our investments beats inflation & applicable taxes and our Money grows day by day. This aspect of *'why to invest our Money'* we will discuss in detail in our coming *Section-4*.

We earn after working so hard burning our ***Life Energy*** and save Money by critically controlling our expenses. But when it comes to managing our own savings, we give very less importance to it. I have seen people who do not think about growing their saved Money and just follow one or two old fashioned investment methods like writing Fixed Deposits or buying Gold and Lands.

We manage the wealth of our Employers so well for so 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 the Savings and Investments you have like Money in Saving Banks, RDs, FDs, PPF, EPF, Gratuity, Leave Encashment, Gold, Real Estate, Mutual Funds, ETFs, Shares etc. Also list all your debts like Home Loan, Vehicle Loan, 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 at least by 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 very seriously as you are dedicated to your regular job and you will give sufficient time to get yourself educated & experienced in Money Management & knowing Investments Tools.*

In Chapter - 5 of this Book, we will discuss the various investment opportunities available to us. We will discuss the Investment Tools which we should consider to get double digit growth of our savings and also I will give you two methods in the two separate chapters of this book where you can generate a Regular Monthly Income after staying invested for some considerable period in *Mutual Funds and Equity Traded Funds (ETFs).*

Frugal vs Miser

Two terms are widely used in our society for a person depending on his 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 more different than being *Miser.* But we generally confuse Frugalness with Miserliness. A *Frugal Person* is very clear about their requirements and what is necessary for them. Whereas a *Miser Person* does not do the minimum necessary requirements and always tries to save irrespective of the demand of the situation.

While buying my second Car, everyone known to me including my family and office friends advised me to go for a high end Sedan Car or a SUV. But I was very clear about my requirements and went ahead with a middle range Sedan Car instead of spending a hefty amount on a high end Car or a large SUV. For me my Financial Freedom was more important than the golden cage of the materialistic world. I wanted to spend that much which is necessary for this purpose and not to show off or take it as a status symbol. Some readers may have different opinions on this matter, but I know since you are reading this book and you are concerned about your Financial Freedom, you will give it a thought.

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

Due to 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 took his contact number through some sources and talked to 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 overwhelmingly. He was so gentle and sober to me that I got impressed within the first few minutes of our meeting. I explained to him about the matter for which I want his support. He comforted me and asked me whether I would like to have tea or cold drinks. Since it was Delhi's hot summer in the month of June, I preferred cold drinks.

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

Generally, we try to show off when someone comes to us by ordering several items in much more quantities and finally ending up in wastage of items and Money. Here this gentleman offered me the quantity that is comfortable for one person to consume and didn't try to show off. He listened to me and gave resolution to my problem. Since then we have been good friends and are in touch regularly till date.

My purpose of sharing with you the above incidents is to give you practical examples of frugality. ***We all should practice frugalness in every aspect of our life and not limit it to Money only. We can practice frugalness in utilising all resources like food, water, public facilities, services etc***. This way we will properly utilize the resources and Money by spending or consuming what exactly is necessary. ***One thing we should remember is that resources belong to the Society.*** The Food we are getting or any item we are purchasing, we are only giving our Money. But a lot of effort of many people and resources of our Country has been put into it.

I believe that wasting anything is a sin. *We all are a guest on this Planet Earth for a limited period of time and we should utilise all resources of this planet to the extent required for us and restrict us from wasting anything.*

If everyone in this Planet will think that the whole Plant belongs to them, then they will not pollute this Planet. Then we don't have to request anyone not to spoil the environment. When we visit our relatives' houses or become guests in a hotel, we tend to utilize the facilities very cautiously. We avoid wasting anything and creating any embarrassing situation. So unknowingly we practice frugalness in our life in some situations, then why not start practicing it consciously in our whole life in all aspects?

Some Tips for Expenses Control

Here are some personal expenses control measures I follow in my life. Think of it as your saving and investing policy and if you also agree to some of them, then 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 of your house with LEDs*. You will experience some initial cost for this replacement to LED Lights, but it will reduce your electric bills drastically and pay you back to you soon.

(3) *Always buy Geysers which have thermostats to control the water temperature*. For optimal efficiency, use geysers at water temperature between 30-35°C. This prevents overheating, increases life of Elements by forming less scales on them, 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 Degree C or more*. We were taught in our engineering that *the purpose of the Cooling System is not to cool the engine but to keep it in proper running temperature*. Similarly the purpose of the Air Conditioner is not to cool the room but to keep it at the pleasant ambient temperature for living. I have seen people running the air-conditioners at 16^0 C - 18^0 C and using blankets even on the hottest summer days. It is not medically advisable and also a lot of extra Money is spent due to prolonged running of the air conditioner.

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

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

(8) *Always shop with a definite list.* Don't just go to the market for shopping and start remembering items to buy after you see them in slaves of the Shop. This will lead to compulsive buying. Prepare a list of items you need before you go shopping and stick to your list. Just because things are on discounts does not qualify them for buying.

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

(10) *Cut back or quit Smoking and Drinking.* Smoking and drinking are the habits that negatively impact both our health and finances. The Money spent on these vices is entirely wasted, often leading to increased healthcare expenses later in life including the expenses in the present. This not only affects our well-being but also places significant financial burdens on our families.

(11) *Pay with cash when you are shopping and avoid using Cards / online Payments***.** It is seen that when we spend Money in cash our mind registers it properly. But when we spend through Cards or online, we do not feel the spending of that Money and go beyond our budget. But now-a-days online payments are general and we all have developed control on 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 very much 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 purchase.

(13) *Reduce or STOP eating out.* During the lockdown due to the Corona Pandemic, you must have tried preparing some food items at home. Enhance that quality and cook for your family on holidays involving all family members. This way you all will have some quality time together, have healthy food and expenses are also quite less.

(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 WIFI etc* and keep searching for better plans. Nowadays Service providers keep on introducing better plans due to cutthroat competition. If you are not reviewing 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 into your plan and the combined bill will be very less.

(16) *Cut your land lines* as they are mostly not in use nowadays.But if it is coming free with your Wifi or DTH packages, then have it.

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

(18) *Renegotiate your Home Rent* if you are in rented accommodation. Nowadays due to availability of lots of inventory in most of the cities, rents at some localities have reduced drastically. I was paying rent of ₹ 30,000/- in 2014 at 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 to your destination depending upon how far your workplace is from your residence. *Arrange for a carpool* if public transport or walking / cycling is not an option.

(20) *Keep your vehicle well maintained.* Also always keep the tyre pressure at optimum. Do you know that only due to less tyre pressure, your fuel consumption can increase more by 6-10%.

(21) *Negotiate your yearly insurance expenses* for Vehicle, Medical insurances, and check for better deals. Nowadays, you have so many Apps available online which will give you a good comparison on costs for these services.

(22) *Find a cheaper place to live*. There are some locations in every city where the living cost is higher when compared to other places. Try to find a cheaper or remote place. ***It is seen that most of the wealthy people stay in humble backgrounds. They do not change their home though their wealth has increased a lot and their neighbors are having a fraction of their wealth.***

(23) *Cancel all unnecessary subscriptions* and memberships or evaluate all of them. Keep those subscriptions only if you are sure that you are using them regularly and getting your Money's worth.

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

(25) *Sell stuff you don't need* to balance your budget. This will not reduce your cost but will help you in balancing your budget. It is said that if you have not used an item for more than a year, then maybe you will not use it in 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 vacate the space held by those unused items.

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 practicing other means we discussed, then we can very much say that they have produced 10 KW of Power for the Country.

Similarly in financial language, if a person saves One Rupee, then depending on his percentage of saving with respect to his income, we can say he or she has added 4 or 5 Rupees to their earning. 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 practicing ***Frugal Lifestyle*** saves another ₹2,500 every month. Now his income is ₹ 50,000 but his savings has increased from ₹12,500 to ₹15,000. If we consider his earlier saving percentage which is 25 % of the monthly income, to add another ₹2,500 in savings, he would have to increase his income by ₹10,000 more (i.e. from ₹ 50,000 to ₹60,000).

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

An inspiring Story from Mahabharat: *After the Mahabharat battle was over, Pandavas ruled the Land. Their capital was Indraprastha (it is believed to be located in the area of modern-day Delhi). Once there was a severe famine in 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 old man sitting in a corner and searching for some food grains from the waste. He asked him to inform Kuber about his arrival. The person told him 'Tell me, I am Kuber'. Bhim got surprised and also became a little doubtful about whether he should ask him for the huge quantity of food grains required for their dynasty as he had seen him searching for few grains in the waste. Bhim thought the person who is collecting a few grains from the waste bin, will he be so generous 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 and asked him to get fresh, have food and take a 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, there was heavy rain and all the roads got muddy. The wheels of the Carts got struck and could not move ahead. Bhim was in trouble and didn't have any other option than to go back to Kuber for help.

When Bhim explained to Kuber about what happened on his way back, Kuber without any hesitation asked Bhim to go back and spread the grains of some of the carts as necessary on the road so that roads become dry and balance carts can be moved. He also told him he is sending thousands of more carts behind him.

Bhim was very surprised as he could not believe what Kuber had told him now. He was thinking about this person who was searching for a few grains in a waste bin and is now asking him to spread hundreds of carts of grains 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 grains on the road ?

Kuber smiled and said "oh Bhim, that time I was having no work and I saw a few grains were getting wasted in the waste bin. So, I was segregating them to recover those grains for their proper utilisation. Here in your case, people are dying in your dynasty because of 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 there is an opportunity, we must save whatever is possible. On the other hand, when faced with genuine need or an unforeseen emergency, we must not hesitate to utilize the resources we have diligently accumulated.*** The very purpose of saving is to provide a safety net, to empower us to navigate challenging times without undue stress or compromise.

After all, the ultimate goal of our efforts in saving to live a better and more fulfilling life.

Chapter - 3
Why are we Miserable?

A lot of 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 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 from time to time. But, the Readers of these Books seldom get benefitted from these creations.

Some Authors express their Point of View by defining those ideas as *'Money Earning Laws*'. However, it is not like that and what they say are *theories* only not the *laws*. Here we must understand what a ***Law*** is and what a ***Theory*** is.

When a thought comes to our mind and we pursue that thought to get 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 something which is universal. *For a theory to be termed as a Law, it must give the same results when practiced (executed) by anyone and everyone by any means*. For example, if you throw a stone into the air, it will finally fall back to the ground only. Irrespective who throws the stone and how high it goes; it will always fall back to the ground. So, this phenomenon can be termed as a Law, and we call it the *Law of Gravitation*.

There are many Books and Theories across the World which say that *our thoughts create attractive forces*, and we can attract anything and everything into our lives only by constantly thinking about that. They call it the *'Law of Attraction'*.

But in my opinion, it cannot be termed as a Law. It can be only termed as a Theory. *I also agree that if we start thinking about something or someone continuously for a very long period, it generates a momentum within us and in the universe to proceed towards that.* But it does not guarantee when and how long it will take us to achieve that. There is no definite formula or calculation available for this. Even if we get results out of this practice, the result will widely vary from person to person.

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

Most people have negative concepts towards *Money* and *Wealthy People*. They think that all the wealthy people are bad and practice unethical means to gain Money. In our Society, we are often told that *'Money is the Source of all Evils'*. We also have very negative thoughts towards *Wealthy People*. I was also to some extent agreeing to that philosophy and was always thinking that Money is not all that we must run for. I was giving more importance to relationships, goodwill etc than Money. I was miserable for a large part of my life until I read some Books about Money and changed my thinking and feeling towards *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 very miserable and can lead that Person to do any kind of Sin / Misdeed. We, humans are by and large a very genuine and law-abiding creature. But this lack of Money feeling sometimes overpowers our rational thinking and makes us do things or act in a way which leads us into more trouble. In Chapter-1, we saw how and what Money can Money give to us. So let us now change our Concept towards Money and Wealthy people and see what positive changes it brings to us in our life.

Try to be Wealthy, not Rich !

Both the words '***Wealthy'*** and '***Rich'*** look similar to most of us. A ***Rich Person*** has a high annual Income mostly from the *Active Income* streams where his full involvement is required. Whereas ***Wealthy Person*** has a significant *Net Worth* and has invested their wealth in such ventures where he gets regular ***Passive Incomes*** without much of his active involvement. The wealthy person has accumulated enough Assets that they are no longer worried about earning Money day in day out for living.

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 he might be having a negative Net Worth because of debts. Whereas a Wealthy person may have less annual income, but his wealth is sustainable, and his Debts are much less than his Assets or has no debt.

A good example to understand the difference between Rich and Wealthy person is when a person gets a huge amount of Money by winning a bumper lottery, they become Rich. But how they utilize that Money to generate further regular income, decides whether they will be *Rich* forever or not.

If they just spend all the Money in maintaining a luxurious lifestyle, then they will end up in poverty soon. That is why the majority of the 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, then they can enjoy life forever and can be termed as a Wealthy person.

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

There is no relation between **Education** (**पढाई -** Padhai) and **Income** (**कमाई** - Kamai). It's a common misconception that academic education directly correlates with financial success. History offers numerous examples to challenge this notion. Bill Gates, a name famous with 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 the regular monthly expenses*

Our ultimate objective should be to be Wealthy and 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 frequently involves strategic thinking, risk-taking, continuous learning outside of 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 concept of burning ourselves for generating Money is a well-accepted concept in our Society. We have been told by our parents and elders that Money is not easily earned and always *‘Work Hard to earn Money’* by burning yourself. But there is another aspect of it, that is ***‘Time is Life’.*** It means the time you are spending on anything or everything is the ***Life Energy*** you are spending.

Let me explain it in more detail. We all have a definite life span for this life on this planet. The ***Present Time*** is a Segment of that life span. Once this Present Time has elapsed, our life span gets reduced. In a raw language we all are heading towards end after we are born (*still, we are celebrating our birthdays year after year though we are heading towards the end* 😇). So, any moment which has passed is gone from our life.

We all are working by spending our *Life Energy* (life span) to earn, so that we can live a Happy & 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 grocery is to be bought, mortgages are to be paid, rent to be paid, school / college fees of our kids are to be paid, entertainment expenses to be paid, our medical needs are to be paid and so on. Our fear of ***“Lack in Future”*** drives us to work today. We are fearful that whatever we have accumulated till now will not be sufficient 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 endeavor? This is the critical question that often arises before putting significant investment of time, effort, and resources into any endeavor.

It is said that the amount of Money which is left in one's Bank Accounts when a person dies, directly reflects the amount of "Life Energy" they spent for earning that which could have been avoided.

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

Here comes the role of ***'Financial Freedom'.*** Getting *financially free* is developing such streams of incomes into your life where you are not actively involved. All your day-to-day expenses are met by your ***Passive Income,*** and you are free to Pursue your hobbies and enjoy your life. There are lots of Books available on this concept called *Financial Freedom* and you can read some of those Books to understand this concept.

I *was desperately searching for good Books which will 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, inflations, market behaviour and requirements for all your life events till you live.*

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 also it gave me the month and year by when I will get my* ***Financial Freedom****. I came to know my stage at which I was on the way to my Financial Freedom and continued my journey to complete the balance path.*

After understanding the concepts of Financial Freedom, my approach towards Life & Money changed. The sooner you understand this aspect and work towards it, the earlier 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 have explained in Chapter - 9 & Chapter-10 of this Book are my offering to you for *your journey towards Financial Freedom*. Understand those concepts and practice them for your early relief from Money worries and gain Financial Freedom at the least time possible.

Income vs Life Energy

I have written so much on the '***Life Energy'*** in the early part of 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*.

All those who are working somewhere and getting paid monthly or weekly think their per day income is total income in a month divided by the numbers of days in that month or at maximum dividing the total income to the numbers of working days.

Let us first find out how many days or hours we work in a year before we go into details of ***Income vs Life Energy.*** Please see below calculation to arrive at the numbers of days and hours you are working in your workplace in a year.

Let us consider you are working in a company where you work for 5 days a week and 9 hours a day totalling 45 hours a week. (The calculation will still be moreover similar if you work for 6 days a week @ 8 hrs a day.)

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

Total Nos. of Days in a year = 365 days

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

Nos. of Saturdays & Sundays = 55x2 = 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 are working for 9 hrs a day at your workplace, then your Company allows you 1 hr. for Lunch and Tea Breaks. ***So Effective Working Hours are 8 hrs.***

Let us assume that a Person is effectively putting 8 hrs daily into his work for 17.6 days effective Working days in a month.

Effective Working Hrs in a Month =17.6x8 =***140.8 hrs.***

The indirect expenses you are incurring for your job are:

★ You are getting your ***<u>shaving</u>*** *done (for men) or getting* ***<u>makeup</u>*** *(for women)* daily before going to work which may be not required daily if not going to work.

★ You are spending a lot on your ***<u>formal dress</u>*** and its maintenance as you are going to work daily which, if you are at home, would have been managed with simple dresses for home wearing.

★ You are spending a handsome amount on ***buying a Vehicle or Car*** to commute to your work place which is to be added.

★ You are spending on ***Fuel & Maintenance*** of the vehicle or car for commuting to work place which is to be added. Else maybe you are ***spending on Auto/Taxi/Bus/Metro Fares*** for reaching your workplace if not going by your own vehicle. Or it may be a combination of both to finally reach your workplace.

★ You are going for ***some entertainment at weekends*** because you are getting exhausted in your working days. So, this expense is to be added.

★ You need a ***long family vacation every year*** to rejuvenate and have some special time with your family which you have missed due to your work assignments and commitments.

You can add any other expenses which you are incurring. Considering all above, I am producing a Calculation Table f*or a person who is working for 5 days a week @ 8 hrs a day and getting a salary of ₹1,00,000/- per month* for your reference.

LIFE ENERGY Vs EARNINGs (Real Hourly wage)					
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 as per your situation to find the actual number for you.

From above calculations, we find that the person who is getting ₹1 lac as salary, thinks his ***per Hour income is ₹625.*** *But when we adjust all other expenses being done 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 his or her Life Energy.**

The objective of arriving at the above calculation is to relate our *everyday Expense to the Life Energy we have spent to earn that Money*. If this person is spending ₹***500*** on any item or service, he or she should relate it to the time which is ***93 minutes (nearly 1.5 Hours)*** of his or her life span which has been spent to earn that Money and rethink before spending. ***The objective here is not becoming 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 is spent for every 100 or 500 rupees they spend.* This will bring discipline in spending in the family, and they will see all their expenses in a justified manner before spending. Also, this frugal behaviour can be ensured by practicing a simple method called *NEEDS vs WANTS Test.*

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

Need vs Want Test:

Basic human ***NEEDs*** are Food, Cloth and Shelter *(Roti, Kapda aur Makaan*). We also need other items for conducting daily chores, for healthcare, for education, some mode of transportation, for some modes of communication, for some modes of entertainment etc. While fulfilling these essential ***NEEDs***, we also develop certain other ***WANTs***. However, what each of us need for life varies vastly due to our social / physical / economic status.

Nowadays there are so many options in markets for all of our needs that they themselves 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 availability of a wide variety within a huge price range always creates a *WANT* within us.

One person saves for a Smartphone. But when the required amount is saved and the person goes to buy the dream Phone, they never get satisfied. There are better versions & brands are available with more price. They also get lucrative offers to buy a phone more than their affordability by taking on the spot approved Consumer Loans.

We earn working so hard, staying away from our family, and sacrificing 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 end up buying a lot more just because you see some great discounts or deals are available.

We behave like this because of the ***Fear of Missing.*** This Syndrome creates a *WANT* within us and leads us to buy unwanted things available on discounts and we spend more.

Many times, we come across offers like BUY 2 GET 1 or BUY 3 GET 5. We had gone to buy one item, but now after seeing this offer, we thought we should take this buy 2 get 1 offer. 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 critically examine it, you landed up spending more than what was your initial requirement though you are now having more items. Whatever justification we give, but 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 some different opinions.

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

If you are buying more things than are presently required by you just because they are available at discounts, then you are actually losing Money though you think you are saving.

So, for every Rupee we spend on any item or for any service, we must ask ourselves if this requirement is a

NEED or it is a ***WANT***. If it is an absolute NEED, then Money can be spent on that then and there. But if it is a WANT, then we need to further analyse and arrive at a justified decision for that. Alternatively, we should avoid or delay it if it can be done.

Why are we Miserable?

Now the big question comes to mind is that even after getting 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 which gives us net return just near this 6 % value 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 after maintaining a frugal life, we are far away from *Financial Freedom.*

We can save a good amount of money by practicing a frugal lifestyle, but if we are not able to invest it in the Investment Ventures which will give a double digit return, then our accumulated amount will deplete and may not be sufficient for our future life. We need to develop our knowledge on those investment tools and start practicing by investing small amounts in them. Then later on when we get experienced, we can go full flagged 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 know 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 for the interests of the loans. There is a simple rule to follow in clearing your Debts - *Find out the interest rates on all kinds of Debts you have and start paying the higher interest rated debts first.* Credit Card Loans and Personal loans always come with very high interest rates then comes your Vehicle Loans and 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 Insurances** - Insurance policies serve as essential safeguards for individuals and their families. Get your own ***Term Insurances*** and ***Health Insurances*** for a complete family even if you are getting covers from your employer. Don't forget to renew your *Vehicle Insurances* and *House & Property Insurances* on time.

5- **Keep an Emergency Fund** - Universe is unpredictable. There can be some uncertain requirement of Money for any unforeseen emergency towards your home, family and even job. Therefore you need to create an ***Emergency Fund*** to meet 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 *Liquid / Debt Mutual Fund* which are open ended and can use it in emergency situations. We will discuss more about 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 next best opportunity is NOW***"

In our previous Chapter we discussed in detail about how to increase our income and how to reduce our expenses so that we regularly save more for investment. We save every day, every week, every month, and every year. Now, once we understand the importance of Savings in our life, the next activity is to wisely Invest our hard-earned and saved Money to become Wealthy and get Financially Free & Secured.

There is a sloka in Sanskrit which goes like this;

सेवितव्यो महावृक्षः फ़लच्छाया 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, then sooner it will become a mighty Tree which will then start giving its fruits to us. If due to any unforeseen reasons there are no fruits in season in our Tree, then who can prevent us from taking rest under its shade on any day.

Like this if we invest our savings and regularly monitor it then one day it will become a ***Huge Wealth.*** It will give us Financial Stability and Freedom along with giving regular monthly income from its returns. If supposed due to any unforeseen circumstances the regular income or return from our accumulated wealth is less or not there for some period, then also we will have the comfort of having the wealth and can use a part of it to cross that bad phase smoothly.

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

Four Reasons for 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 we call the *Double Income Group (DIG)* and you are now in that group. If this continues for a considerable period, then the day will come when your Invested Money which is working for you will compound and generate such continuous streams of incomes that you will have no need to work any further to meet your daily needs. It will take care of all your regular expenses and will make you a ***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 the Inflation & Devaluation:

It is known to us that Money you save today will buy you less in future days due to inflation and devaluation. We will discuss what ***Inflation*** is in the next section and *Devaluation refers to the decline in the value of currency relative to its foreign counterpart.* So, it is essential that you make your Money grow and 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. You can look for such opportunities and take tax benefits in those areas.

4. Generate Fund for your Retirement Days:

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

So, investing in such investment avenues which will provide us regular monthly incomes when we do not actively work is very much necessary. In the last two chapters of this book, I will introduce you to such techniques of investments which will make your retirement life safe and secure.

What is INFLATION ?

You must have heard a folk song which was there in one of the superhit Hindi Movie '***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 one lady is telling her friend that her husband is having a good income, 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 due to inflation.

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

Wholesale Price Index (WPI): WPI is a measure of change in price of goods at the wholesale market at the producer level. It is the measure of inflation based on the prices of goods before it reaches the consumers. The primary goal of WPI is to monitor price changes due to change in supply & demand in Manufacturing, Construction and Industry.

Consumer Price Index (CPI): CPI is the measure of changes in Price level of baskets of Products and services that our household purchases for day to day living. This CPI index is often used to adjust wages, pensions and Govt benefits to account for the changes in Purchasing Power.

10 years 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**

You can see from the above table that the ₹***100 currency note*** kept at your home in **2013** reduced to ₹***78.32*** *in* ***2018.*** The value of the same ₹100 currency note kept at your home reduced ***to* ₹ *58.85 by the year 2023***. The ₹100 currency note has not changed but its Purchasing Power has reduced by the time.

This is why the lady in our folk song tells her friend that the *Inflation-Witch* is eating away their income. In terms of goods, you can say that if you were getting ***2kg*** of Rice in 2013 by tendering ₹ 100, you will get just little more than ***1kg*** with the same ₹ 100/- in ***2023***. You can very well relate it to our daily life. The Fruit which was available at ₹ 40 – ₹ 50 in 2013 is now costing ₹ 90 – ₹ 110 in 2023. *This is the effect of inflation on our hard-earned Money*. ***Now to counter this Inflation-Witch, our saved Money must grow at a rate of more than the Inflation Rate***.

If you go through the history of inflation in India from 1985 to 2025 and study the graph available on the internet, you can see the trend. Inflation Rate in India averaged **5.85 percent** from 2012 until 2025, reaching an all time high of 12.17 percent in November of 2013 and a record low of 1.54 percent in June of 2017.

You must also account for the ***Taxes*** you are going to pay on returns from your investments before entering into 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 to meet your retirement life requirements.

Investment is done for the following three purposes;

(a) ***Purpose 1*** - for getting ***Capital gain.***

(b) ***Purpose- 2*** - for getting ***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. Furthermore, establishing clear priorities based on desired outcomes is essential for effective investment planning. Let us discuss all these purposes in detail;

(a) **Purpose - 1** - For getting **Capital Gain:**

There are investors who go only for ***Capital Gain***. I call them gamblers. Because getting capital gain 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 Gain (LTCG) Tax. Buying a piece of Land, going for under-construction Real Estate Asset, investing in Gold Sovereign Bonds etc are good examples of this type of investments for Capital Gain.

Here you do not get any return from your investment in between periods. You invest a fixed amount of your savings and wait till the end of the investment cycle to get your return. You can get a return from this kind of investment only when you complete the cycle and come out of that investment in the form of selling it. You never know what the fate of your investment will be at the end of the investment cycle while investing in it. It may increase or even decrease.

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

If you choose ***Cash flow*** as your investment option, then you will get regular cash flow (monthly / quarterly / yearly) from your investments. You can reinvest that regular return for getting the compounding effect if you are on the track of *Financial Freedom*. Or, your regular monthly expenses can be met from the cash flow you get from your investments. You are not bothered for the capital gain to be received 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., infinity ROI). Now you are getting regular returns from your asset though you have already received back all the principal investments you had done in that particular asset.

Let me explain this with an example. Suppose you have invested ₹ 1,00,000 in an investment and you are getting

₹1000 as Cash Flow return every month from that investment assuming around 12% ROI. After 100 months (i.e., 8yr 4 month) You got all your principal investment ₹ 1,00,000 back. But still the corpus is there, and it will keep giving you a monthly return of ₹ 1000 till eternity. **This is called getting infinity 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. This technique we will use in our chapter - 9 & 10 while 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 are getting both regular ***Cash Flow*** *and* ***Capital Gain*** *at the end of the investment cycle*.

If you have invested in a residential Flat or a Commercial Shop and you are getting a regular monthly return in the form of rent coming to you. Also the property itself is gaining its value as per the real estate appreciation happening in that area. After certain years (suppose 5 - 10 years) when the property is well appreciated, you can dissolve that investment and make some new promising investments. Throughout these years you were getting ***Cash Flow*** in the form of Monthly Rent and at the end you received good ***Capital Gain*** because of the price appreciation. This is called ***'having it and eating it also'*** which is thought impossible by many. (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 a part.)

Three Basic Requirements for Investment:

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

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

Nowadays for investing in any of the investment tools, you need to go through online applications, mobile applications and investment websites etc. After this Covid outbreak, most / all financial activities can be done online sitting at your home. All the Financial Institutions and Investment Agencies have made 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 Branch of the Bank.

As far as the ***'Knowledge'*** part is concerned, any person who has attended Senior Secondary School education and understands English and basic arithmetics can make investments 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 small investments in the sectors and the investment tools you have chosen. Start gaining experience in it. One must give good time to learn various aspects and techniques to be followed in these various Investment Instruments. In my opinion, 1 to 2 years is required to study, research and gain experience in any Investment Instrument. We take good time to learn any sports, driving or any other activities. 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 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 land 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 utilising an *Emergency Fund* can lead to financial disaster if you meet a loss in that investment.

There is always the possibility of uncertainty in life and in the Financial Market. So, only invest that Money in the market which if gets stuck for a few years will not affect your way of living. Afterall, 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 perfectly time the market'***. So don't wait to start your investment journey when the market is in the right condition and ***start it NOW***.

For fixed return investment tools like *RD, FD, PPF, EPF, NPS, EIC, SSA etc*, timing of investment does not mean much. Yes, you need to understand the day of the year when you should invest to get maximum return. For FDs and RDs, selecting proper tenure will bring little advantages. All these aspects of investment timing we will discuss in their 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 aspect in their relevant Chapter 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 as per past performances of the market, you will always get a very good return overcoming Inflation, Taxes and all 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 in your day-to-day life and get into your investment journey. Never invest by taking debt or using credit cards. Also never invest on any tips from anyone. Do your own research and start small. Keep gaining experience and after you gain experience increase your investment moderately.*
>
> *Our Indian economy is a fast-growing economy, and this Indian market is relatively uncorrelated with other economies. As per the experts, the next 10 years will see a great boost in 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 whose present value is ₹ ***6 lakh***. So considering an inflation of 6% you will need nearly ₹ ***12 lakh*** to own the same.

Future Value = Present Value * (1 + r)^n

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

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 to get the number of years it will take to double your Money, you need to divide the ROI with 70.

*Here in this case, it is **70 ÷ 10 = 7 years.***

*If we apply Rule of 70 in the example discussed in Page No -94 where we get a Net ROI of **2.5%** on our investment; Nos of years required to double our Money = **70 ÷ 2.5 = 28 years.***

My purpose of giving that example to you is not to dissuade you or disturb you, but to make you understand all these aspects of Personal Finance. You need to understand all these aspects and search for <u>Smart Investing options</u> which will allow your Money to outperform inflation & taxes and increase in value. For building a sizable wealth we must take advantage of <u>Power of Compounding</u> which we will discuss in further chapters. But at any cost do not ever fall prey to the Money doubling traps where they commit 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 we will discuss here those Tools which we will practice. You may have mastered some other Investment Tool which you may please continue and also have a look into these tools which we will discuss here. We will discuss following Investment Tools here;

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

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

Recurring Deposit (RD):

Recurring Deposit is an excellent tool to create some amount to meet a particular short-term goal. *I have used this tool for meeting regular requirements and to save Money for buying household items.* We used to start a 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 a RD of ₹5000 today which will give you 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 is also not disturbed.

Advantage with RD is that it gets deducted from your Account regularly every month without your 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. *RD is less preferred for long term investment options as it gives less return.*

Fixed Deposits (FDs):

In a Fixed Deposit which is also called a ***Term Deposit*** *and the* tenure can be anywhere from a few days to several years. The Return is guaranteed, and you can avail loan against your FD, if needed.

Interest rates in FDs are higher than what you get in a savings Account or in a RD. You can expect interest rates up to 6 - 8% in some Banks and interest is taxable. Each depositor is insured up to a maximum amount of ₹5 lacs. So this information guides us to have FDs in different Banks rather than having all your FD investments in one Bank so that our investment is insured.

Many Banks offer higher interest rates on FDs for special tenures. If you have decided to go for a FD for 2 years, then look for interest offered in all other options near your maturity period in all Banks where you have your Savings Account. A little higher tenure (maybe 750 days or so) can give you better interests. *Generally part of the* ***Emergency Fund*** *should be parked in FD because of its liquidity.*

It is always advisable to go for Multipla FDs of smaller amounts rather than making a FD of large amounts. If you want to make 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. At time of any emergency, you can break one small FD instead of breaking the FD of the full amount.

Public Provident Fund (PPF):

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

You are allowed to deposit 1.5 lacs in 12 transactions in a calendar. *If you deposit more than ₹ 1.5 Lacs in a fiscal year in your PPF Account, the same will be refunded on maturity without any interest.* Investments made in PPF qualify for tax benefit under Sec-80C of Income Tax Act.

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

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

EPF is a (popularly known as PF) is a retirement benefit scheme in which both employee and employer contribute a certain amount every month till the employee is working. It is Compulsory for the organisation having 20 or more employees. It gives a higher interest rate than other Saving Schemes. EPF interest rate is fixed at 8.25 % of financial year 2024-25 by the Employee Provident Fund Organisation (EPFO) and keeps changing.

You can increase your monthly contribution into your EPF account which is dealt with as a separate tool named as ***“Voluntary Provident Fund (VPP)".*** The interest rate for VPF is equal to that of EPF and the withdrawal is tax free. If you go for premature withdrawal from PF account, then you will lose the tax benefit and have to pay tax on it.

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

Sukanya Samriddhi Account (SSA):

SSA is a savings scheme run by Government of India for Girl Child and is mainly for their higher education and marriage.

Like PPF, you can open a SSA account for your girl child in any Bank or Post Office and the age of the girl child should be less than 10 years at the time of account opening.. A maximum amount of ₹ 1.5 Lac can be deposited in a year and. A parent or legal guardian will operate the account till the girl child reaches 18 years and then after she can operate this account. A separate account is to be opened 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 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 Govt of India, w.e.f. January 1st, 2004. It is a market linked, defined Contribution product. Under NPS, a Unique ***Permanent Retirement Account Namely (PRAN)*** is generated and maintained by the Central Record Keeping Agency (CRA) for each individual subscriber. NPS offer two types of accounts namely *Tier-I* and *Tier-II.*

As like 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 60% of the accumulated amount and balance 40% will be kept for Annuity Schemes to give regular Pension*. This itself makes this a less preferred investment if financial benefits are concerned as 40% of your account amount will be held for Govt annuity schemes which give the worst returns (around 6 %).

Gold:

Gold has been considered a safe investment asset throughout history. In our Indian Society, people have a very positive orientation towards Gold and consider it as an investment for security against emergency or to meet life events like children marriages etc. Gold prices on the other hand are more volatile and can fluctuate significantly based on various factors.

Gold became a darling for inverters in 2020 during Covid Pandemic, gaining as much as 40%. Gold has returned 18% in the last 3 years, 54% over the last 5 years and 41% over last decade.

One can invest in Gold by following ways.

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

It is not suggested going with fixed Tenure investment (Bonds) in Gold because it is a volatile asset. You may land up with less return if the price of Gold goes down during the maturity of your Sovereign Bond. ***Instead you can invest in GOLD ETFs which are very easily available by opening a Demat Account and have no locking period****. You can invest with a small amount also. Nowadays you can make monthly SIPs.*

Real Estate:

You will find a number of good Books on real estate investment which will give you detailed knowledge about this investment option. Real estate investment involves Purchase, Management and Sale or Rental of Real Estate for getting 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 will not be able to practice this investment very often and get hands-on experience within a short period. Also it is an illiquid investment asset, i.e. you can not liquidate it immediately upon requirement. You can not liquidate a part / portion of it. You have to sell the whole property. The final disadvantage is the return is taxable and transaction time and costs are very high.

If you consider Capital Gain, then Real Estate may be a good investment. But there is no guarantee on the Capital Gain, and you may land up in 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 case of Commercial property it can go up to 5 - 6 % ROI. Now there are excess inventories in most of the Cities.

Except for having your own House for living, Real Estate is not a lucrative investment option in many of the cities in India. You have to do your own research on which city and which area of that city will give you a decent return so that you can invest in Real Estate. The return from your investment should beat the inflation and give some extra income to you, else what is the fun in locking a huge amount in expectation of capital gain which only can occur at the end of the investment cycle provided.

My experience in Real Estate Sector

I had booked an under-construction property in 2010 end 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 got possession of my own flat in 2014, we shifted to the new Flat and the rent which I was paying earlier became an extra amount with me every month. To utilize that Money, I booked a small 2 BHK Flat in a new under-construction society. The possession of that flat got delayed by 2 years due to the Corona pandemic. After possession of that flat, it gave me a monthly rental income of around 3% ROI. Nowadays, due to the large quantity of inventory available in most of the cities, the rental income in some cities is very less when compared to the capital investment done on 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 lacs taken as Loan from a Bank. The Loan was approved @7.5% interest and there was an Assured Return offer from the Builder for 3 years. At the beginning, my ROI (Return or Invest) was around 7% which came down to 5% as the Bank revised the interest rate to 8.5%. I was expecting a good capital gain in this investment which is also looking to fade. Finally, I am *now in the process of selling that investment and want to come out of it as it is not fetching a good return and there is no capital appreciation happening in it. I have initiated the disposal of this asset as soon as possible.*

Owning a House is an emotional decision. I suggest that we think before investing our Money to own a house. We can take a house on rent and invest that capital in other Investment Instruments which 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 which offer investors an 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 through purchase of properties.

REITs issue shares that trade in Stock Exchange and are bought and sold like other Stocks by opening a Demat Account. You can buy REITs shares through brokers. REITs are easy to buy and sell as other stocks. There is a Stable Cash flow received through dividends. Dividends are taxed as regular income and investment is subject to market risk. As per report listed REITs India saw a 6-7% year-on-year growth and gave 5-8% return.

It is a very good investment option if one wants to taste real estate investment return. Here you do not have to *lock a huge amount and can come out of this investment anytime by just selling you 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 the place where small investors lose Money and big traders make Money.*

My purpose is not here to term or prove Stock Market as a bad investment area. I believe that if one person wants to build a big fortune, then this is the only place where you can achieve it. *But it is always told that <u>high returns come with high risk</u>.*

For a person who is new to the stock market and who does not have the requisite knowledge, then only accept the situation where you are lucky, I can guarantee that they will always lose your Money. ***For investing in the Stock Market, one needs to study the Market, its intricacies and then practice in paper trading before putting one's hard earned Money into it.*** However, I will give some basic ideas and initial knowledge about the stock market in a Chapter-6. It will be helpful for you to better understand about the ***Mutual Funds*** and ***Exchange Traded Funds*** investments which are derivatives of the Stock Market only.

Exchange Traded Funds (ETF):

ETF or Exchange Traded Funds are exactly as the name implies are Funds that trade on exchange. Generally it tracks 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.

There are several ETFs available to suit the requirements of almost all investors. ***Index ETFs*** are the 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 more in detail about the ETF in our *Chapter - 8* and will see different investment techniques in an ETF which one can follow to get Regular Income from this Investment Instrument. After understanding it thoroughly and gaining experience in it, you can plant numbers of 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 to follow that technique for a regular income in later years of your life or consider it as getting 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 is good if you have a handsome amount to invest and you are concerned only about the security of your principal amount. 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 in 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 concentrate majorly on 2 or 3 Investment Instruments which will combinedly fetch you a good return to your* ***Portfolio*** *beating the inflation & taxes and monitor it closely. In personal finance, a Portfolio is a collection of various investments designed to balance risk and maximize overall return. Once you build a good corpus by maintaining a good portfolio, then you should diversify more and invest in more instruments to get a combined benefit of diversification and security.*

TAXES on the Return from Investments:

The reason why I have brought this Taxes section is to make you conversant about the taxes you are going to pay on the returns from your investments. We pay income tax on our Income and then invest part of our Income after restricting our expenses. But we have to pay taxes again when our investments yield any positive returns. To arrive at the exact return from our investments after deducting applicable taxes and the running inflation, I have given an example at the end of this section. That will open your eyes.

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

SN	Investment Tool	Tax Rebate	Liability
1	***Fixed Deposits* (FD)**	Nil	Interest earned is fully Taxable at 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 instant gained, and the withdrawal amount are tax exempted
4	***Sukanya Samriddhi Account*** (SSA)	same as PPF	same as PPF
5	***National Pension Scheme*** (NPS)	Deduction of ₹.50,000 is allowed under sec-80CCD	Returns from NPS are fully taxable.

6	***Employee Provident Fund*** (EPF)	same as PPF	Withdrawals are Tax Free when withdrawn after 5 years of continuous service.
7	***Stocks / ETFs/ Mutual Funds***	Nil for Stocks and ETFs. Amount invested only in <u>ELSS Mutual Fund</u> is eligible for deduction under Sec-80C for maximum limit of 1.5 lacs.	Profit in Stocks / ETFs/ Mutual Funds comes under ***Capital Gains.*** For capital gain within 1 year of investment, ***Short Term Capital Gain (STCG)*** tax is levied @20% + cess. For gain in investments over 1 year of investment the ***Long Term Tax Gain (LTCG)*** is 12.5% + Cess provided gain in a financial year is over ₹ 1 lac and till 1 lac is tax free.
8	***Gold & Other Metals***	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 Gain while selling Gold if sold after one year.
9	***Real Estate***	-Principal repayments on House Loans owned under sec-80C with maximum	Short term capital gain on sale of gold and silver within 1 year is @15%+Surcharge and cess as applicable.

		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	LTCG is applicable @20%. Tax burden is relieved by reinvesting the capital gain in purchase of up to 2 house properties or by reinvesting to purchase specific bonds as per the terms in sec-54, 54EC, 54B.
Note: *Please note that Tax Structures on different Investment Instruments keep on changing 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 lac per month. After paying the applicable income tax and after all your expenses you saved ₹ 25,000 every month which you invested in any investment tools mentioned in the above table. Let us see what your effective wealth building on this ₹ 25,000 will be after 1 year.

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 Invest (ROI) @ 10% = ₹30,000

Suppose the Short Term Tax Gain (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 ROI of 10 % which we were getting from our investment is now giving us a ROI of 2.5 % in actuality 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 Estates, Gold and other investment instruments. The main purpose of a portfolio is to help individuals in reaching their financial goals while effectively managing risk, commonly through diversification.

Portfolio management involves distributing an individual's total Net Assets across various investment instruments. *This allocation in the portfolio is tailored as per the age, risk tolerance, and anticipated returns of the person.* While it is commonly understood that higher risks can lead to greater returns, they also carry the risk of significant fund depletion if investments perform poorly.

Therefore, portfolio allocation and management are customized 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 itself a debatable subject. Different experts have different views on this. However find below an example of a typical portfolio allocation for a person in age group 45 to 60 years for reference;

Investment Area	**Weightage**	**Typical ROI**
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 allocations and periodic rebalancing may be necessary to get maximum returns with minimum risks.

I suggest you consult any good Financial Expert to arrive at your typical Portfolio structure depending on your age and risk appetite.

When overall ROI (return on investment) from your Portfolio is more than your regular monthly expenses, it makes you a wealthy person. It shows the returns from your investment are nearly equal to your regular expenses.

When the ROI from one's Portfolio reaches near double the amount of their regular expenses of that person, then he or she can very well declare themselves as ***Financially Free****. Now the return from their investment can take care of their regular expenses and also other life event expenses.*

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 can be considered by us.

In general, we are scared by the volatility of the Stock Market 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 many times do not compensate even against inflation and applicable taxes. So, what is to be done? Where to invest our Money to beat these inflation & taxes and grow our Money? We are left with only one option, that is 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 the financial achievements of the companies, make profits through capital gains and earn income through dividends.

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

1- **Raise funds by lending 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 big amount. Also depending on the relationship, the lender may ask for some interest on the loaned amount.

2- **By taking Loans from Banks:-** In this option, the Company approaches Banks for the required Fund. Depending on the Net-worth of the Company, Banks decide how much Money can be lent and at what interest rate. Banks have their set guidelines for processing and approving this type of loans and consider many factors other than the Net worth. A Bank may or may not provide the required amount to the company if the credentials of the Company do not meet their requirements..

3- **By taking Money from the general Public:-** In this option, the Company enlists itself with Security Exchange Board of India (SEBI) and gets registered for trading its Shares in Stock Market. At the beginning, the Company launches its portion of Shares in small fragments (called Shares) and sells it to the general public as ***Initial Public Offers (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 its expansion purpose. It gets registered in SEBI and proposes to dilute its 49 % of its share to the public to raise this amount in the form of shares each of face value of ₹10. There are many more complicated procedures and systems in the launching of an *IPO* by a Company. But for our understanding let us not enter into those aspects.

Once the IPO is launched, shares of that Company are sold to the general public and then its Shares starts trading in Stock Markets. The company gets its required fund of ₹10 Crore and engages in its expansion and other activities. Now depending upon the overall performance of the Company, the value of its share keeps fluctuating in the Stock Market. If the Company performs well and investors see future growth, then they start buying Shares of that Company thereby creating a demand in the Market. As the demand goes up and because of the fixed numbers of shares available to the public, its Share Price starts going up. That is how you see Shares trading at many times their Face Value price.

Similarly, if the Company's performance is not good and getting worse, then demand for its Shares falls and no one wants to buy its shares. The price of the Share starts falling and it can go well below its Face Value.

What is a Stock Market Index ?

A ***Stock Index,*** or ***Stock Market Index,*** is an index that measures the performance of that Stock Market. It helps investors to compare current stock price levels with past prices to calculate market performance. We have two Major Stock Markets in India. Those are ***Bombay Stock Exchange (BSE)*** and ***National Stock Exchange (NSE)*****.** In total there are 23 numbers of Stock Exchanges in India but these two are the main ones. Others are Regional Stock Exchanges (RSEs)

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

Its Index is generally known as ***BSE Sensex***. There are more than *7,000 companies* listed in BSE. *The index of BSE is derived from performance of 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, companies from a range of sectors / industries are included in the Index. This variety of companies enables the Index like Sensex to mimic the trend of a country's Economy.

Each of the selected 30 Companies has been allocated a certain weightage out of 100 % weightage for its importance in deriving the Sensex Index. Any company whose performance falls continuously for some defined period, is removed from this league and a new performing Company is entered into it.

The base year for BSE Sensex is 1978-79. In this year, it is hypothetically assumed that Sensex was trading at 100 points. The launch date of Sensex was 01-Jan 1986. On this date, the Sensex traded at 561 points. What do 561 points mean? As compared to the Years 1978-79, the index went up 5.61 times till 1986, in 7 Years.

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

Between the years 1979 and 2025, Sensex has appreciated from 100 to 75,000 points. ***<u>This is a growth rate of about 15.5% p.a. in 46 years.</u>***

B - **<u>National Stock Exchange (NSE):</u>**

Its Index is known as **NSE Nifty**. Nifty is also known as ***NIFTY 50***. There are more than **3,500 companies** listed in NSE. *The index of NSE is derived from the performance of* ***50 selected well performing companies*** *from different sectors to maintain a replica of the Market.* The 30 Companies which are in the BSE Sensex are already in this list of 50 Companies. Each company has been allocated a certain weightage out of 100 % weightage for its importance in deriving the Sensex Index. Any company whose performance falls continuously for some defined period, is removed from this league and a new performing Company is entered into it.

How to Invest in the Share Market ?

One can invest both in ***Primary*** as well as the ***Secondary*** Share Markets. We can either invest in these stocks directly or indirectly. If you want 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 with. Along with a DEMAT Account, you also require a ***Trading Account***, which allows you to 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 Stock Market:

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

1- **Buy Individual Stocks.**

For those who enjoy researching and analyzing markets, companies and their financials, investing in individual stocks can be a viable starting point. However, it is important to acknowledge that 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 favor with investors. A recent example of this is how a single report from a foreign agency impacted the share prices of a well-established Indian Group.

2- **<u>Invest in Exchange Traded Funds</u>:**

ETFs or ***"Exchange Traded Funds (ETF)"*** are exactly as the name implies: funds that are traded in Stock Exchanges, generally tracking a specific Index. When you invest in an ETF, you get a bundle of assets that you can buy and sell during market hours - potentially lowering your risk and exposure while helping to diversify your portfolio. *Exchange Traded Funds* buy those individual stocks which are there in that Index to track an underlying Index. Investments in ETFs can be done through online Demat accounts or you can buy Fund of Funds (FoF) through Mutual Fund route. ***Index ETFs***, whose theme is the respective Index (Sensex or NSE), hold only those stocks that are constituents of Sensex's or Nifty's portfolio exactly with the same weightage as we saw in 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 takes a dip, the value of your ETF could drop quickly, and you could experience significant losses if you wish to redeem your investment at that stage.

Since ETFs are more diversified, they tend to have a lower risk level than individual Stocks. Similar to Stocks, ETFs are also taxed at Short-Term or Long-Term Capital Gains. We shall discuss a lot more about ETFs in our separate Chapter - 9 which is completely dedicated to this magnificent Investment Instrument.

3- **Invest in Mutual Funds.**

All investments in the Stock Market carry some risk. But Mutual Funds are typically considered as 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. They are managed by professionals called ***Fund Manager*** who understand, monitor Market conditions and keep changing the investment. It gives a good way for investors to diversify with minimal risk. You have to pay fees called ***Expenses Ratio*** to the Mutual Fund House for managing your investment which can vary 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 shall discuss a lot more about Mutual Funds in our separate Chapter -7 which is completely dedicated to this superb Investment Instrument. I will also introduce you to a Unique *Technique* - ***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 have a good knowledge about the companies, their financials, mood of the market and can be fully dedicated & involved in their investment. You need to devote time and learn how to read the financials as well as other parameters, performances of the Companies and track them persistently to make decisions on your investments. If you are well versed and think you can do proper justification to your investment, then you go with investing in individual stocks. Lots of people are doing that and earning a lot. For me and my Investments, I still prefer to invest majorly in the other two Stock Market Investment Instruments i.e. Mutual Funds and Index ETFs.

There is another segment in the Stock Market which is called Futures & Options (F&O). <u>There is a complete NO for Investors like us</u> who have no knowledge of the F & O Market.

India's education budget totals approximately one lakh crore rupees, an amount nearly equivalent to the losses incurred by Traders 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 am not even discussing that in this book. Let it be handled by the specialists.

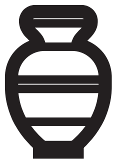
Difference between an Investor and a Trader:

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 oriented with holding periods varying 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 specific holding period, a trader's success hinges on precise entry and exit points and the ability to adapt quickly as per market conditions.

Whereas an **Investor** ***focuses on holding their investment for years and seeks to build massive wealth over time.*** This patient approach leads to building 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 their ***Financial Freedom and Regular Income for early Retirement.*** The long-term commitment brings in the power of compounding to work 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 part of your life. Few must be continuing with their Mutual Fund investments, and some must have redeemed it with minor loss or with an insignificant profit.

All our objective in Investing is to generate passive income so that our day-to-day expenses are met and we get Financial Freedom. In our specific investment technique in Mutual Funds called **Akshaya Patra Technique,** discussed in Chapter-9, we will see that when one follows this investment technique, one can have a **steady flow of monthly passive income**. Here in this chapter, we will discuss 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 get your knowledge expanded. 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 from 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 further learn how to select good *Equity Mutual Funds* and how to start investing in them to get our cherished Regular Passive Income. Let us now understand the basics of Mutual Funds;

What is a Mutual Fund ?

Mutual Fund is a pool of investor's Money managed by a professional called ***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 thus collected in different investment avenues available in Stock Market like in Equities, Bonds, Money Market and other Securities depending on the theme of the Mutual Fund . The gain (or losses) on investment is shared collectively by the investors in the proportion to their contribution to that Fund. The Fund Manager charges a certain fee which is called ***Expenses Ratio*** and it varies from 0.5% up to > 3% depending on the Fund House and type of Fund you have selected.

Here the catch is that the Fund House or Fund Manager charges expenses on your Total Investment Amount (not the profit) irrespective of profit or loss in that Fund. So, if you have invested ₹1 lac in a Mutual Fund whose expense ratio is 1.5%, then the Fund House will charge 1.5% on your investment value of 1 lac as expenses irrespective of profit or losses occur in that Fund which comes out to be ₹ 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 lac investment. Then the Fund House will charge you ₹1,500 as expenses which comes out to be 12.5 % your annual profit. So, you will take home 87.5 % of your profit and the balance 12.5 % will be taken away by the Fund House / Manager. But, imagine if the return is not good and you get only 6% or 5 % profit. Then 33% or 40% profit is eaten away by the Fund House. ***So, we need to understand all the details about the Mutual Funds and invest in those Funds which give at least a <u>double-digit return</u> year to year.***

Now you understand how critical the *Expenses Ratio* of a Mutual Fund scheme is. Let us now go through the other basic details of Mutual Funds and compare all critical aspects of Mutual Funds before its selection 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 lac 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 have a look on why to invest in Mutual Funds. There are many benefits in investing in Mutual Funds which goes as discussed below;

1. Professional Expertise: Mutual Managers who are experts in the Equity Market and can manage your Money in a better way. As you pay the driver for his chauffeuring service though he sits and drives your car, here in case of Mutual Funds, you pay certain fees to the Professionals for managing your Fund at a predefined value.

2. Good Returns: The biggest advantages of Mutual Funds is that it gives you an opportunity to earn a double digit returns than the traditional investment options available like RD, FD, PPF, EPF, NPS etc. Unlike traditional investment, Mutual Fund does not generate Capital Protection and Fixed Return. But the Stock Market in the long run is only in the growing trend. So, ***if you regularly invest and stay invested for a long time,*** success is yours. Only you need to research and invest in Funds that can help you to meet your goal and keep monitoring their performances.

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 to play here which gives an opportunity to invest in multiple diversified Stocks and are managed by Professional Fund Managers. A Mutual Fund can have more than 50 varieties of Stocks in it making it very diversified.

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

<u>Note -</u> *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 3rd year, reinvest ₹ 1.5 lac from the return of the 1st year investment further. <u>This is called the Laddering Technique in ELSS</u>. By this way with a total investment of ₹ 4.5 lacs, one can take advantage of tax deduction under 80c of Income Tax Department every year. I do not recommend investing more than 4.5 Lakhs in ELSS only to take the Tax advantage (if available) and suggest investing your balance Money in other good Equity based Mutual Funds.* ***There are many changes in the new Tax Regime. Please check them before proceeding.***

5. <u>Properly Regulated.</u> The Securities and Exchange Board of India (SEBI) regulates the Mutual Fund Market. Mutual Funds have to strictly comply with SEBI Regulations, 1996 for Mutual Funds to ensure transparency and protection of Investors' wealth.

6. <u>Ease of Purchasing & Selling:</u> You can invest in Mutual Funds easily through *both online and offline.*

However online buying and selling of Mutual Funds have made the lives of Investors 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 Mobile Applications are available from all Mutual Fund Houses 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 either invest a large or small ***Lump Sum Amount*** in the beginning or regularly invest small amounts (as low as Rs 500 per month) in the form of a ***Systematic Investment Plan (SIP).***

8. Low entry & Exit Load*:* A nominal Fee that is taken when investors purchase Fund units have been phased out for the most of the Mutual Funds by SEBI in India. A fee is levied on investors when they 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 on the types. We will discuss more in depth about the type of Funds which we will choose for our Regular Long Term Investments to generate Passive Income for our purpose to gain *Financial Freedom.*

For every item or product, we use in our life, there are many types and categories available in the market depending on taste, likes of different age groups and segments of our society. If you wish to buy a car, you will find different types available in the market like Hatchbacks, Sedans, SUVs, Sports Car and many more. Each of these types have further subcategories which serve different purposes and people based on their requirements and usage chooses the type of Car to buy.

Similarly, there are different types of Mutual Funds available in India. Each type of these Mutual Funds serves a specific purpose. Here are some most popular types of Mutual Funds.

i- <u>Based on Maturity Period</u>

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

- ***a- Closed End Mutual Funds***
- ***b- Open End Mutual Funds***

<u>**a -** Closed Ended Mutual Funds</u> - As the name suggests, these are the Funds whose investment tenure is fixed. It can be three years or five years or any other period. Closed ended funds can be bought only during their

launch period and can be redeemed when the fund investment tenure is over. 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 personally do not recommend going with 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 such Funds that are available for repurchase and subscription anytime. The key feature of these Funds is liquidity. Moreover, these funds do not have any 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 about 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- **<u>Equity Mutual Funds :</u>**- This is the most popular and rewarding type of Mutual Fund. A new investor or the investor who is on the path of wealth building should consider these Funds. Equity Mutual Funds invest largely in a bunch of Stocks of various companies to generate returns. They are linked to higher risks as compared to other types of Mutual Funds. However, the Fund Managers are experts in Stock Market Investments and keep selecting Stocks of only good performing Companies. Return from these Funds are higher when compared with all other categories.

We understand that if one is educated in any field, then even high-risk products can give good results for them. *After all, higher risk results in 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).

From the point of view of market capital, 65% belongs to Large Cap companies and only 35 % belongs to Mid-Cap or Small Cap companies. But it is seen that investor flow is nearly 50 - 50 % in both these segments.

Depending on the category of Mutual Funds, the average return from Mutual Funds varies between 5% - 25%. *It is seen that a well-managed Equity Fund can give you well within 15 - 20 % return in the long term when you stay invested for considerable time.* You need to see the history of the Fund you are choosing to invest in and only after checking all other important aspects before going for any investment which we will discuss in the next section.

Equity Mutual Funds come with different types depending on the goal of the investor. These goals can be Capital Appreciation, Regular Income or Tax Savings. They also come with different options like;

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 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 only for example purposes. Please note that this is not my recommendation nor do I have any business interest in them except having investments in some of them. *You do your research and find funds which will suit to 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*. The top Banks in India are currently offering Fixed Deposit (FD) returns of over 7%. Debt funds can provide an interest rate between 6% to 10 %.

c- <u>Index Funds:-</u> 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 the *Exchange Traded Funds (ETF)*. One difference between Index Fund and regular ETFs is the way they are managed. ETFs are traded through Demat Accounts whereas Index Funds are traded like normal Mutual Funds. Regular Mutual Funds are actively managed by professional Fund Managers, but there in the case of Index Funds, no need for active involvement of the Fund Manager. Holdings of Index Funds automatically track an Index such as the Nifty-50 of Sensex. If a stock is in the Index, then it will be in the Index Fund too. Index Funds are managed with ***very low Expenses Ration*** as is the case of ETF. 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. It has been observed that these Funds experience fluctuations in the short-term but it averages 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- <u>Hybrid or Balanced Funds :</u>- 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- <u>Liquid Funds</u>:- *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, the returns from Liquid Funds are not guaranteed and can fluctuate whereas Fixed Deposit returns are guaranteed.

f- <u>Sectoral Funds :</u>- *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 diversified capital sizes of the Stocks, they are sharply focused when it comes to the 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 irrespective of the Stock Market doing better. Similarly it can fetch a good return if the chosen sector sees any positive movement.

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 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 and the period is calculated from the day the purchase is made. 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 done 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 help of an advisor, broker or distributor (intermediary) of the Mutual Fund House. If you buy any

Mutual Fund from any Bank, then 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 return 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. This can be done by visiting their website or by physically visiting their office. There is no distribution fee paid hence the overall return from a Direct Plan is always higher than the Regular Plan.

There are both advantages and disadvantages in both the plans. ***When you study about the Mutual Funds and gain knowledge, Direct Plan is the option you will follow****. Believe me, getting knowledge about Mutual Fund investment is not that tricky. You can get a good knowledge within 8 - 12 months if you invest some time in weekends and do your research on the internet and read some Books. Finally when you start a small investment in Mutual Funds, then you will understand it in a much better way. Nowadays Mobile applications have made it easier.*

How Mutual Fund Profits are Taxed ?

Mutual Funds are typically regarded as one of the most profitable investment options and they help you easily reach your financial objectives. The fact that Mutual

Funds are tax-efficient investment vehicles is one of their most significant benefits.

The principles of Mutual Fund taxation are much simpler to understand when they are further 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 Fund*s the tax structure is very similar to the ***Capital gain*** made from individual Stocks. The amount of *Capital Gain* is calculated as the difference between the Purchase Price and the Sale Price.

Capital Gain = Sale Price – 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 Gain (STCG).* Regardless of your income tax bracket, these capital gains are taxed at a flat rate of 15%.

When you sell your Equity Fund units after holding them for a year or more, you realize *Long Term Capital Gain (LTCG). These capital gains are Tax-free up to ₹ 1.25 lakh per year***.** As per Sec 112A of the Income Tax Act for all LTCG, an amount greater than 1.25 Lakh will be taxed at the rate of 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 will be deemed as *Short Term Capital Gain (STCG)*. This STCG will be added to the income of the investor and would be liable to be taxed according to the tax slab rate under which the investor falls without indexation.

If the Debt Funds 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 an Security Transaction Tax (STT) of 0.1% if you plan to sell your Equity Fund units. STT is not applicable to the sale of units in Debt Funds.

c) **Tax on Capital Gains from Hybrid Mutual Funds**

If the Hybrid Fund is Equity based having equity exposure over 65%, it will be considered as Equity-focused schemes. They will be taxed as per the 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 Gain 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, the sale of Debt Fund units is exempt from STT.

Note:- *Taxation Rules in Stocks and Mutual Funds keep changing from time to time. Readers are advised to go through details of the exact Tax they have to pay on their Mutual Fund Investments at the time of redemption from 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. There are two methods by which we can invest in Mutual Funds as it is in other investments.

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

a. **<u>Lump-sum Investment Plan</u>**:

Lumpsum Investment is a one-time investment and is done in one go. Whenever we have some *Surplus Money* in our hand due to any savings or receive Money from our company or other sources, we can go for a Lump Sum Investment. This type of investment is most beneficial when we invest during the period when the Market is in Bear phase (i.e. at low). Now you will say how do I know the market is now at low. If you track the Stock Market Index value in regular intervals, you will come to know when the Market is going down and when it is rising up by spending 3 to 5 minutes on the internet every day even through your mobile phone. If you have a Demat Account and use its Mobile Phone Application, then it takes a few minutes to get his data.

This regular exposure to the Stock Market will teach you certain basic things like what is today's value of Nifty/Sensex, how much increase or decrease happened etc. When you check the market graphs, you will come to know when the market fell and when it started rising. In general, it is seen that Stock Markets undergo 2 to 3 big falls ranging from 3 to 5% in a Year due to various reasons and when you start studying the Market graphs regularly, you can very well recognize those phases.

Our strategy is to keep accumulating our *Surplus Money* in the Saving Accounts and wait for a fall in the Stock Market to the tune of 3 to 5%. You can pump in your savings accumulated till that day into your selected Mutual Fund Schemes to get the best results. ***Else you***

can pump your 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 numbers 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 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 installment amount could be as little as ₹500 per transaction. The main difference between SIP and Lumpsum Investment is the frequency at which the investment is done. 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 Schemes while investing in Mutual Funds. SIP is a passive way of investing wherein you give a standing instruction to the Fund House to present a Bill to your Bank on a regular interval (weekly, monthly, or quarterly etc.) and give a mandate to your Bank to accept that Bill. Hence investment is made regularly without your involvement.

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

It is always advisable to invest in your selected Mutual Fund through both Lumpsum and SIP methods. *Let the SIP run regularly as per your selected weekly or monthly contribution capacity and any Surplus Money shall be invested through the Lumpsum investment 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 purchased a copy of a 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 updating about the Mutual Funds and their performances.)

My colleague who was sitting next to me asked me 'are you having investment in financial products?'. I said, 'Yes of course'. Then the discussion started with some basic questions. I explained to him how beneficial it is investing 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 to him 'it's ok you want to invest in SIP, but in which Fund?' He again replied, "I will invest in SIP".

Perhaps the popularity of SIP has outpaced that of even Mutual Funds. I then explained to him that the SIP is an investment method and he needs to select the Mutual Fund or Funds in which he wants to start his investment and can invest through Lump Sum or SIP methods.

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 sitting at your home through your Computer, Laptop or even Mobile phone. All Fund Houses are now having their Mobile Apps also for easy monitoring and investing facility to 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 Mobile Application of the Fund House in your Mobile and sign up from there.

2. Complete your KYC formalities (for new investors).

3. Enter your details as asked in the website / App.

4. Select the Fund you wish to invest 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 where 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 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 some 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 instruction 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 ***Systematic Transfer Plan (STP).***

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

Also, you should download the Mobile Application of the Fund House in your smartPhone and complete the registration process. Then you will be able to do all the transaction activities from your phone. ***It is really amazing to monitor your investments through your phone regularly and see it growing.***

How to Search a performing Mutual Funds:

★ Go to ***Moneycontrol.com***

★ In home page click '***Mutual Fund Screener'*** under 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 like ***Equity***, Hybrid, Debt and subcategories if you are aware of. 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 only the star rating of the Fund does not qualify it from all aspects. A less star rating fund can give more returns.)

- ★ Then go to ***'Fund Parameter'*** button and under the category '*Show Funds with* ***AUM * higher than'*** section and enter **15,000 Crore.** Click on '*Apply Filter'. (AUM is "Asset Under Management" which shows already 15,000 cr Money has been invested by the general public in this Fund. It is a sign of people's confidence.)*
- ★ Go to the '***Investment Parameters'*** button and choose ***'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. *There will be some Sponsor Advertised Funds at the beginning of the List which can be checked and if not as per our requirement then ignore them.*

Study the 1yr, 2yr, 3yr, 5yr & 10yr returns given in each Fund and compare. ***Only select those Funds which are there 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), Expenses Ratio, Chart etc. Keep exploring and gaining knowledge about various funds and then select your Funds.

Our objective is to choose a **high AUM** (> ₹15,000 Crore) Fund which is ***in the market for at least the last 10 years*** with a ***good performance track*** record (5yr and 10 yr return **> 15 %**) and have a ***low expenses ratio (< 2%).***

What is AUM? - Full Form of AUM is Asset 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 participation from investors and confidence of the public on that Fund. Higher the AUM indicates better investment inflow, quality, and management experience on behalf of a Fund House. Here we are choosing the Funds whose SUM is ₹15, 000 Crore or more which shows the trust of the people. This itself eliminates the risks we have with low AUM Funds.

It is also seen that some Mutual Funds are having very high AUM (> ₹50,000 Cr) but not performing that much good when compared to other small AUM Funds. This is because of the sentiments of the general public. We see that the general public have more trust in the Fund Houses of Nationalised Banks and some schemes of these Banks attract a very high public investment into it. So only high AUM alone does not guarantee high performance of the Fund. We have to judge lots of more aspects before choosing our Mutual Fund.

Please find the below list of some performing Mutual Funds *only for your reference*. These are not my recommendations nor do I have any business interest in them except having 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 which 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 getting current positions. I have avoided Small Cap Funds as 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, it is seen that 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 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) <u>15 * 15 * 15 Rule :</u>

*C*onsider 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) <u>15 * 15 * 30 Rule :</u>

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) <u>6 / 9.5 / 12 Principle in Mutual Fund:</u>

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

It is the *Money Multiplying Rule* which comes into play when we invest regularly through SIP in a Mutual Fund and do not take out any amount from it till the maturity period. SIP investment techniques help in compounding the wealth of the Investor when invested for a long period of time. ***The real magic takes place towards the end of the SIP tenure 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.

If a person invests in a Mutual Fund which is giving an average return of ***12 % per annum*** and regularly invests ₹***10, 000 every month*** through SIP in that Fund. It will take ***<u>6 years</u>*** to reach the first ***10 lacs***. 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 ***<u>3.5 Years</u> (total 9.5 years)*** *to double that Money to **20 lacs**, i.e., to add another 10 Lacs*.

Similarly, if the person stays invested in that Fund and continues his SIP of ₹ 10,000 every month, then it will take just another ***<u>2.5 Years</u>*** **(total 12 years)** to become ***30 Lacs***. Interestingly if the investor stays invested for ***<u>15.5 Years</u>***, he or she will ***add ₹ 1 Lacs 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 of giving above two examples to you is to show what 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 an Equity Mutual Funds:

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

<u>Case-1: Investment Plan -1</u>

Systematic Investment Plan (SIP) @ ₹5000 per month

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

a. <u>Term = 5 years</u>

Total Investment Amount = ₹ 3,00,000

Total Maturity Amount = ₹ 4,05,946

Total Return = ₹ 1,05,946

b. <u>Term = 7 years</u>

Total Investment Amount = ₹ 4,20,000

Total Maturity Amount = ₹ 6,44,687

Total Return = ₹ 2,24,687

c. <u>Term = 10 years</u>

Total Investment Amount = ₹ 6,00,000

Total Maturity Amount = ₹ 11,21,364

Total Return = ₹ 5,21,364

d. <u>Term = 15 years</u>

Total Investment Amount = ₹ 9,00,000

Total Maturity Amount = ₹ 23,82,173

Total Return = ₹ 14,82,173

e. <u>Term = 20 years</u>

Total Investment Amount = ₹ 12,00,000

Total Maturity Amount = ₹ 46,04,151

Total Return = ₹ 34,04,151

*You can see from the above example that the Maturity Amount **doubles in every 5 years** after the SIP Investment is maintained for 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 such discipline and have at least **3 to 5** such investments from the beginning of his or her career and thereafter, then the final corpus will be near to **2 Cr**.*

We all get salary increments every year and after a certain age our monthly income surpasses our monthly household expenses. If one can maintain frugality and have checks on his lifestyle expenses, then running 3 to 4 such investments will not be a big issue.

<u>Case-2: Investment Plan-2 :</u>

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

Now let us check the returns that we can get in the above case (case-1) if the ***Regular Monthly investment is increased by 10% every year*** *with no initial lumpsum 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***

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

Imagine if you can run 3 or 4 such investments from the beginning of your career, then 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 12% lumpsum 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 : Please note that investments in Stock Markets always goes with the disclaimer that returns will fluctuate as per the market conditions. However, it has been seen in all Stock Markets that when you stay invested for a longer duration like 8-10 years, the Market always gives a good positive return.

There are lots of Online Calculators Applications available for getting these kinds of calculations. You can do calculations exactly based on the amount and duration you are looking for 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 - 25% in Equity Mutual Funds which if considered will give more than double of the amounts what we have seen in our above examples. But to be very practical and conservative let us assume it to be 12%.

As we have discussed earlier, every year we get some increment in our income in the form of an increment in the salary 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 do not increase the lifestyle expenses exactly in proportion to the increase in the income and invest 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 the age of their 40s.

I, being a private sector employee, was always worried about my old age and how I would manage my expenses at that time as we do not have a pension facility. We all get retired by 60 or 65 years of age and who knows how much life expectancy God has granted to us. Nowadays we all are health conscious and also medical science has improved like anything. 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 does not matter how much you have saved for your retirement life, if it is not defeating inflation and not increasing in double *digit, then it will be finished quickly. Like others, I was very skeptical about investing in the Stock Market and for a large part of my life I stayed away from the Stock Market. But when I did my research on personal finance, I came to know that we can beat inflation and increase our investments by double digits only by investing a considerable part (40- 50 %) of our wealth in various derivatives of the Stock markets like Mutual Funds and ETFs. I chose mutual Funds and ETF (Equity Traded Funds) for my part of investment in the market and continued investing it. Investing in any individual Stock of a Company is still NO for me.*

I suggest all readers to read Books & Articles and see videos available on the internet on Mutual Funds & ETFs. I have given a list of books at the end of the book which can be read to gain knowledge in personal finance. I have gone through all of them and found them very helpful. We all are well educated to understand investment techniques used in Mutual Funds and ETFs. Even after passing out from our colleges, we devote good time to gain experience in any field to pursue our Job / Business in that field in a better manner.

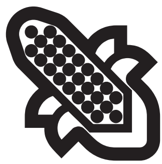
To gain sound knowledge in Mutual Funds, you will need 8 - 12 Months if you spare a few hours in your weekends. Try to understand the basics. Then start small and gain hands-on experience before investing more Money into it.

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

Apart from the disclaimer which runs in the market that *Mutual Funds investments are subject to Market risks,* we must also listen to the tag line that is ***'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)



Here in this chapter, we will go into details of the ETF as an investment strategy. In general, we are scared by 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 actuality by investing in these investment options, the value of our Money may get reduced with time.

So, what is to be done? where to invest our Money to beat these inflation and taxes and grow it? We are left with only one option, that is investing part of our savings in the Stock Market.

The safest and best way for a person is to go with Exchange Traded Funds (ETF).

<u>What is an ETF ?</u>

(E)	**(T)**	**(F)**
Exchange	**Traded**	**Funds**

ETF or Exchange Traded Funds are exactly as the name implies: Funds that trade on exchange. Generally it tracks 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 ETF gives following four advantages;

1. **Diversification**: ETFs gives 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 maintain the weightage as given in the Index for each Stock. Hence *Operating Expenses (Expenses Ratio)* is much lower than even actively managed Mutual Funds.

3. **Trading Flexibility**: ETFs are traded in the security market through 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 a number of reasons. We shall discuss this tax part of the ETF separately.

Types of Exchange Traded Funds (ETFs)

There are several types of ETFs available to suit the requirements of almost all investors. We will discuss only about major types of ETFs which we will use for our investment purpose;

1. **Gold ETFs:** These *Gold ETFs* offer investors the path to hold Gold assets in the digital form without making it necessary to purchase physical gold. You can also purchase ETFs that focus on other precious metals like *Silver ETFs* etc. In India we have both Gold and Silver ETFs available for investment. If you research on the return from Gold, you see some surprising facts about the returns what 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 has 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, having a certain part of your net worth (around 5 %) in this form is advisable.

2. **Index ETFs**: These are the 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*****.** On the contrary, ***Representative Index Funds*** are those that invest a majority of their fund corpus in representative samples and the remaining 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) <u>Lumpsum Investment</u>: Lumpsum Investment is one time investment and is done in one go. Details we have discussed in the Mutual Fund Section.

As discussed in the case of Mutual Funds, our strategy is to keep accumulating our savings in the Saving Accounts and wait for a fall in the Stock Market to the tune 3 - 5%. You can pump in your savings accumulated till that day in different phases into your selected ETFs as lumpsum Investment to get the best results.

b) <u>Regular Systematic Investment</u>: 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. There are very few Investment Houses who are providing this SIP facility to their investors for investing in an ETF.

Here I am going to give you another ***<u>active way of Systematic Investment</u>***. As you know, SIP is a passive way of investing where investment is made regularly without your involvement as per the pre-decided amount and frequency. But here in this *<u>Active way of Regular Systematic Investment</u>*, you are actively involved and taking decisions such as when and how much to invest in your ETF.

Let us assume that you have decided to invest ₹***10,000/- every month*** in the ETF selected by you to accumulate your 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). For making our calculation easy let us consider there are 4 weeks in a month. That gives us *5* x *4* = ***20 Trading days*** *in a month*. Considering our investment capacity of ₹10,000/- in a month, it becomes ₹10,000 ÷ 20 = ₹500 for every trading day throughout the month.

<u>Now let us see how you will do your investments systematically in your selected ETF;</u>

<u>Option - 1:</u> You can choose any day which you regard as an auspicious day of the week and invest ₹ 500 x 5 = ₹ ***2500 every week*** on that day irrespective of the market condition i.e. whether the market is low or high on that day.

<u>Option - 2:</u> Another method is to regularly monitor the Stock Market and the day you find the market is down by ≥ 1%, multiply the daily investing amount (₹ 500/-) with the numbers 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, then you will not forget it for your whole life and start applying that strategy for growing your Money and also wherever else you can apply this strategy in your life.

Let us say on the first date of our investment, say 1st day of the month, Nifty was 24, 500 and we decided to start our investment in any ETF. We made our first investment of ₹ 500/- (or whatever amount suitable to you) on 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 what is the status of Nifty or Sensex going on that day.

Suppose on the ***8th market day*** we saw that the market fell by ≥ 1%. So now we will multiply our daily investment value of ₹ 500 with the number of Market Days passed (8 days) i.e., ₹ 500 x 8 =4000/- and invest it in our selected ETF. This regular investment strategy is called ***Active Regular Investment Plan*** and gives a very good overall result as we are buying only when the market is dipping by ≥ 1%. Then you will keep monitoring the Market and say after another ***6 trading days*** again the market fell ≥ 1%, you will now pump 6 x ₹ 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 Systematic Investment Plan discussed in option-1 above i.e., ***to invest once in a week on the auspicious day*** *selected by them. If still you find investing every week is difficult, they do it on a monthly basis on the salary day. Then also you will get a very good result as the investment is spread in a holistic way and our investment horizon is very long (8 - 10 years).*

c- Both Regular Systematic & Lumpsum Investment

This third option of investing by following both ***Regular Systematic & Lumpsum Investment.*** *A*s the name suggests, it is the combination of the first two techniques. By following this method of investing we can take advantage of both Regular Systematic and Lump Sum investing techniques.

Here you are regularly investing following your monthly investing target or capacity. You are also accumulating any *Surplus Cash* you get due to any reason in your Savings Account. This extra accumulated Money will be invested by following the *Lumpsum Investment Technique* when the market is low. So now you get the benefits of both of the techniques and your wealth is accumulated in a better and faster way.

My Experience with ETF Investment

I was not aware about ETFs for a long time. I only have heard about Stocks & Mutual Funds and had some investments in Mutual Funds intermittently. When in 2010, I purchased my own residential Flat, I required Money and I redeemed all my Mutual Fund Investments thinking that it would reduce some loan burden on me. Then while doing my research on personal finance, I came to know about this excellent Investment Tool. Though it is not for seasoned investors, but for a newcomer it is the best. I have concentrated on Index ETF and Gold ETF and have seen good returns in both of them.

Then I came to know about International ETFs. Nowadays you can invest in International Stock Exchanges sitting in India through International ETFs. You can invest in NASDAQ, New York Stock Exchange(NYSE) and Singapore Stock Exchange (Hang Sang) through ETFs available by Indian Fund Houses. After doing my due research, I started investing in Motilal

Oswal NASDAQ-100 ETF and have accumulated a handsome amount in that with a great return as the NASDAQ has been appreciated excellently in 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 gives such a pleasant feeling which can be compared to planting a seedling in your garden, nurturing it daily and seeing it growing. When you see your planted seedling grow and it bears the flower 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 on which it is based, follow ups and downs of the Index. We also know that the Stock Market Index, taking the example of both NIFTY & Sensex, has increased at an average growth rate of about 15.8% p.a. in the last 43 years. *So, this investment with an ETF option is definitely a better idea. Since Index based ETF is not related to Stocks of any single or small group of Companies, you are not at risk of investing in a single Stock. Yes, your Money may get stuck for some time if there is a sudden dip in the Stock Market due to any crises like what happened during the Corona Pandemic, but it will gain its glory soon then why not invest here.*

How returns from Index ETFs are Taxed ?

Equity based ETFs are ETFs that majorly invest in equities or related investment instruments. The tax structure of these is very similar to the ***Capital gain*** made 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 realized from sale of investment that has been held for one year or less (<12 months). The amount of STCG is the difference between the Purchase Price and the Sale Price. As per Sec 111A of 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 is held by an investor 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 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 exempted from tax* and a tax of 10% would be levied on any amount greater than ₹ 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 of wealth accumulation for achieving our *Financial Freedom*, we do not consume any returns (fruits) which come from our investments. We reinvest all the profits we get from our investments to get the ***advantage of compounding*****.** We already know what a splendid result compounding gives when practiced in an investing journey. I am going to give you a feel of it by explaining with examples. So, during our Wealth Accumulation period till we decide to retire or get our *Financial Freedom*, we will not touch the returns / profits we get from our investments and will reinvest in the same Instrument. Here in the ETF investment, whatever fruits (profits) you get regularly let it 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 tend to redeem it for buying any materialistic requirements. Please do not fall prey to the game of your mind and have control on your emotions. ***Never withdraw or redeem profits from your investments and let it grow and get compounded.*** If you want to buy any item, then plan for it separately and have a separate plan for the saving for that item. Never touch your long term investments for it. You can invest a portion of your savings in Debt Mutual Fund to meet your short term life event requirements.

<u>Let us see the Magic of Compounding</u>.

I am giving you an example of *how much wealth one can generate over 10 years, 15 years and 20 years* after one starts with *NO LUMPSUM Investment and Monthly Investment of ₹ 10,000/- in any ETF expecting a return of 14%.*

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 Index ETF for calculation purpose only. Actual returns will vary as per the market situation during the investment tenure*)

<u>Case-1 – Duration = 10 years</u>

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 Lacs** in an ETF Account, considering an average return of 14% in a year, every year he or she will book an average profit of ₹ **3,49,502 in a Year** which can be considered easily as retirement pension of ₹ **<u>25,000 every month</u>** (considering withdrawal of around 0.85% per month). The accumulated amount will stay invested in the ETF to yield this return and will still keep growing as we are not taking away the whole return which this investment will gain in a year. You can reduce the withdrawal to 0.6 % per month as Market does not give consistent return every year)

<u>Case-2 - Duration = 15 years</u>

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

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

Yearly Profit after 15th Yrs @14% Return = ₹**. 7,92,407 (** *approximately* ₹ ***56,000 monthly income*** *considering 0.85% withdrawal every month.*

When a person retires with ₹ ***56.60 Lacs*** *in an ETF Account, considering an average return of 14% in a year, every year he or she will book an average profit of* ₹ ***7,92,407 in a Year*** *which can be considered as retirement pension of* ₹***<u>56,000 every month</u>*** *(considering withdrawal of around 0.85% per month). The accumulated amount will stay invested in the ETF to yield this return and will also keep growing.*

<u>Case-3 - Duration = 20 years</u>

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** considering 0.85 % withdrawal every month.*

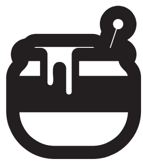
*When a person retires with ₹ **117.51 Lacs** in ETF Account, considering an average return of 14% in a year, every year he or she will book average profit of ₹**16,45,185 in a Year** which can be considered as retirement pension of ₹**1,10,000 every month** (considering withdrawal of around 0.85% per month).*

You can change the withdrawal percentage and amount to suit your requirement and consider the return from the Market in that particular year. My purpose is to give an example which will support you to think more in that direction.

> *As per my opinion, the increment we receive every year is the extra amount we get and should be saved to the maximum possible extent, because we have been living within the salary earlier to the increment and saving. We must consider our increment in salary or in our 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 much in our lifestyle and kept investing the maximum amount. It led to a good saving after a few*

years. You can also start new investments in ETF or Mutual Funds equivalent to the increment amount minus what you decide to use for your lifestyle enhancement. You can try this also in your life if you like this 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 Hindu Epic Mahabharat. It is a divine vessel given to Yudhishthira by God Surya, which offers a never-ending supply of food to Pandavas every day.

During the 12 years of exile period, Pandavas wandered across the forests and wherever they stayed many Sagas and people used to visit them. Draupadi and Pandavas found it hard to welcome and provide food to their guests in forests where nothing was available. Therefore, Draupadi prayed to Sun God, and he granted her the ***Akshaya Patra***.

As per the boon given by the Sun God, Akshya Patra will provide unlimited food as long as Draupadi (the Pandavas Queen) has not finished her meal and this boon is applicable only for 12 years. Pandavas were in exile for 12 years and at the end of 12 years of Pandavas exile, the power of Akshaya Patra got exhausted and it became a normal Vessel with no magical power.

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

Here in our Akshya Patra, you have to just obey one rule as there was in our above example from Mahabharat. The rule is ***'you will never make any lump sum withdrawal from this 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 Lac and you start withdrawing ₹ 1000 *(1% of it)* every month, then it will last for 100 months. Now if that ₹ 1 Lac is invested in an Investment Instrument and you are getting > 12% return from it, then it will not get empty even if you withdraw 1% of the amount every month. This saving will now become an **Akshaya Patra** as it was with Pandavas in Mahabharata.

Akshaya Patra Investment Steps:

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

<u>Step-1:</u> 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 for starting your regular income withdrawal or how long you will keep investing for getting a regular income at the latter stage. It can be 5 Yrs , 10 Yrs, 15 Yrs, 20 Yrs or more depending on at what stage of life you are at now.

<u>Step-2:</u> Choose few good Equity Mutual Funds

Choose Funds which have an AUM (Asset under Management) of more than ₹ 15, 000 Crore.

- It should have been at least 10 years old i.e. incorporated at least 10 years back.

- All its past 3yr, 5yr, 7yr and 10yr. returns should be of at least double digit i.e., >12% or more.

- Check the Expenses Ratio of that fund. It should be less and preferably <1.5 %.

<u>Step-3:</u> Check your monthly as SIP capacity:

- Check how much you can invest every month as SIP in total. Divide that amount to invest in 1/2/3/4 Mutual Funds depending on the figure.

- 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 to ₹ 48, 000 in a year (nearly ₹ 50,000 in a year). So, divide your investment capacity by 4000 and that will give you the numbers of Funds you should invest in. It is always advisable to go for different Fund Houses rather than investing in any one Fund House.*

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

For the Corpus in your chosen Fund to become a good amount, you should put some lumpsum investments in these Mutual Funds whenever you have some ***Surplus Cash*** available with you. 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 yrs or 20 yrs in your hand, then you can achieve that very well only with your monthly SIP investment. But if you have 10 years or less in your hand for your retirement or the requirement of Regular Monthly income, then it is advisable to start monthly SIP investment along with some lump sum investments from time to time.

Step-5: Keep monitoring your Investments:

Now you have selected the Fund or Funds and started Regular Monthly SIP Investment with or without the initial Lump-sum Investment. You are also putting some Lump-sum Investments into it whenever you have some Surplus Cash and you find that market is low or in Bear phase. Keep monitoring your investments on a regular basis. Maybe once in 2-3 months is also ok.

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 situation occurs and your chosen Fund / Funds performs poorly consistently, then give it at least a year's time and then think of switching to another good preferred Equity Mutual Fund without any hitch.

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

<u>Step-6:</u> 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 ***<u>Akshaya Patra Investments.</u>*** Depending on how many Mutual Funds you are running under your <u>Akshaya Patra scheme</u>, you have to ***Stop the original SIP*** now and ***Start a monthly Systematic Withdrawal Plan (SWP) of 0.75%*** of the lump sums accumulated in all Funds.

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

Imagine if you can run SIPs in 2 or 3 performing Equity Mutual Funds @ ₹ 4000/- every month for 10 / 15 /20 years and complete it, your Fund value accumulation will be in tune of 50 to 60 Lacs. Then you can expect ₹ 37,500 to ₹45,000 regular Monthly Income (Monthly Pension) forever.

Step-7: Every Year access the Total Amount and do adjustments to the SWP:

Now each year just 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 getting regular Monthly Income / Pension without depleting the accumulated amount.

Summary of Akshaya Patra Investment

Step-1: Find out after how many Years you want Regular Income from your Investment.

Step -2: Choose few Equity based Mutual Funds which have AUM >10,000 Cr, Last 10 years return >10%, Expenses Ratio ≤1.5%.

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

Step-4: Put some Lump-sum investment in each fund whenever you have some surplus cash and the Stock Market is down.

Step-5: Regularly monitor all your investment at least once in 2- 3 months. If any of the Fund starts giving lower results, then monitor it and switch to another good Equity Fund after waiting for at least for one year.

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

Step-7: Every Year access the Total Amount and do 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 is to keep the SWP amount related to the last year's accumulated profits. You can see what was the total returns your Fund has*

accumulated in last year and ***adjust the monthly SWP amount to 1/12 th of that last year's return.***

Another way can be to take out all the profits of the last year and keep it in a Debt Fund and start a monthly SWP from there. Every year you can take out just the profits your investment gains and ***transfer it 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 chances to put Pandavas into trouble, requested Sage Durvasa to visit Pandavas in forest with this disciple and bless them.

Sage Durvasa is renowned for his short-temper and used to Curse people if anything does not go wrong. Kauravas made sure that Sage Durvasa reached the cottage of Pandavas after Draupadi had finished her meal. As per Sun God's boon, the Akshaya Patra will not work if Draupadi had eaten her meal. At the time Sage Durvasa reached there, Draupadi had just finished her meal and was going to clean the Akshya Patra.

Pandavas received Sage Durvasa and his disciples. They asked them to have lunch, but they had no idea about how they would provide food instantly for such a *large number of people. Sage Durvasa went to take bath in a nearby river with his disciples and Pandavas knew that they must arrange for food now or they would have to face Sage Durvasa's curse. Draupadi was sitting in the kitchen and started crying. Draupadi imagined that a curse from Durvasa would be terrible to them, as they are already in exile after her shameful disrobing attempt in the Kauravas court.*

With tears in eyes, Draupadi prayed to her friend and brother Krishna. All of a sudden, Krishna appeared in front of her and Draupadi explained to him the crisis in hand. Krishna asked Draupadi to bring some food for him as he is feeling very hungry.

Draupadi told Krishna that she is already in big trouble and Krishna is joking with her asking for a meal. She has nothing to offer to Krishna. Then Krishna urged Draupadi to bring Akshya 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 to give that single grain of rice to him and Krishna ate it. At that moment when Krishna ate a single grain of Rice from Draupadi, all creatures in the entire Universe felt stomach full and satisfied. Rishi Durvasa and his disciples also felt that their stomach was full and went back after blessing Pandavas. This way Pandavas were saved.

Chapter – 10
How to Plant *Kalpataru* *(Divine Wish Tree)* through ETF Investment

In our Section-4 (why to save Money) we discussed that if you plant a seedling and nurture it, then one day it will become a mighty Tree which will give you both its fruits and shade.

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

Here in this chapter, I will reveal such a technique which is already practiced by several people and gives results like planting a ***Divine Wish Tree (Kalpataru)*** in the backyard of your house. When you save and invest in planting a ***Divine Wish Tree*** *(let us call it our* ***Kalpataru)*** in the method we are going to 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, because of any reason, there are *no or less Fruits* (regular return) from your Kalpataru, then at least you will get the comfort of having the huge ***corpus*** with you as ***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 are getting returns out of nothing invested by you*** as you have already got back your initial investment Money.

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

This Kalpataru *Technique* which we were going to discuss here is through investing in *Index based ETFs*. Since you have already gone through our dedicated Chapter on ETF, 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 you have to decide how much initial amount you can invest as ***Lumpsum Investment***. The First Lumpsum Investment will be considered as the ***SEED of your Kalpataru***. You can start with any amount, be it ₹10,000 or less than that. It can be ₹50,000 or ₹1 Lac or any higher amount if your situation allows.

You must have come across the proverb ***'if you are too lazy to plant 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, then you need to ***nurture that seed*** *with water and manure*. This we will do by investing regularly following ***the Regular Systematic Plan*** we have discussed in types of investments in the ETF 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, that is investing through both ***Lumpsum & Regular Systematic Investment Plan.***

After you decide how much Lump Sum Investment you can do for planting your Kalpataru, then you need to decide how much *Regular Systematic Investment* you can make for watering and manuring it. Please understand that the amounts we decide for the *Lump Sum* as well as

Regular Systematic Investment decides the size and yields from our *Kalpataru Tree.* Irrespective of your capacity for investment, by following this method you will get best results from your investment. All investments we make will have some sort of risk involved in it. But as we saw earlier, since we are planning for a long-term investment, then this will mitigate our risk.

If someone wants to enjoy the fruit without any further delay, they can directly plant a Big Kalpataru by investing a good Lumpsum Investment. Else 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 create a good corpus in the selected Index based ETF so that it can start giving fruits.

Steps to Plant Divine Wish Tree (Kalpataru)

a) **Select 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 Lumpsum 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 to 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 then ***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 Kalpatatu to grow and be ready for giving 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 months*** 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 there will be a continuous dip in the Sensex/Nifty because of which you may have to pause your monthly SWP from your Investment. Hold on for that period and sit under the shade of your

Kalpatatu. As we all know, the Stock Market keeps going up and down. In some years it has gone down to more than 30 – 40 % of its value. That happened in the years 1988, 2004, 2012 and lastly in 2020 during our break of Corona Pandemic. But it is also proven that whenever the market has gone down drastically, in the next period it rises again and crosses its previous high within a maximum span of 1 – 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 basic understanding of the Market and have trust in Stock Market investment be it through Stocks, through ETF 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 for achieving our *Financial Freedom*, we do not consume any fruit which 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 one can generate a good corpus in ETF over a long period of time.

I advise all readers to understand this investment strategy and plant ***one or more Kalpataru*** to enjoy their fruits in the form of regular monthly incomes. Apart from planting Kalpataru in the Indian Market, you can think of investing in ***International Markets*** like in NASDAQ etc. You can study international markets and can plant international Kalpataru Trees to have different types of fruits. 😋

There are several ETFs in Stock Markets. Following are some high AUM Index ETFs for your reference and study purpose only. These are not my recommendations nor do I have any business interest in them except having 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 ETF	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 will 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 better part will come when you start getting the benefit of compounding effect on your investments. That comes from years of patience and undisturbed practice of saving & investing. If you do not manage your Money properly, you will always struggle irrespective of 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 efforts, things will start getting 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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