

Follow These Simple Rules To Create Wealth

Investors can reach their targets if they're disciplined & consistent with strategy

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Illustration: Mahesh Benkar

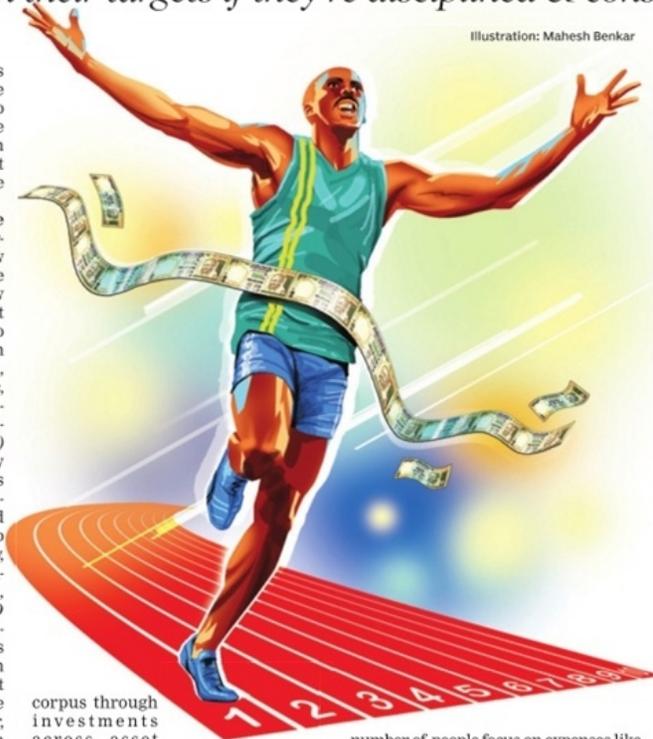
To create wealth, investors should keep in mind some basic rules that are simple to follow. Here are some of the most important ones from select financial planners, an investment analyst and a top professional in the credit information industry:

► **Save, invest and understand where & why you are investing:** We understand that we need to invest but very few understand that we can invest only if we first save. It's important to know how much you earn and spend to arrive at what you can save. It's also important to understand the risks associated with equities, fixed income, commodities, gold, international funds, real estate, etc, and also the resultant return expectations. Also, understand why you are investing. — *Shalini Dhawan (SD)*

► **Systematize investing:** Being busy individuals, the last things on our minds are handling paperwork, cheques, banking errands, etc. Hence, there is a need to systematize: Automate investments to selected avenues on monthly, quarterly, yearly basis by using technology; available systematic investment plans (SIPs), triggers, alerts, ECS, etc. — *SD*

► **Diversify:** Diversification across asset classes and within each asset class can eliminate risks emanating from concentration, liquidity, credit, interest rate and currency. This will reduce the overall risk to the portfolio. However, diversification beyond the optimum level does not reduce the risk to the portfolio. — *B V R Venkatesh (BVR)*

► **Safety has a price:** If you are one of those risk-averse investors, chances are that your savings would be locked into various fixed and recurring deposits. However, over the last few years, you must have got negative real returns. That is, your returns were less than the rate of inflation. In other words, the interest income from deposits has not helped you keep pace with rising costs of goods. That also amounts to erosion of capital — you have lost it through inflation. So, remember to build an inflation-beating



corpus through investments across asset

classes including equities, debt, gold and real estate. — *Vidya Bala (VB)*

► **Consistency & discipline pay:** Emotions interfere with investing — sometimes they work for us and sometimes against us. So, be disciplined to invest a certain amount every month and systematize it. There are many examples of SIPs in diversified equity mutual fund schemes generating sizable corpuses, where investors have consistently run SIPs. Also, discipline yourself to refrain from going off an agreed asset allocation and investment strategy. — *SD*

► **Save on taxes to build a kitty:** A large

number of people focus on expenses like children's education, home loan repayment, etc, for tax deductions from their salary. You should also look into Section 80C investment options seriously. Here you can find investment options that can save on taxes and also build a long-term portfolio with good future returns. These options include equity-linked savings schemes (ELSS), various provident funds, NSCs, five-year tax-saving deposits, etc. ELSS could offer you the best deal in terms of superior tax benefits and higher returns in the long term. These funds have a lock-in period of three years and compare favourably with other options

like five-year tax-saving bank FDs, five- and 10-year NSCs, or 15-year PPF. The gains from ELSS that accrue are also exempt from capital gains tax, while gains from five-year tax-saving deposits are fully taxable. — *VB*

► **Monitor and review:** After you have put in place an investment strategy and implemented it, periodically check if the plan is working for you from every possible angle. If you have moved away from the agreed plan, change the asset mix. If that means exiting under-performing investments, do that. — *SD*

► **Mind your credit score:** Like in business, in personal finance too credit line availability plays a critical role. Today, institutions consider both borrowers' income profile as well as their repayment behaviour across earlier liabilities while deciding their creditworthiness. A credit score of an individual is increasingly becoming an integral part of banks' appraisal process in determining whether to grant credit as well as its quantum. The higher your score, the better your creditworthiness and more are the chances of your loan application getting approved. Financial discipline in paying back the borrowed amount (EMIs) on time and as agreed to the lender is the foremost step to ensure a good credit score. Monitor your joint loans or loans where you are the guarantor regularly. It is advisable to get a copy of your credit report at regular intervals when you start taking debt, especially after opening or closing of new credit accounts. In case of any error, get it corrected without delay. — *Mohan Jayaraman (MJ)*

► **Seek professional help:** We are ready to seek help from dieticians, doctors, lawyers, etc. Likewise, we also need professional help to nudge us into an investing habit. — *SD*

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