



Temper Spend In Good Times... Be The King Of All Times

THE promise of a demographic dividend with its young working population, the second highest GDP growth rates in the world, an excellent monsoon in most parts of the country, automobile sales at all-time highs, a domestic consumption-driven economy with relatively smaller dependence on the rest of the world vis-à-vis other Asian economies, I could go on and on. With most economic indicators on the upswing, and India gaining acceptance amongst foreigners as both a great business and tourist destination, it is difficult not to get carried away by the immense possibilities that the future offers.

Whilst we are extremely bullish about what the future holds for India, we also believe that it is unlikely to be a straight-line opportunity over the next decade. Our belief is that the significant linkages that exist globally will mean that economies and financial markets, and as a result businesses will see cycles that will swing between extremes on both sides. Therefore, the seeds that are sown in good times will probably dictate how we are able to ride through the down cycles that we will encounter along the way. Thus, your spending habits during the good times become critical. Our five commandments for spending are as under:

Earn, Save, Invest & Spend: This order of managing one's finances is critical. Unfortunately, we find that a lot of people don't follow this pattern – the most common process is save what is left over after spending. In fact, there is an increasing trend towards spending what you have not even earned yet. Sit down with your financial planner to understand what you need to save to achieve your financial goals, set and implement your investment targets, and then spend what's left over.

All Wants Are Not Needs: Whilst it is always possible to justify a want as a need, especially if a neighbour or friend also possesses the object of desire that we want to spend on, ask yourself if your need is truly a need or only a nice to have want.

Indulge Yourself Occasionally, But On Small Items: Managing your spending is a bit like a weight-control programme. Most successful long-term weight control programmes recommend that you do not go off your favourite foods completely — just eat them occasionally and in controlled amounts. In the same way, do not go off spending completely as you risk coming back with a vengeance, that could do significant damage to your financial health. The next time you feel like spending, walk into your favourite bookstore rather than an electronic store or car showroom.

Don't Stretch Your EMIs: The house that you live in is not an asset and what you spend on it is an expense, not an investment. Most people are unable to downgrade or trade down their residences homes during difficult times, making it unfair to compute it in your net worth. Whilst a roof over your head is critical, what it costs is also very important. Therefore, be careful about how much you stretch on the EMI for your primary residence, especially in an inflationary environment where interest rates could rise significantly. Besides, only a few home improvements actually increase the financial value of your home, so spending on homes needs to be controlled just like your other discretionary spending.

Focus On Good Spending: Just like good debt and bad debt, there are good spends and bad spends. Attending a workshop on managing your finances, spending on a hobby that will keep you occupied long after the kids have settled into their own lives, taking a weekend break with your loved ones, all with controlled budgets, are good spends as they make your life more wholesome and give you a sense of fulfilment.

Take advantage of the good times so that you are the king of all times, not just the good times.