

What does financial freedom mean?

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Independence and freedom are among the most inspirational words in the English dictionary which can evoke a sense of hope, inspiration, choice and joy, all at the same time, and could mean very different things to different people. For example, a very large number of investors whom I work with, when asked about their financial goals, indicate that they would like to achieve financial freedom. When I ask them what financial freedom means to them, their answer is: When I do not have to work for money and can actively decide how, when and with whom I choose to associate in my professional life.

Financial planning allows one

to be financially free, that is he/she could decide how to lead his/her life. Over the years, I have come across quite a few instances of investors successfully achieving financial freedom through proper planning.

Among them is Dr Kumar (name changed), a cardiologist who runs a hospital in a Mumbai suburb. Irregular and long work hours left very little time for him to spend with his wife and watch his two young children, although he looked forward to it.

A passionate traveller, he also wanted quite a few holidays each year - one long international holiday, another week to ten days in a domestic location and some weekend breaks. The finances for these holidays are part of his overall financial

plan. Within Kumar's plans are clearly earmarked long-term investment strategies to meet goals like retirement and education of children. In addition, there are also separately defined strategies, using financial instruments that can give him the most optimal post-tax returns for these goals, to take care of his shorter term holiday goals. Debt mutual funds of varying maturities were used efficiently for shorter term returns.

Another case is of Sanjay (39) and Rashmi (37) (names changed), and their six-year-old daughter. Sanjay runs a small family business and Rashmi works at chartered accountancy firm. When most couples are just about beginning to save for their financial goals and are looking

to save for their retirement and children's future, both Sanjay and Rashmi have already achieved their financial goals. That is even if they do not save any money from now and only let their existing portfolio grow, they would achieve their financial goals.

This was possible through a combination of a conservative lifestyle with controlled expenses, a savings rate in excess of 40% of total income, controlled use of leverage on a home loan that has been prepaid aggressively, and a diversified portfolio across equities, fixed income, real estate and gold. Also their portfolio is rebalanced regularly.

The author, a certified financial planner, is the founder of Plan Ahead Wealth Advisors