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8 excuses that prevent you from investing right

Delaying the investing decision, staying away from equity and going in for wrong advice are some of the common mistakes people make

If your current commitments are stopping you from investing for the long term, assess if they are all necessary A friend's loss does not mean you must not invest in equities. A gain or loss is mostly temporary in equity markets

Manish Jain, a 27-year-old entrepreneur, joined his family business after college but became financially independent only about four years later at 25 when he started his own venture and got married simultaneously. While working with his family, and during the initial phase of his venture, he kept all his savings in his bank account. "I used to feel safe seeing my money lie in the bank account," said Manish, who thought his savings were too small to start investing. A year into his venture and marriage, things changed for him. "After getting married, I sensed more responsibility. I had to plan my finances in a way that would be sufficient for our monthly expenses and at the same time I wanted to save money for future expansion of my business, for our vacations and future family planning," he said.

BHASKAR VARMA/MINT

MANISH JAIN Age: 27 City: Bengaluru Jain kept his savings in his bank account as he felt it was safe there. Also, he felt there wasn't enough to start investing

Like Manish, a lot of people think they are not prepared for investments at the beginning of their careers. In fact, with increasing lifestyle expenses and rising standards of living, savings have taken a backseat in most households. Between FY12 and FY17, household savings rate in India declined from 23.6% to 16.3%, according to a report titled Arth Samvaad by India Ratings and Research.

We spoke to financial planners to understand the eight most common excuses people make to not invest at the right time and in the right avenue.

IT'S TOO EARLY TO INVEST

The transition from bachelorhood to being married helped Manish understand the importance of investing his savings, even if small, and consulting a financial planner sharpened his perspective. "Plans give us a starting point. They help us get focused. So, start now, start with what you have and for what you want today," said Shweta Jain, certified financial planner, CEO and founder, Investography.

In fact, the more you delay, the more you'll have to invest. "A five-year delay in investing doubles the amount to be invested for any goal," said Mrin Agarwal, financial educator, founder director of Finsafe India Pvt. Ltd and co-founder of Womantra.

The earlier you start investing, the more time your money will get to compound and grow. "Investment is more about how long you stay invested than the amount you start investing with," said Lovaii Navlakhi, managing director and chief executive officer, International Money Matters.

Starting early is not enough. It's important to increase your investments in line with increase in your income. "As a practice, you should earmark a proportion of the increased earnings to investment. If you do not start small, you will never start. Discipline is the key element to ensuring effective investments," added Navlakhi.

MY PLANS MAY CHANGE

Plans change and that's true for everyone. But that doesn't mean you shouldn't plan

at all. Suppose you start saving and investing for a master's degree that you wish to pursue, say, after five to six years but along the way a business idea interests you. Does that mean your savings in an education fund was a waste then? Absolutely not. You can direct the same fund into the initial capital you'll require to set up the business. "Life is dynamic so one needs to make adjustments. You may or may not achieve the plan but you still make them and include midcourse adjustments along the way," said Vishal Dhawan, founder, Plan Ahead Wealth Advisors.

About 53% of working age population in India save only for short-term goals rather than longterm, according to a report titled The Future of Retirement, the Cost of Ageing by HSBC.

I HAVE A LOT OF COMMITMENTS

Most people live with financial commitments—be it a home or car loan. Commit-

ments will always be there but that shouldn't stop you from managing your money for your future goals.

Start off by analysing if your commitments make sense at all. "Parents spend a king's ransom on education. The notion is that international schools which charge fat fees will somehow confer on their children more benefits than a regular school," said Suresh Sadagopan, founder, Ladder7 Financial Advisories. "They may want to re-examine that premise as it is heuristic to associate higher fees with better quality of education, which may not always be true."

If your current commitments are stopping you from saving or investing for the long term, maybe you need to rethink whether all of them are necessary. In case you've dived too deep, ensure you don't repeat the mistakes.

"While upgrading your lifestyle, think of how sustainable it is. Relook at your expenses every few months, and eliminate unnecessary ones. You will soon be in control of your commitments," said Shweta.

REAL ESTATE IS THE BEST

Investing in real estate is often reassuring for Indians—it's a physical asset and appears to be one of the safest investments. People often invest their lifetime savings into buying a house which concentrates their investments in a single asset, or get locked into high EMIs early on in their careers which leaves little room for other investments and expenses.

Real estate is illiquid—you may not find buyers when you actually need the money. "Having all eggs in one basket is not a great idea. Asset allocation matters. Besides real estate is an illiquid asset and may not sell when you want the money, not even at a lower price," said Dhawan.

Contrary to popular belief, returns from real estate may not be as high as other instruments. Property prices in Mumbai and Bengaluru increased annually by only 7.50% and 5.75% between June 2013 and September 2017, according to National Housing Bank data. In Delhi, prices fell by 0.70% annually during the same period.

EQUITIES ARE TOO RISKY

You may have witnessed a friend or relative lose money in the stock market which made you wary of equity investments. But a friend's loss does not mean you must not invest in equities at all. "Risk comes from a combination of wrongly defined time frames and inappropriate choice of instruments," said Dhawan.

Most people believe one can make quick gains in the stock market. They invest to take advantage of the short-term opportunities but here's where the mismatch lies. "Since equities are a vehicle for investors who want to partake in the growth of businesses through listed stocks, looking from the long-term perspective is important," added Dhawan. "Investors tend to pay the price for not fully appreciating how the equity markets work over long periods of time, and hence there is significant difference between investment returns and investor returns."

Most of the times, a gain or a loss is temporary in the equity market. "Align the use of equity and equity-backed assets for goals that are truly long-term to mitigate short-term volatility that comes with equity as an asset class," said Dhawan. Seek a financial planner's assistance to invest in a structured manner.

I WANT THE BEST SCHEME

Once you are on the equity bandwagon, what do you do? Typically, you would want to buy the best performing scheme to get the best returns. But a scheme that gives the best returns now may not do the same a year from now. So do you exit and enter a new best-performing scheme?

"It is almost impossible to always get into the performing products at the right time and exit out and re-enter into other performing products at other times," said Sadagopan. Also, moving from one best performing scheme to another could incur costs and tax incidence and expose your portfolio to greater risks.

Returns from a portfolio don't just depend on how many well-performing schemes you have, but about a mix of schemes and assets that suit your needs. "I suggest investing in an appropriate product mix. Conduct regular portfolio reviews. Make necessary changes from time to time, without disturbing the diversity in the portfolio," added Sadagopan.

Again, it's best to consult a financial planner to get your money life in order.

MY BANK CAN BE MY ADVISOR

Karthik Hulikal, who runs a pharmaceutical research facility in Bengaluru, has a few unit-linked insurance plans (Ulips) his father bought from his bank in his son's name. After about a year, the father-son duo found out they were mis-sold the products. "We found out we were in a fiveyear payment plan only when the agent came back the year after to collect the next annual instalment. My dad was under the impression that these were one-time payments and was not informed about the recurring payments and waiting periods involved in Ulips," said the 29-year-old.

It's not uncommon to find people who have been missold insurance policies and other products by bank representatives who are looking to meet targets. The advice comes for free and people fall for it. "Why would a bank offer advice for free? Are they a not-forprofit? Certainly the earnings in this case are hidden or embedded in the product. That's fine, as long as everything is disclosed," said Navlakhi.

"Not just banks, even large distribution entities have staff with large incentives based on product sale and consequent revenues, and hence it is unlikely that they will be transparent about the risks involved," added Navlakhi.

PLANNERS ARE FOR THE RICH

If you think, financial planners always charge hefty fees which you may not be able to afford, that's not true. "Some planners have standard fees for writing a plan. There are others who charge based on the portfolio size of the client," said Agarwal. If you are a new investor and don't have adequate resources, it gets all the more necessary for you to have a robust financial plan to optimise your resources. "Financial planners work with multiple segments and do not restrict their services only to the wealthy," said Dhawan. It is better to pay fees to your advisor than have no plan or guidance and end up making mistakes that lead to losses.




"There is a term called fiduciary, which is acting in the interests of the clients first. One of the questions that you might ask your advisor is how he is compensated, and how his firm is too," said Navlakhi. If one or more of the above beliefs deter you from investing right, it's time to shake them off. Remember, making a start is the most crucial.

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