COVID-19: Money lessons for the second wave from the first

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The second wave of COVID-19 is well and truly upon us. Surging cases of infection have meant lockdowns or curfews in many states. Last year, when the pandemic struck and we were shut indoors, there was a heavy economic toll. Lost jobs and pay cuts threw financial plans into a tailspin. In short, we learnt our money lessons the hard way.

But has all that learning made us better-placed this time around? Is there anything we must do differently this time and are there takeaways that are still relevant from the first wave of the infection, as far as money matters are concerned?

Emergency funds and insurance

Many of us realized the importance of an emergency fund. The corpus equal to a minimum of six months' expenses and equated monthly instalments (EMI), can help you ride out the period of job loss or curtailment of income.

If you still don't have an emergency corpus with you, then build one. The good news is that equity markets did well in the last one year. Take some money off the table and have it as an emergency corpus. Harshvardhan Roongta, Principal Financial Planner at Roongta Securities says, "Be very clear in your mind that the emergency fund could be required for a longer period of time. In case of medical emergencies, keep aside adequate amounts in savings accounts or liquid mutual funds."

And review your insurance cover and spruce up if required.

Markets are choppy, but you know better now

Hopefully, we are wiser investors this time around. Last year, the S&P BSE Sensex fell 32 percent in March. Many investors panicked. They either stopped their systematic investment plans (SIP), or withdrew their investments in a hurry.

Equity markets are expected to be choppy for some time this year, depending on how bad the COVID-19 situation gets. But falling markets also give you opportunities to make serious money, if you remain patient. “If you don’t need the money for another five years at least, invest in diversified equity funds in a staggered manner,” says Amol Joshi, founder of Plan Rupee Investment Services.

Vishal Dhawan, Founder and Chief Financial Planner, Plan Ahead Wealth Advisors says that if we are close to our financial goals, it’s ideal to take some money off the table right away.

The COVID-19 pandemic has not affected all countries uniformly. You can derive the benefit of diversifying overseas. Dhawan recommends starting with a small allocation to overseas index funds and increasing it over a period of time using SIPs.

Continue to have some allocation to gold. If the rally in stocks and correction in gold prices have made your allocation to gold low, it is a good time to re balance the asset allocation.

Be prudent while spending

The first lockdown changed our spending patterns. Many had to drastically cut down their expenditure. But some just buy inncessary stuff. Khyati Vasa, Founder of KV Adwealth Financial Services says, “Some people tend to indulge in online shopping just out of boredom leading to unnecessary expenses.”

Such spending habits lead to wastages and can hurt your finances in case of a job loss or a fall in income.

Reduce dependence on loans

Though moratoriums have helped borrowers in financial trouble to some extent last year, do not expect the courts and government to intervene again. Pay your equated monthly installments (EMI) on time. If necessary, go for secured loans.

If you have surplus money, then use some of it to pay down high-cost loans. But ensure that you have sufficient liquidity.

Avoid buying a property for investment purpose using a home loan just because the interest rates are low. “Switch home loans in case you get better rates. Try to save on switching costs,” says Vasa.