Safal Niveshak's

Cheat Sheet for Investing Your Money

21 Big Questions You Always Wanted to Ask About Saving & Investing Your Money...Answered

www.safalniveshak.com

"We do not inherit the earth from our ancestors.
We borrow it from our children."
~ David Brower

Save paper. Save trees. Think before printing this document.

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Preface

"Go to college, study hard, get good marks, land up in a decent job and you're settled."

The world around us has changed but this advice hasn't.

The concept of getting good grades and finding a good job is an idea whose time has passed. It is not a bad advice but we need new ideas and different kind of education.

In the long term, the old advice is not just insufficient but downright risky.

We have been taught, and taught pretty well, how to work hard to earn money. But what about making our money work hard for ourselves? Every rupee that you earn has in it the seed to multiply into thousands. You just have to know where to sow that seed and how to water it.

The only way to learn that is to start on the path of self-education. A wise man said - "School education will earn you a living but self-education will make you a fortune."

It does not matter where you stand today. Whether you are a student, in a job, a professional or even unemployed, you have the ability to educate yourself and take control of your personal finances.

If you are reading this, our guess is that you have already spent some time looking for the answers to your financial and investment queries. Therefore, you are a seeker who has already taken the first few steps.

And probably you are already overwhelmed with the information available out there. Just the enormity of the task (things to read) may become a roadblock. So how do you eat an elephant? One bite at a time.

This E-Book could be that first bite, the starting point, to build your financial intelligence, which will become the foundation of your financial future and thus a fulfilling life.

Changes lie ahead that are beyond our imagination. Who knows what the future brings?

But whatever happens, we have two fundamental choices to make - Continue doing what we are doing hoping that things will work out better which, according to Einstein, is pretty close the definition of insanity - "Doing the same things and expecting a different result" or learn to play the game smartly by preparing, getting educated and awakening your own financial genius.

Truth be told, the ideas presented in this E-Book are not too far-fetched and anyone can start implementing them from day one. But as they say, things which are easy to do are also easy not to do.

This book has been written to make things as simple as possible but not more than that.

It is your hack book to cut through the non-essential and directly access the core ideas.

All the best!

With respect,
Vishal Khandelwal
Safal Niveshak
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#1. Where Do I start?

If you are young, time is one of your greatest allies in wealth accumulation and it is the one resource you will never get more of in the future. After starting out to earn your own living, if you waste the early years saving and investing nothing, they are *forever* lost.

So that you do not miss the precious time you have on your side to start making your money work for you, here is the action plan that you must (may) start with. You are free to modify this action plan to suit your needs. It is just that this has worked very well for me for the past 10+ years, and thus I am happy to share it with you.

Read carefully what you see below. Try to remember it. Modify it, if you may, to suit your needs. This is what you must tell yourself often when it comes to managing your hard-earned money.

This is like your money manifesto, which should be your starting point in your journey with money.

1. Pay yourself first – This is an excellent habit to develop early. People who are best set for a comfortable financial future are not necessarily the ones who had the best careers but the ones who had good living and saving habits.

The general equation of saving money is = Income – Spending = Saving

A more sensible equation is = Income – Saving = Spending

In other words, first allocate your savings and only then spend what is left (of course, after budgeting for necessary expenses like food, housing, and utilities).

In terms of how much you should save, start with saving at least 10% of your monthly net take-home income, and gradually increase it to

30% by the end of the first year. The ultimate target is to reach 50% of net income.

2. Keep an emergency fund – This fund may be 6-8 times your monthly household expense. So, if you spend Rs 20,000 every month to keep your house running, try to set aside around Rs 140,000 as emergency fund – money that will lie in a liquid fund or short-term deposits that you can withdraw in case an emergency strikes.

Also, do not touch this emergency fund to purchase a gadget, pay down payment for a car, or fund a holiday. This is *sacred* money, so please use it only in emergencies.

3. Buy health insurance – Medical innovations are making people live longer. However, costs of keeping healthy are also on a rise. A doctor's fee has risen to match a lawyer's fee!

Thus, buy medical insurance – for yourself and your family (spouse, children, and parents). Even if your employer provides a medical cover for you and your family, buy an independent policy to cover yourself in case you have to quit your current job in the future.

The reason you must buy a cover as soon as possible is that the more you delay, the more you will have to pay as premium.

4. Buy term insurance – No ULIP, no endowment, but buy a term insurance plan.

Of course, you will not get any money back if you survive the insurance period, but please realize that this is the purest and cheapest form of insurance. For instance, if you are around 35 years of age, you can buy Rs 50 lac cover for a premium of less than Rs 10,000 per year.

See term insurance as a "cash flow" insurance – it will ensure the cash flows your family would need to survive, whether you are alive or not.

5. Don't delay saving and investing – Simple calculations show that a 23 year old who puts away Rs 6,000 a year for 10 years at an annual return of 8%, will have around Rs 87,000. If after those 10 years, he stops contributing and does nothing else until he is 60 years old, the portfolio will have grown to around Rs 694,000.

On the other hand, the person who waits until he is 33 to begin investing will need to invest Rs 7,950 for 27 years (till he reaches 60 years of age) in order to have around Rs 694,000.

In total, the 23 year old has to invest Rs 60,000 out of pocket (to reach Rs 694,000 at age 60) versus Rs 215,000 for the 33 year old.

As these calculations show, there are great costs of starting late on the saving and investing path. Therefore, you must start early. As early as possible!

6. Use debt sparingly – Avoid borrowing money to meet your aspirations, except for buying a home. Try not borrowing money to buy liabilities like gadgets, holidays, or even a car. Buy them only if you can use your own money that you may save to buy these.

Even to purchase your home, try to use as less borrowings as possible.

7. Practice Preparation + Discipline + Patience – These will be your three guiding principles while saving and investing your hard-earned money.

Develop into a lifelong self-learner through extensive reading in your free time; cultivate curiosity and strive to become a little wiser every day. If you want to get smart in your financial life, the question you must keep asking is "why, why, why?"

Try to keep things simple and remember what you set out to do. Also, remember that reputation and integrity are your most valuable assets – and can be lost in a heartbeat. So guard yourself against arrogance. Einstein said that compound interest is the eighth wonder of the world.

Never interrupt it unnecessarily. Finally, enjoy the process along with the proceeds, because the process is where you will live.

8. Hold on tight to your reputation – It has taken you years of hard work to reach a place where you have become capable to earn your own bread and support your family. Do not do anything that will destroy this hard work and your reputation. For that, it is very important that you take complete responsibility of your money, and never blame anyone when things go wrong.

Never do anything that makes you uncomfortable. If it does not make sense, if you get a feeling in your gut, or if you just do not understand what someone is asking you to do, just pass on the investment.

Your *first* objective should always be to avoid major losses. If you can protect your capital, you can always find ways to make money.

9. Take care of your health – What is the point of investing in all the assets like skill, knowledge, stocks and relationships if you yourself are not available at the end of those compounding years? Your health, after all, is going to be one of your biggest financial responsibilities in the future. So start taking care of it right away.

10. Celebrate life, not money – Of course, it is good to save and invest as much as possible, please do not compromise your present for a future unknown. This does not mean you try to find happiness in spending money. What it means is that in the busyness of earning, saving, and spending, try to celebrate your life…and your accomplishments. Real success in life is not about what you earn, own, achieve or win but who you will become along the way. Thus, work towards 'becoming', not towards 'having'.

It is your life and only you can make it large. ●

#2. What is the Point of Saving Money?

Jonathan Clements, the much-respected Wall Street Journal columnist, who retired in 2008 after writing 1,008 columns for the newspaper, said that your savings could deliver three key benefits:

1. If you have money, you do not have to worry about it – Well, this isn't something that is guaranteed. I have seen many rich men who are always worried about their finances. However, the real idea is that if you save and invest diligently, you should reach the point where money worries are relatively rare.

2. Money can give you the freedom to pursue your passions – When you picture your financial independence, what do you see? Enjoying your life to the fullest given that you have ensured that your family's needs have been taken care of? Seeing around the world? Working on a cause you are passionate about?

Saving and investing can help you achieve *mukti* (freedom) from all your financial worries, so that you can attain complete peace of mind and pursue your passions.

3. Money can buy you time with friends and family – What are we all living for? When I used to work at a job, the best part of my waking hours was when I came home at night…to my family. Now I stay with them 24×7 while also taking care of them financially.

Research has found that regularly being with your friends and family can provide a huge boost to your happiness. In addition, money can help you in this regard. If you do not need to work or you only work part time, it helps you spend more time with your family and friends, go on regular vacations with them, and spend lot of quality time in their company.

Anyways, as Clements also said, you do not usually need millions of rupees in your bank account to spend time with friends and family or pursue your passions.

So if you are disgruntled with how your financial life is going, here is my advice – **Forget spending more money at the mall – and instead spend more time with friends while saving and investing money regularly. At the end of it, your bank account may still seem inadequate, but your life will be far, far richer.**

That is the entire point of saving and investing.

#3. How Do I Save Money When Everyone Around Is Spending?

Well, this is a problem that is typical for many people around me, and thus yours is not a unique situation. Just consider the case of my friend Rohan.

He owns a three-bedroom apartment, two cars, enough frequent flier miles to send an airline into losses (well almost!), and works with a foreign consulting company. His annual salary of Rs 30 lac, or around 45-times India's average per capita income.

Yet Rohan is not happy. Whenever I meet him, he is, as I put it, caught on the "work- spend treadmill."

So, recently, when he was showing off his latest purchase, a third mobile, and one costing in excess of Rs 45,000, I told him, "Spend less money, my friend."

"But spending money is what makes me happy," he replied.

"You don't have to feel deprived when you spend less money," I said. "In fact, if you keep spending and spending even as your income rises, you'll keep running and running and never get anywhere."

"Why?" he asked in a state of confusion, while playing with his new toy.

"Increases in income can be like that," I said. "Your overall level of happiness doesn't ever progress because you just get used to the new way of life." He replied, "But reducing spending means giving up the good things in life, which I think is difficult to give up!"

I had made up my mind to change his, so I countered, "You see, when you start earning more money, you might drive a Honda Accord

instead of a Maruti Swift, shop at Marks & Spencer's instead of Hypercity, and eat at TGIF instead of Dosa Plaza."

"Yes, that's my point!" he interrupted.

"Indeed!" I said. "So you'll feel a burst of pleasure when your new lifestyle is still novel but eventually you're likely to adjust back to your baseline level of happiness, even though your expenses have permanently increased. In effect, you will always remain on that hedonic treadmill!"

"Now you are confusing me!" he replied, finally keeping his handset aside. "What's this *hedonic treadmill*, and what do you mean I will always remain on it?"

"Well, I read about the "hedonic treadmill" a few years back," I replied. "Wikipedia describes it as…

"…the tendency of humans to quickly return to a relatively stable level of happiness despite major positive or negative events or life changes."

According to this theory, as a person makes more money, expectations and desires rise in tandem, which results in no permanent gain in happiness.

"And how do you get off this hedonic treadmill, Vishal?" Rohan asked.

"Like I did!"

"And how did you do it?"

I told him about my four simple rules…

1. Questioning each expenditure item, especially the big ones.

2. Stepping down my expectations and aspirational spending.

3. Not trying to keep up with the Joneses (there is something satisfying about driving a modest car when you could afford a lot more!)

4. Getting excited about being a cheapskate (yes, it's a virtue not a vice)."

"Great, but what did you achieve out of that?" Rohan asked.

"Rs 25 lac in extra savings over 6 years!"

"Wow! How?"

"You see Rohan, the idea that you need to go bigger to be happy is false," I said.

"I really believe that mindless acquisition of material goods doesn't bring about happiness. And thanks to my willingness to not run on this hedonic treadmill, and thanks also to the due support from my wife, here is how I have saved approximately Rs 25 lac by NOT spending on…

- Bigger house in 2007 – Saving of Rs 15 Lac (that Rs 15 lac would have multiplied by 5 times till-date is another matter, but I couldn't have afforded a bigger house then!)

- Bigger car in 2007 – Rs 5 Lac

- Timeshare holidays in 2009 – Rs 2.5 lac (got lucky, as stopped payment of the cheque at the last moment!)

- Smarter mobile in 2010 – Rs 40,000

- Shiny tablet PC in 2012 – Rs 40,000 (someone then gifted it to me) :-)

- Bright, beautiful toys for kids during 2009-2012 – Rs 50,000 (no peer pressure please!)

- High-end clothes for myself during 2008-2012 – Rs 50,000 (I look handsome in plain cotton stuff)

- Painting the house in 2010 – Rs 30,000 (me and my wife did it) :-)

- Other ego-boosting stuff – Rs 50,000 (first pocket, then ego)

"So total savings of around Rs 25 lac!"

Rohan seemed stunned to see these numbers, and thus I continued," You see Rohan, saving money by not spending it is just one side of the picture. I have not told you about the better, brighter side!"

"And what's that?" he asked, now with a disturbed look on his face.

"Well, it's that this extra saving has helped me…

1. Repay the small loan on my small car
2. Repay the big loan on my big-enough house
3. Erase the constant fear of having someone else deciding my financial future with words like "You are promoted" or "You are fired"
4. Create the confidence to pursue my passion in life
5. Create great amount of time to spend with my family
6. Invest extra towards my future financial goals

"So even as you continue to pay the banks 60% of your income as EMIs," I teased him, "I don't pay a rupee, and instead make my money work for me! Moreover, given that I earn lesser than what I was earning on my job (while saving more), I have become even more careful in spending money. So now, I do not waste money purchasing stuff. Rather, I purchase experiences like travelling the country and enjoying time out with my family."

"You are living a perfect life, huh!" he said, this time seemingly jealous.

"Not perfect dear, for I have my own anxieties, fears, downtimes, pains, and emotional sufferings…but then someone said that perfectionism is slow death! Therefore, my life is not perfect, but I surely am financially free (well almost, as I still work an hour or two a day for money)!

And that's a great starting point for solving a lot of a man's problems!"

"Hmm!" said Rohan while packing away the mobile handset in its box. "Let me tell you one final secret Rohan," I said.

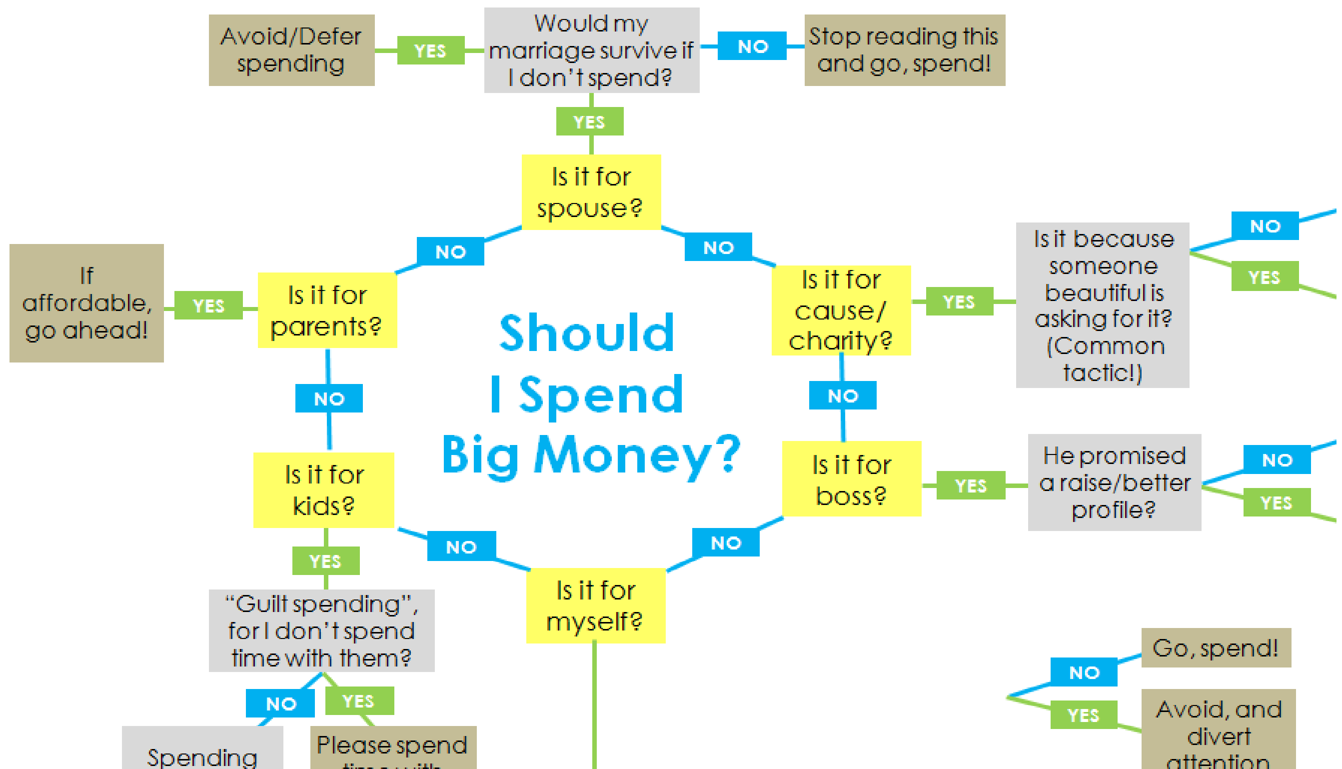
"What's that?"

"Well, since I don't need to spend a lot of money to enjoy life, I don't need to spend a lot of time getting a lot of money. And that's why you can come home anytime to discuss how you would plan to come off your own hedonic treadmill."

I then shared with him a flowchart that has helped me a lot in saving a lot of money by leading me to NOT spend a lot of money on things I now consider frivolous.

Click here or on the image below to download the flowchart. It may not be a perfect one that solves your spending problems, but it has helped me a lot in saving those "extra" Rs 25 lac over the past six years.

In the chart, start reading from "Should I spend big money?"



(Want to save the full image? Click on the image above, then right-click, then click "Save image as…")

If not soon, I am sure this chart will help you get off that hedonic treadmill as fast as possible.

You see, this process is not about making yourself into a miser. It is about spending wisely and within your means so that you can achieve your financial goals a bit faster.

Now I am sure you want ask, "Can we all build wealth by just saving?"

You see, anyone can build wealth by being frugal and saving money. Wealth building can mean more than just earning a bigger paycheck. It also means knowing how to save more effectively, and how to use the money you have already saved to work for you.

One of the most important things you can learn in life is how to save money. You cannot begin to save unless you know where your money

is going. It is the first step to getting where you want to be. You just have to put your mind to it. Once you start, it gets easier and easier and before you know it, you are on your way to making your dreams a reality.

Set a savings goal and make a plan to save. ●

#4. What Should I Do With My Savings?

Allocate it well.

Here are four time-tested rules of allocating your savings into different asset classes –

- **Rule 1:** If you need the money in the next year, it should be in cash. Do not invest that money anywhere, not at all in the stock market. You do not want the down payment for your home to evaporate in a stock market crash. So keep it in a savings or liquid account.

- **Rule 2:** If you need the money in the next 1-5 years, choose safe, income-producing investments such as fixed deposits, bonds, and recurring deposits. Whether it is your kid's college money or the retirement income, you will need in the not- so-distant future, stay away from stocks. Shop around for the best rates; your local bank may not offer the best deal.

- **Rule 3:** Any money you do not need within the next 5 years is a candidate for the stock market.

- **Rule 4:** Always own stocks (directly or through mutual funds). Over the long term, equities/stocks are the best way to ensure that your portfolio withstands inflation and your retirement spending.

According to Jeremy Siegel's book, Stocks for the Long Run, since 1802 stocks outperformed bonds in 69% of rolling five-year investment periods (1802-1807, 1803-1808, 2005-2010 etc.).

The percentage of the time that stocks beat bonds only improves as you look over a longer horizon.

So invest your long-term money there…and a large part of it.

#5. When Should I Buy A House?

Buy a house *only* when you plan to live in it, and ensure that the EMI you will pay will not be more than 40-50% of your net take home pay.

In addition, if you can stretch a bit while keeping your EMI within this level, buy a bigger house then you need now. So, if you think a 2BHK would be sufficient now, if your income allows, buy a 3BHK, for that is what you will need when your family grows in the future (talking purely from my personal experience). Nevertheless, do not let the EMI burn a big hole in your savings. Max 50%.

#6. Do I Start Investing Directly in the Stock Market? It Looks Exciting!

NO!

Stay away from directly investing in stocks *until* you understand how to pick good stocks/businesses on your own. You may find many people like you starting to trade the stock market with their very first salary cheque. That is dangerous!

First, know what kind of a person you are. As they say, "If you don't know about yourself, the stock market is a dangerous place to find out."

So, while you learn how to pick quality stocks, start with carefully selected low-cost mutual funds.

Nevertheless, start. Do not wait. ●

#7. How Do I Identify Good Mutual Funds?

Here are five checkpoints that can help you identify good funds –

1. **Look for funds with track records spanning both positive and negative market environments,** which is generally true for funds that have been around for at least 10 years. Do not even look at funds that have done well in the short-term, because their returns are exactly that – short-term. Long-term returns are most predictive of future performance, and thus you should look for funds that have been around for a significant amount of time and have a good track record to draw on.

2. Mutual fund management fee (expense ratio) can eat a lot into your long-term return. Thus, it is important to **find low cost funds.** Clearly, cheapness alone does not guarantee success – but it one of the necessary conditions for long-term success. Anyways, while inexpensive funds should be a crucial aspect of your mutual fund search, you should not make cost your only criterion.

3. I give a lot of weight to fund managers while searching schemes for my portfolio. **Seek fund managers who have been investing for years, if not decades, instead of with managers who are still learning on the job.** Try to find the manager's performance over the long haul (usually 10 years) with the same fund, and how well he has outperformed the markets during this period. Of course, any manager can have 1-2 great years, but consistency is what you must look out for.

4. Like excessive trading (buying and selling…buying and selling) can cut short your returns from stocks, it has the same impact on mutual funds. Thus, **look for funds with low churn/turnover ratios than their peers.**

5. **Look whether a well-performing mutual fund is has stuck to its winning strategy for long or not.** That sounds simple, but many

funds have a lot of trouble sticking to a core approach. As a policy, I stay away from thematic/sector funds because even when a sector is poised to do poorly in the future, the fund will have to remain invested in the relevant companies. Or else, out of frustration, the fund manager might try to do foolish things and look across the border, to stocks from other sectors.

#8. My Dad Asked Me to Start SIP in Mutual Funds. What's That? Is That Good?

SIP stands for Systematic Investment Plan, which is a term used for regular, monthly, and fixed investment of a specific amount into a mutual fund scheme.

Since SIPs are automated – a specific amount, say Rs 5,000 – is automatically transferred from your bank account to the mutual fund – it also keeps emotions out of investing, which is of great help when you are looking to invest for the long run.

In addition, SIPs take away the pain of timing the market. Getting in and out of stock market sounds great but nearly impossible. Playing the game is the best way to go about it. Regularly investing in your chosen funds via SIP is a great way to play the game.

In fact, Ben Graham, the father of sensible, stock investing, in his masterpiece 1955 interview "How to Handle Your Money", suggested that Dollar Cost Averaging – or SIP – is the "soundest and most simple plan" when it comes to a small investor growing his money.

He also suggested that you should start SIPs whenever you want, but as early as possible. This is because the benefits of SIP investments are seen over a long-term period – 10 or more years.

#9. Tell Me More About The Stock Market? Is It Like A Casino that Many People Think It To Be?

You see, the original design of the stock market was purely capitalist in intention. The stock market was created to provide a means for business people – entrepreneurs, inventors, developers – to obtain needed investment capital, to start or to expand their businesses.

So stocks were issued, bankers and other investors bought the stock, and the businesses made use of the invested money. However, once a business started flourishing and was producing a profit, it returned the money back to the stockholders so that it could be used by other enterprises. Over the years however, this last part of the process was completely forgotten.

As years passed, the brokers quickly realized that they could make lots of easy money in trading shares back and forth. They became middlemen, in charge of the flow of capital, earning their commission on every transaction. As we see now, the game is no longer about capital and businesses, and has become one where everything is centered on the flow of money from one investor to another, instead of one business to another. And in this flow, while investors get doomed repeatedly, brokers always make money!

This is exactly as it happens in a casino. One gambler gets rich at the expense of others, but ultimately loses it all. But whatever happens, the broker (the casino) always wins.

"So there's no difference between the stock market and casino?" you may start to wonder.

Well, not much!

One difference is that slot machines are replaced by colored and confusing graphs, and the loud ring of the jackpot alarm bells is replaced by scary headlines in business channels and newspapers.

However, stockbrokers earn their commissions from the flow of traffic, just as in the casinos.

In addition, like in a casino, gamblers bring in lots of money and leave a portion of it behind (most often everything they came with), thinking that they had a good time. So, the money goes into the stock market casino, but one question never seems to be asked or answered: Where does all that money go?

When a stock crashes 50% or 80%, all investors and speculators lose their money. But where does this money go? Of course, these are paper losses, but a significant part of these are real gains for the brokers, who continue to make their bucks while everyone and his mother is selling stocks like crazy.

Coming back to the question whether the stock market resembles a casino, I have realized over the years that the question is deeper than it appears. When I was asked this question a few years back, I used to reply, "No! Casinos are for gamblers and the stock market is for investors."

However, what I have realized over these years is that there indeed are some similarities as well as differences (as we just discussed above) between the two. The closest similarity between the two lies in the mindset of the players/gamblers. Gamblers go to the casino hoping for the big win. We all hear about the person who went in poor and left the casino with millions. This seems an easy way to get rich.

What we fail to understand is the enormous odds against such a huge win. However, we remain hopeful and optimistic, and so casinos thrive.

"I would be the next millionaire!" is what all gamblers think until the time they come out of the casino. Unfortunately, the stock market has become like a casino for too many people, as the data from SEBI (the Indian stock market regulator) also suggests.

"Haven't you heard about the guy who bought an unknown stock on a tip from his brother's friend's colleague and watched it turn into the next Infosys," asked a friend. "I wish I was that guy!"

With such a thought, which most people in the stock market have, they buy a stock. Then they check the ticker every 10 minutes for the next month, just like the gambler watching the wheels turn on a slot machine, waiting for that "Yes, I'm the millionaire!" moment. If it does not pay off, they speculate on another stock, just as a gambler goes to another slot machine to try his luck. However, the market does not operate exactly like a casino. The gamblers think it does.

In a casino, the longer you play, the more you will lose (remember, the house always wins!). However, in the stock market, the longer you play, the more likely you are to win.

Of course, you will hear stories of people who made a quick killing in the stock market, just as there have been people who left the casino with millions, but always remember this for a fact – these are exceptions, not the rule. The rule is that you can create wealth from the stock market only by buying quality businesses and holding them over the long run.

So my answer to the question – Is stock market a casino? – is not "No! Casinos are for gamblers and the stock market is for investors." The answer is – "You must know the difference and not try to treat stock market like a casino."

It's akin to asking – Is fire dangerous? Yes, it is and no, it is not. Using fire, you can cook a man's food and you can cook a man! Depends on how you use it. If you treat the stock market like a casino, you will be a loser in the end. And if you don't, you'll be a winner. It is entirely up to you. ●

#10. My Uncle Says Investing in Stocks is Risky. Is that Correct?

Investing 'sensibly' in stocks is *not* risky.

Stock market is made out to be a troublesome place by the number crunching, jargon-filled analysts, fund managers, financial advisors, and other stock markets experts. After all, if they do not make you believe that investing is risky, how will they ever be able to sell you their wares – stock tips, mutual funds, and bad financial products?

The common perception amongst most individuals I have met over the years is that investing is way too risky. Most of these people nurture the dream of becoming rich one day. But ask them how they plan to do it, and the common answer is – "By working hard and earning money."

See, hard work is definitely a virtue. But why not let your money also work hard for you? It's, after all, your servant. And the only way you can handle the role of a master is by making your money work hard for you…by letting it grow faster than inflation.

Now, I am 'not' saying that investing is not risky. It is! But only if you are ignorant about the subject and still try your hands at it. If you do not understand it, or if you are not properly educated on the risks involved, investing can be incredibly dangerous.

Just ask someone who lost a lot of money during the 2000 or 2008 stock market crash, what he knew about investing in the stock market except that he was acting on free and hyped-up stock tips received from friends, relatives, business channel experts, and brokers.

As you will arrange a swimming coach for your child who wants to learn swimming, you must get yourself educated if you want to learn about and pursue investing. You can find a lot of mentors (investing legends like Warren Buffett and Ben Graham) and a lot of literature

(their books, shareholders' letters etc.) that can help you in your investing education and training.

Warren Buffett once said – "Risk comes from not knowing what you're doing." By educating yourself in investing, you will know what you are doing. And that will take away a lot of risk from your investment decisions.

Therefore, investing in stocks is not risky if you know how to do it the right way. It is taking advice from people who do not know what they are talking about all the time…that is risky.

And the biggest risk is…not investing at all.

#11. I'm Scared of Losing Money. Should I Still Invest in the Stock Market?

We are all scared…of some things…and many things. I have never seen an investor, or any person who has no fear.

But over the years, I have realized one very important thing. It is that, in our life, the issue is not really 'fear' but rather, what we do *despite* it.

We can either be managed by fear, or manage it. We can either acknowledge fear or fall into an emotional whirlpool. We can either accept fear or pretend that it does not exist at all. We can either give up or get up in the face of fear. Of course, your response to fear will be different from mine, but what will be common between the two of us is fear itself.

Fear is an unavoidable part of being human. It is a daily reality. But is fear our real enemy? No!

We have bigger enemies to face off…like procrastination, laziness, giving up, and making excuses to not start something. Fear is just fear. In fact, fear is what keeps us safe at most times in our lives. As the legendary investor Charlie Munger says, "*All I want to know is where I'm going to die so I'll never go there.*"

So only if I am fearful of dying at some place – a business, a stock, a relationship, or anything – I will avoid going there. Better, I will take baby steps to understand that that place is safe and will not kill me. Therefore, you still need to be fearful. Fear is not an enigma! Nevertheless, to get over your fears, you need to be courageous.

Now, being courageous is *not* the same as being fearless. Being courageous as an investor does not to mean going all out and speculating in derivatives and things you do not understand. Being courageous as an investor is not about borrowing money to invest in stocks you think can multiply your wealth. Being courageous as an

investor simply means you get over your fear, and invest your money sensibly. But just do it!

When you are starting out as an investor, or looking to make your next decision in life, do not get paralyzed by fear. Remember, fear will keep you out of harm's way. All you need to have is the courage to manage it.

Now, nobody can give you the courage. Even if Buddha were sitting right here next to you, he could not give it to you. You have to practice it and realize it yourself. You have to make a habit of mindfulness practice to get over your fears.

Then, when fear strikes you, you will already know what to do.

#12. But What If I Fail As An Investor?

Well, let me tell you the story of my friend Rajiv who, a few years back, had his eyes set on finishing the Mumbai half-marathon (approx. 21 km) in less than 180 minutes. So, when he crossed the finish line in 160 minutes, it was something of a major triumph for him. He was genuinely happy.

One another friend, Sameer, ran the same distance and recorded the exact same time of 160 minutes. However, unlike Rajeev, this person was disappointed. Why? Because he wanted to cover the distance in 150 minutes or less. Sameer described his experience as a failure and as a result, his mind and body language were both a reflection of his belief (the belief that he had failed). He could have labelled his run many things but he chose 'failure'. He believed it as a failure. He lived it as a failure. No wonder he was genuinely miserable.

As an investor, I have been guilty of living such a *labelled* life many times over in the past.

Therefore, when I expected a 20% annual return and ended up with 21%, I proudly labelled it 'victory'. But when I expected a 30% return and closed with 25%, it was labelled 'failure'.

Over the years, I have come to realize the immense power in the labels we put on each of our life events. I could have called my 'failure' a lesson, or simply, an experience. In reality, my misery was not about the stock I picked or the return I earned; it was about me. Like in Sameer's case, his misery was not about the run or the time he clocked; it was about him.

If the time (150 minutes) was the cause of the misery then everybody who recorded that time would have 'failed' also. Clearly, they did not. Like everyone who earned a 20% return from that stock wasn't a failure just because a moron (that is me) expected to earn a 25% return!

You see, our miseries in life are not about poor returns we earn in investing or slow time we post in marathons but rather the labels we attach to each of our achievements, and the herculean power we give to such labels. We are just a speck in this wonderful creation of God called Earth. But the size we accord to a small failure (or even a success) is sometimes bigger than what the entire Universe can hold into itself. Now, can you choose *not* to fail?

Let me tell you something. I have learned many life lessons just seeing my daughter grow up. Like when she was just a year old and was trying to take her first steps and repeatedly fell down, she tried again…and again…and again. Sometimes she laughed. Sometimes she cried. Sometimes she laughed and cried at the same time. But she kept trying and trying…laughing and crying. She did not labelled her experience. She just enjoyed it.

Unlike us adults, our babies do not know the possibility of a failure, so they happily keep falling down until one day they take a few steps, and then a few more. Before long, they are jumping and running. All their trying pays off. They fall but never fail.

As grown-ups, what if we also simply choose not to fail? As an investor, what if you can shrug off a loss from a stock, tell yourself, "Well, let me work harder to find another opportunity," and simply let it go – instead of saying, "Oh, investing is not my cup of tea, so let me avoid it!"?

I think the biggest problem we all face in our lives – investing or otherwise – is that we fear to start doing things just because we fear to fail…because we give too much power to the label of "failure". What life has taught me is that stuff happens (and sometimes shit happens!), but we do not need to give each of our experiences a label.

Good, bad, hard, easy, success, failure etc. do not exist but as labels in our minds. All we need to do to hold our head high is to break through these labels.

#13. Does Patience Really Pay in Investing?

It is true that investing in the stock market is a sucker's game in the short term, and there is a far greater chance that you will lose it than win it. This is precisely the reason why the world's best investor Warren Buffett's favorite holding period is 'forever'.

Now, that is important, because it captures two of Buffett's key beliefs:

1. Compounding is powerful, and
2. Whatever happens in the short term is completely out of your control.

"Buy a business, don't rent stocks," Buffett has been advising for years. Then he adds, "An investor should ordinarily hold a small piece of an outstanding business with the same tenacity that an owner would exhibit if he owned all of that business."

If you seriously want to build wealth from the stock market over the long run, take this advice from Thomas Phelps (author of "100 to 1 in the Stock Market") to your heart – "Buy right and hold on."

After having bought a quality business for your portfolio, remember what the former American president Ronald Reagan once said – "Don't just do something, stand there!"

Phelps concludes the first chapter of his book with this powerful thought from George F. Baker – *"To make money in stocks you must have "the vision to see them, the courage to buy them and the patience to hold them."*

Patience is the rarest of the three, but it pays off in the end. That is how fortunes are made in the stock market. ●

#14. Doesn't Investing In Stock Market Requires Me To Have An Edge Over Big Investors?

As an entrepreneur, here is what I count amongst the best advice I ever received on the concept of how managers can make best profitable capital allocation decisions for significant value creation.

This comes from Amazon's Jeff Bezos –

If everything you do needs to work on a three-year time horizon, then you're competing against a lot of people. But if you're willing to invest on a seven-year time horizon, you're now competing against a fraction of those people, because very few companies are willing to do that. Just by lengthening the time horizon, you can engage in endeavors that you could never otherwise pursue. At Amazon we like things to work in five to seven years.

Note the big idea here – "*Just by lengthening the time horizon, you can engage in endeavors that you could never otherwise pursue.*"

This is also true when you are investing in the stock market. Just by lengthening the time you stay with good quality businesses – or businesses that remain good – you can create wealth you could have never thought of, and by the time you need that wealth.

Like the CEO of a privately held company who can make decisions for the future without worrying about next quarter's earnings, you can use *time arbitrage* to benefit from time-tested investment processes without the worry, and often financial damage that comes from recklessly chasing quick returns.

Your Biggest Edge
There are three main sources of edge you may have as an investor –

1. **Informational –** What you can know that others don't know

2. **Analytical –** How you can process what is known better than others
3. **Behavioural –** How sensibly you can behave as compared to others

Now, it is rare to possess all the three edges. It is not impossible, but rare.

In markets that are mostly efficient, having an *informational* edge is difficult. Many people are doing all they can to talk to customers, suppliers and industry experts to glean further insight in to a company or an industry and profit from anomalies. Then, if you claim to possess too much of an informational edge, you run the risk of a face-off with the stock market regulator on the issue of insider information.

Then, as far as *analytical* edge is concerned, it can be obtained through extreme smartness and hard work. Having such an edge means that even if you have the same information as everyone else, you will be able to process it better than others and see what the market doesn't see. But having such an edge is also really hard, because there are a lot of very smart people motivated to analyze things better and faster than you. You will realize this if you are intellectually honest.

Therefore, the high degree of analytical competition renders this edge a non-edge in the end. Michael Mauboussin addresses this concept in his book, The Success Equation, where he writes –

The key is this idea called the paradox of skill. As people become better at an activity, the difference between the best and the average and the best and the worst becomes much narrower. As people become more skillful, luck becomes more important. That's precisely what happens in the world of investing.

Anyways, that leaves the final source of edge an investor can have i.e., *behavioural*, or how you behave. Therefore, while many investors

may have the same information as others, or have the same analytical rigour, they behave differently.

And most of how you behave is determined by how patient you are in real life and whether you have adequate time and *staying power* available with you. Most people are not patient when it comes to the stock market, and despite knowing the pitfalls of behaving badly.

Now, when it comes to staying power, here is how Prof. Sanjay Bakshi defined it in a recent post –

From the vantage point of the investor, staying power comes from:

1. *Large number of years left to invest.*

2. *Ability to handle volatility through financial strength – low or no debt and significant disposable income preventing the need to liquidate portfolio during inappropriate times.*

3. *A frugal nature.*

4. *Ability to handle volatility through psychological strength.*

5. *A very long-term view about investing.*

6. *Structural advantages – investing your own money or other people's money who will not or cannot withdraw it for a long long time.*

7. *Family support during tough times.*

As you can see from the list above, most factors that create staying power for you as an investor are related to how you behave.

And the reason this is a great edge you have against the big, institutional investors – who otherwise may have analytical and

informational edges – is that your behaviour is completely under your control as against the latter who often behave (frequently irrationally) how their clients want them to behave.

If Mr. Market and its other participants are discounting things 12-15 months down the line, and if you can look out 5-10 years, you will have a time arbitrage advantage, which is a structural advantage to have.

In short, as an individual, small investor, if you are…

1. Not chasing unreasonable returns, and
2. Invest money that you won't need for the next 8-10 years

…you are perfectly placed to benefit from time arbitrage and take opportunities handed to you by others who are…

1. Chasing unreasonable returns and are thus more prone to making serious mistakes (if their expectations are not met),

2. Investing borrowed money that they must return, even if the markets are bad, and

3. Investing under an institutional setup and thus suffer from institutional compulsions like short term incentives.

How bigger and better an edge can you have?

To quote Warren Buffett –

The stock market is a no-called-strike game. You don't have to swing at everything — you can wait for your pitch. The problem when you're a money manager is that your fans keep yelling, "Swing, you bum!"

That is about swinging (buying a good quality business) when the price is right. Then you let time take over.

To quote Buffett again…

Time is the friend of the wonderful company, the enemy of the mediocre.

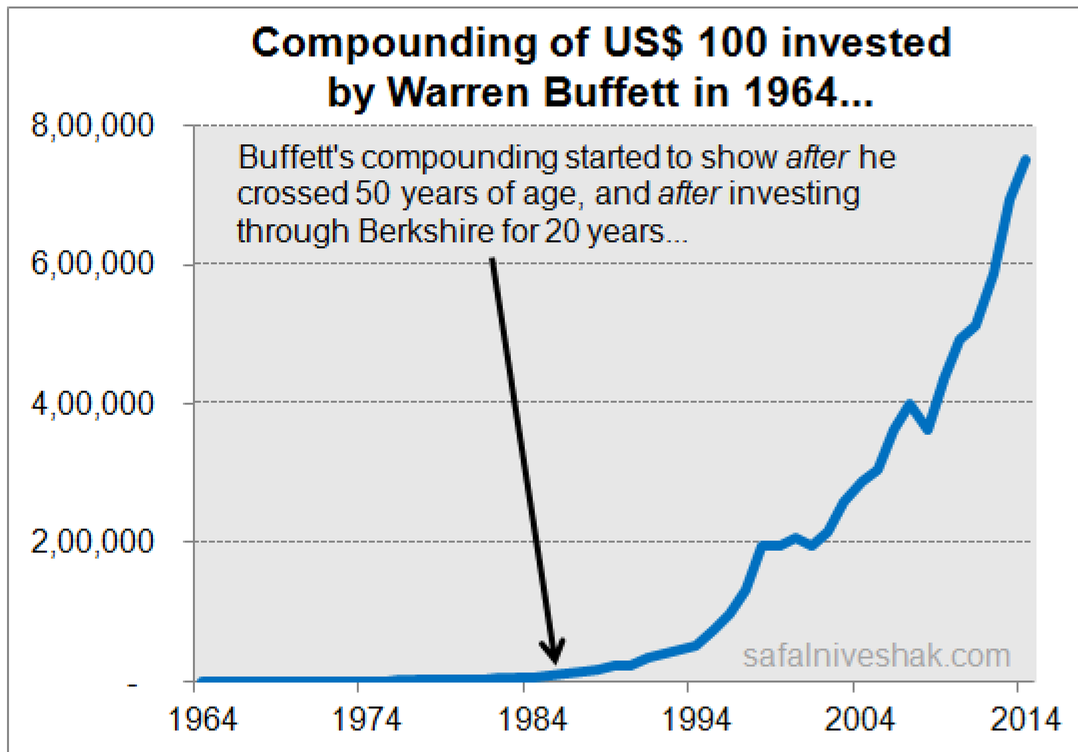
Time is also your wonderful friend, dear investor. You only need to trust in it, and let its magic work.

If you can spot a great value (you can learn to do that), you just need to buy it and then sit as long as it remains good value (difficult, but very much possible). This is the single-most profitable form of investing in the world.

It's Not Easy, but Very Effective.
I will be honest here. Time arbitrage is not easy. A few months of a falling market or seeing your stocks going nowhere can feel like years. The impulse to "do something" can be overwhelming. Unfortunately, that impulse, more often than not, would hurt your long-term returns.

Time arbitrage, on the other hand, yields tremendous financial and psychological benefits for those with the discipline to hold fast against the noise. This is an edge worth cultivating. It costs nothing but time and can be applied by anyone, including you.

I would leave you with this chart of how Buffett compounded during his 50+ years at Berkshire…



Note from the chart that his compounding began to show *after* he crossed 50 years of age, and *after* investing through Berkshire for 20 years. When you imagine yourself at 85, as Buffett is today, you may not see yourself come even a distant close to what he has achieved over these years. But like he did, if you can start early and keep at it, when you are 40 or 50, you would realize that you did yourself a great deed by giving your wealth *time* to grow, and a lot of it. If you are *not* dependent on investing for your living, please do not try to go for the kill. Be bold at your work so that you earn more, save more, and thus invest more. Do not try to act bold in the stock market.

As Howards Marks said – "*There are old investors, and there are bold investors, but there are no old bold investors.*"

You got the point, right? ●

#15. Are There Any Secrets To Winning Big In Investing?

Charlie Munger, business partner of Warren Buffett and vice chairman of Berkshire Hathaway, last year did an interview with Jason Zweig published by the Wall Street Journal.

Here are the six simple but big-big ideas I have pulled out from this interview. These ideas are all you need to become a smarter investor, if you can ingrain these in your investment philosophy and practice them while making your decisions.

1. It's All About How You Behave.

"I think we have had a temperamental advantage: Warren and I know better than most people what we know and what we don't know. That's even better than having a lot of extra IQ points."

Ask any successful investor his secret of success and you would know that the most important quality for an investor is temperament – how he behaves under different situations – not intellect.

In simple words, as an investor, your attitude will play a major role in your investing success than your aptitude.

2. Know What You Don't Know

Confucius said that real knowledge is knowing the extent of one's ignorance. Aristotle and Socrates said the same thing.

Is it a skill that can be taught or learned? It probably can, if you have enough of a stake riding on the outcome.

Some people are extraordinarily good at knowing the limits of their knowledge, because they have to be. Think of somebody who's been a professional tightrope walker for 20 years – and has survived.

He couldn't survive as a tightrope walker for 20 years unless he knows exactly what he knows and what he doesn't know. He's worked so hard at it, because he knows if he gets it wrong he won't survive. The survivors know.

Knowing what you don't know is more useful than being brilliant.

Tom Watson [the founder of IBM] said – "I'm no genius. I'm smart in spots and I stay around those spots."

The entire idea about the Circle of Competence concept is to help you find your spots, which is so very important to your success as an investor. And that's exactly what I have explained in this short video.

3. Two Secrets of Successful Investing

You have to strike the right balance between competency or knowledge on the one hand and gumption on the other. Too much competency and no gumption is no good. And if you don't know your circle of competence, then too much gumption will get you killed. But the more you know the limits to your knowledge, the more valuable gumption is.

4. Power of Patience

It's waiting that helps you as an investor, and a lot of people just can't stand to wait. If you didn't get the deferred-gratification gene, you've got to work very hard to overcome that.

"If we are facing in the right direction, all we have to do is keep on walking," goes a Buddhist proverb.

It captures the essence of how we can train ourselves to be patient, in life and while investing our hard-earned money. Look at patience like a muscle that grows stronger as we exercise it.

So if you want to become a patient investor, it's important you first practice patience in your daily life. Impatience is the number one

enemy for any investor and patience is possibly the greatest virtue an investor can have.

Always remember that life might be a race against time but it is enriched when we rise above our instincts and stop the clock to process and understand what we are doing and why.

A wise decision requires reflection, and reflection requires a pause.

5. You Don't Need to be a Genius
Warren and I aren't prodigies. We can't play chess blindfolded or be concert pianists. But the results are prodigious, because we have a temperamental advantage that more than compensates for a lack of IQ points.

If genius was what was required to make money from stocks, the stock market experts would've become rich by investing their own money and not selling worthless stock advice to gullible small investors.

But it doesn't happen that way, right?

6. Avoid Derivatives
It's like the slaughter of the innocents. It makes the people who run Las Vegas seem like good people.

Well, I have nothing else to add.

#16. How Do I Avoid Getting Cheated By Bad Investment Advice?

Let me talk about an experiment the noted neuroeconomist Dr. Gregory Berns did along with his colleagues in 2009 on what happens when we listen to an 'expert' we trust.

He asked people to pick between a sure win and a series of gambles. A functional magnetic resonance imaging (MRI) scanner tracked the changes in blood flow in their brains as they made their choices. In 50% of the instances, an 'expert economist' with impressive credentials suggested which option was better; otherwise, people made up their own minds.

When people had to think for themselves, two networks in their brains activated. One that determines the payoff from a sure win, and one that that calculates the likely gain from a gamble. These are the areas of our brain that normally make decisions by combining the value of:

1. What you have,
2. Your fear of loss, and
3. Your hope of gain

However, something interesting happened when people that were part of the experiment listened to the expert's advice.

The activations in their brains faded! In simple words, the three bulbs that earlier lighted up (bulbs of – what I have, my fear of loss, and my hope of gain), did not light up when people listened to the expert's advice. Amazingly, these bulbs stayed quiet even when the expert's advice was bad!

Dr. Berns' concluded that when we make financial decisions on our own, our brain's regions for evaluating risk and reward are active.

But when we take advice from an expert, two things happen.

First, the networks in our brain that earlier alerted us on what we had, our fear of loss, and our hope of gain, do not get activated.

Second, our choices move toward whatever the expert recommends.

In short, Dr. Berns' summed it up that…

"…the mere act of seeking an expert's opinion may erase our own. In the presence of a financial advisor, our brain can empty out like a dump truck.

Now you can imagine what happened to all those sophisticated clients of Citibank in Gurgaon who lost crores at the hands of just one Shivraj Puri a few years back. These were highly educated people and at high positions in the corporate world. But their brains failed to fire up just because they were mesmerized by the advice – and the promise of high returns – from their relationship manager, which led then to huge losses.

As Dr. Berns puts it…

You should beware of people offering advice not only because they might be wrong, but because that advice may inhibit your own ability to form judgments.

So does that mean you must never listen to a financial advisor? No, I am not saying that!

None of what Dr. Berns suggests means that consulting with a financial advisor is an inherently bad idea. What I have tried to tell you is this. If you have strong beliefs about what investing strategy is right for you, you should write down your reasons for those beliefs before you sit down with an advisor.

Then, when you meet or speak with the advisor, commit to no course of action that makes you uncomfortable. Only after you have had a chance to review it later, away from the direct influence of the advisor, should you accept or reject any major change of strategy.

You see, some advisors are sometimes right and there are some who are often right.

But the responsibility is upon *you* to determine whether you agree with your advisor once your brain is clicking again, and not when it is acting like a dump truck mesmerized by what he advised. After all, even he is a human being and even his brain works with the same constraints as yours.

Do not treat him like a super-human, and keep your brain on alert mode when he is advising you stuff. ●

#17. How Do I Choose A Good Financial Advisor?

Well, here is what the father if value investing, Ben Graham, once said in an interview –

"Most security buyers obtain advice without paying for it specifically. It stands to reason, therefore, that in the majority of cases they are not entitled to and should not expect better than average results. They should be wary of all persons, whether customers' brokers or security salesmen, who promise spectacular income or profits.

These words from one of the most successful investors who ever lived and one who remains the most influential investment thinker of all time, is a telling statement on the way an investor must go about identifying the right financial advisor.

Especially in the wake of numerous frauds and acts of greed that have hurt investors in the past, it is of great importance that you be very careful while choosing a financial advisor for yourself.

While there are no clear-cut standards of doing so, I will suggest some points to be kept in mind, and some questions to be asked, which will help you in making a good, well thought-out decision.

Let us get started right here.

How to Choose the Right Financial Advisor?

Many investors take comfort from the experience and second opinion that a good financial advisor can provide. The right advice can give just the psychological boost you need to keep investing sensibly at a time when other investors are losing their heads. While looking for the right financial advisor for yourself, you should have the following two goals:

1. To determine whether he cares about helping you or just goes through the motions;

2. To establish whether he understands the fundamental principles of investing and is sufficiently educated, trained and experienced to help you.

Here are some questions you must ask to a financial advisor to understand whether he scores well on the above two requirements:

1. Why are you in this business?

2. Do you believe in the short term, and do you use market timing? (A "yes" response to either of the last two questions is a "no" signal to you.)

3. Do you focus solely on asset management, or do you also advise on taxes, retirement planning, debt management, and insurance?

4. How do your education and experience qualify you to give advice in those areas?

5. How do you choose investments? What investing approach do you believe is most successful?

6. What is your interest in recommending this investment to me?

7. Have you bought this investment in your personal account? If not, why are you recommending it to me?

8. Can you offer some proof of your investing success for your clients?

9. What do you do when an investment performs poorly for an entire year? (Any advisor who answers "Sell" is not worth hiring.)

10. Do you, when recommending investments, accept any compensation from any third party? If yes, under which circumstances?

11. Do you consider yourself financially successful? Why? How do you define financial success?

12. How high an average annual return do you think is feasible on my investments? (Anything more than 10-15% is unrealistic.)

13. Will you provide me with your resume, and at least three references?

See, it does not matter if you are a beginner or have been investing for many years. It is never too early or too late to start asking questions before you zero in on your financial advisor.

It is almost impossible to ask a dumb question about how you are investing your money.

Do not feel intimidated. Remember, it is your money at stake.

Do not fall into the trap of unbelievable promises of super-sized returns. Instead, look for an advisor who cares about your money as he would care about his.

#18. Is NOW The Right Time To Invest In Stock Market?

Let me tell you whether now is the right time to invest in the stock market. But before that, here is a study I did some time back that will try to answer your question whether now is the 'right' time to invest in stocks. The results of this study have been amazing, and very close to what I have been suggesting people to do all these years.

First, here is my research on the performance of four long-term investors following very different investment styles. Each invested Rs 1,000 per month starting December 2001 and until September 2011, and left whatever they invested in the market.

Check out how they fared:

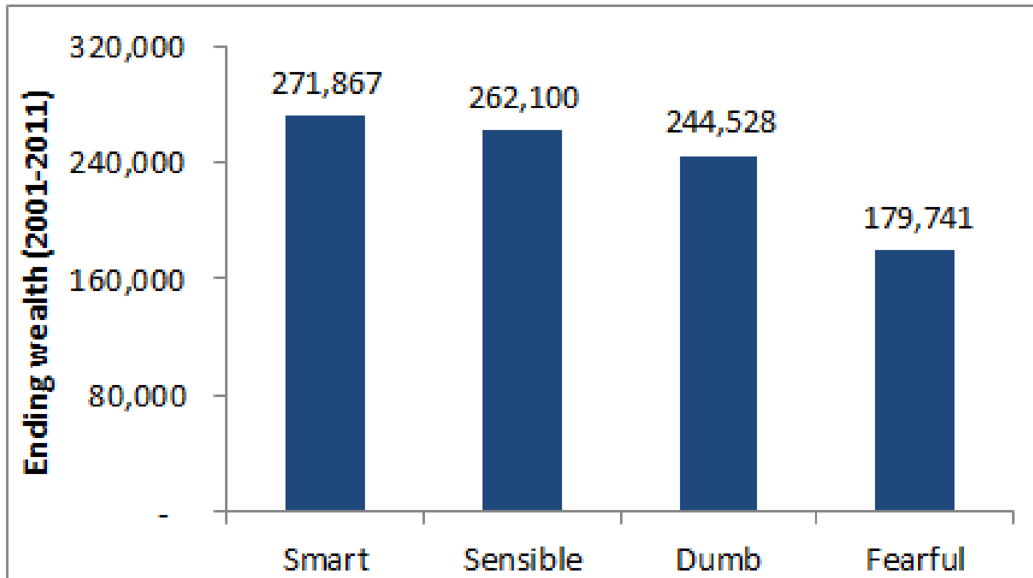
- **Mr. Smart** has been a perfect market timer. With incredible skill (or luck), he was able to place his Rs 1,000 into the market at the lowest level of the Sensex every month.

- **Mr. Dumb** has had incredibly poor timing – or perhaps terribly bad luck. He invested his Rs 1,000 each month at the Sensex's highest level during that month.

- **Mr. Sensible** took a simple, consistent approach. On the first trading day of each month, he invested Rs 1,000 without bothering what the markets were doing.

- **Mr. Fearful** has played it safe and has invested Rs 1,000 every month in fixed deposits. For simplicity's sake, I have assumed that these deposits have yielded him 8% interest every year, which in itself is a high –enough assumption.

Now look at how each of these fared over this 10-year period…



Note: Ending wealth is calculated over a period of 118 months, starting December 2001 and ending September 2011. So the total amount invested by all these four investors was Rs 118,000.

The results are in: Investing sensibly paid off!

For the winner, look at the graph, which shows how much wealth each of the four investors had accumulated at the end of roughly 10 years.

Naturally, the best results belonged to Mr. Smart, who waited and timed his annual investment perfectly. His total investment of Rs 118,000 stood at Rs 271,867 at the end of our calculation period (September 2011). But he was unbelievably lucky to have invested at the lowest level of the Sensex month after month. You do not get so much luck in investing anyways!

Anyways, even if you are as unlucky as Mr. Dumb, you will not fare that bad. This is given that even after investing at the highest point of the Sensex every month, Mr. Dumb's returns were lower by just around 10% as compared to Mr. Smart's 'lucky' returns!

But the study's most stunning findings concern Mr. Sensible, who came in second with Rs 262,100, or only 4% less than Mr. Smart. This relatively small difference is especially surprising considering that Mr. Sensible

had been extremely disciplined in putting his money to work at the start of every month – without any pretense of market timing.

The worst performance however came from Mr. Fearful, who kept waiting for a better opportunity to buy stocks – and then did not buy at all! He fared worst of all, with only Rs 179,741 to show for his wealth after a long 10-year period. His biggest worry had been investing at a market high.

Ironically, had he done that each year, he would have still earned almost 36% more than what his 'safe' investments earned him.

You got my point, right?

It does not pay to look for the 'best time to invest' unless you have this divine knowledge that you are going to be very lucky with your investments. The best course of action for most of us – as it comes out from the above results – is to create an appropriate plan and take action on that plan as soon as possible.

It is nearly impossible to accurately identify market bottoms on a regular basis. So, realistically, the best action that a long-term investor can take, based on the above study, is to invest in a systematic, disciplined way, regardless of the level of the stock market. Of course, the stocks or mutual funds you buy must be of good quality that are not expected to destroy your capital.

Anyways, another interesting result of the above study is that, in the long term, even badly timed stock market investments are much better than no stock market investments at all. So if you ask me – "Is this the right time to invest in stock markets?" my answer would be, "Yes, but stay disciplined."

Do not look for the perfect moment to get started. Start investing now, and build upon it month by month.

#19. Are There Any Thumb Rules You Can Suggest That May Help Me in My Financial Life?

Well, yes. I use several rules of thumb when it comes to how I manage my personal finances. Now, a rule of thumb, while not meant to be completely accurate, is an easy way to approximate a value quickly.

Here are some rules of thumb that I practice for managing my own personal finances. I hope you will find some of these useful for your own purpose.

1. Rule of 72. The Rule of 72 states that you can divide the number 72 by whatever yield you are getting to see how long it would take for your investment to double.

For instance, if your fixed deposit earns an annual interest of 8%, it will take 9 years for your money to double (72/8).

2. The number one rule of saving money is: Pay yourself first. It is very important to set aside your savings every month before you use the money for other things, including paying of bills. Always pay yourself before anything else.

The standard rule of thumb is to save at least 10% of your income. In this period of consistently high inflation, I believe a better goal is to aim for 20%.

Also, if you're young, you can follow this rule of thumb – Save 10% of your income for your basic needs, 15% for comfort, and 20% to escape wherever you want.

3. When you're saving money for retirement, the standard advice is save about 20x your gross annual income to retire. In other words, if you earn Rs 10 lac per year, you'll need Rs 2 crore to retire. I think this rule won't work in today's environment because it focuses on income and not expenses (which are rising faster than the former).

I recommend a different rule of thumb: **Base your retirement needs on 30x your current annual expenses.** This assumes that you will live for 30 years post retirement. Of course, looking at the average Indian's life expectancy of around 65 years, you may live lesser than 30 years post-retirement. But those additional years of savings will take care of the inflation that will see your annual expenses rise over the years.

4. I found this on the Internet, and thought it was as useful as it was clever. **Your emergency fund should cover X months of expenses, where X is the current unemployment rate.**

In other words, because India's unemployment is at around 10% right now, you should aim to have enough money in the bank to cover ten months of expenses. The general rule of thumb anyways calls for a range of 6-10 months of expenses.

5. Know your risk tolerance 'before' you begin investing. The time to decide how much you can afford to lose in the stock market is before a crash, not after one.

6. The widely regarded asset allocation rule of thumb is to have X% of your portfolio invested in stocks, where X is equal to 100 minus your age — with the rest invested in lower-risk investments like bonds. I believe this is an incorrect way to look at things.

A better way to look at asset allocation is to first answer this question – "Am I a stock or a bond?"

The answer lies in understanding yourself – your life, and your career.

You are a bond if you have a stable job that is unaffected by the volatility of the stock markets, and you have many years left to work.

On the other hand, you are a stock if you have little years of work ahead of you, or if you work in a volatile and unpredictable field that could decline quickly with little notice (like the stock markets itself!).

So if you are a 'bond', have a larger part (say around 60-70%) of your portfolio in stocks to balance it out. And if you are a 'stock', tilt your portfolio in favour of bonds (or similar instruments).

7. Save for your own retirement before saving money for your children's college education. They can get education loans. You can't get retirement loans!

8. In general, save an emergency fund first; pay off high-interest debt second; and begin investing last.

9. If you're not willing to pay cash for it, then it doesn't make sense to buy it on credit.

10. If you get a windfall, use 1-2% to treat yourself. Put the rest in a safe place that will earn you interest and ignore it for six months. Allow the initial emotion to pass. Get over the initial urge to spend the money on a big house or a bigger car. Live your life as you had before. After you've had time to think about it, make your decisions.

#20. What is Your Final, Quick Advice For Building Wealth?

Think long term and be patient. Rs 1,000 a month waste may not seem like a disaster, but Rs 1,000 a month could shave years off your working career if you save and invest the sum prudently.

Now just imagine if you can shave a few thousand bucks off your budget each month. Save that, invest it and you will be rich one day.

The hard part is just the *waiting* part.

#21. Anything Else You Want Me To Know Before I Start My Investing Journey?

Yes, something very important!

One of the most important books I have ever read in my life is Poor Charlie's Almanack.

Unlike what many people think, this book is not a ready reckoner on how to become a successful investor. In fact, it is much more than that. It is a book on how to live a happy, sensible and rich life and in the process become a better thinker and investor. As you read the book, some of Munger's ideas will inspire you, and some will make you uncomfortable. But all will challenge you to think outside the box.

The third chapter in the book captures "Mungerisms", where Munger dispels hundreds of ideas on subjects ranging from life, investing, academia, financial engineering, accounting, money management business, and managements.

Here are a few of those ideas I have pulled out on the subjects of being happy and getting rich. Get ready to be inspired. Prepare to be happy and successful. Here's Charlie Munger for you.

How to Be Happy and Successful

- *If all you succeed in doing in life is getting rich by buying little pieces of paper, it's a failed life. Life is more than being shrewd in wealth accumulation.*

- *Remember that reputation and integrity are your most valuable assets – and can be lost in a heartbeat.*

- *A lot of success in life and business comes from knowing what you want to avoid: early death, a bad marriage etc.*

- *Just avoid things like AIDs situations, racing trains to the crossing, and doing cocaine. Develop good mental habits. If your new behavior earns you a little temporary unpopularity with your peer group, then the hell with them.*

- *Avoid working directly under somebody you don't admire and don't want to be like.*

- *Avoid evil, particularly if they're members of the opposite sex.*

How to Get Rich

- *Spend each day trying to be a little wiser than you were when you woke up. Discharge your duties faithfully and well. Step by step you get ahead, but not necessarily in fast spurts. But you build discipline by preparing for fast spurts. Slug it out one inch at a time, day by day. At the end of the day – if you live long enough – most people get what they deserve.*

- *It's not given to human beings to have such talent that they can just know everything about everything all the time. But it is given to human beings who work hard at it – who look and sift the world for a mispriced bet – that they can occasionally find one.*

Be a Learning Machine

- *This is really crucial: Warren [Buffett] is one of the best learning machines on this earth. The turtles who outrun the hares are learning machines. If you stop learning in this world, the world rushes right by you.*

- *Develop into a lifelong self-learner through voracious reading; cultivate curiosity and strive to become a little wiser every day.*

- *I believe in the discipline of mastering the best that other people have ever figured out. I don't believe in just sitting down and trying to dream it all up yourself. Nobody's that smart.*

Reduce Material Needs

- *Most people will see declining returns [due to inflation]. One of the great defenses if you're worried about inflation is not to have a lot of silly needs in your life – if you don't need a lot of material goods.*

Beware of Envy

- *If you are comfortably rich and someone else is getting richer faster than you by, for example, investing in risky stocks, so what? Someone will always be getting richer faster than you. This is not a tragedy.*

- *Envy is a really stupid sin because it's the only one you could never possibly have any fun at. There's a lot of pain and no fun. Why would you want to get on that trolley?*

Avoid Debt

- *Once you get into debt, it's hell to get out. Don't let credit card debt carry over. You can't get ahead paying eighteen percent.*

How to Find a Good Spouse

- *What's the best way to get a good spouse? The best single way is to deserve a good spouse because a good spouse is by definition not nuts.*

The Investor's Manifesto

What follows on the next page is the manifesto of a small investor.

Read it. Print it. Frame it. Face it. Remember it. Do it.

This is for you. This is from someone like you.

It is something you can reflect back on if you ever felt stuck in your investing life.

If you believe in it, follow it, and stand for it, your investing life will be good. In fact, very good.

This is YOUR Manifesto.

THE INVESTOR'S MANIFESTO

I AM AN INVESTOR
I AM NOT A SPECULATOR.

IT'S NOT HOW MUCH MONEY I MAKE THAT MATTERS, BUT HOW MUCH MONEY I KEEP, HOW HARD IT WORKS, AND HOW MANY YEARS I LET IT WORK.

PATIENCE IS A VIRTUE FOR ME. I RESIST THE NATURAL HUMAN BIAS TO ACT.

I AM NOT AS BRAVE AS MY BROKER THINKS I AM. FOR ME, LOSS PREVENTION IS MORE IMPORTANT THAN PURSUIT OF GAIN.

I KNOW IF I KEEP AT HARD WORK AND HONESTY, I WILL GET ALMOST ANYTHING IN LIFE. INVESTING ISN'T DIFFERENT.

I DON'T TRY TO PREDICT THE FUTURE. I ALWAYS TRY TO PREPARE FOR IT.

I KNOW THAT TO MAKE MONEY IN STOCKS, I MUST HAVE VISION TO SEE THEM, COURAGE TO BUY THEM, AND PATIENCE TO HOLD THEM.

MY GOAL AS AN INVESTOR IS NOT TO BE THE NEXT WARREN BUFFETT, BUT TO BECOME A MORE AUTHENTIC VERSION OF MYSELF.

I UNDERSTAND THAT KNOWING WHAT I DON'T KNOW IS MORE USEFUL THAN BEING BRILLIANT.

I KNOW WHAT I OWN, AND WHY I OWN IT.

I KNOW LEVERAGE WHEN COMBINED WITH STOCK MARKET VOLATILITY EQUALS DYNAMITE, AND THUS I KEEP MYSELF FAR AWAY FROM IT.

I KNOW THERE IS NO EASY ROAD. THE MOMENT I BELIEVE THE ROAD IS EASY, I WILL PUT MYSELF AT GREAT RISK.

FOR ME, THERE IS NO SUCH THING AS GETTING RICH QUICK.

I KNOW TO ACHIEVE SUCCESS AS AN INVESTOR I DON'T HAVE TO BE BRILLIANT, BUT ONLY A LITTLE BIT WISER THAN THE OTHER GUYS, ON AVERAGE, FOR A LONG, LONG TIME.

I KNOW THAT IN INVESTING, I ONLY HAVE TO DO FEW THINGS RIGHT SO LONG AS I DO NOT DO TOO MANY THINGS WRONG.

I REMEMBER THAT THE MOST DANGEROUS WORDS IN INVESTING ARE 'THIS TIME IT'S DIFFERENT.'

I CAN'T LIVE LONG ENOUGH TO MAKE ALL INVESTING MISTAKES MYSELF. I MUST THUS LEARN FROM THE MISTAKES OF OTHERS.

HUMILITY AND COURAGE ARE MY GREATEST ASSETS AS AN INVESTOR. I MUST NOT LOSE THEM.

I TRY TO KEEP MY HEAD WHEN OTHERS ARE LOSING THEIRS. SUCCESSFUL INVESTING FOR ME IS 99% TEMPERAMENT AND 1% INTELLIGENCE.

I REMIND MYSELF OFTEN:
I AM AN INVESTOR

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Know Someone Who Would Benefit From This E-Book?

I hope you enjoyed reading this E-book and got the value that you expected of it.

Now I'd like to ask you a small favour.

Provided you've liked what you've seen in this E-book, kindly share it with your friends and colleagues who might be interested…and especially people who are yet to start on their investing journey.

It may serve them as a good starting guide on what to do, and especially what *not* to do while investing their hard-earned money.

You can also invite them to sign up for our free E-letter on investing – The Safal Niveshak Post.

You can also send them to sign up for our free 20-lesson course on Value Investing – Value Investing for Smart People.

Thank you again for being there!

With respect,
Vishal Khandelwal
Founder, Safal Niveshak

About Safal Niveshak

Safal Niveshak (Hindi phrase for 'successful investor') is a movement to help you, the small investor, become intelligent, independent, and successful in your stock market investing decisions. It's about a new way of thinking about investing that can unleash the smart investor within you, and lead you to prosperity and financial peace of mind.

Safal Niveshak was founded by **Vishal Khandelwal** in 2011. Through this platform, Vishal focuses on simplifying the art of investing and the causes of human misjudgment when it comes to investing. He also shares his experiences as an investor and lessons from some of the greatest investors of all time. You can connect with Vishal on Twitter.

Vishal is ably supported by **Anshul Khare**, who is an avid learner in various disciplines like psychology, philosophy, and spirituality with special interests in human behaviour and value investing. You can connect with Anshul on Twitter.

You can write to us at vishal@safalniveshak.com or anshul@safalniveshak.com to know more about this initiative and how you can benefit from it and/or support it.