Money Wise

Money Wise

Timeless Lessons on Building Wealth

Deepak Shenoy

JUGGERNAUT BOOKS
C-I-128, First Floor, Sangam Vihar, Near Holi Chowk,
New Delhi 110080, India

First published in hardback by Juggernaut Books 2021
Published in paperback by Juggernaut Books 2023

Copyright © Deepak Shenoy 2021

10 9 8 7 6 5 4 3 2 1

P-ISBN: 9789393986627
E-ISBN: 9789391165413

All material in this book is for informational and educational purposes only, and should not be construed to be financial advice. The author and publisher are not responsible for any losses due to investment decisions taken by the reader. Financial markets involve the possibility of losses. Please contact a registered financial adviser before taking any action on your financial portfolios.

All rights reserved. No part of this publication may be reproduced, transmitted, or stored in a retrieval system in any form or by any means without the written permission of the publisher.

Typeset in Adobe Caslon Pro by R. Ajith Kumar, Noida

Printed at Thomson Press India Ltd

To Dad, my greatest inspiration

Contents

1. Start — 1
The Beginning

2. Mutual Funds — 29
Get someone else to do your investing

3. Walking the Talk — 79
A practical approach to investing

4. Stocks — 111
These things called shares

5. Suckered — 175
Sundry scams and sharp practices

Acknowledgements — 245

A Note on the Author — 247

START

The Beginning

The story of investing

My father passed away nearly 25 years ago, in 1997. In an effort to finally clear out his effects, I was going through a box of really old papers – some dating back to 1977. This included stuff like our correspondence with the bank he worked for after he passed on, how it all panned out, and so on. It took me a few hours, and I went through a spectrum of emotions as I realized how my dad had invested and saved his money.

He had a loan for a house, topped up with another loan because the builder refused to finish the property unless we paid more. A set of life insurance policies against this loan was also there, as a second security; essentially the house and the life insurance policies were collateral for a housing loan.

And there was another loan against shares taken at nearly 19 per cent interest. He would take his savings and invest them in shares, and to discourage himself from selling, he'd put that as collateral against an account, from which he would draw money for urgent expenditure.

After he passed away, nearly all the 'settlement' received – an untaken leave encashment, gratuity and provident fund, along

with the insurance policies – went entirely to pay off the housing loan and the loan against the shares.

At first glance it looked crazy because he made very little as a salary, and very little of that was left to save, and he'd put all of those savings into shares of companies whenever he could. I was working, and my mom had the house, so it wasn't too bad. But it made me realize the implications of having worked thirty-five years, and having very little actual cash left at the end.

But that's not the story. The story is that once we paid up the loans, we may have had very little cash, but we had the shares, now freed from the loan collateral. Mom still has these shares today.

In the next twenty years these shares went on to make my mom more than 50x of what my dad had paid. Now, she gets as much dividend per year as the entire portfolio was valued at in 1997. And all this comes from just eight companies.

My dad bought into a lot more than eight companies. This was a time when people owned physical shares, so I have the share certificates of many companies – some thirty to forty companies in all. Some of these businesses don't even exist any more – they just died. Some have gone private. I guess only 20–25 per cent of the companies we owned continue to be in business. Among the survivors too, some were gobbled up or broken up. Brooke Bond became part of Hindustan Unilever, L&T split into L&T and UltraTech, and so on.

Think it through. Out of nearly forty companies, only eight survived. But those eight have given us superlative returns for over twenty years. If you valued the entire portfolio of forty companies in 1997, the return even with that low survival rate translates to 17.7 per cent for one year compounded over twenty-four years – that's a 50x return.

One key factor here: There was no selling, most of the time. That's largely because for the first few years we had no idea how to sell. After that, there was no inclination to do so either. And there was no attempt to 'rejig' the portfolio, even as the value of the shares swung about. The returns went from 50 per cent up in one stock, to about 35 per cent up in another, while the first big winner reduced in value to half its original price, and so on.

The lessons to be learnt

There are so many lessons here.

The first lesson: Let the money compound. What we call a 'mere' 17 per cent return becomes a phenomenal 50x in twenty-four years. Only 17 per cent? What if it was, say, 15 per cent?

Fifteen per cent would multiply your money 28 times in twenty-four years; 12 per cent would 'only' increase it 15 times. The multiplier you get lowers as returns come down, but it also means something deeper. We probably shouldn't expect those 25 per cent returns that every stock market investor seems to think is their birthright.

Compounding is a brilliant thing. What might seem like a very low number like 12 per cent will still, over a period of 25 years, see Rs 1,00,000 grow to Rs 15,00,000.

The second lesson: Money is made largely when you sleep. If you listen to rumours, then the markets will crash every second year, and you should take your money out. Just doing that takes you out of the game, and you have no idea when to get back in. The end result is that you just watch the markets go all the way up regardless.

Take end 2008. Globally investors were scared because a big Wall Street institution, Lehman Brothers, had gone bankrupt. And there was the fear that the collapse of insurance giant AIG would take the markets down again. Then in December 2008 came another massive scandal. A financier, Bernie Madoff, had falsified reports and essentially scammed his clients of billions of dollars.

The following January in India, Satyam's CEO Ramalinga Raju confessed to having falsified his company's earnings. Stocks across the world continued to free-fall all the way till March 2009.

And then suddenly markets started to go up. There wasn't an easy explanation. Yet markets continued to rise. In financial parlance, there's a saying: Markets climb a wall of worry. They did, and indeed, within three months – by June 2009 – they were up 80 per cent from the bottom.

Your emotions won't let you invest because the market is 'high' – and yet, if you had waited for yet another bottom, it would simply not have come. Most of the money in the markets is made by having a position, not by standing outside the airplane wondering if it's a good time to get in.

The third lesson: You don't need that much money to make money. You can start with nothing, or very little, really.

In today's terms, say you put Rs 3000 per week into an investment. Every week. Without fail. In a bank account. In fifteen years, you will have nearly 32 lakh rupees. (We assume banks will give just 4 per cent per year as interest. You saved Rs 23 lakh, the rest is that tiny bit of interest you've been making.)

As your income goes up every year, so must your savings. Let's say we decide to increase the weekly deposit by 5 per cent

a year. First year, you're putting Rs 3000 a week. Second year, it's 3150. Third year, it's about 3300, and so on.

In the same fifteen years, you now have Rs 44 lakh. This is now starting to get serious.

What if you get 10 per cent returns? The stock markets have often done that in the past, and more than that too. At that rate, your Rs 3000 a week with 5 per cent increase every year, goes to Rs 71 lakh rupees in fifteen years.

My father's savings earned a return of 17 per cent. Those were great times, we know, but if the markets do 17 per cent, you'll end up with Rs 1.3 crore in fifteen years. That's a game changer.

This is by using savings that might be relatively small. Many of you won't even notice a Rs 3000 per week saving; and it'll start to grow, while you sleep.

So the ways to making money in the markets are . . .

. . . described in the rest of the book. Remember it's not *the way*. It's many different ways, using many different mechanisms. You don't have to find the one holy grail. The eventual point is to do one thing: Prosper.

The most commonly asked question is: What do I invest in that will make money? This is often the wrong question. Because the answer is: Work and get paid.

This is not me making a silly joke. The first crore you make will largely come from your income, from the work you do. Your profession will pay you a salary, or your business will generate the cash, or you'll join a start-up, which is acquired and, voila, you have some money.

#1: Initially? Focus on earning money. Not returns.

This also means in the first few years of your life, focus on just saving as much as you can. Saving is a complex beast. You can do it meaningfully by just creating fixed deposits each month. This may be supremely inefficient for taxes and all that, but let's not focus on that just yet.

Think of Ansh. He's just starting out in his career. He's earning, say, Rs 25,000 a month. He saves Rs 5000.

You can tell him to invest in the stock market. He puts in his Rs 5000 a month for a year. He's now saved Rs 60,000 – and gets 11 per cent on his investment. Guess what, this adds up to Rs 63,120. That's a total earning of Rs 3120 in a year.

If instead he had put the money in a bank at 5 per cent interest, he would have roughly Rs 61,400 instead. The difference? For a risky 11 per cent return, Ansh made an extra Rs 1700 a year, or about Rs 150 extra a month.

What if the stock market fell? Well, he'd have less than Rs 60,000 in his account and he'd be miserable.

For a mere extra Rs 150 a month, why even bother to take the risk? Let the savings of the first year – hey, even the first two years – be parked entirely in fixed deposits. Build that first little nest egg without taking too much risk.

Now I'm a stock market person who loves taking risks. And I'm telling you not to take the risk. Why? Because of two things:

(a) You take risk when the reward is meaningful. Not for Rs 150 extra per month.
(b) You can focus on building your income instead.

Part (b) is really important. Initially, your savings are meagre because early in the game you typically spend 80 per cent of

your income anyhow. If the little you save goes into stocks, and stocks do badly, you'll be miserable. You can use systematic investment plans (SIPs) in mutual funds that invest in stocks and we'll discuss that in detail later. But you'd still be miserable if you check out your portfolio often and find you're losing capital.

Instead if you put the money in fixed deposits or, even better, if you invest the money into learning more about your industry or job, buying courses online, or getting another degree perhaps, you'll get more bang for your buck.

Now let's say Ansh signed on to an online course for Rs 10,000 learning to do internet marketing. And now, he's got a job that pays Rs 50,000 a month. His investment of Rs 10,000 has given him an annual increment of Rs 300,000 (Rs 25,000 more rupees per month). Show me a single mutual fund or stock that might be able to do that.

The point is simple: Initially, **focus on increasing your income**. When you get to a figure that's respectable – say 8 to 10 months of expenses – that's when you start moving incremental money into equity, or into other risky asset classes.

(Oh, and don't think of a house as an investment. It's just something you're going to live in, or use, like your car. It's an expenditure. We'll discuss why.)

This sounds very different from what my father did – he put his tiny savings into stocks. But the unsaid part of the story is that he probably started any real form of investing only after he was thirty-five. Before that, nearly everything he saved would just vanish as running expenses. By the time he was saving, a career path was set. And it wasn't a time when you could invest in your own education. If you had a steady job in a government organization (like a public sector bank) you just had to work x years to get promoted, then work another x years, and so on.

#2: When you have enough money, think about 'allocation'

So our hero Ansh has now saved for two years, and is now earning Rs 50,000 a month, and saving Rs 20,000. His savings have added to an impressive Rs 5,00,000 in the bank.

He's still got to think of a few things:

- An emergency fund of six months of expenses 'just in case'
- The rest can go towards **long-term savings**
- Oh and he's got to fund that trip to Croatia next year. He's going to need Rs 1,50,000 to hang out with his friends.
- Other than that, **long-term savings**

If you think about it, he has some money he can reallocate:

- Ansh can leave Rs 1,80,000 in the bank (for six months of expenses)
- Rs 1,50,000 for the Croatia trip in something that will be safe until he uses it
- This adds up to Rs 3,30,000
- What about the rest – Rs 1,70,000?

This is when Ansh can start thinking about 'allocation' to risky assets. Think of putting your money into different buckets.

In one bucket is the safety of a fixed deposit at a bank: Low (or no) risk

In another is the riskiness of the stock market: High risk

There will be others, but let's focus on this. Till now Ansh had:

- No risk bucket: Rs 5,00,000
- Risk bucket: Rs 0

Now, he can change this:

- No risk bucket: Rs 3,30,000, of which:
  - Emergency (Rs 1,80,000) – this is his parachute
  - Croatia trip (Rs 1,50,000)
- Risk bucket: We have Rs 1,70,000 to allocate

He can do this in several ways. Consider his options.

He can move the entire Rs 1,70,000 to the equity markets through a mutual fund.

Don't forget he's still saving Rs 20,000 a month. He could start moving that to the equity markets too, now that the parachute is taken care of. Let's say he decides to buy some **large-cap index funds**. (We'll discuss this later.)

In a year, he would have invested:

- No risk: Rs 3,30,000
- Risk: Rs 4,10,000
  - Started off with Rs 1,70,000
  - Added Rs 20,000 a month for a year

This is now a 55:45 allocation to no risk vs risk.

He takes the Croatia trip. He now has:

- No risk: Rs 1,80,000
- Risk: Rs 4,10,000

His 'allocation' has changed to 30 per cent no risk, 70 per cent risk. Ansh thinks about this and he doesn't like it. He feels markets are risky. Plus, the no-risk cash is also an emergency fund that he may need to dip into anyhow.

So he plans for his next few months like this:

- Invest the first six months' worth of savings into no-risk, to increase his risk buffer

- For the rest of the year, add savings into the risk bucket

In six months, he would have added Rs 1,20,000 (at 20,000 per month) into the no-risk buffer.

So, after six months adding Rs 20,000 x 6 in no-risk funds:

- No risk: Rs 3,00,000
- Risk: Rs 4,10,000

This is back to 42 per cent no-risk, 58 per cent risk. That's not complicated.

There's another way to do this. If he decides to split his savings, adding Rs 10,000 x 6 into risk and the same into no-risk:

- No risk: Rs 2,40,000
- Risk: Rs 4,70,000

He's back to 34 per cent no-risk, 67 per cent risk. That's not complicated either.

How exactly he chooses to do this depends on his inclinations and life circumstances. Does he have elderly infirm parents, or young kids? Is he DINK, with his parents well settled?

The choice of whether a person can take more risk depends on only two things:

- **Can I take risk?** People with liabilities, dependants or those who don't have a safety net must first focus on having enough in the no-risk bucket to allow them to sleep at night.
- **Must I take risk?** Many of us are naturally unconditioned to risk-taking. Does losing money, even temporarily, scare you? If the answer is a sheepish yes, then a higher amount of money in a risk bucket is unhealthy.

The key idea is to just divide your money into different 'asset classes'. Fixed deposits are an asset class. Stocks are an asset

class. You can access both through mutual funds, or directly buy into either one.

There are other asset classes too. Gold. International stocks. Real estate. Start-ups. Chit funds. Cryptocurrency. Commodities like industrial metals. Each one has a different amount of risk attached. Now you could have buckets for all of them.

I would personally recommend using just equity and fixed income for the first few years while you build your nest egg. Add the other asset classes later.

#3: Plan for the absolute necessities

You're going to need to plan for retirement. When you stop working you're going to need a nest egg that is enough for you and your folks. How much is enough to retire? Don't we all want to retire early?

We'll discuss those questions separately in 'Your personal financial plan'.

Oh, we'll also cover the basics around planning for your children's education and all that.

#4: With the rest, enjoy your life

Life is short. And oh, the pandemic has really taught us that it can be a lot shorter than we expected, or hoped for. You can't take your money with you when you go. So whatever you have left, over and above necessities, use it for the things you really want to do.

So go on, spend and enjoy yourself. Your spending also helps to grow the economy, but that's too noble a goal to consider. Just spend for your own happiness. Bring a smile to the face

of someone you love. Indulge yourself. A holiday, a new car, or a sabbatical, a fancy home theatre system. All of these things are cool.

If you don't force yourself to spend what you've saved beyond the necessary, you'll end up more unhappy than if you've not saved at all. Fear that you'll die after you've worked your ass off, without a tale to tell.

So every once in a while take that expensive cruise, learn to scuba dive, buy that piano, fly in a higher class than you would normally. For too many of us, spending comes easy when it's little amounts: instead of a phone that costs 20,000 we'll buy an iPhone or something like that. But spend 5,00,000 on a trip to Wimbledon? Maybe not. But which splurge will have made you feel more alive?

Why should you invest at all? To build personal leverage

Focusing on earning more is important. In the longer term you are limiting your earning capacity if you focus only on a salaried job.

To put it in investing terminology, if you're salaried, you have a leverage factor of 1 => the amount you work = a salary of x. More work = more pay.

As you grow older, you gain leverageable assets – your experience and your contacts. You can now work less (relying on your experience and contacts) and earn just as much, or work just as much and earn more, increasing your leverage factor to say 4.

If you start a company, you can pay other people to work for you, and earn you money. This is difficult and fraught with risk,

but if you succeed you can increase your leverage to, say, 20. (For each unit of work you get 20x the return, compared to the salary you would earn if you were employed by someone else.)

When your money works for you, you further increase your leverage, sometimes to infinity by living entirely off the return via fixed deposits! (This is no work and plenty of income.)

What I'm saying here is: Focus on increasing your leverage. Whether it is by active investing or working or starting a company, your aim is to build assets (money or business ownership) that can be leveraged.

Essentially get to a stage where you can get your assets working for you, instead of you having to work. This may involve innovative thinking, or simply applying common sense.

Take an example: Doctors apparently have little leverage. They have to work, otherwise they don't get paid. Right? Well, they build certain leverages – specialized degrees, experience and fame – and eventually get to a point where they earn more. For instance, neurosurgeons get paid more than GPs.

To further leverage, they might build a nursing home, or a hospital, or set up a pathology lab or even launch a pharmaceuticals company. (There's Dr Trehan, Dr Devi Shetty, Dr Lal, Dr Reddy of Apollo and many other examples.) Owning a hospital means that when you get old and your hands are shaky, you're still earning an income.

If you're not a doctor, don't get depressed (or you'll need one!). You can still create assets. For one, active investing can speed up the process if you're good at this. Active investing means identifying and investing in companies that beat the indices, tracking your own investments and protecting your capital from losses.

One interesting point: The more leverage you have, the less taxes you pay as a percentage of income.

- Salary income carries the highest tax: The highest tax bracket is 43 per cent with very few deductions
- Business income (consultancy, etc.) still has 30 per cent to 43 per cent as the highest bracket, but you can deduct depreciation on your car, phone expenses, travel expenses etc
- If you start a company, you'll pay as little as 25 per cent taxes.
- For stock market investments the long-term gains are taxed at 10 per cent

Yes, tax rates will change but this trend remains true, not just in India but everywhere. Equity investments are always taxed at lower rates than corporate profits, which in turn are taxed at lower rates than consulting income, and salaries.

'Where's your Ferrari?'

The story goes that a reporter was talking to a woman, who was smoking a cigarette.

'Do you smoke a lot?' asks the reporter.

'Well, two packs a day,' says the woman, puffing away.

'And for how many years, if I may ask?'

'Twenty-five years, and I know I should stop,' says the woman.

'That's twenty-five years at 40 cigarettes a day,' says the reporter. 'At Rs 10 per cigarette, that's Rs 400 a day, or Rs 146,000 a year for 25 years. If you had saved that money and invested it in the stock market instead, you would have had Rs 3 crore by now!'

'See how bad smoking is for you? That's enough money to buy a Ferrari!' he continues.

The woman thinks about this. She stubs out the cigarette slowly, and asks, 'Aha. Do you smoke, sir?'

'Of course not!' he says.

'So,' she continues, throwing the stub into a garbage can, 'where's your Ferrari?'

This seems like just a funny story but it also has an important lesson. We know how compounding works. Take Rs 100 and at 10 per cent, it will double in 7 years. It will, indeed, but only if you actually save the Rs 100. If you only focus on the math, there's no point giving sermons about how rich you would be, if you did.

Returns matter but not as much as the saving habit. Take two people. Anjaan and Sumit. Anjaan saves Rs 10,000 a month for 10 years and invests in stocks.

Sumit saves the same Rs 10,000 a month. But he invests in a less aggressive bond fund, increasing his contribution by 10 per cent every year. Just a slight increase, you think.

	Anjaan	**Sumit**
Invests	Rs 10,000 a month	Rs 10,000 a month Increasing at 10 per cent a year
For	10 years	10 years
Where?	Stock market	Boring bond fund
How much does he make?	15 per cent a year (wow)	8 per cent a year
Ends up with	Rs 27.5 lakh	Rs 29.2 lakh

What? Sumit ended up with more money? You can tell me that oh, Anjaan invested quite a bit less. Yes, he did. He invested Rs 12 lakh. And Sumit invested Rs 20 lakh.

But you forget something. Both invest and then the rest of their money would just get spent. A little here, a little there, you don't even notice it, and it's gone.

Anjaan invested a little less than Sumit every year. Sumit invested 10 per cent more each year even though he invested in something that gave him just about half the return Anjaan got, because Sumit wanted peace of mind.

Stock markets – fun, but scary. Fixed income, boring but reliable.

And yet, because of a little extra saving, the boring fixed income beat the fun stock market.

Clearly, saving a little more has a greater impact on your returns, in the long run, than simply finding that fantastic stock, or bond, or mutual fund. People focus too much on the latter aspect. It's the former – saving more – that has a greater impact on long-term goals.

The saying goes: If you have an hour to cut a tree, you should spend 50 minutes sharpening the axe. But it's boring!

How to deal with lack of excitement

You know investing is boring, but you have to have some fun. Especially when everyone's laughing all the way to the bank. (This saying doesn't apply in India's traffic, btw. No matter how much money you make, you're going to be cursing all the way. But we digress.)

So, what I suggest is: Carve out a little amount to play with in markets and have some fun. This should be less than 5 per cent of your money. Just use that as a sandbox to do things that

sound interesting. Buying a stock. That new IPO. Some 'futures and options'. It's an education, and it's a source of entertainment. But it's probably not going to enrich your life meaningfully in monetary terms, at least not at first.

You can think of it as a fun thing to do, like going to the movies or dining out at a fancy restaurant. But the lessons you learn from such a sandbox are far more valuable than the fees you pay in college. You learn from the school of hard knocks and that's a degree more valuable than all the other degrees you've ever gotten.

Getting back to business

This is so boring, Deepak! Tell me the juicy stuff. I hear you. I know it's boring. This comes from a person who has seen how exciting the stock market is. And heard how easy it is to believe that money will just multiply if you invest in stocks. The narrative is that things will keep happening every day and you'll just get rich quickly.

The 'rich-o-fication' happens slowly. While you sleep. And more money is made sitting and waiting, than buying or selling. But you've got your little sandbox. Stock markets, ahoy!

Before we get there, we have to be sure you're all set when it comes to the basics – emergency funds and so on.

The basics: Your emergency fund and insurance

Before we delve into the complexities of investing, we're going to look at the very basic things that this book will not cover. In

the pecking order of things, there are a few 'hygiene' elements that are absolutely must.

If you don't have these, don't read the rest of this book. This is really important.

First, you need an emergency fund. This is a fund that meets your expenses for about six months. Not income, expenses. Because many of you are earning enough to save gazillions of money, and others aren't earning quite enough every month (but there's a bonanza once in a while). Mark your expenses, multiply that monthly number by 6 and please focus on ensuring you have that first.

Once you have that, park it in liquid funds or fixed deposits. Put it in a place that you can withdraw cash from within 24 hours. Do not consider this money part of your net worth any more.

Some banks provide fixed deposits that are 'linked' to your savings account. So just create such a linked fixed deposit and any time you go below zero-balance while, say, paying a hospital bill, the bank will automatically draw money out from your fixed deposit.

You will use this money in an emergency. When you don't have a job, or you're injured or out of action at any point. This is absolutely important; use this money then, and when you're back in action, refill this emergency fund to take it back to six months of expenses.

If you don't have enough for an emergency fund, you're in deep, deep, trouble and should not be investing in anything else.

Think about this another way: When is an emergency? It may be yours personally, like if you had an accident. But it's more likely to be if you've lost a job. And that could be because the economy is in bad shape. And if that's the case, the stock

market isn't doing so well. If you draw money from your stock market investments when the markets are not doing well, you're effectively losing a lot of money, even if you get back on your feet within, say, six months.

The stock market sees a correction often. And if the market recovers, say, 20 per cent in the next six months, you have effectively paid a fee of 20 per cent to take your money out from stocks and put it back in after six months. An emergency fund saves that cost – even if your money isn't entirely invested. Focusing on lost opportunity is a bad idea here – it takes away from the security the emergency fund offers you. Effectively, not having an emergency fund is like a car driver refusing to wear a seat belt because it feels less comfortable.

Life insurance: This is a complex beast. Let's only talk about term insurance, where you don't get any money back if you survive. Because everyone tells you that you must have insurance. But it's not always true.

Insurance is simply this: *If I die, does someone who depends on me have the money to survive the rest of their life?*

Take Aarav Bhandari. He's forty years old and he's got Rs 20 lakh as savings. His wife, Tanya, works for a salary of Rs 25,000 a month as a teacher. His five-year-old daughter, Amaya, will start school next year.

He makes a salary of Rs 1,00,000 a month, and they spend about Rs 50,000 a month overall, rent and household expenses and all that. Tanya is speaking with him about insurance.

'We only have twenty lakh rupees. Look, it's not like you're going to die, but apparently we do need to talk about this insurance thing.'

'What do you think we need?' asks Aarav. Because he has no idea.

Tanya starts thinking. 'Listen, if you aren't around, I'm going to be heartbroken and I'll have to parent Amaya alone. We'll have to get this fifty thousand rupees a month from somewhere and the ten lakh rupees we have will last us forty months. That's it. Obviously we need to cover for more.'

She goes on. 'So obviously we need to generate fifty thousand rupees a month, or six lakh rupees a year. The simple thing would be to say if we had one crore rupees, we could put it in a long-term fixed deposit at 6 per cent and get six lakh rupees a year.'

'But costs go up due to inflation, no?' says Aarav.

Tanya carries on. 'We've seen our costs go up 5 per cent a year. So in year two, we'll spend six lakh thirty thousand and so on. In fourteen years our expenses double. In thirty years we're going to need to spend thirty lakh rupees a year! We need a corpus that generates this growing requirement – for another, say, fifty years. This adds up to . . . let me do this on a spreadsheet . . . okay, Rs 12.5 crore.'

Aarav is fascinated, and worried. *Do I need to start gambling?* 'Maybe one crore rupees isn't right, but Rs 12.5 crore isn't right either, no? Isn't there a decent middle ground?'

'Good point. Mathematically, I'll take the assumption that we can get a return of 6 per cent a year. There's this complex formula, which tells me the actual number is around Rs 2.3 crore. If I plug that in with this concept: I start spending six lakh rupees a year, which increases at 5 per cent every year, for fifty years. Plug that into this formula, and we get a rough figure of Rs 2.3 crore to start with.'

'I won't ask you how it works, but what does this do?'

'Every year, I generate 6 per cent returns. In the first year, I

earn Rs 13.8 lakh as a return on that corpus. I only spend six lakh rupees. That's Rs 7.8 lakh left that goes back into the corpus. The next year I have to spend Rs 6.3 lakh, but I generate Rs 14.3 lakh (since my corpus actually went up!). Again, I feed back the excess into the corpus. This keeps going on until eventually the inflation makes my monthly spend so much that my returns can't meet it – and I withdraw from the base corpus. Eventually, in fifty years, I go to zero.'

Take a look at the attached table and graphs to understand what Tanya is talking about. We've shown the first eight years and the last eight in the table. Assume they start saving at age forty, and spend more only as they grow older. The graphs show how savings peak around age seventy-two, and then expenses mount.

Age	Start of year	Return at 6 per cent p.a.	Expenses increase at 5 per cent p.a.	Savings end of year
40	2,30,00,000	13,80,000	6,00,000	2,37,80,000
41	2,37,80,000	14,26,800	6,30,000	2,45,76,800
42	2,45,76,800	14,74,608	6,61,500	2,53,89,908
43	2,53,89,908	15,23,394	6,94,575	2,62,18,727
44	2,62,18,727	15,73,124	7,29,304	2,70,62,547
45	2,70,62,547	16,23,753	7,65,769	2,79,20,531
46	2,79,20,531	16,75,232	8,04,057	2,87,91,706
47	2,87,91,706	17,27,502	8,44,260	2,96,74,948
…	…	…	…	…
…	…	…	…	…
84	3,29,66,186	19,77,971	51,34,290	2,98,09,867
85	2,98,09,867	17,88,592	53,91,005	2,62,07,454
86	2,62,07,454	15,72,447	56,60,555	2,21,19,347

contd...

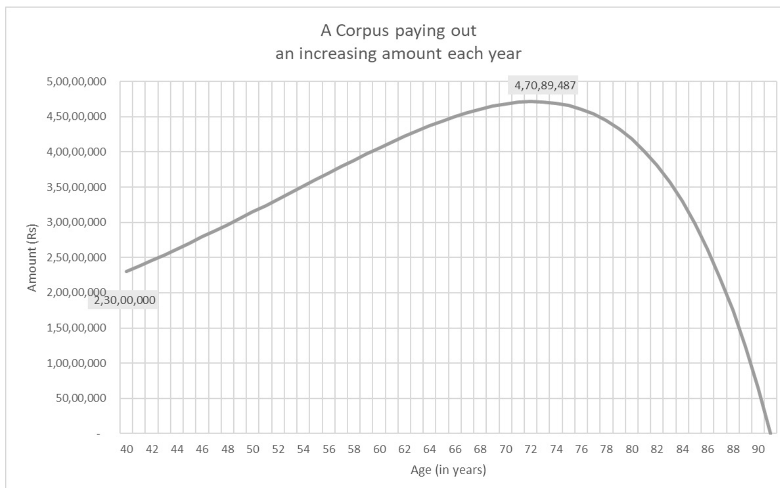
...contd

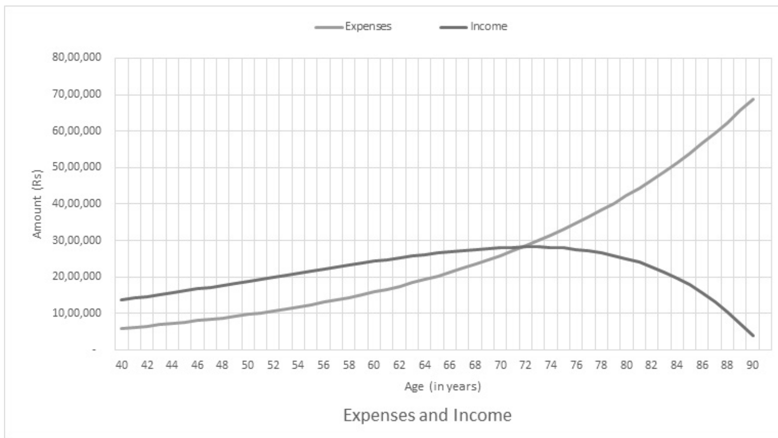
Age	Start of year	Return at 6 per cent p.a.	Expenses increase at 5 per cent p.a.	Savings end of year
87	2,21,19,347	13,27,161	59,43,583	1,75,02,925
88	1,75,02,925	10,50,175	62,40,762	1,23,12,339
89	1,23,12,339	7,38,740	65,52,800	64,98,279
90	64,98,279	3,89,897	68,80,440	7,736

'You're out of money in fifty years? That would be rough,' says Aarav.

'Yes, but you have to stop planning somewhere. We can round it up to Rs 2.5 crore and leave a little more for extras,' says Tanya. 'But we have twenty lakh rupees already, so the insurance we need is . . .'

'. . . Rs 2.3 crore!' exclaims Aarav. 'I wonder what that will cost . . . let me check. This insurance website says that if you're forty and a non-smoker, you'll be able to buy a Rs 2.4 crore policy for





Rs 37,000 a year. This is about three thousand rupees month, which we can easily afford,' he continues.

Tanya's a little worried. Is that enough? She realizes why it's not. 'Wait, what about Amaya's graduate education?'

Aarav thinks carefully. 'We could bump this up to three crore rupees instead. I'm sure the excess fifty lakh rupees, at 6 per cent growth, in thirteen years when she turns eighteen, will end up as . . .'

'. . . 1 crore,' says Tanya. 'That should pay for most of it, assuming college costs forty lakh rupees for four years today, even with inflation.'

While Tanya's calculating this, Aarav looks at having a 3 crore insurance. For his age (40), it's about Rs 3700 a month. Not unaffordable.

Tanya thinks further. 'But if we invest our savings now, and get a decent return, it's possible that in ten years, we will see our savings grow to more than a crore! Isn't that something to think about?'

'We'll just redo the calculations then!' says Aarav.

This story is an example of a couple that needs insurance. You can use similar logic to figure it out for yourself.

But there are quite a few instances during your life journey when you *don't* need insurance.

- You're fresh out of college. No dependants. If you die, people will be sad. But no one will be financially in danger. You don't need insurance.
- Your children have grown up and don't depend on you for income. You need no insurance. You have no loans, and have enough to last you for the rest of your life.
- You're rich enough already. (Imagine Tanya already having Rs 3 crore in her bank account.) No need for life insurance.

Now, when you buy insurance, just buy term insurance with no money back if you survive. That's the simplest cheapest solution. Everything else will cost too much, so you'll buy too little of it and be under-insured. Which is a terrible thing.

Why, you think? Why can't I take a policy where, if I survive, I get my money back? There are such policies, but they offer you a big problem – not enough insurance. Consider a policy which paid back all the premium if the person survived. This would cost a 40-year-old person, Rs 5,00,000 a year for a Rs 2 crore sum assured. For most people, this becomes unaffordable.

So they do the worst thing – take such a policy but for a lower sum assured. You think, I can only afford Rs 1 lakh a year, so I'll just take a Rs 40 lakh policy. This is equivalent to saying I need to cover my family with fifty years of expenses, but since I really want my money back if I survive, I will only cover them for twelve years instead. Twelve years is hardly enough, and you can't expect them to go looking for other means of survival at that time. Insure what you must have, not less.

Health insurance: Oh, take this for yourself and your family. There's a bunch of things here – family floaters, group insurance (your employer may provide this) and so on. Going into too much detail will need a book of its own, but here's a few tips that might help:

- Many policies have strange restrictions, like they'll pay only Rs 5000 a day for hospitalization. Try to get this as high as possible as rates will go up for sure.
- Buy a base cover that is decent enough to cover for regular hospitalization expenses, as a 'floater' plan (single payment to cover the entire family, for a group amount).
- Then, buy a 'super top up' plan. This is a simple concept – if you get hospitalized and the bill is up to Rs 5 lakh, you pay. Beyond that, the insurer pays. Great for things where you know you're really afraid of that one situation where you get hit with a bill of Rs 50 lakh.
- If you're looking for insurance for your parents, don't add them to your plan. It makes things altogether more expensive. Buy a separate cover for them, which will reduce the overall cost.
- Don't just say you are covered because your company has an insurance plan. If you lose your job, you will lose the insurance as well, and that could be the worst possible time to be not-insured.

But this is all just hygiene.

What about investments? Read on.