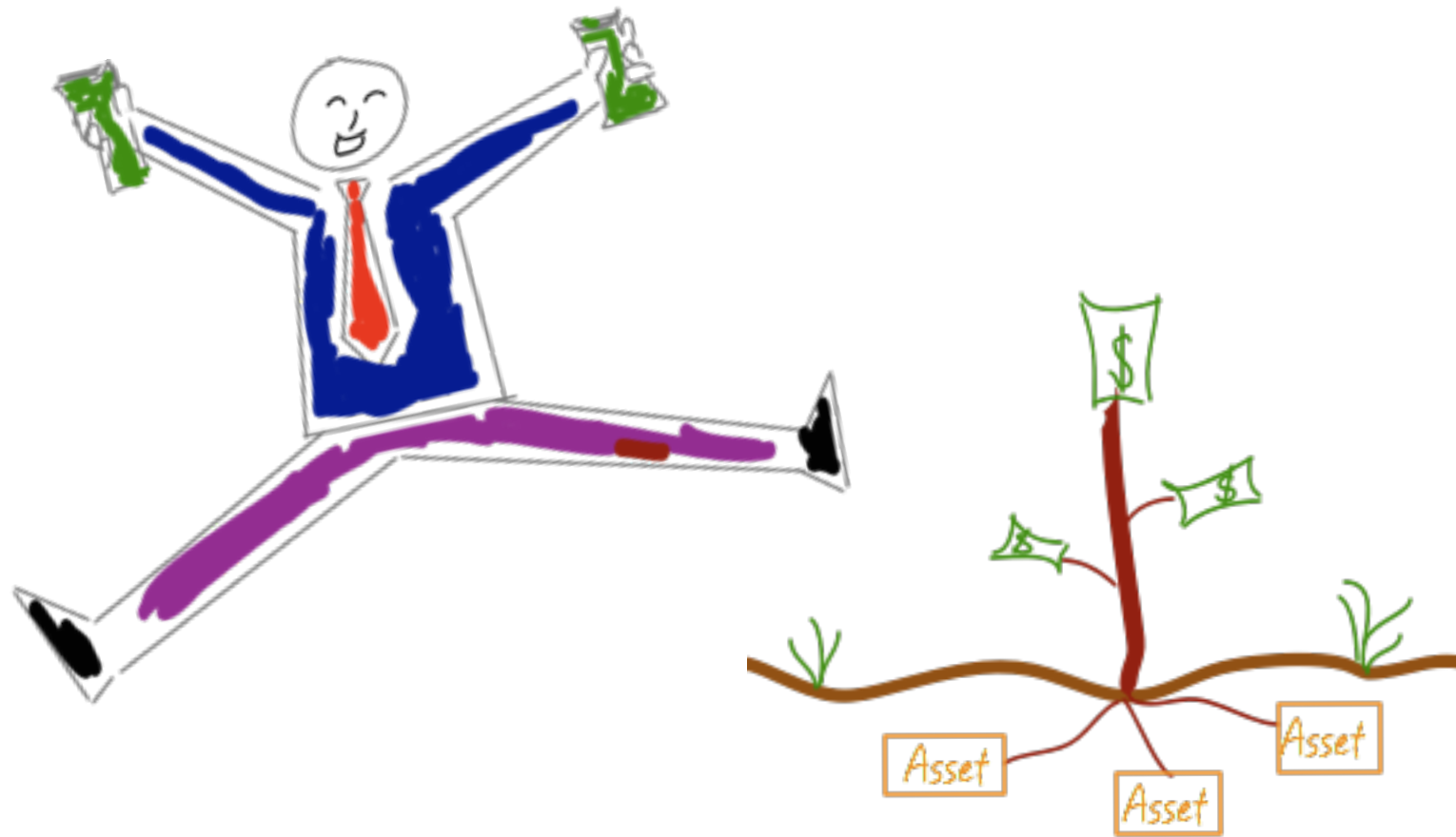




LEARN TO EARN

**PUTTING YOUR MONEY TO WORK FOR YOU
AND BECOMING FINANCIALLY INDEPENDENT**

IN THIS MODULE WE WILL COVER:

1. Asset vs Liability
(Investment vs Consumption)

2. Active vs Passive Income
(Financial Independence)

3. Magic of Compounding
(Start Young)

4. Delayed Gratification
(Learn Self-Control)

5. Fear & Greed
(Control Emotions)

6. Risk vs Reward
(Risk Appetite)

7. Asset Classes

**8. Your Intellectual
Property - an Asset**

9. Risk Management

10. How to Invest

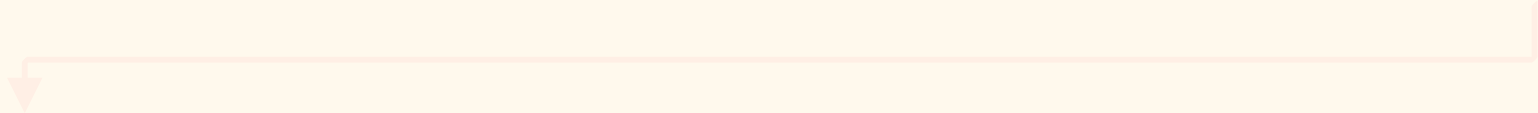
11. Life Insurance

12. Financial Planning

1. Asset vs Liability
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2. Active vs Passive Income
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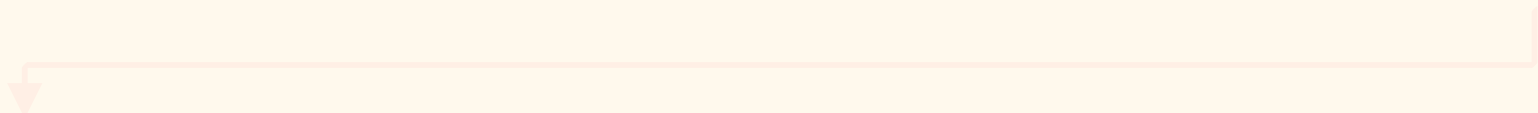
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So you have got a job - your **own disposable income** at last... to blow as you please!



First Stop - Credit Card!



Next - a swanky car!

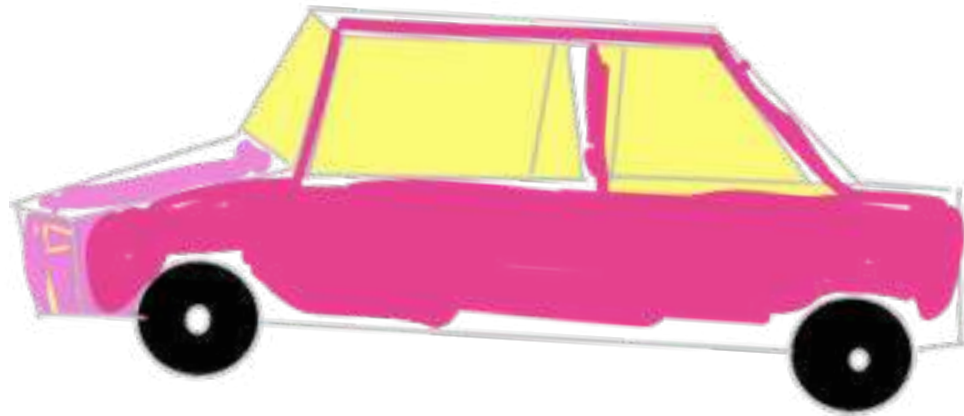


But, will you be using your **credit card** for the **convenience and safety** of not carrying too much cash around...



Or, will you use it for **rolling credit**?

I.e. borrow against your credit limit and then repay the amount over months in easy installments



And, is your new, swanky car an asset or a liability ??

Let's look at the credit card debt first...



Carrying a **credit card debt**, i.e. not clearing the balance on your credit card every month and rolling the debt can be **very expensive**

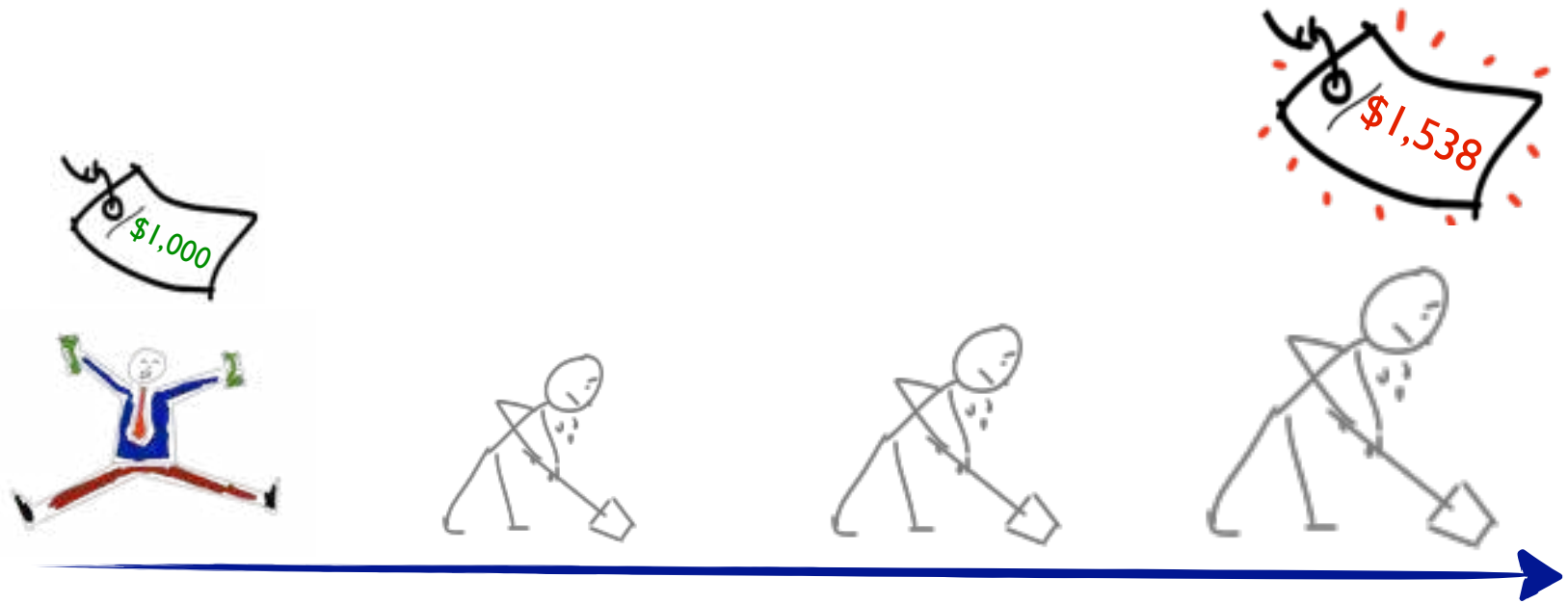


Say, you buy your much desired electronic gizmo for **\$1,000** with your credit card, because you know you can **easily pay the minimum amount** due each month



The **interest rate** your credit card company charges is **18%**
(some credit companies charge 36% or more)

And, the minimum amount you have to pay each month is \$25



To get rid of your debt, it will take you **5 years**

And you will pay an **interest** of **\$539**

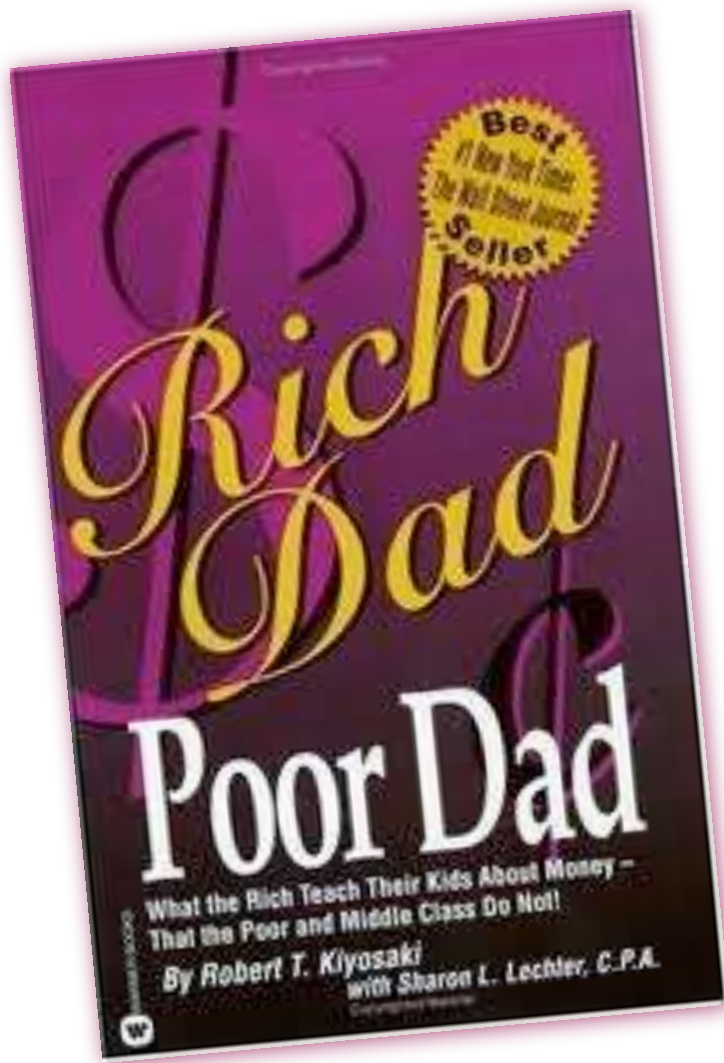
That is, the \$1,000 electronic gizmo has cost you **\$1,539**



Plus, chances are, your electronic gizmo will go **out of fashion** within a year of purchase but you will have to keep paying for four more years!



How about the swanky **car** - is it an **asset** or a **liability**?

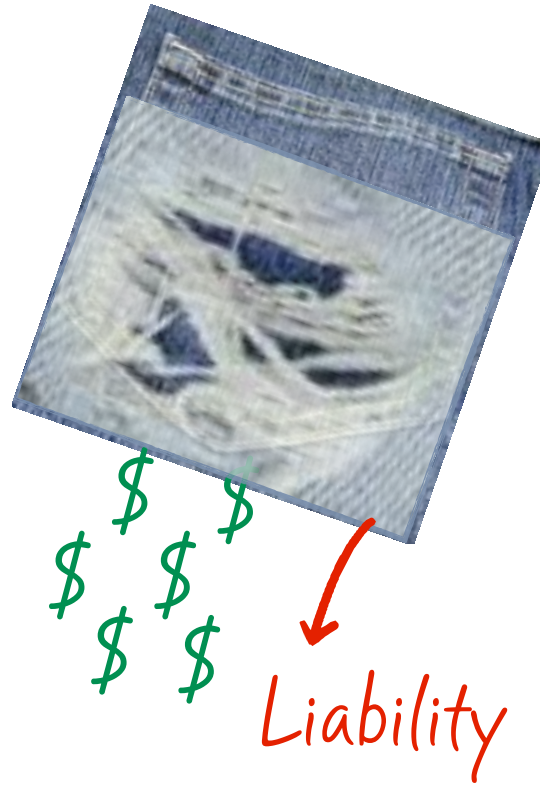


In the best-selling book, 'Rich Dad Poor Dad', author Robert Kiyosaki gives a very easy to understand definition of assets and liabilities...



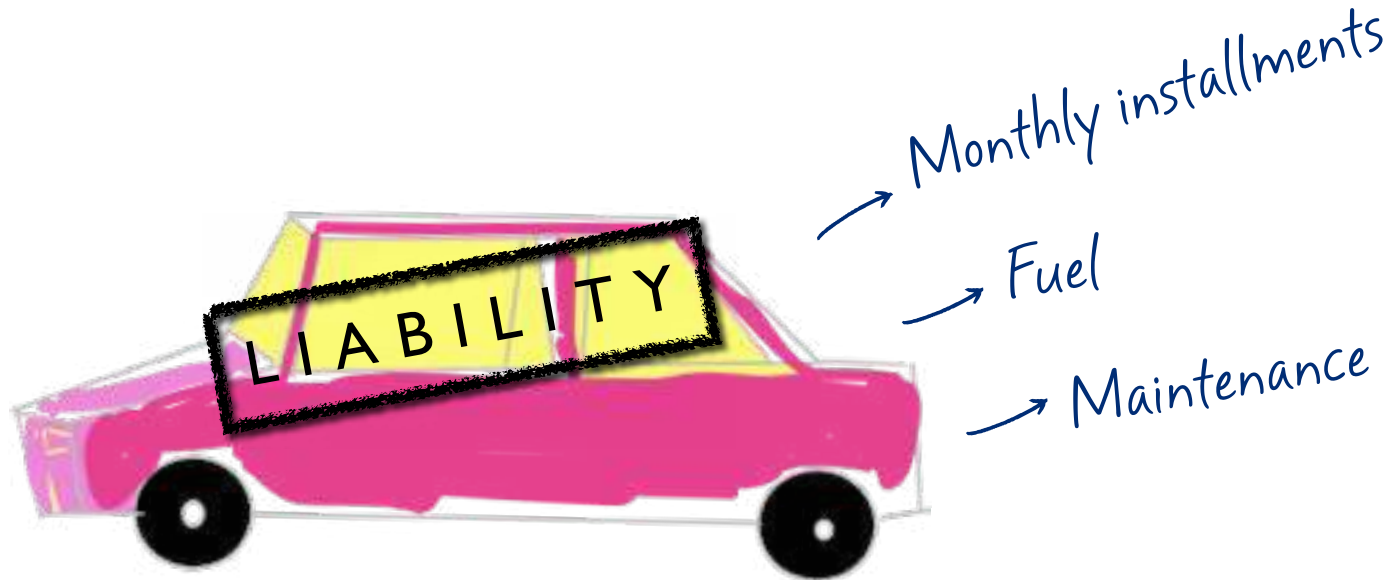
An **ASSET** is something that puts money in your pocket, whether you work or not

(or you can think of asset as an **investment** - something that creates value)



A **LIABILITY** is something that takes money out of your pocket

(or you can think of liability as **consumption** - something that does not create value)



Viewed like this, your swanky new car is really a **liability** because it takes money out of your pocket

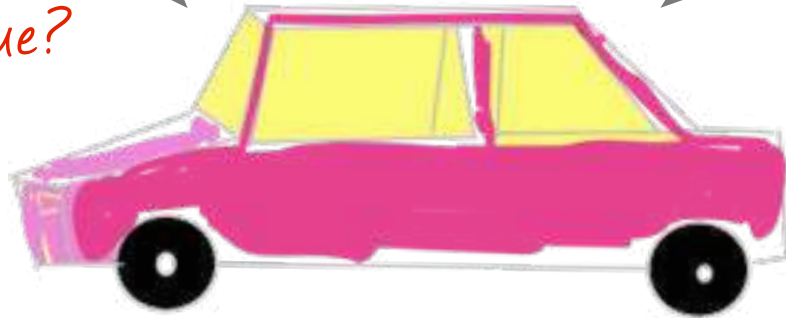
- for the monthly **installments** you have to pay
(assuming you took a loan to buy the car)
- cost of **fuel** and **maintenance**



Utility value?



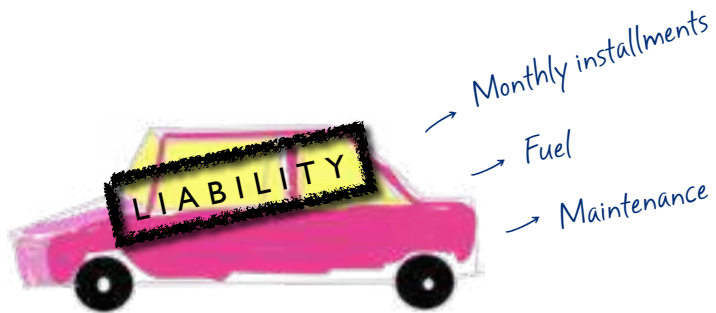
Convenience value?



You say, how about the **utility** value of the car - the fact that you can reach office on time because you have a car?

Plus, its **convenience** value - no more struggling in public transport?

Takes Money out of your Pocket



Puts Money in your Pocket (indirectly)



What you have to see is the **NET IMPACT**

Does the car add more to your pocket than it takes away?

Takes Money out of your Pocket



✓ Puts Money in your Pocket (indirectly)

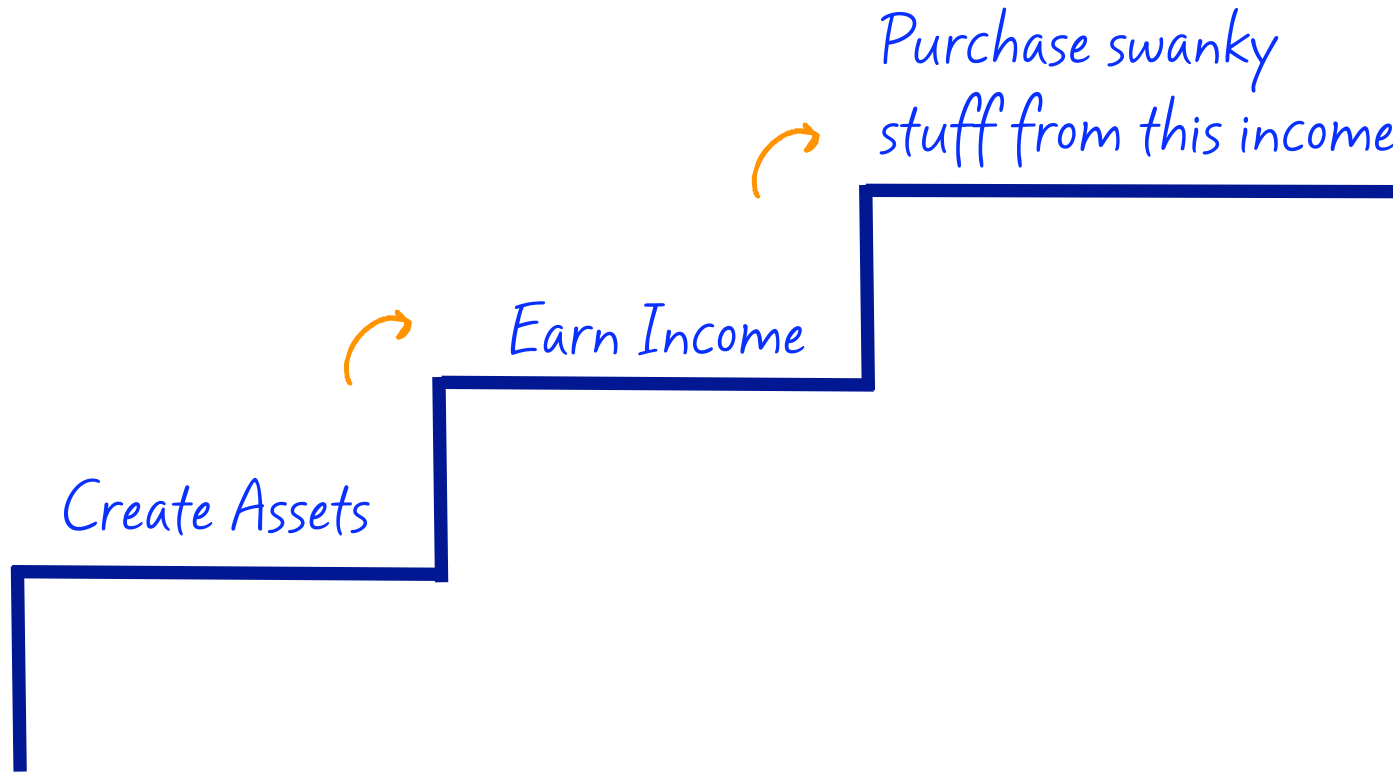


Consider: Do you really need a swanky car, primarily to impress your friends? Can you not buy a **second hand car** for utility and convenience?



The **first Building Block on Financial Literacy** is being able to distinguish between **Assets** and **Liabilities**

So that you invest in assets that put money in your pocket, before you buy liabilities



Putting your money to work for you means:

- ✓ First creating assets that generate income
- ✓ Then, from the income of these assets, buying liabilities - non-income generating heart's desires like jewellery, swanky car, posh house...

WHAT ARE INCOME GENERATING ASSETS?

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(Investment vs Consumption)

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(Start Young)

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(Learn Self-Control)

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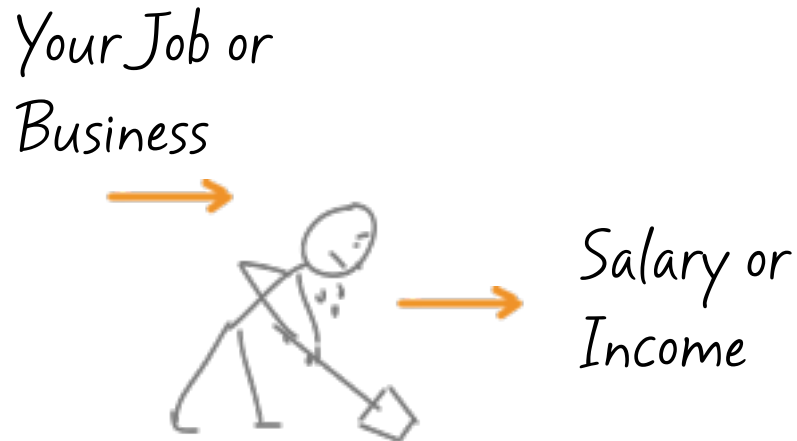
Some examples of income generating assets

- ✓ Stocks (shares of companies)
- ✓ Bonds (government or corporate)
- ✓ Art (paintings)
- ✓ Intellectual Property (book, song, music)
- ✓ Precious Metals (gold, silver)
- ✓ Real-Estate (provided it generates net income)

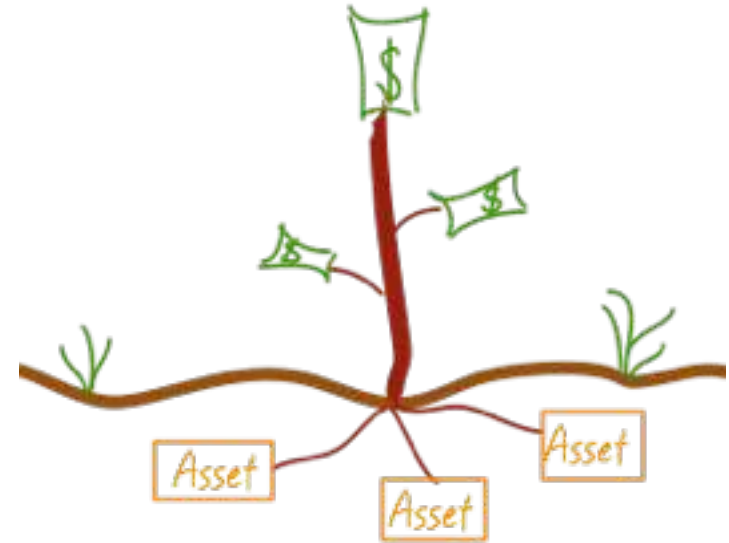


You could argue that **you yourself are an income generating asset** - after all, now that you have a job, you get a monthly income!

Active Income

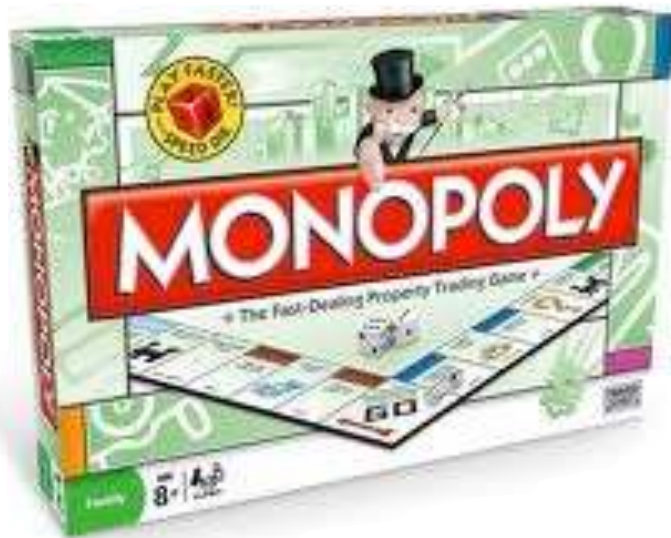


Passive Income

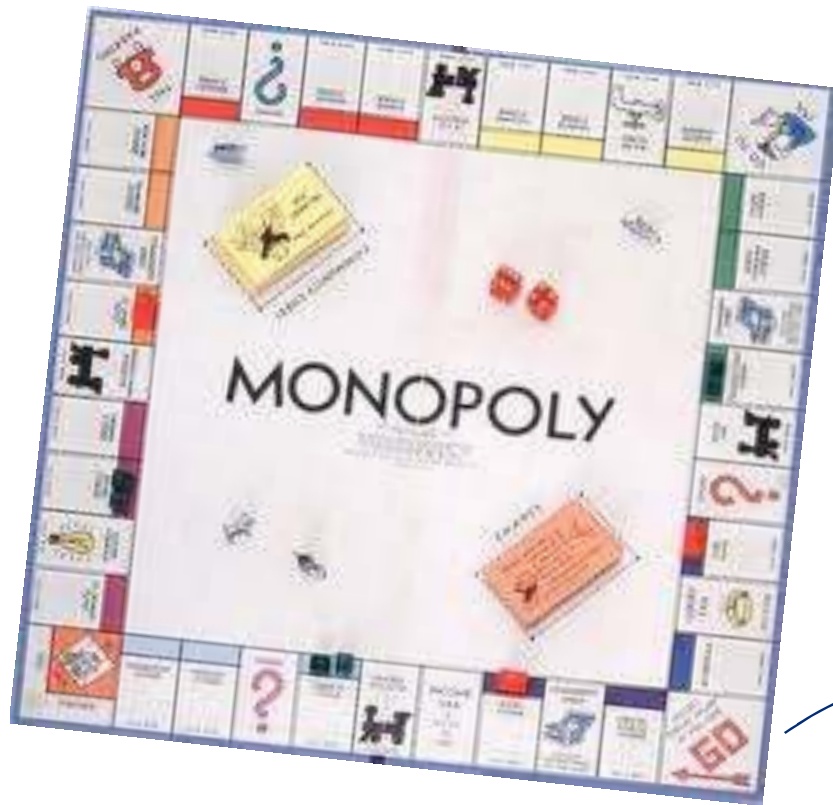


There are two types of income-streams

- ✓ **Active Income stream:** the salary you get from a job, or profits you earn if you are self-employed
- ✓ **Passive Income stream:** is the income your assets generate for you

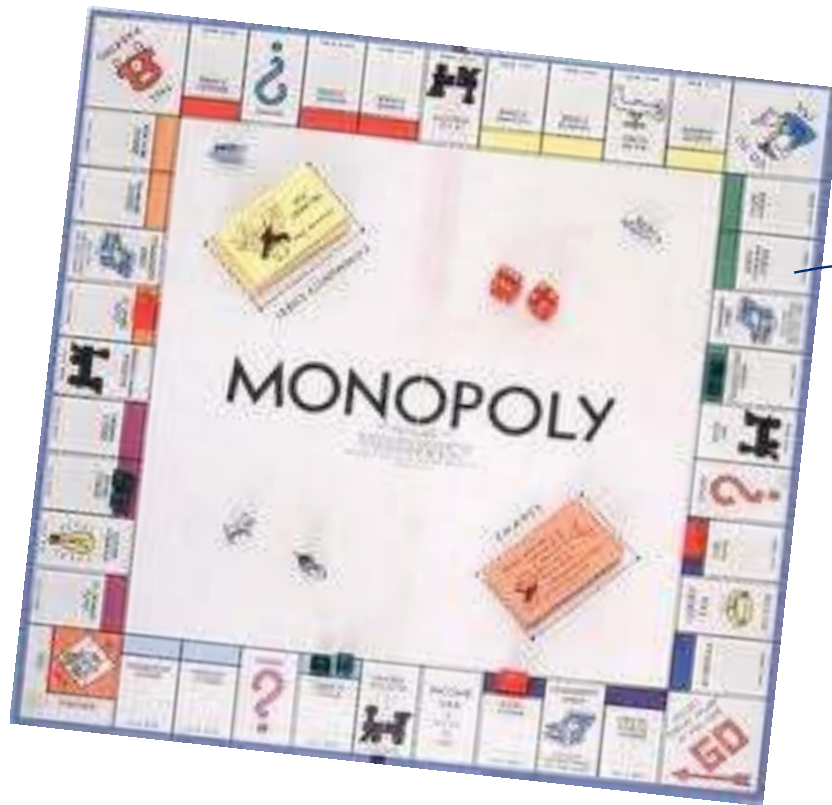


→ The game, **Monopoly**, reiterates some of these building blocks of financial literacy



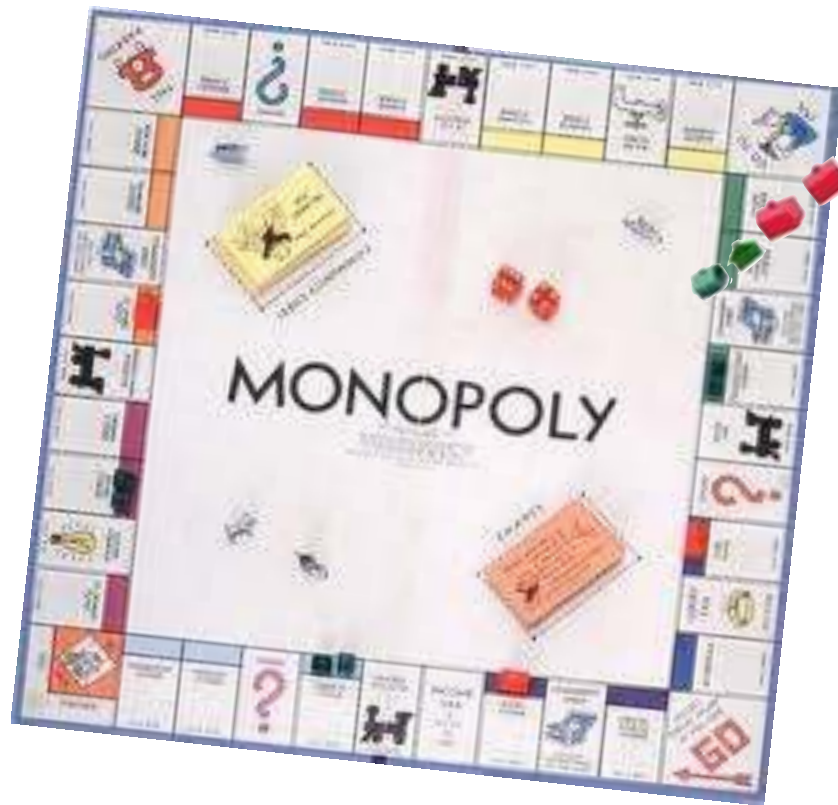
Roll the dice > Complete a round >
→ Collect money

You earn income on completing one round of the board - this is your **Active Income** because you have to work to complete a round



Buy Property (asset) and
earn rent (passive income)

Once you have bought a property (asset) you start earning **Passive Income** from rent (when a fellow player lands on your property)



Build houses and hotels (more assets) on your property and increase your passive income

When you build houses and hotels (more assets) on a group of properties your (rental) **passive income increases**



*Your financial assets
keep you afloat*

Financial Independence could be thought of as **Financial Survivability**

That is, if you were to quit your job today how long could you live, maintaining your desired lifestyle

Active Income when
you are working



Passive Income once
you have retired



This is so because at **some point in time** you have to **live off your passive income stream**

Mostly we think of this as retirement - say when you are 65 or 75 years old

Active Income when
you are working



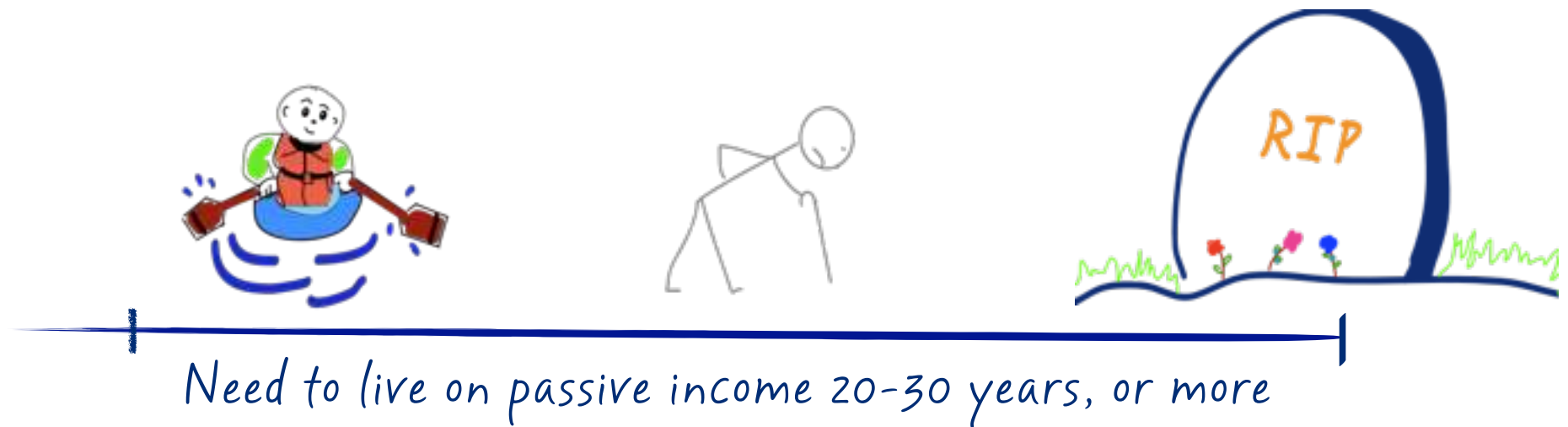
Live on passive income
once you have retired...



...till you die!

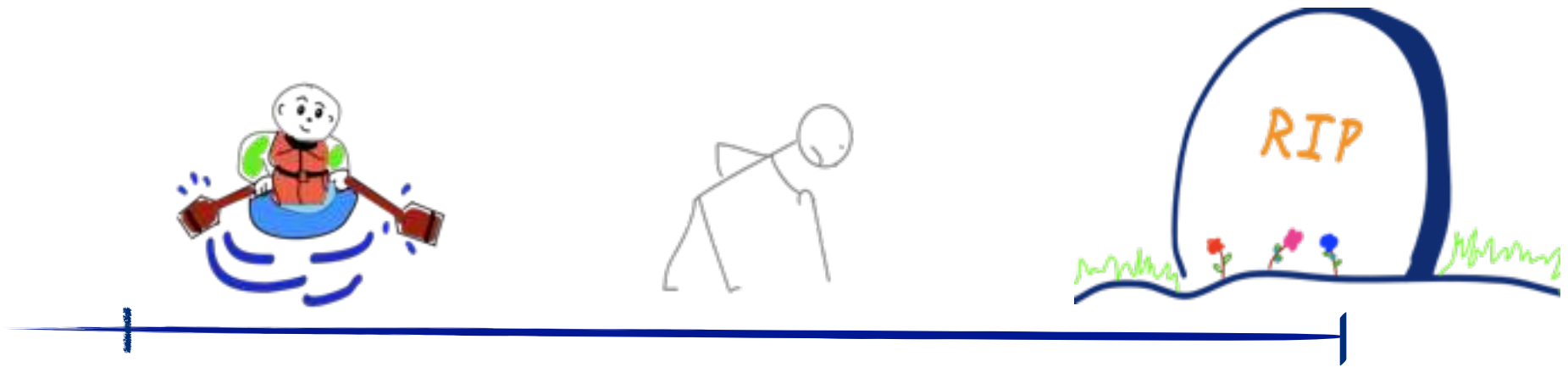


From that time on, **till you die**, you have to ensure that you have **enough passive income** to live on, leading a lifestyle of your choice (like a location of your liking, pursuing your interests and hobbies like travel, good food...)



Given the advances we are making in healthcare, chances are bright that you will **live till you are 95**

If you **retire at 70**, it implies that you need **passive income streams** to support your desired lifestyle **for another 25 years**

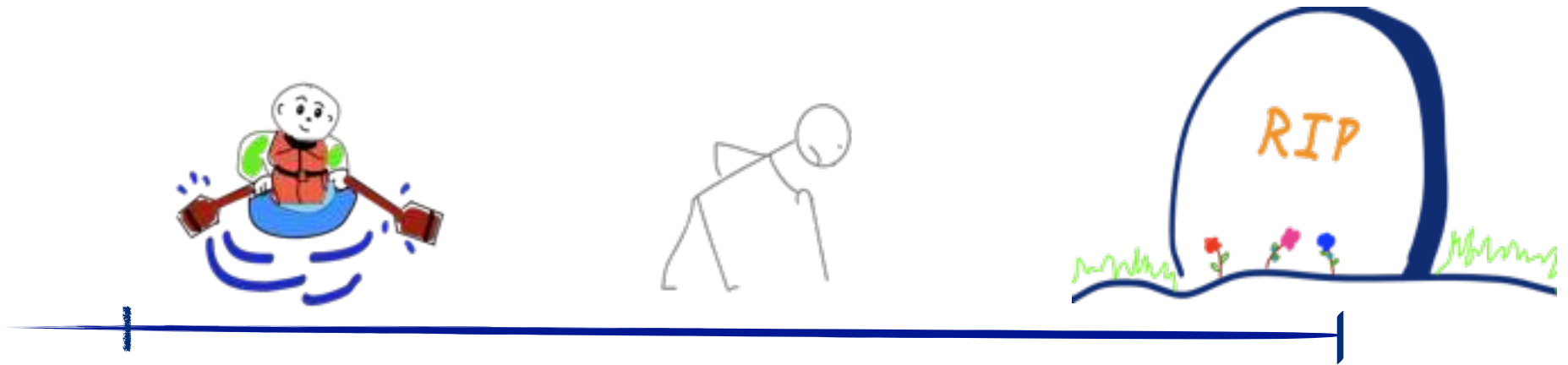


Your assets need to generate an annual income commensurate with your desired lifestyle, for these 20-30 years

Say, you have decided that after retirement you will live in Shangri-La (any place of your liking)

Adjusted for inflation, you calculate that you will need **\$50,000 every year** to live your desired lifestyle in Shangri-La

That is, **for 25 years**, from retirement till you die, you will need a passive income stream of \$50,000 every year



*To generate \$50,000 every year, for 25 years, you need
a kitty of at least half a million dollars*

To make this come true, while you are working, you need to put together **assets that will generate \$50,000** (and more, to meet inflation) **every year for 25 years**

If your assets can generate **10% return per year**, you need to build a kitty of **half a million dollars** (you could dip into the kitty in the last few years, but to keep calculation simple let's assume that you want to leave the kitty for your next of kin, or bequeath it to charities)

You are 25
years old

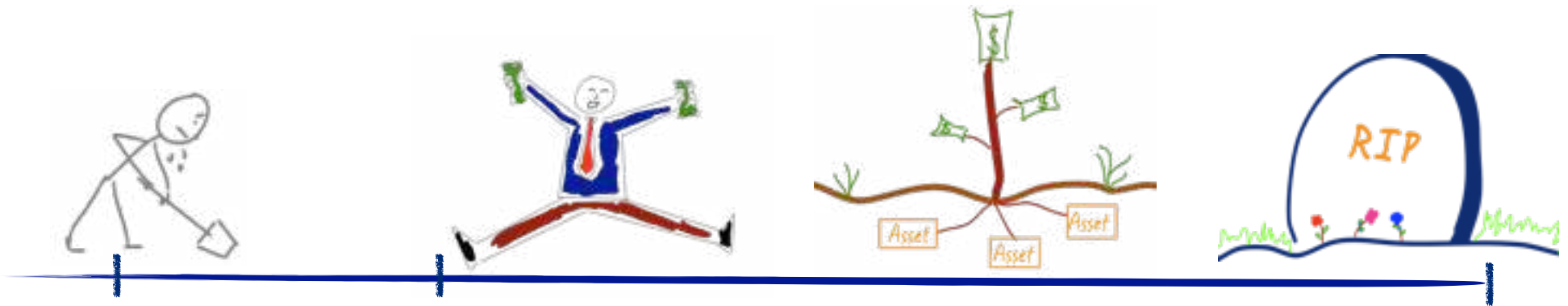
You want to quit your job and pursue
other interests when you are 45...



Here's a more **delicious thought**

Say **you are 25 years old** and you want to **quit your job by the time you are 45**, so that you can pursue your other interests, like fashion photography, amateur astronomy, travel...

→ You need assets that generate adequate passive income streams to sustain your lifestyle for 50 years...



If you can put together assets that will generate passive income stream, adequate for you to lead your desired lifestyle from age 45 to age 95, you can go ahead and quit your job!

You think that's day dreaming!

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(Risk Appetite)

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8. Your Intellectual
Property - an Asset

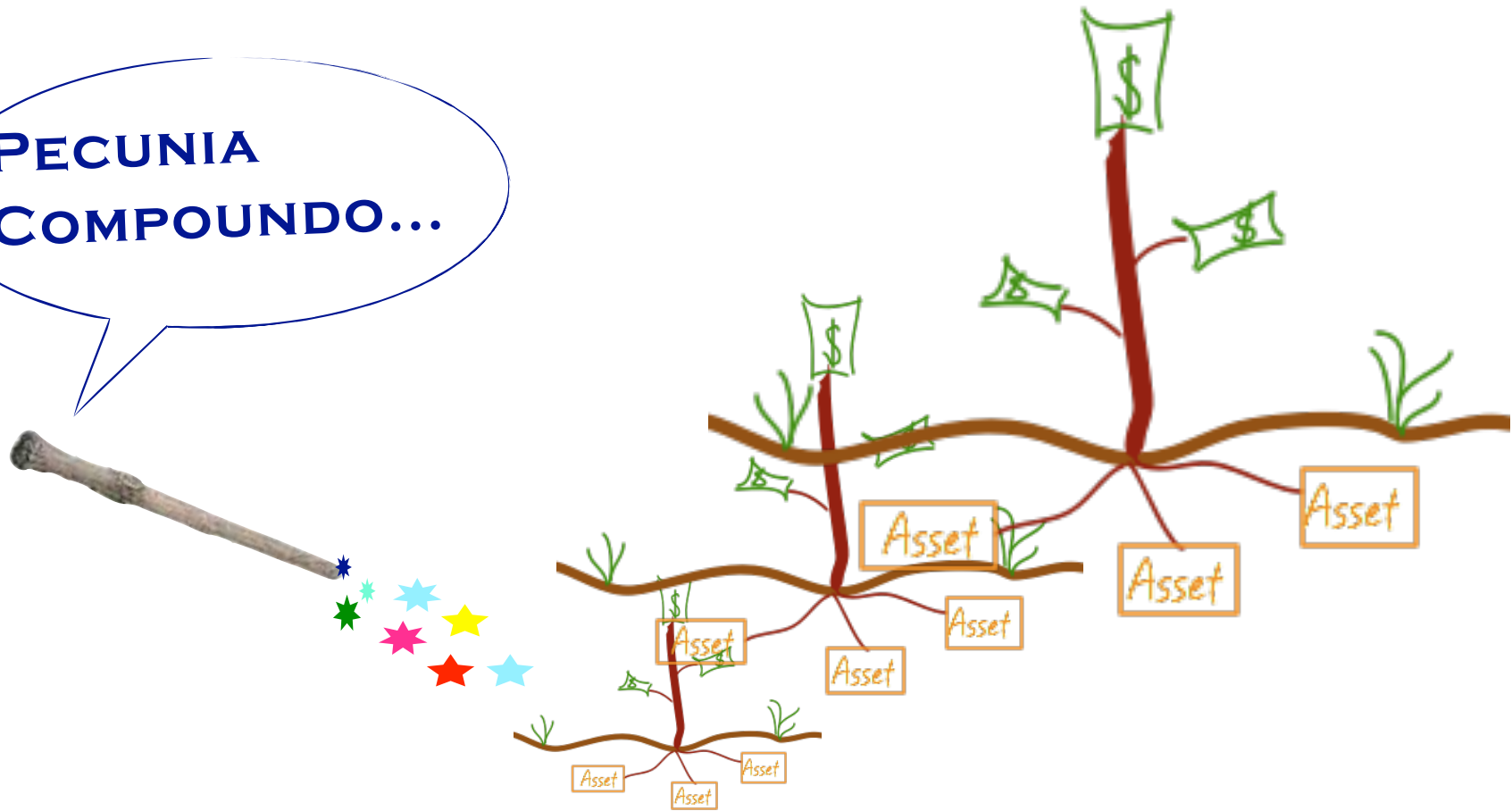
9. Risk Management

10. How to Invest

11. Life Insurance

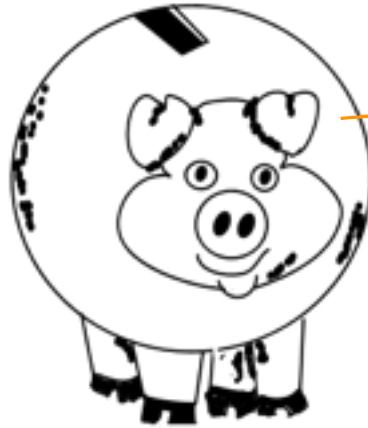
12. Financial Planning

**PECUNIA
COMPOUNDO...**



Well, the **Magic of Compounding** is more powerful than Harry Potter's magic...

*Invest \$500 every month,
starting at age 35*



*@ 8% interest,
compounded annually*

Let's say that wisdom dawns on you when you are 35 years old

And you decide to **invest \$500** (or Rs 500) **every month** in **assets** that generate **8% interest compounded annually** (that is, you reinvest the interest back into the asset)



After 10 years you will have around \$87,000

After **10 years** (that is at age 45, when you want to retire), you will have a kitty of around **\$87,000** (or Rs 87,000)

“That’s not enough to retire on!”, you say

Instead of 35, if you start at 20
(investing the \$500 @ 8% compounded annually)



At age 45 you will have over \$435,000

If you became **wise at 20 years of age** and decided to **invest** the same **\$500 at 8%** interest compounded annually

Then **at 45**, you will have a kitty of over **\$435,000**

At age 20, if you invest Rs 2,000 a month

(@ 8% compounded annually)

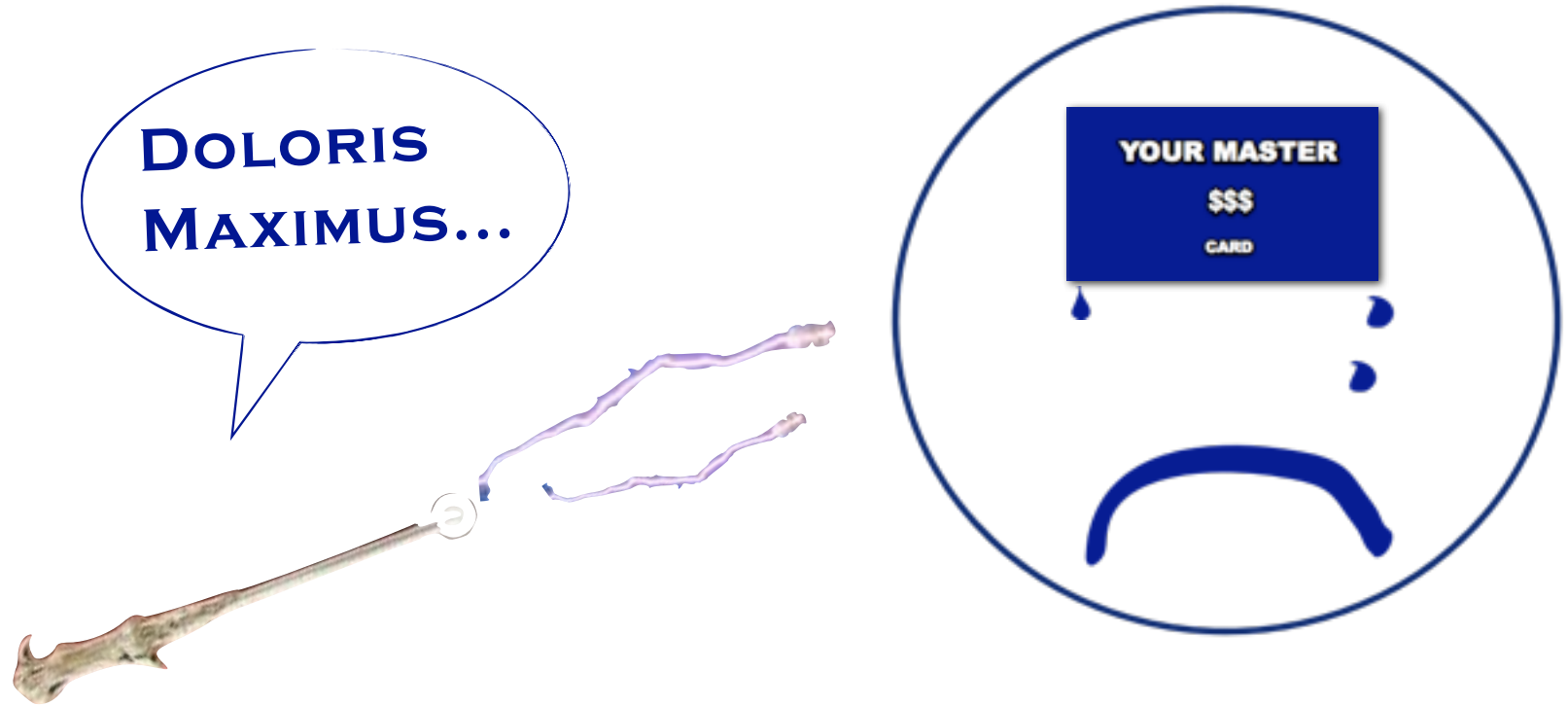


At age 45 you will have over Rs 175,000

If, at **age 20**, you start investing \$2,000 (or Rs 2,000) every month into the same assets...

...**at age 45**, if you have not taken out anything from this investment, **you will** have a kitty of over \$1.75 million (or Rs 17.5 lakhs)!

The earlier you start the more the Magic of
Compounding works in your favour



When you **don't pay the full amount due on your credit card every month and roll credit**, the credit card companies use the same Magic of Compounding to their advantage - for you it becomes the **Voldemort Magic of Compounding!**

To be financially savvy you also need to understand the concept of **DELAYED GRATIFICATION**

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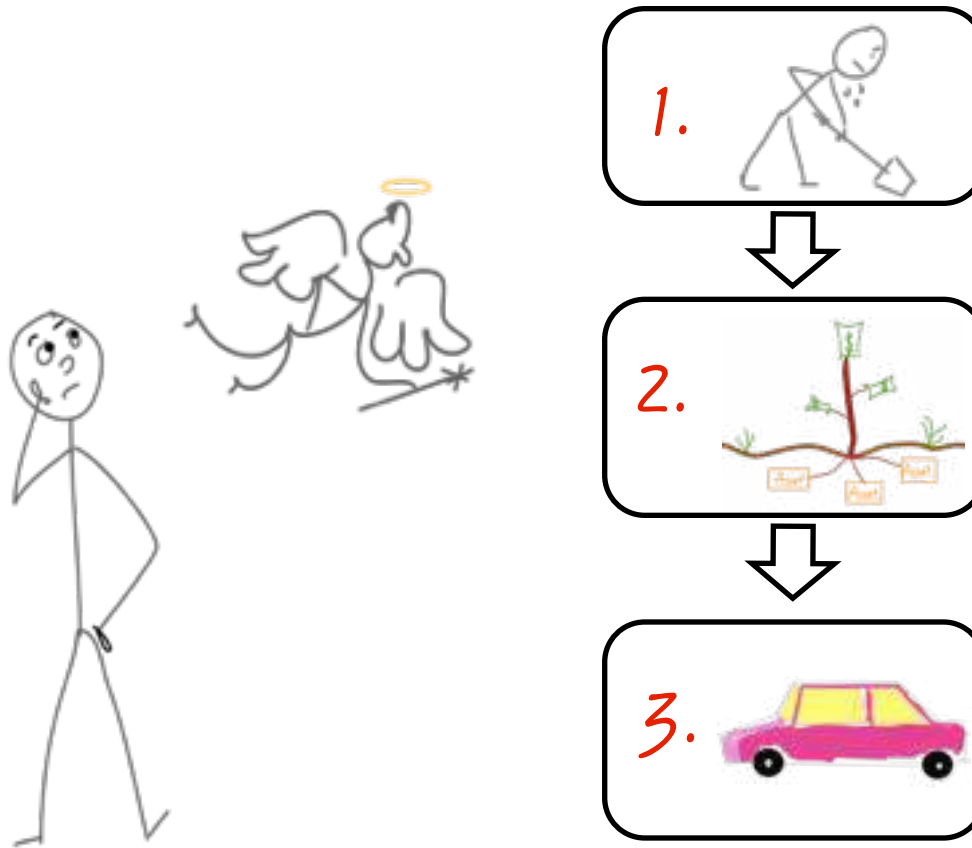
10. How to Invest

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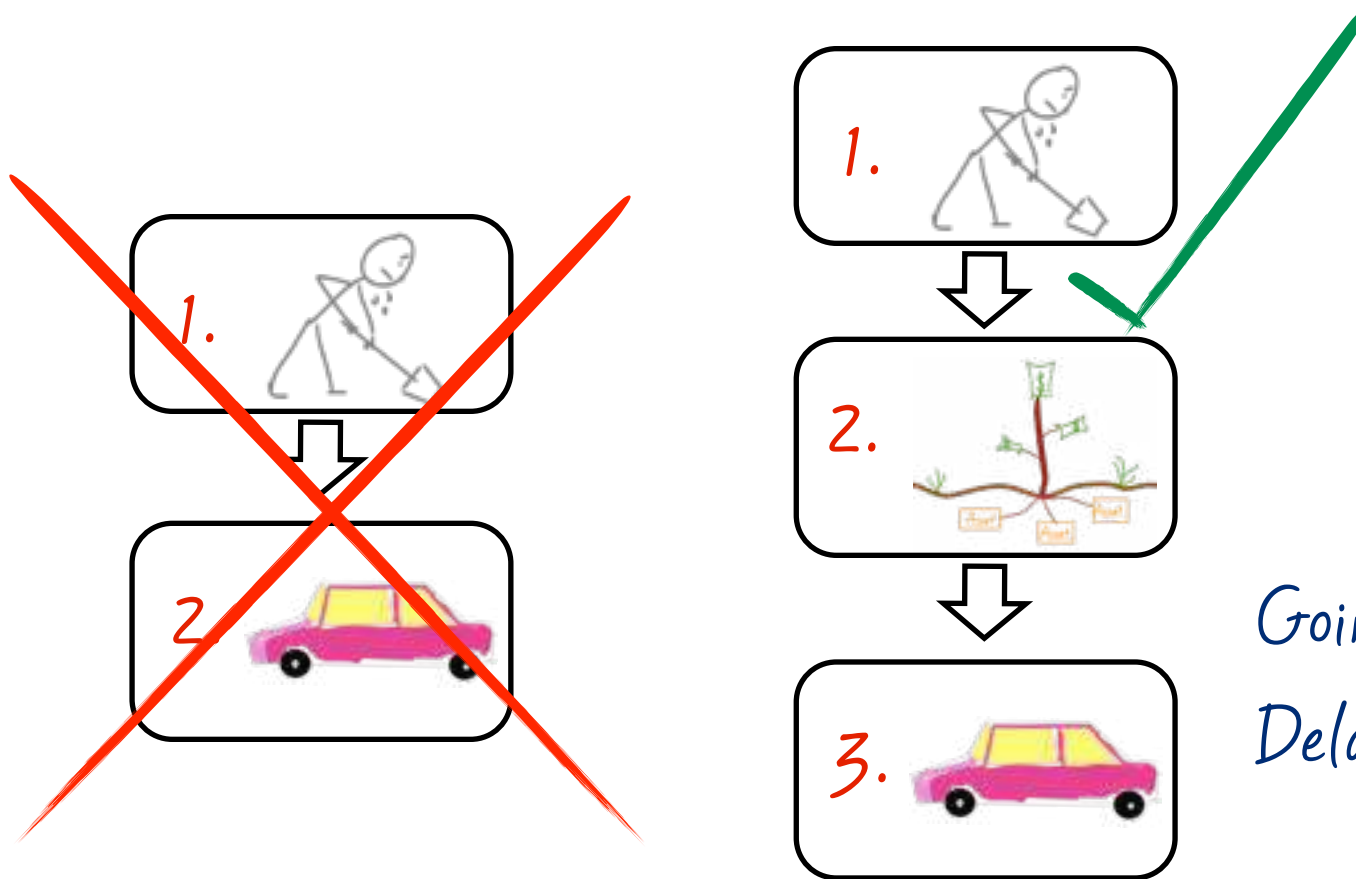
12. Financial Planning



You need to make sure you **diligently and regularly invest in assets**, even when your friends are spending their money on smart-phones, or swanky cars (remember they are liabilities because they take money away from your pocket)



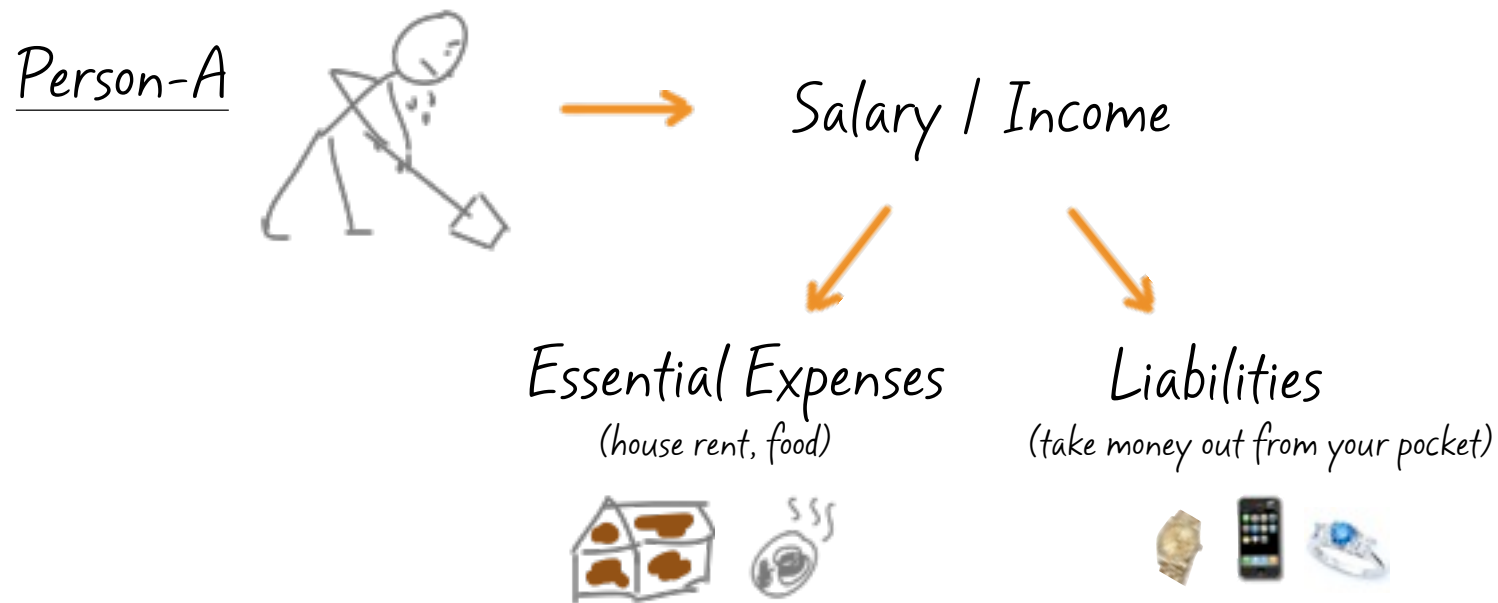
You will too have have these mouth-watering liabilities but
you will **buy them from the passive income stream** your
assets generate **after a while**



*Going from 1 to 2 to 3 is
Delaying Gratification*

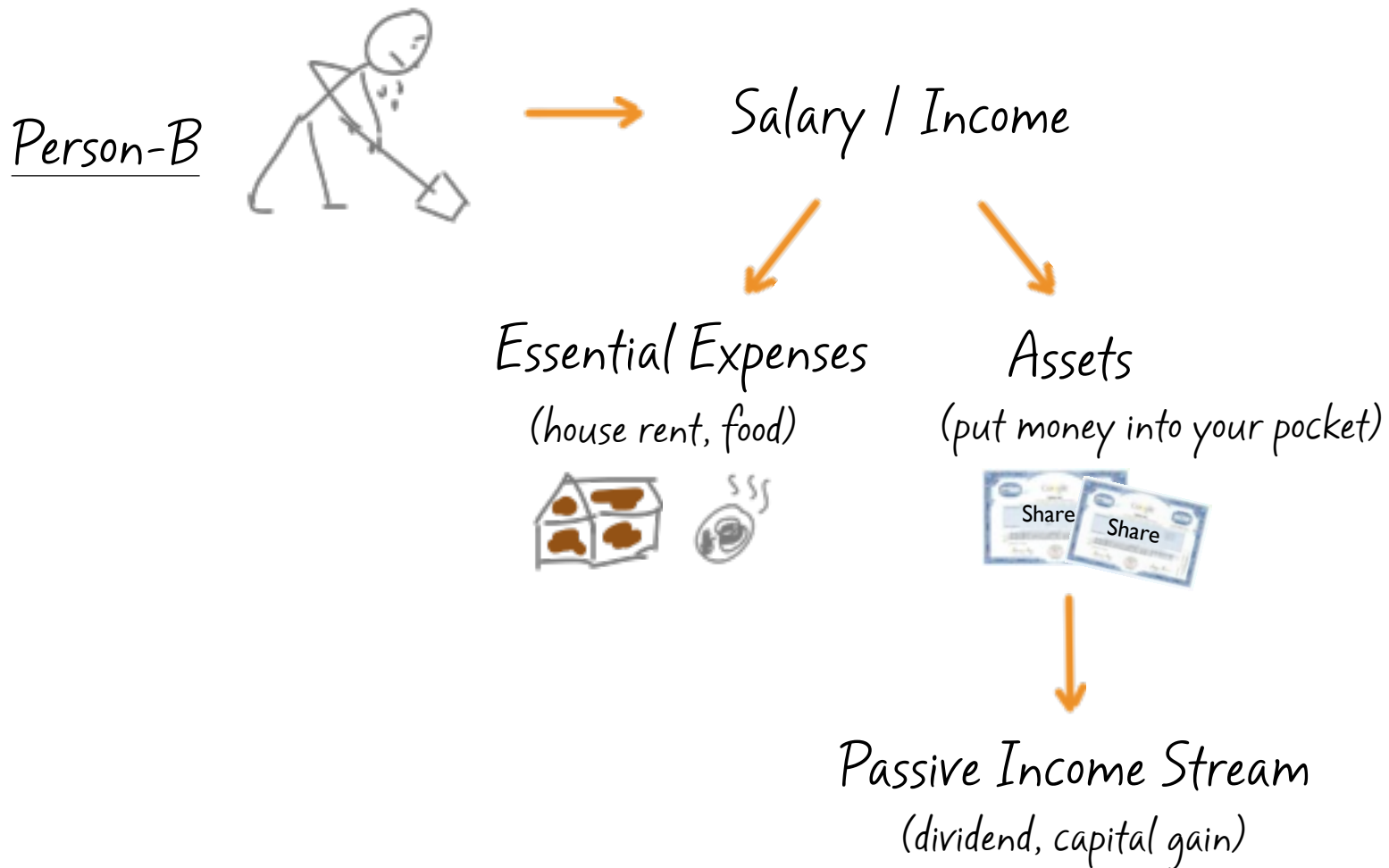
This ability to overcome your impulse and delay buying liabilities till you have invested in passive income generating assets is **Delayed Gratification**

Let's consider an **example** to better understand the benefits of **Delayed Gratification**...



Let's say Person-A and Person-B both earn 5,000 per month
(currency depends on where they are based)

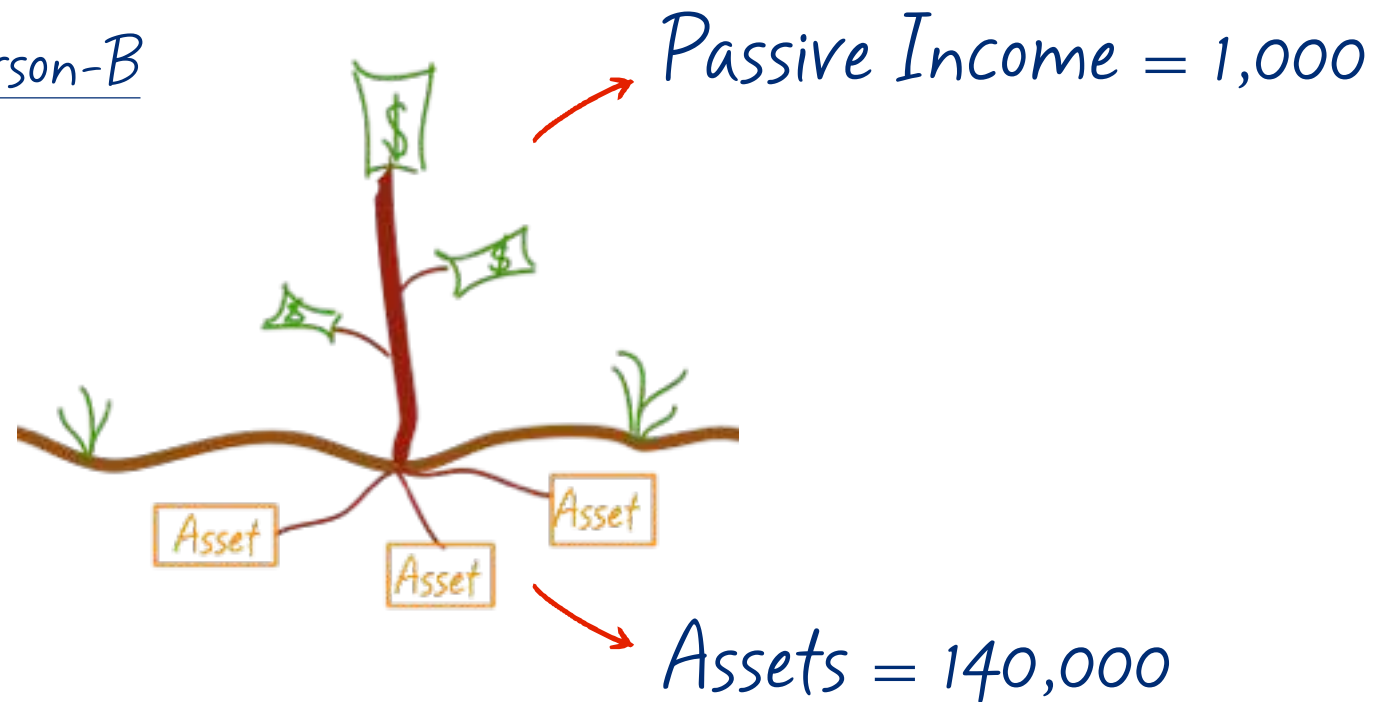
Person-A spends all the salary on all sorts of **liabilities** - some are **essential expenses** like house rent and food, but rest is spent on branded watches, expensive jewelry and latest electronic gizmos



Person-B too spends part of the salary on house rent, food and other essentials, but instead of buying a branded watch buys an ordinary watch and **invests 2,000 every month in an asset that generates 8% interest compounded annually**

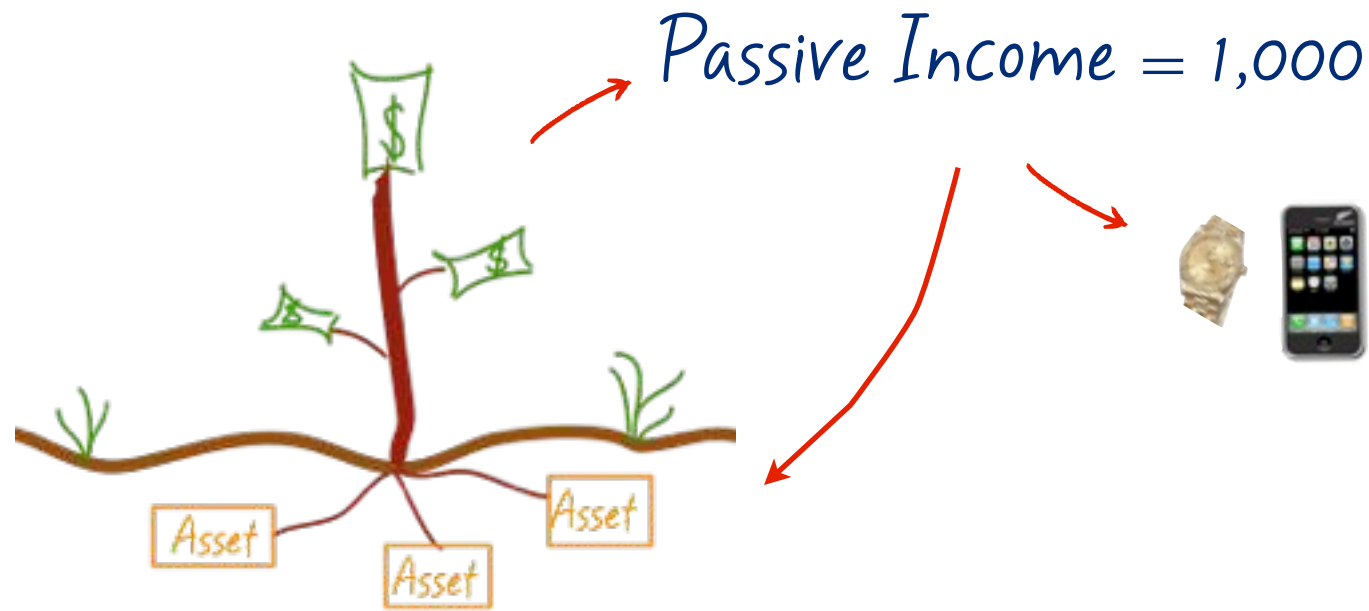
After 5 years...

Person-B

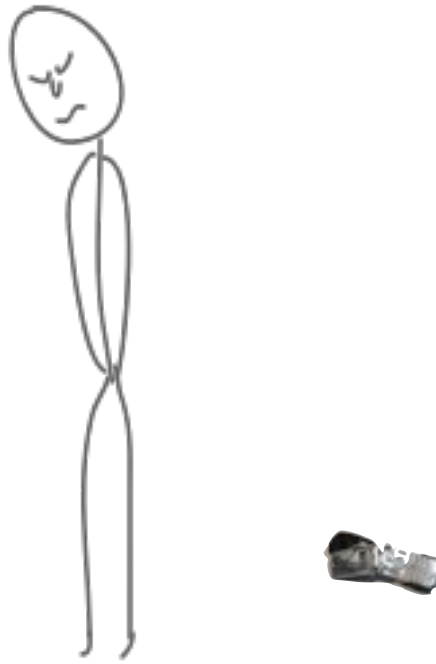


In just **5 years**, Person-B would have accumulated a **kitty of 140,000**, which will be generating a **passive income** stream of around **1,000 every month**

Person-B

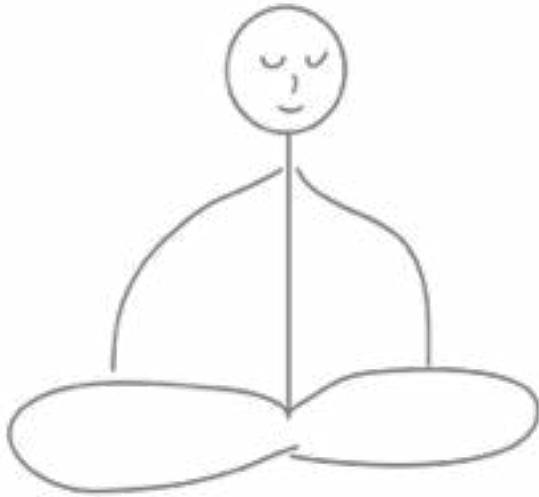


Person-B could then use **some of this passive income** to buy branded jewellery, and electronic gizmos, still diligently investing from the active income



While Person-A would not have built any asset (that is no kitty) and will not be generating any passive income

Self-Discipline and Impulse Control
are the keys to Delayed Gratification



This is **Delayed Gratification** - instead of satisfying your desires immediately, you have enough **self-discipline** to **control your impulse** and wait for gratification in the future

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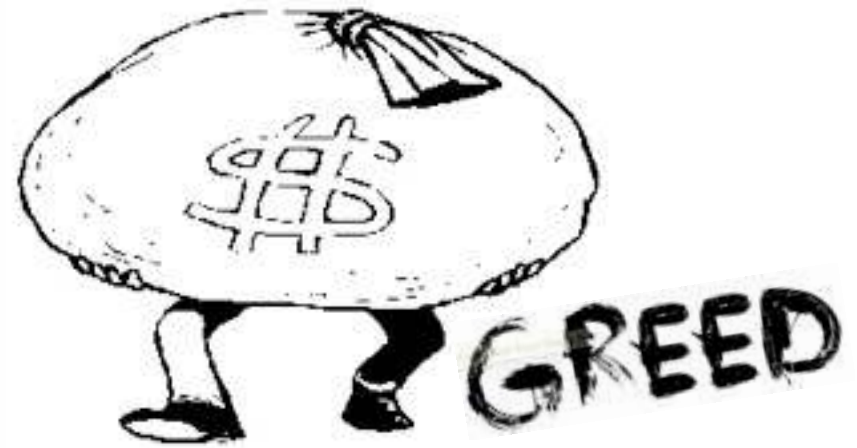
9. Risk Management

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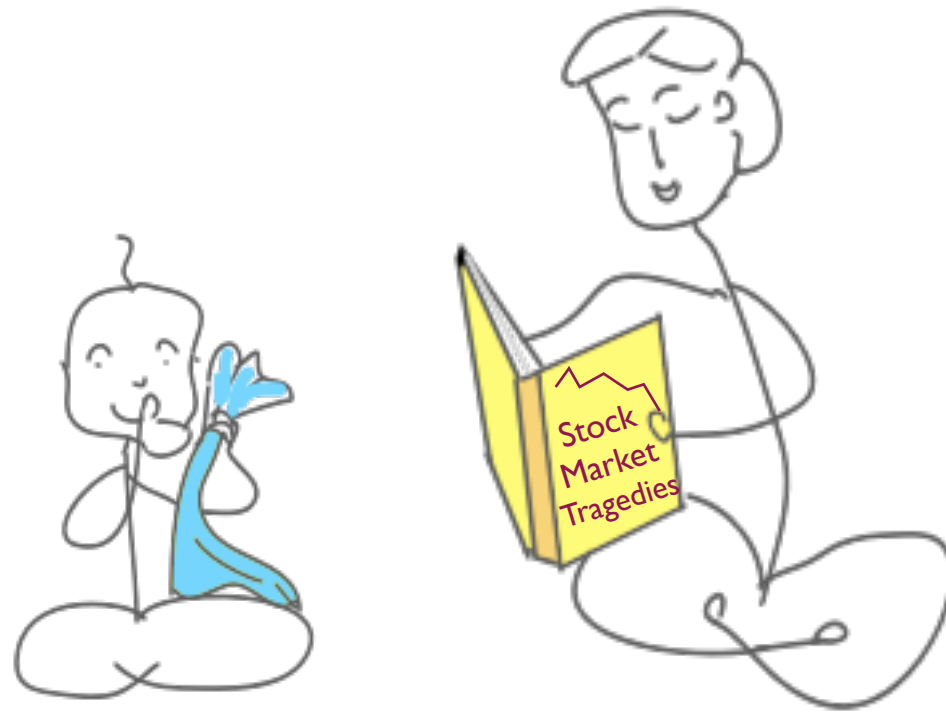
12. Financial Planning

DESIRE

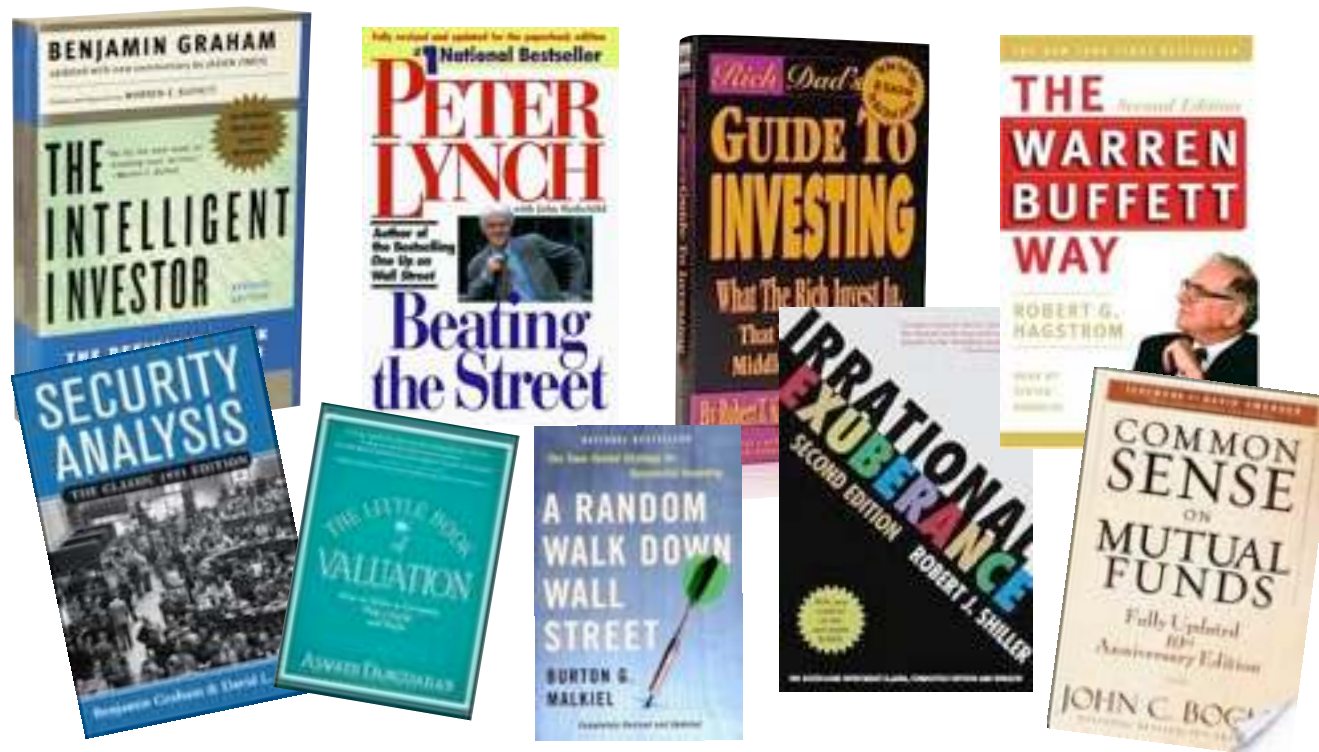


Uncontrolled desires usually end up as **greed**

On the other end of the spectrum lurks **fear** - fear that if you invest in assets, you may **lose all your money**

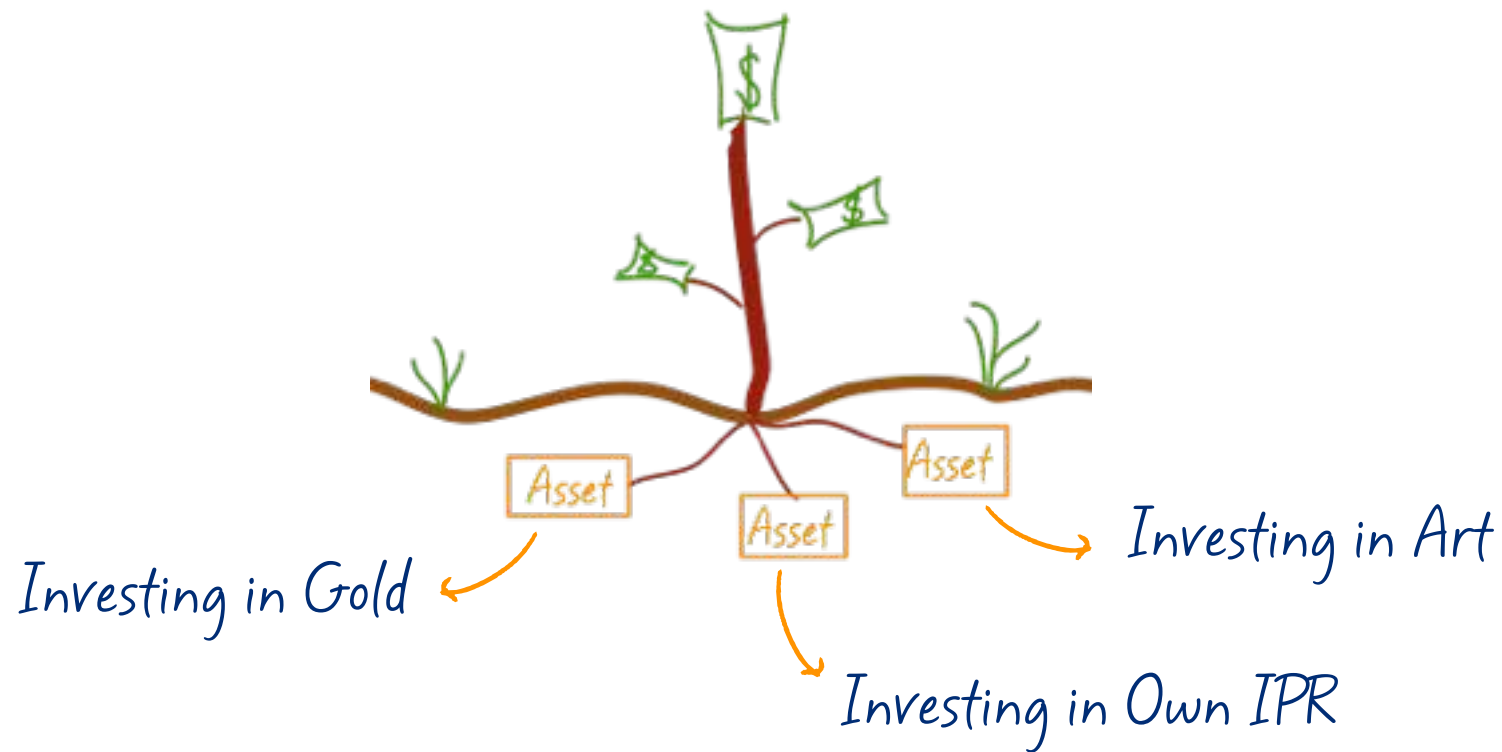


This is especially true if you have been told, since you were a kid, that investing in the **stock markets** is like **gambling**



Well, if you invest without doing any homework then it is **speculation**

But if you invest in becoming **financially literate**, before you invest in the stock market and understand how you can **manage risk**, then it is not gambling



If you are still not comfortable with **stock markets** there are **other passive income yielding asset classes** - like investing in art, or investing in creating your own intellectual property that result in passive income yielding assets (asset classes are discussed later in this module)



What is important is that you understand the importance of being **self-aware** and **emotionally mature**, when you put your money to work

Neither fear nor greed should drive your **financial decisions**

Wall Street Predicted 9 out of 5 Recessions

Financial Crisis

Bear Market Again

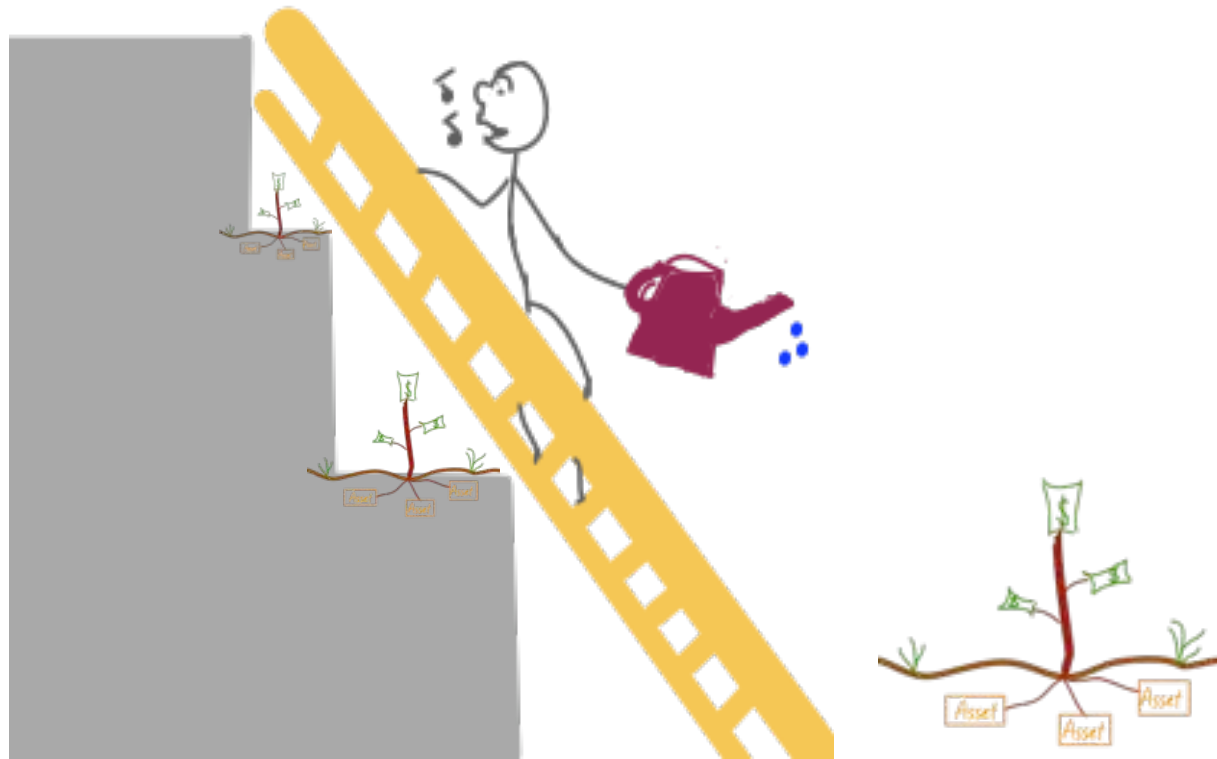
Fear Stalks Markets

Double dip recession looms

“If you can keep your
head when all about
you are losing theirs...”

- from the poem 'If' by Rudyard Kipling

You should not get swayed by emotions - when media blows financial news beyond proportions and everybody around you is losing their head - you must have the emotional maturity to stick with your **financial plan** (financial planning is covered later in the module)



Conventional wisdom tells us to **chase better paying jobs** or promotions

While higher income is welcome, **what matters** more is using the higher salary to **create assets** not liabilities

REMEMBER

A 'non finance literate' person does this...

Your Job or
Business



Salary / Income



Essential Expenses

(house rent, food)

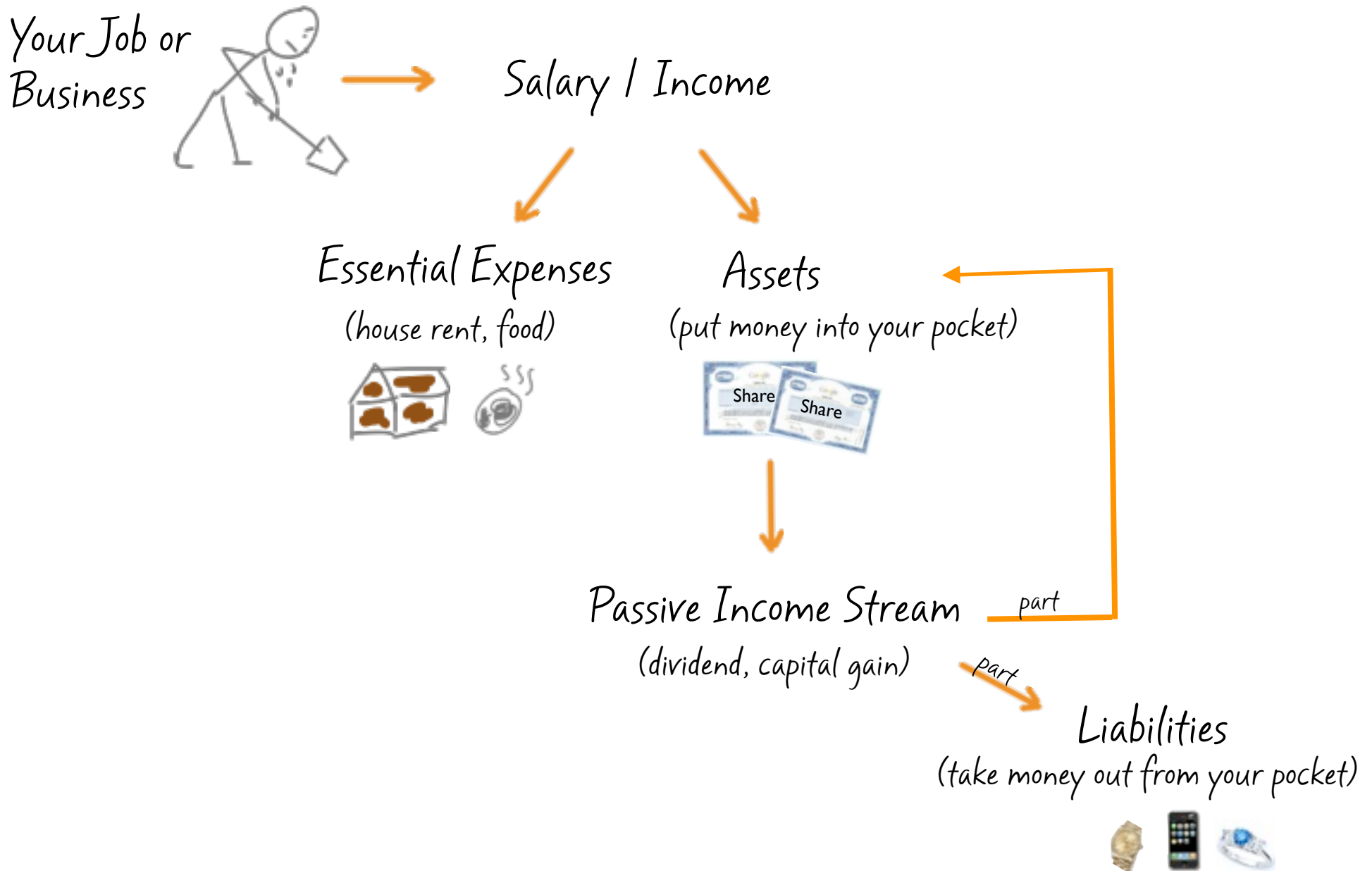


Liabilities

(take money out from your pocket)



A financially savvy person does this...



Let's now turn to managing risk

RISK VS REWARD

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Different passive income generating **assets** have **varying levels of risks...**

Your Job or
Business



Salary / Income



Essential Expenses
(house rent, food)



Assets

(put money into your pocket)



→ Option-I: Savings Bank Account

(with a bank that your country's Central Bank has guaranteed to support in case there is a run on your bank)

✓ You Deposit: \$1,000

✓ Your Reward: interest rate of 2% per year

✓ Your Risk: none

(if your bank fails the Central Bank has guaranteed to repay you; there is an inflation risk)

Your Job or
Business



Salary / Income



Essential Expenses
(house rent, food)



Assets
(put money into your pocket)



→ Option-2: Lend money to a reputed Company (this is called investing in Bonds)

✓ You Lend: \$1,000

✓ Your Reward: interest rate of 5% per year

✓ Your Risk: company could fail, but chances are low, so overall risk is low

Your Job or
Business



Salary / Income

Essential Expenses
(house rent, food)



Assets
(put money into your pocket)

→ Option-3: Buy shares of a reputed company

✓ You Invest: \$1,000

✓ Your Reward: company may pay dividend
and/or its share price may rise - say this
gives you a 10% return on your investment

✓ Your Risk: share markets are very volatile, so
risk is higher than Bonds

Your Job or
Business



Salary / Income



Essential Expenses
(house rent, food)



Assets
(put money into your pocket)



→ Option-4: Buy gold because you believe price of gold always rises

✓ You Invest: \$1,000

✓ Your Reward: price of gold could go up by 15%

✓ Your Risk: price of gold could go down by 20% and because you needed money you sell it at the lower price and lose \$200 of the principal amount

Your Job or
Business



Salary / Income

Essential Expenses
(house rent, food)



Assets
(put money into your pocket)

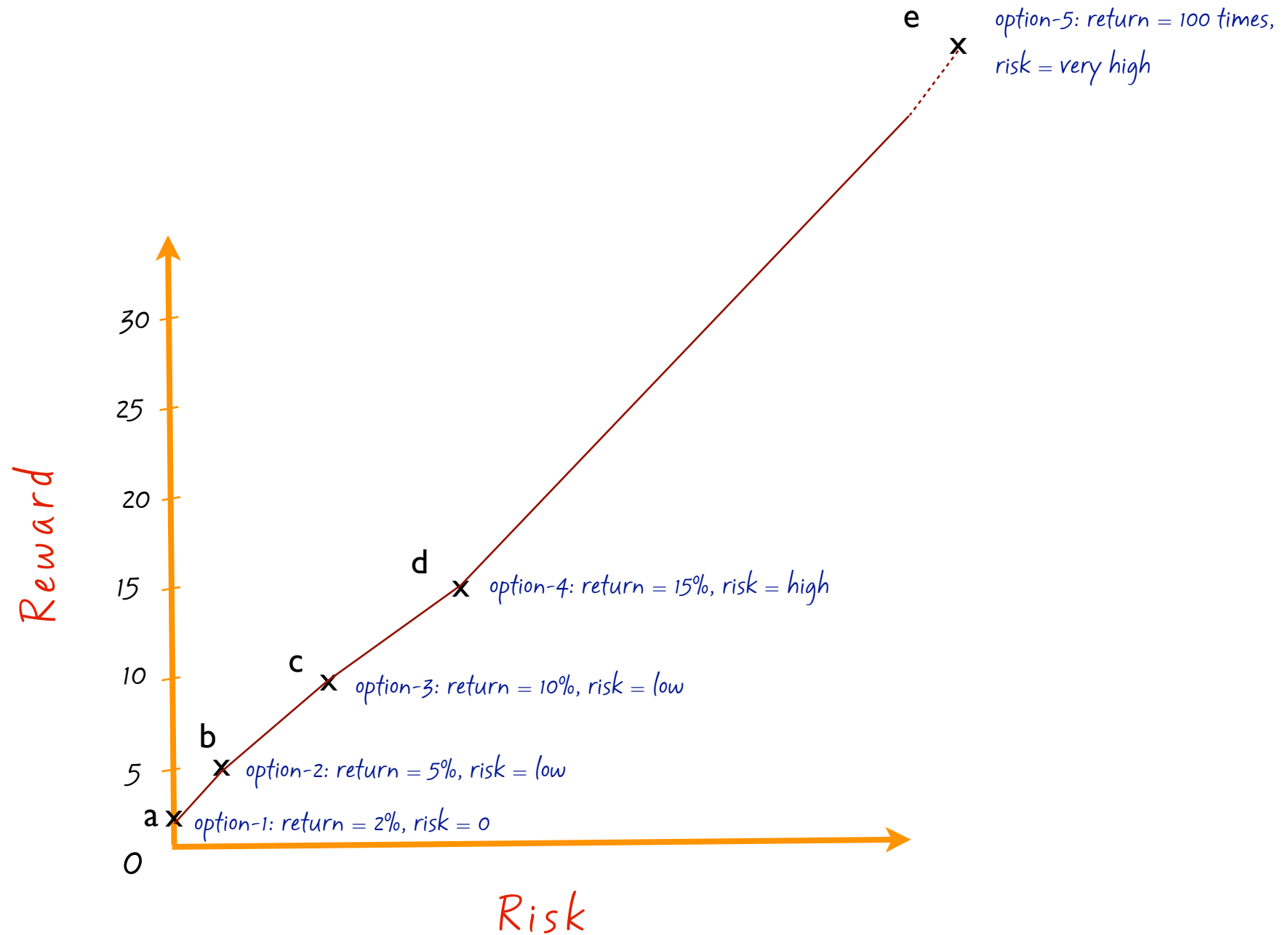
→ Option-5: Give loan to a friend, who is starting a new internet company

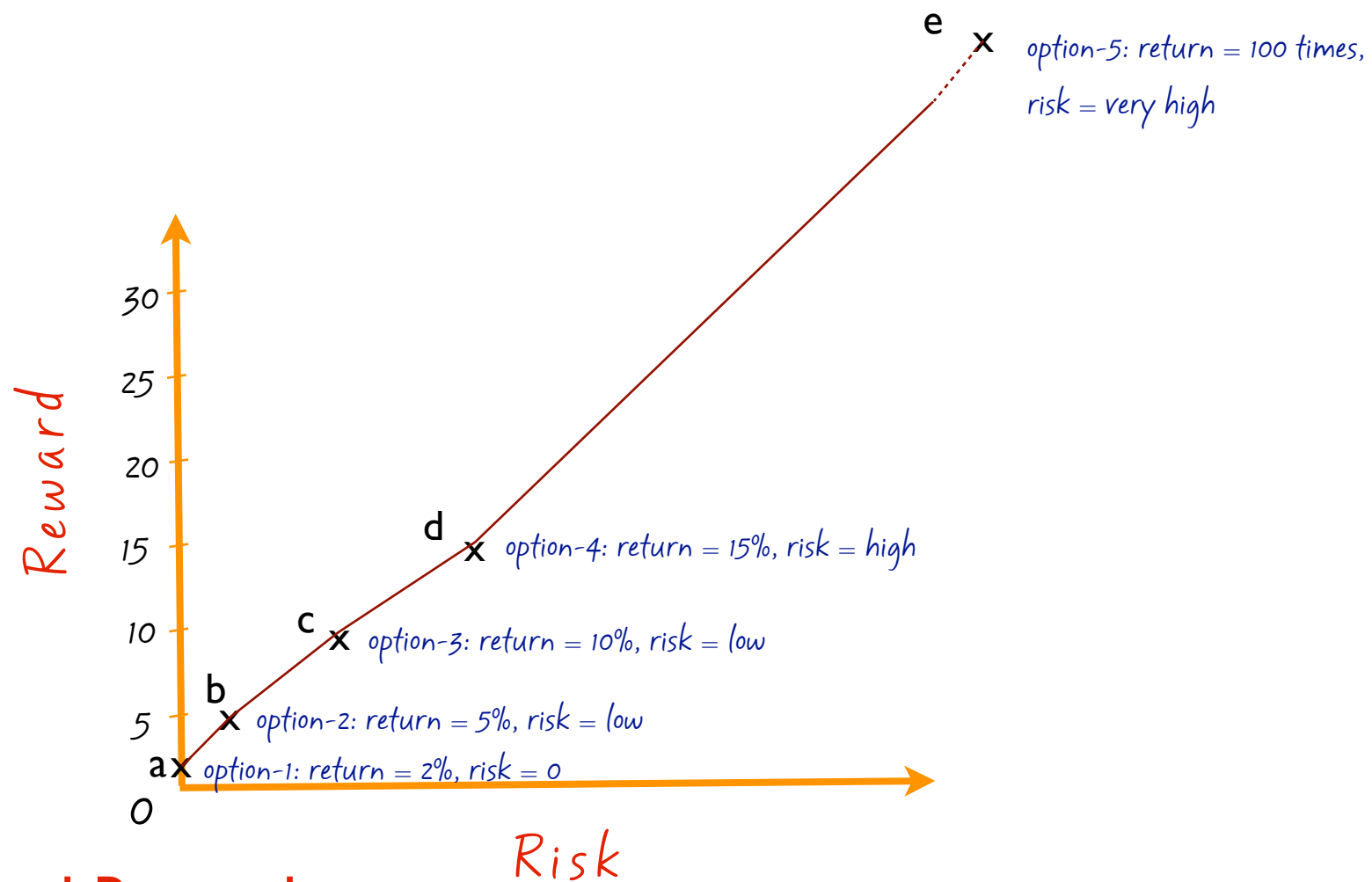
✓ You Invest: \$1,000

✓ Your Reward: your friend gives you a 5% stake in the company and according to his plans, your stake could grow a 100 times!

✓ Your Risk: the company may not survive and you could lose ALL your money

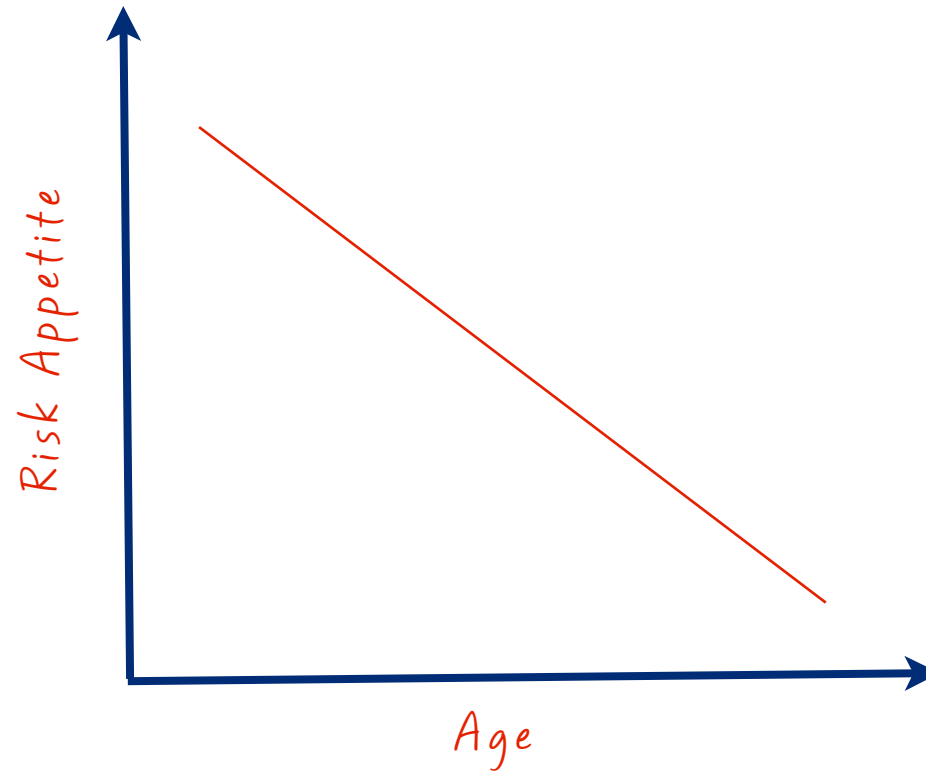
Let's plot the risk and reward of various options on a graph...





Risk and Reward

- Higher the Return you want, Greater the Risk you have to take
- What risk-reward combination you choose, depends on your particular circumstances



Typically: **younger you are, more your risk appetite**

This is because when you are young you have more time to make up for any losses you might make in high-risk, high-return investments

You are 25 years old



Salary = \$5,000 p.m.



You Save and Invest \$10,000 in
high-risk, high-return investment



You lose it ALL!



You can save again because
you have many years of
active income left (and have
gained useful experience)

You are 25 years old



Salary = \$5,000 p.m.



You Save and Invest \$10,000 in
high-risk, high-return investment



You lose it ALL!



You can save again because
you have many years of
active income left (and have
gained useful experience)

Since you are
young,
you also have the
Magic of
Compounding in
your favour

PECUNIA
COMPOUNDO...



But a person nearing retirement...



Salary = \$15,000 p.m.



Saves and Invests \$100,000 in
high-risk, high-return investment



Loses it ALL!



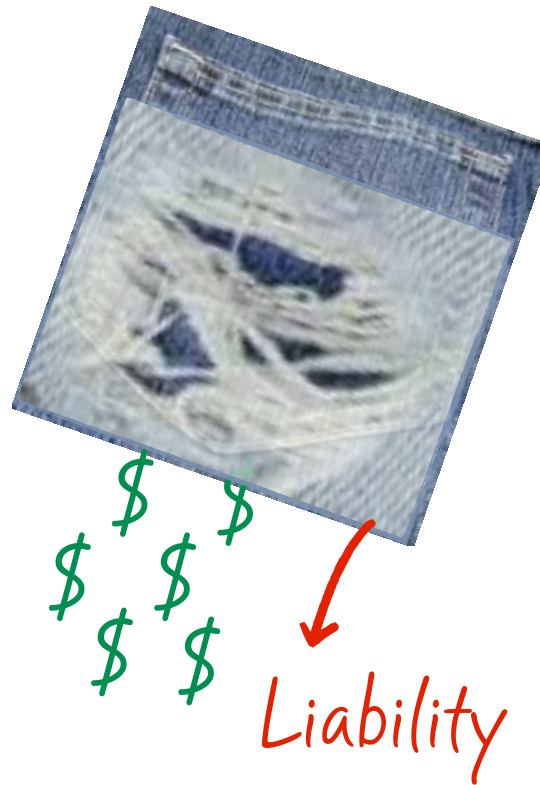
Difficult to accumulate a
kitty again because not many
years of active income left

BUILDING BLOCKS OF FINANCIAL LITERACY

we have looked at so far are...



Assets: add money to your pocket

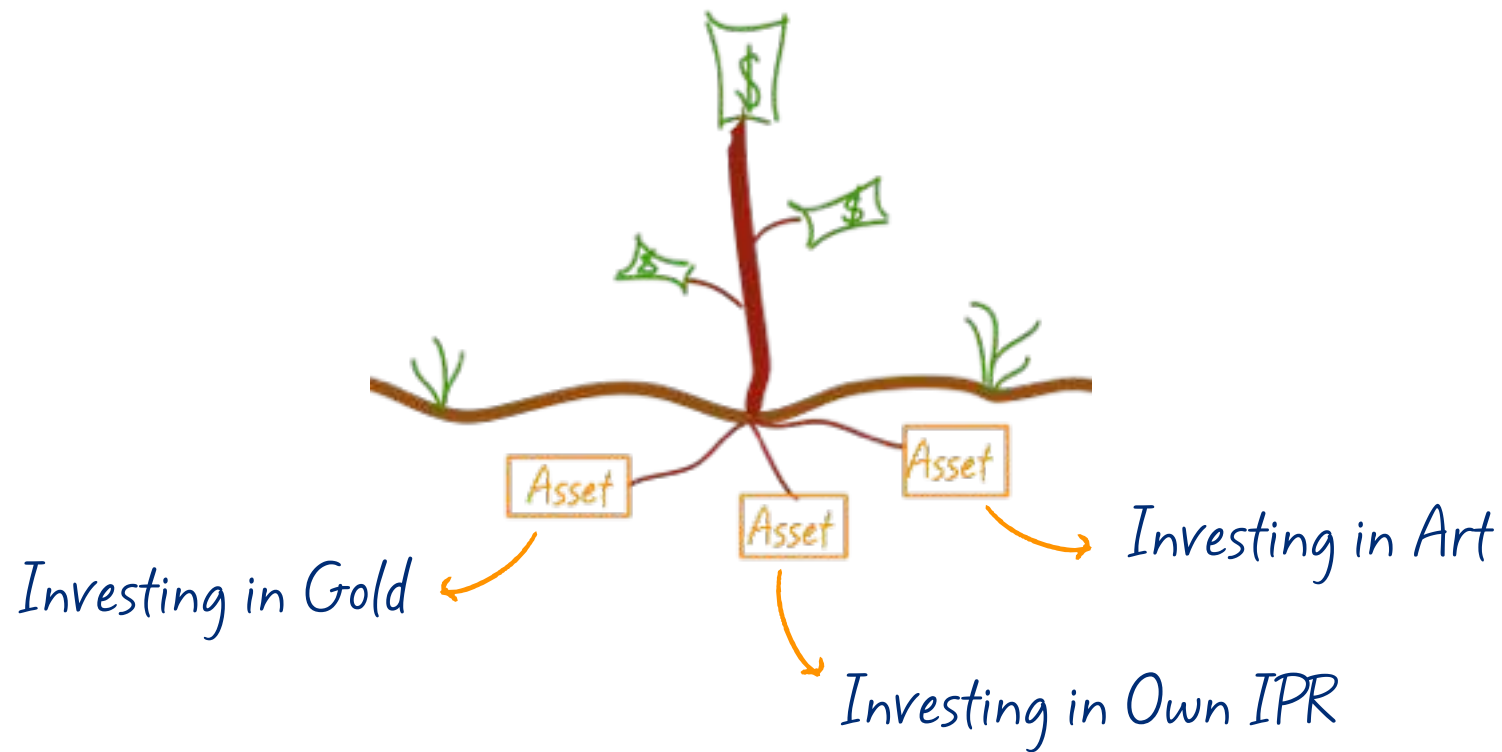


Liabilities: take money out of your pocket

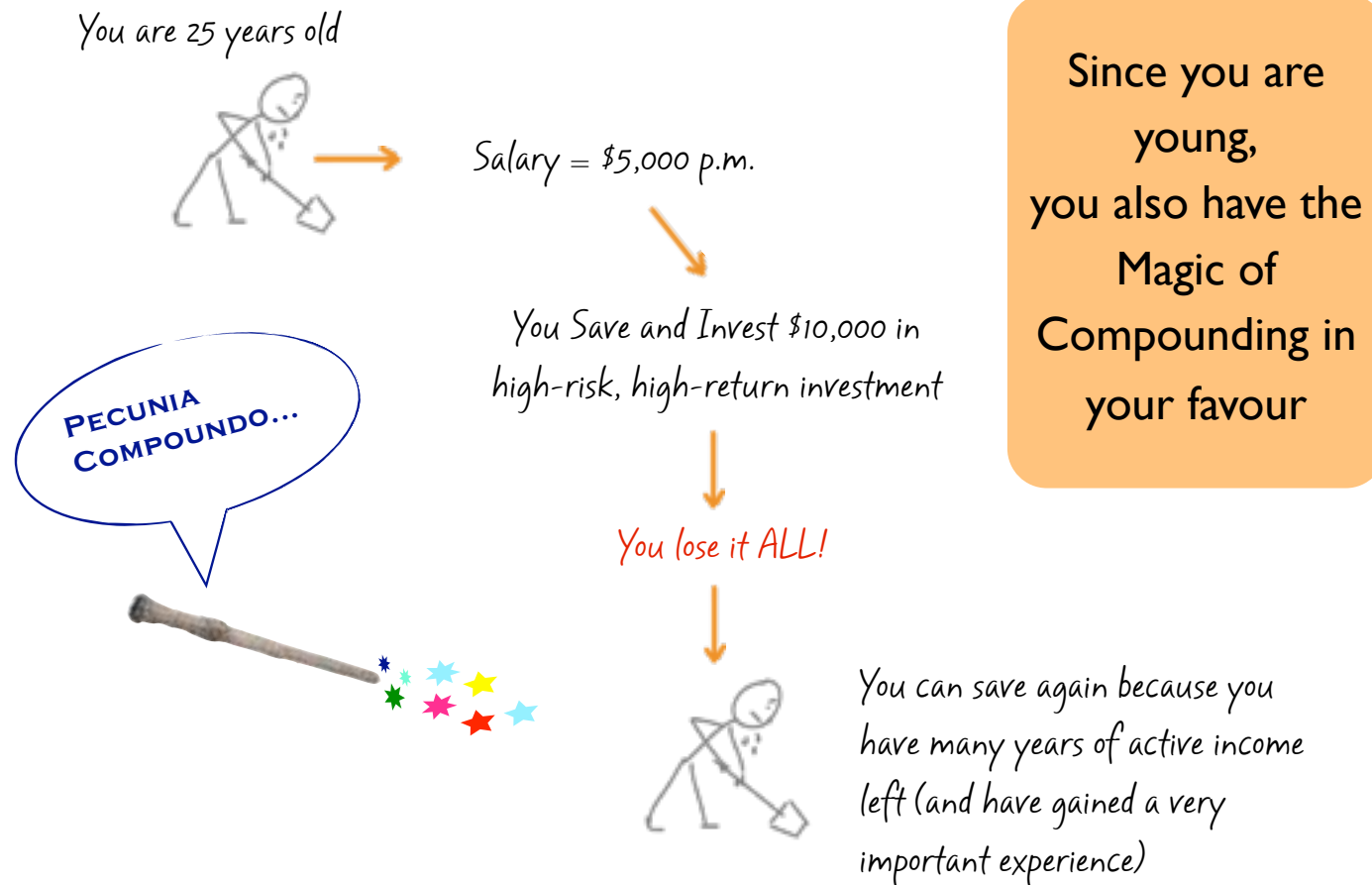
Your Job or
Business



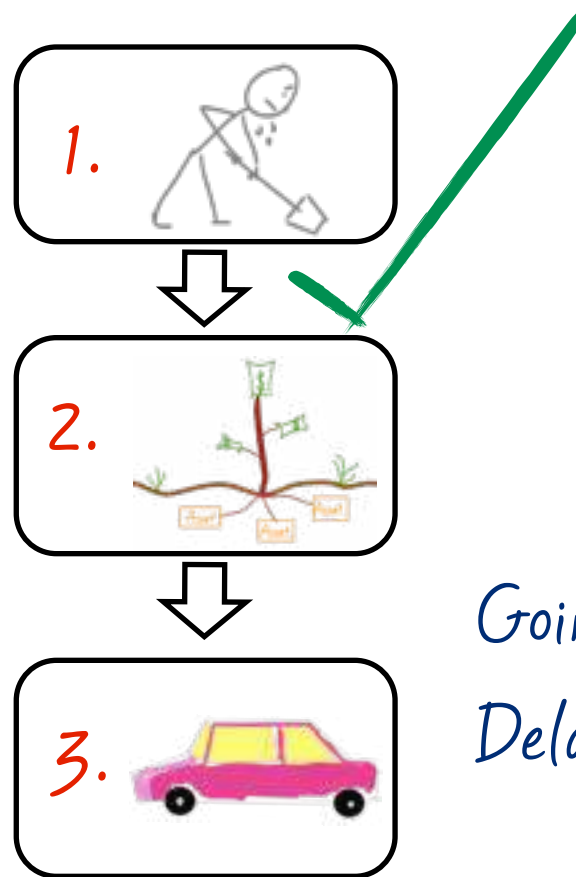
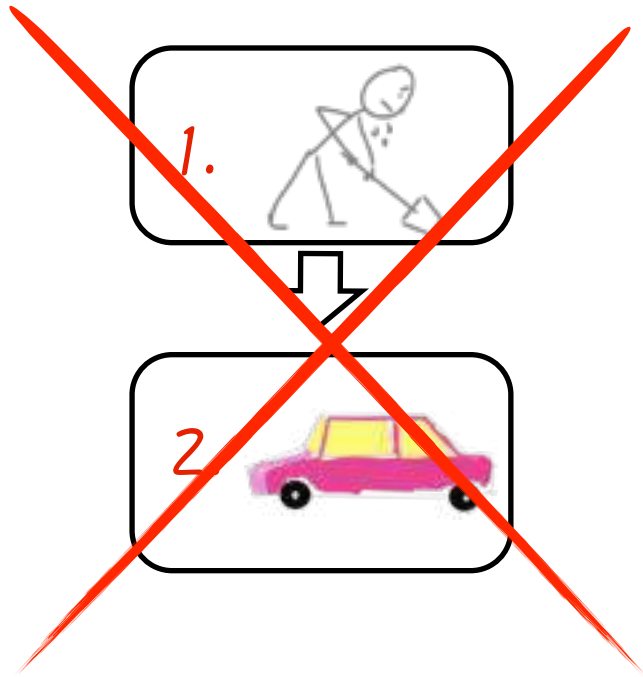
Active Income: is income you have to work for (like a job, self-employment)



Passive Income: is when your assets earn income for **you** (i.e. when your money makes more money)

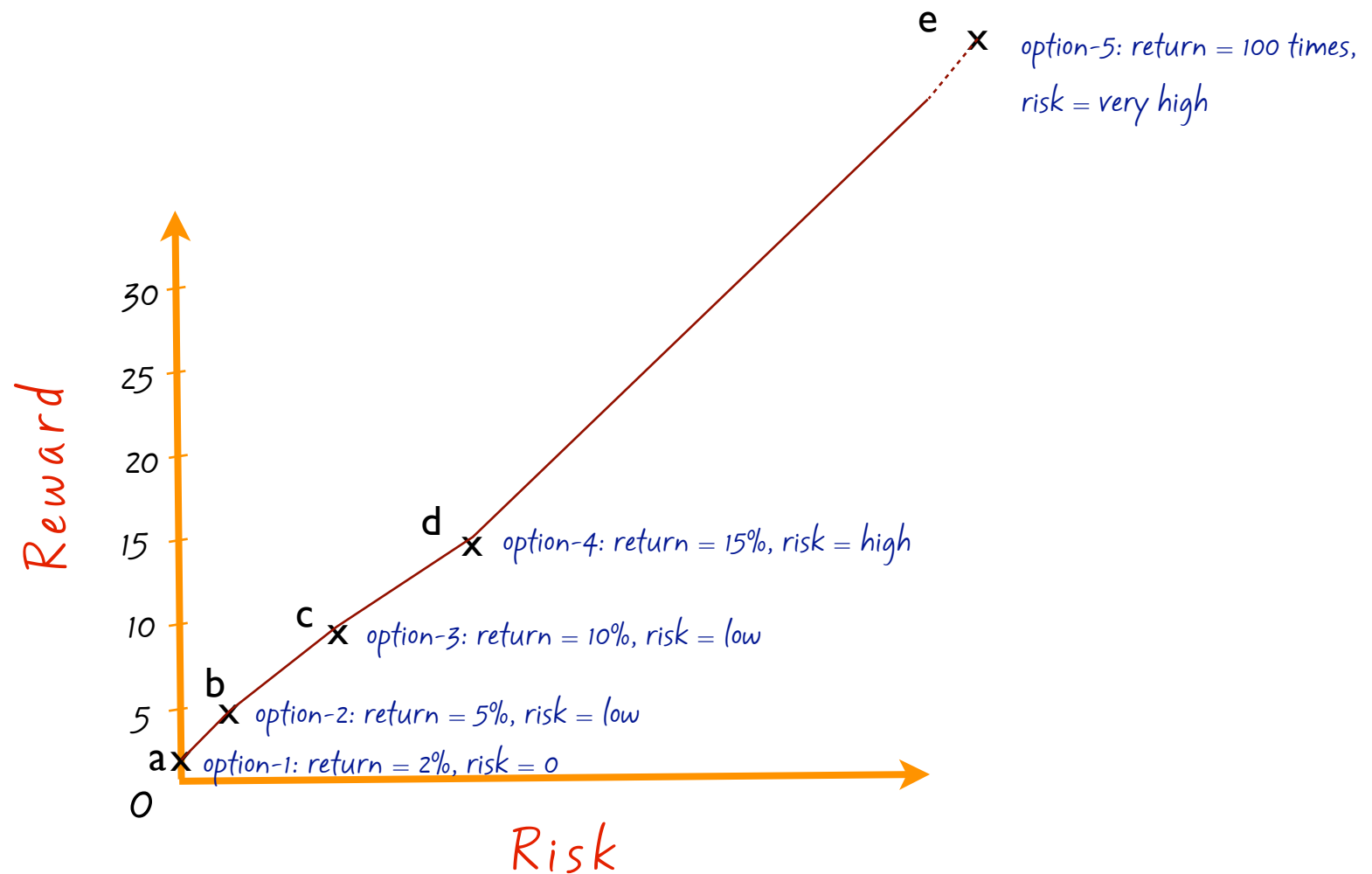


Start Young: because the younger you start, the better the **Magic of Compounding** works



*Going from 1 to 2 to 3 is
Delaying Gratification*

Learn Self-Control to Delay Gratification: don't fall for peer pressure, learn self-control so that you can defer gratification



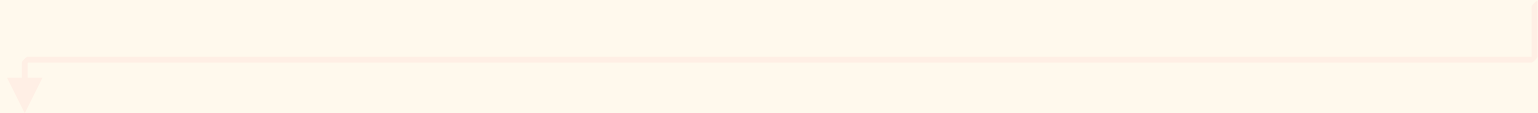
Understand Risk vs Reward: higher the return you want, greater the risk you have to take; typically, younger you are, more your risk appetite

Let's now turn to the **DIFFERENT TYPES OF ASSETS**
that generate passive income streams

1. Asset vs Liability
(Investment vs Consumption)

2. Active vs Passive Income
(Financial Independence)

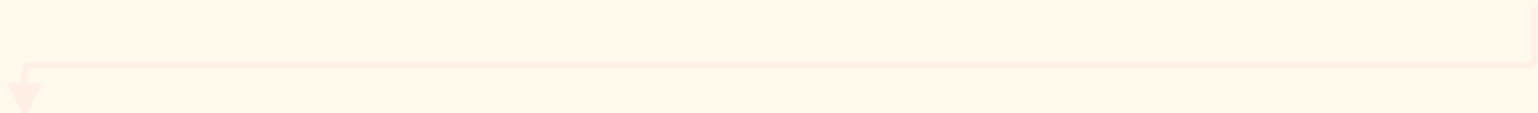
3. Magic of Compounding
(Start Young)



4. Delayed Gratification
(Learn Self-Control)

5. Fear & Greed
(Control Emotions)

6. Risk vs Reward
(Risk Appetite)



7. Asset Classes

8. Your Intellectual
Property - an Asset

9. Risk Management



10. How to Invest

11. Life Insurance

12. Financial Planning

This is just a broad overview and not an exhaustive list of different types of assets you can invest in

- ✓ Shares (or Stock)
- ✓ Bonds
- ✓ Real-Estate
- ✓ Commodities
- ✓ Art / Antiques
- ✓ Cash
- ✓ Your own Intellectual Property



a company needs money
to expand its business

Option-1: increase capital by
issuing more shares

Option-2: take a loan from
bank or from general public

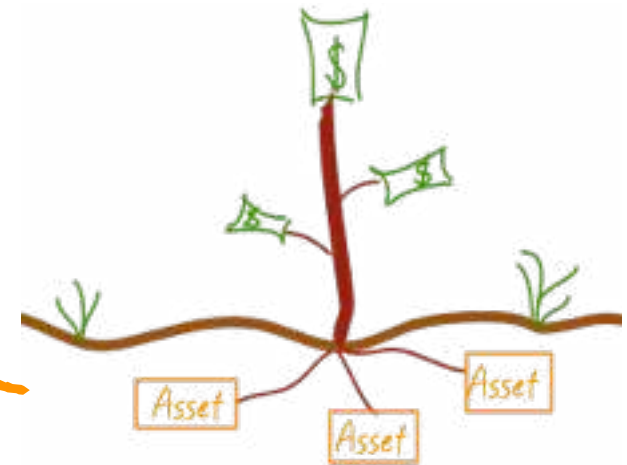
When a **company needs money** for say, expanding its business,
it has **two main options to raise funds**

- **Issue Shares** (i.e. increase capital)
- **Take Debt** (e.g. take a loan from a bank, or take a loan from the general public)



a company needs
money
to expand its business

Option-1: increase capital
by issuing more shares



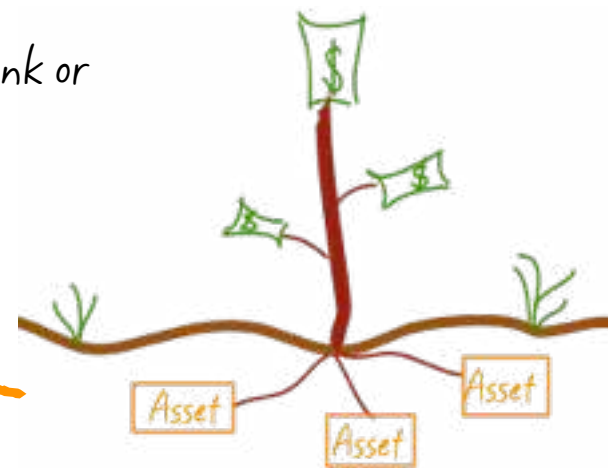
If you think the company has good prospects you can
buy its shares as one component in your assets basket

If a company is offering **shares to raise capital** and you like
the 'story' of the company (i.e. you believe the company will prosper in
future and give good returns), **you can buy its shares or stock**
(assuming it is a publicly traded company)



a company needs
money
to expand its business

Option-2: take a loan from bank or
from general public



If you believe the company will not go bankrupt and it
is paying good interest on its debt, you can buy its Bonds

Or, if the company wants to **raise debt** by taking loans from
the general public, it issues **Bonds**

If you believe that the company will not go bust and will
return its debt, plus you like the interest rate it is offering,
you can **buy its Bonds**



Rate of Interest on Bonds is called 'Coupon' because Bonds used to have Coupons attached to them that were like 'IOU' for the interest payable (I promise to pay the bearer...)

Bonds are also called **Fixed Income Assets** because most bonds have a fixed interest rate (called Coupon) that is known upfront and a fixed date of maturity (when you get the principal amount back)

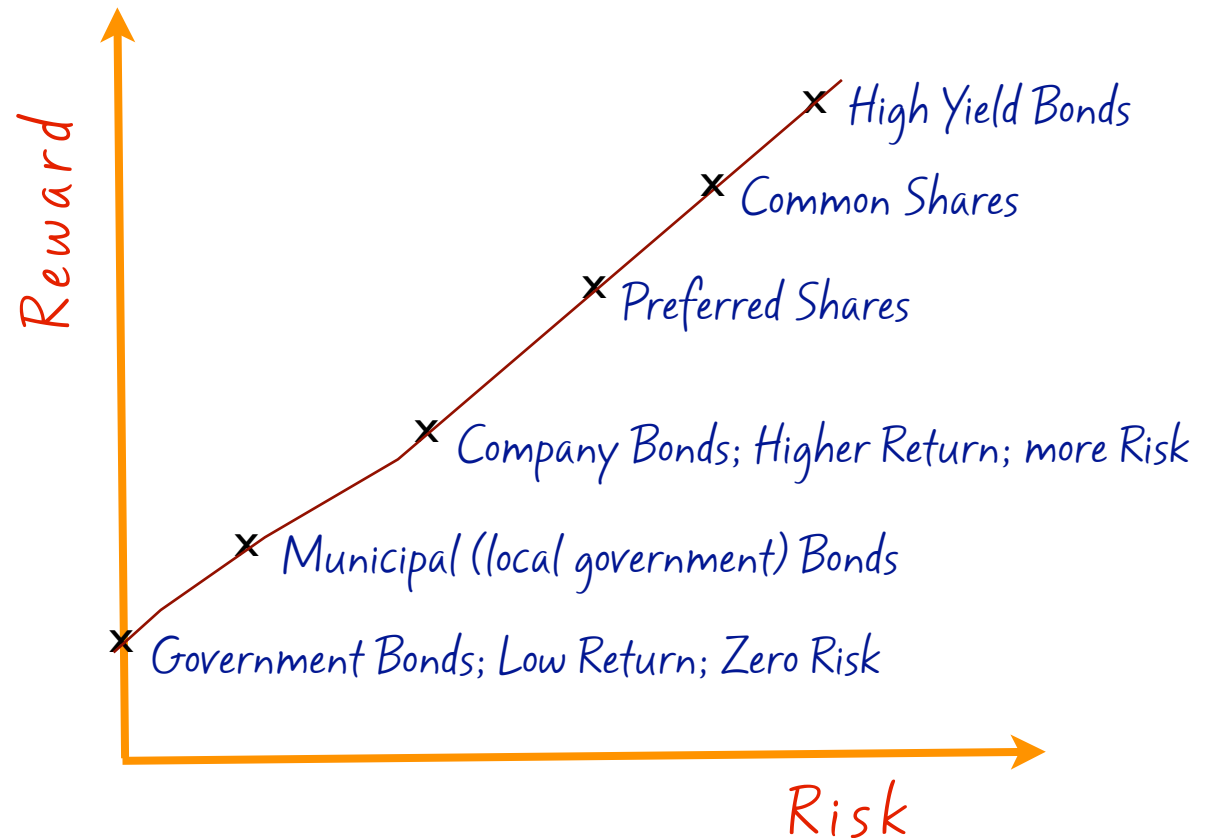
Due to the relative certainty of returns corporate Bonds are considered **lower risk** than company Shares



Governments also issue bonds to raise funds

Government Bonds are considered risk-free because governments can simply print more money to repay its debt (though this has other negative ramifications like inflation)

Typical
Risk-Reward Relationship
of Shares and Bonds



Risk on shares is higher than in bonds because company shares do not have an assured return and if the company goes bankrupt shareholders are the last to get their money back (after paying all other company debt like bank loans and bonds)



*Real-Estate can be
residential or commercial*



Real-Estate: investing in real-estate, where the returns (i.e. rental income and/or higher future value of the property), are higher than the **outflow** (e.g. monthly installment, initial down payment and payments made), is another asset class you can consider



Commodities is yet another asset class you can invest in: commodity is a raw-material that is hard to distinguish - for example, gold mined in US or Africa is the same (silver, oil, corn, wheat, copper are other examples of commodities)



Investing in Art:
buy master pieces,
or bet on upcoming artists



Art as an Asset Class: if you can afford you can buy established artists, or if you have a good eye you can bet on an upcoming artist, or you can look for **specialized funds that invest in art**

A passion for collecting old coins, old stamps, old maps, or other **antiques** can also be converted into a passive income generating activity

*Sometimes Cash can indeed
be the King!*



Cash: you need to have **liquidity** (i.e. cash) so that you can immediately buy an asset when a good opportunity comes along

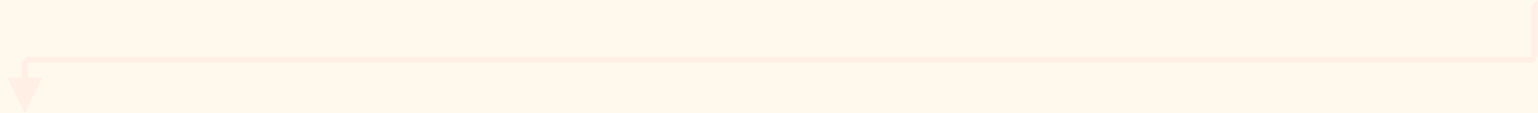
Also, cash can be traded across currencies, though **forex trade** is meant more for mature investors

YOUR OWN INTELLECTUAL PROPERTY AS AN ASSET

1. Asset vs Liability
(Investment vs Consumption)

2. Active vs Passive Income
(Financial Independence)

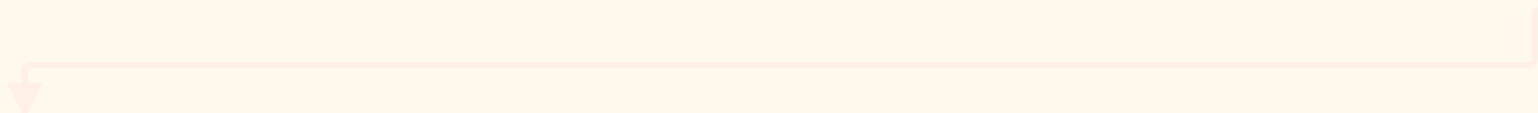
3. Magic of Compounding
(Start Young)



4. Delayed Gratification
(Learn Self-Control)

5. Fear & Greed
(Control Emotions)

6. Risk vs Reward
(Risk Appetite)



7. Asset Classes

**8. Your Intellectual
Property - an Asset**

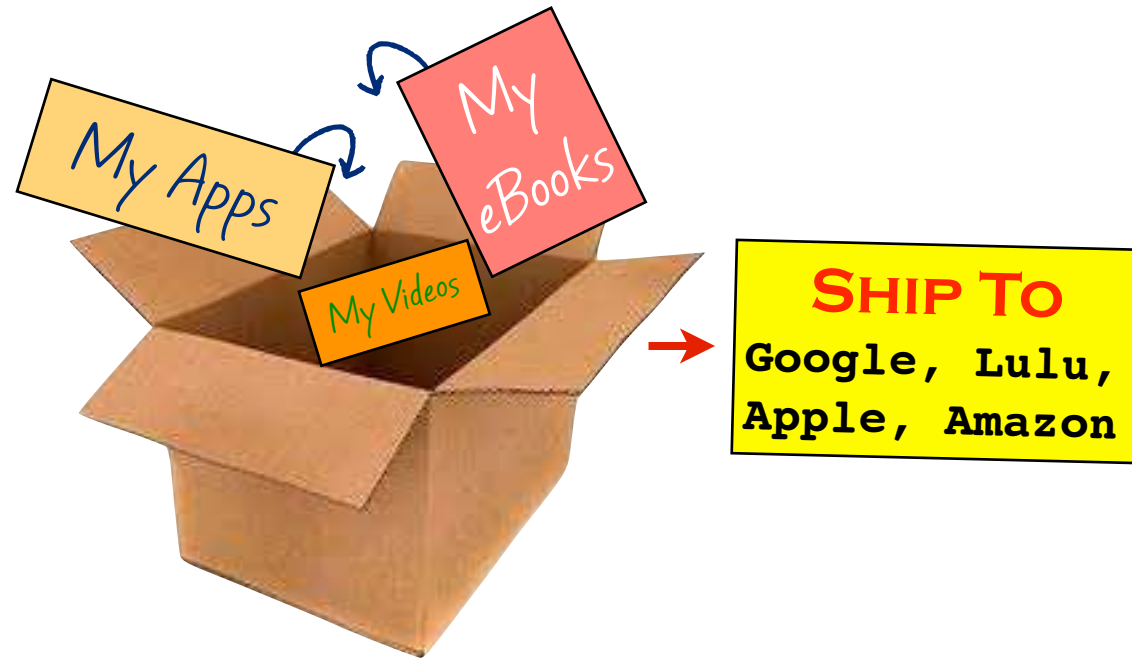
9. Risk Management



10. How to Invest

11. Life Insurance

12. Financial Planning



In the 21st century specialized knowledge has lot of value

Information technology has made packaging of such knowledge into digital bits very easy - apps, books, podcast, videos

Digital distribution platforms like iTunes App Store, Amazon, Google Books, iBookStore, Lulu, Create Space, YouTube... let you self-publish and sell to a global audience

Intellectual Property
Inside



If you have specialised knowledge that can be packaged as an **Intellectual Property** (hard intellectual property like a Patent, or soft intellectual property like copyright), you should look at making it a passive income generating **asset**

A soft IPR could be a book you write and self-publish on iBookStore, Amazon or Google Books, or a music CD that you sell on Lulu or CreateSpace, or learning content you sell online



This conversion of your specialised knowledge into an income generating intellectual property can happen **at any stage of your life** - when you are young (e.g. a music CD you cut), or when you have retired (e.g. a book you self-publish on your life experiences)

own digital IPR... 100101



Invest in an asset class that interests you

What is most important is that you invest in asset classes in which you have interest because only then will you enjoy spending time learning about the domain and developing expertise

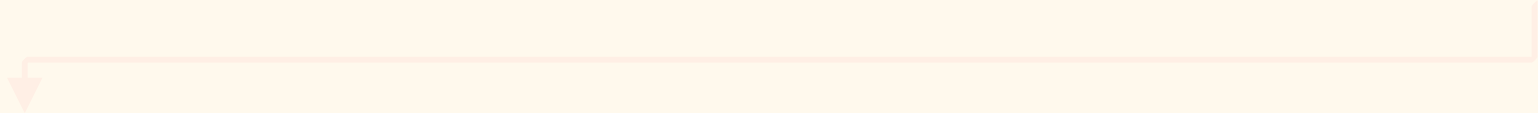
Only when you take a deep dive into a asset class do you develop enough competence to invest prudently in that asset

MINIMIZING RISK OF YOUR ASSET PORTFOLIO

1. Asset vs Liability
(Investment vs Consumption)

2. Active vs Passive Income
(Financial Independence)

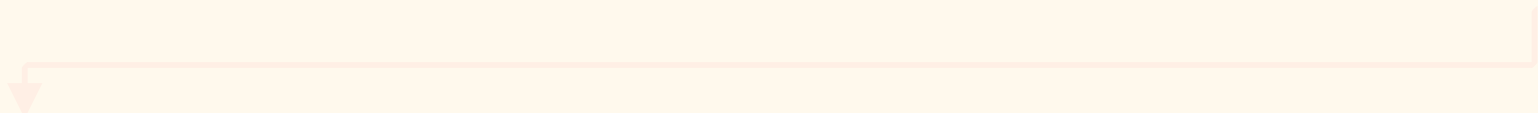
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7. Asset Classes

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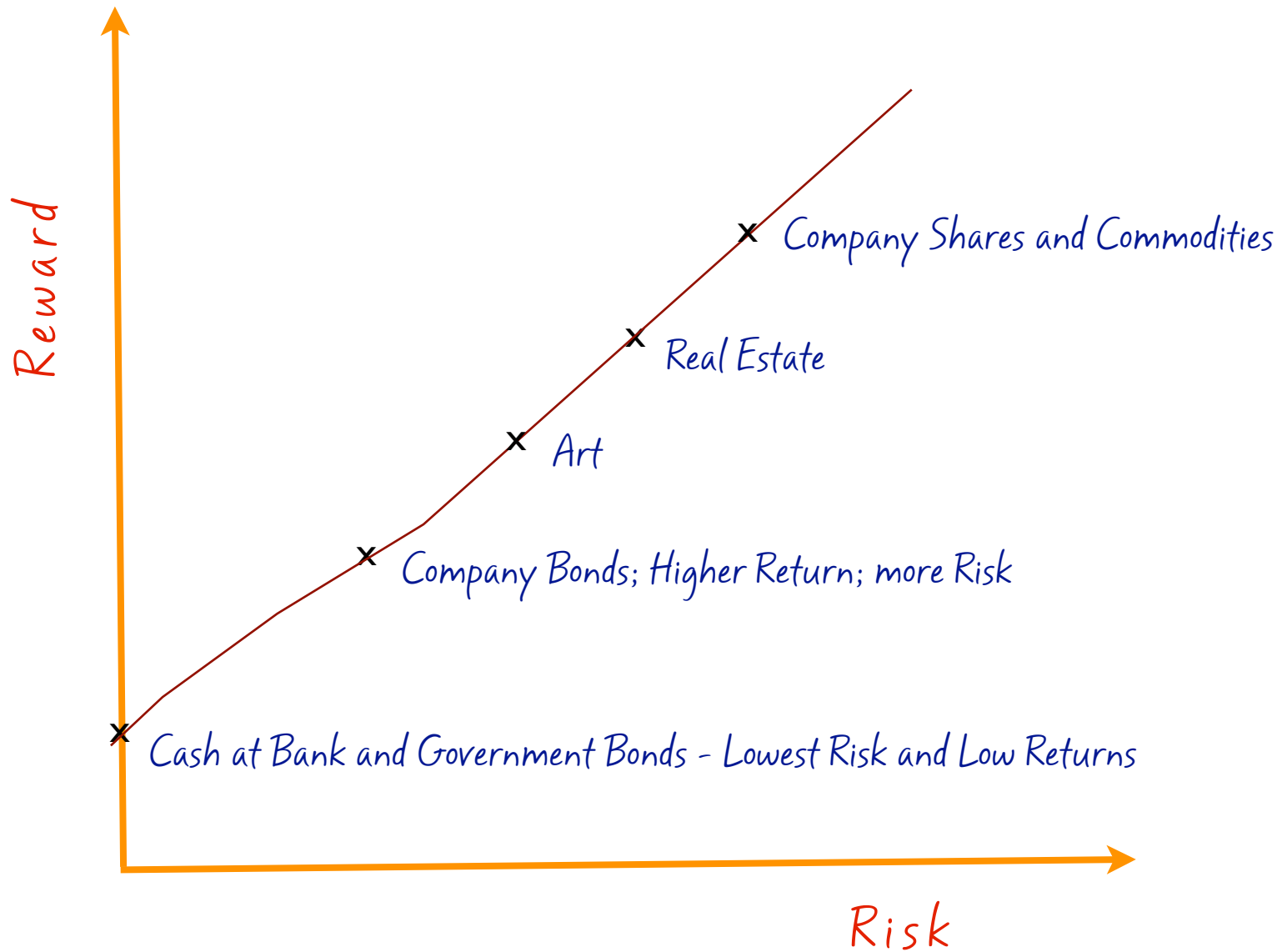
9. Risk Management



10. How to Invest

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Usually, these **Asset Classes** have the above **Risk-Reward Profile**

Objective: to Maximize Value of your Portfolio and Minimize its Risk

For portfolio of 'n' independent assets, the risk or variance $= \frac{\text{Standard Deviation}}{\text{Square Root of 'n'}} = \frac{\sigma}{\sqrt{n}}$

$\frac{\sigma}{\sqrt{n}}$  more the number of 'independent assets' (i.e. different asset classes) the higher the denominator and hence lower the portfolio risk

It is better to invest in different asset classes (shares, fixed income bonds, real-estate, commodities...) so that you have a **diversified portfolio** that **minimizes risk**

Even within a asset class you should prudently diversify - e.g. if you buy shares diversify your share portfolio by buying shares of companies in developed markets as well as emerging markets, or large caps and small caps

Buying a security regularly over a period of time averages out the cost



Cost Averaging

Trying to time the market, i.e. trying to predict the highs and lows of a particular stock is never a good idea

You should instead spread your purchase over a period of time, say over a few months, such that the total cost averages out

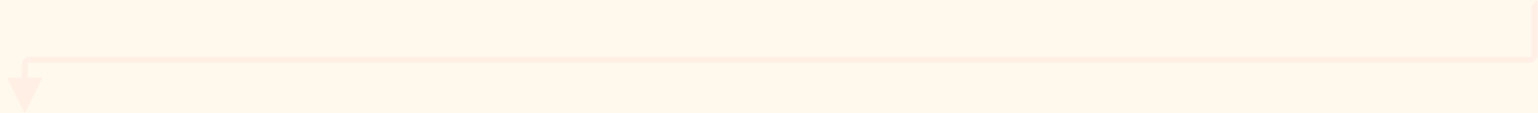
HOW TO INVEST IN THESE ASSET CLASSES?

Following is just an overview, in a subsequent module I will cover this topic in more detail

1. Asset vs Liability
(Investment vs Consumption)

2. Active vs Passive Income
(Financial Independence)

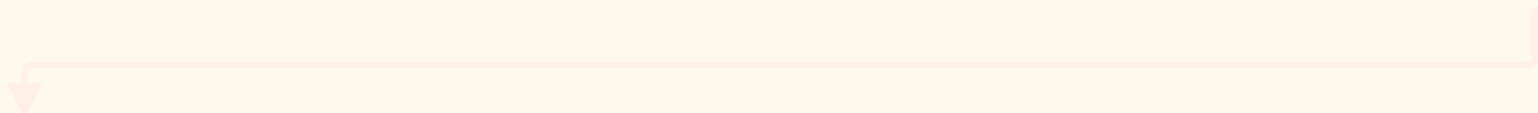
3. Magic of Compounding
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7. Asset Classes

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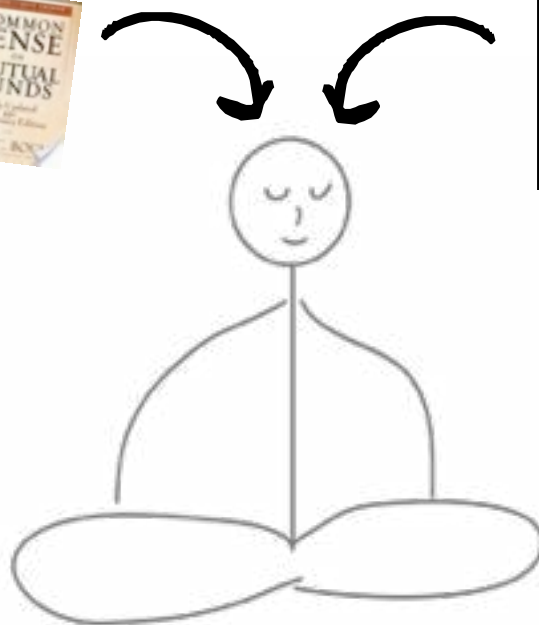
9. Risk Management



10. How to Invest

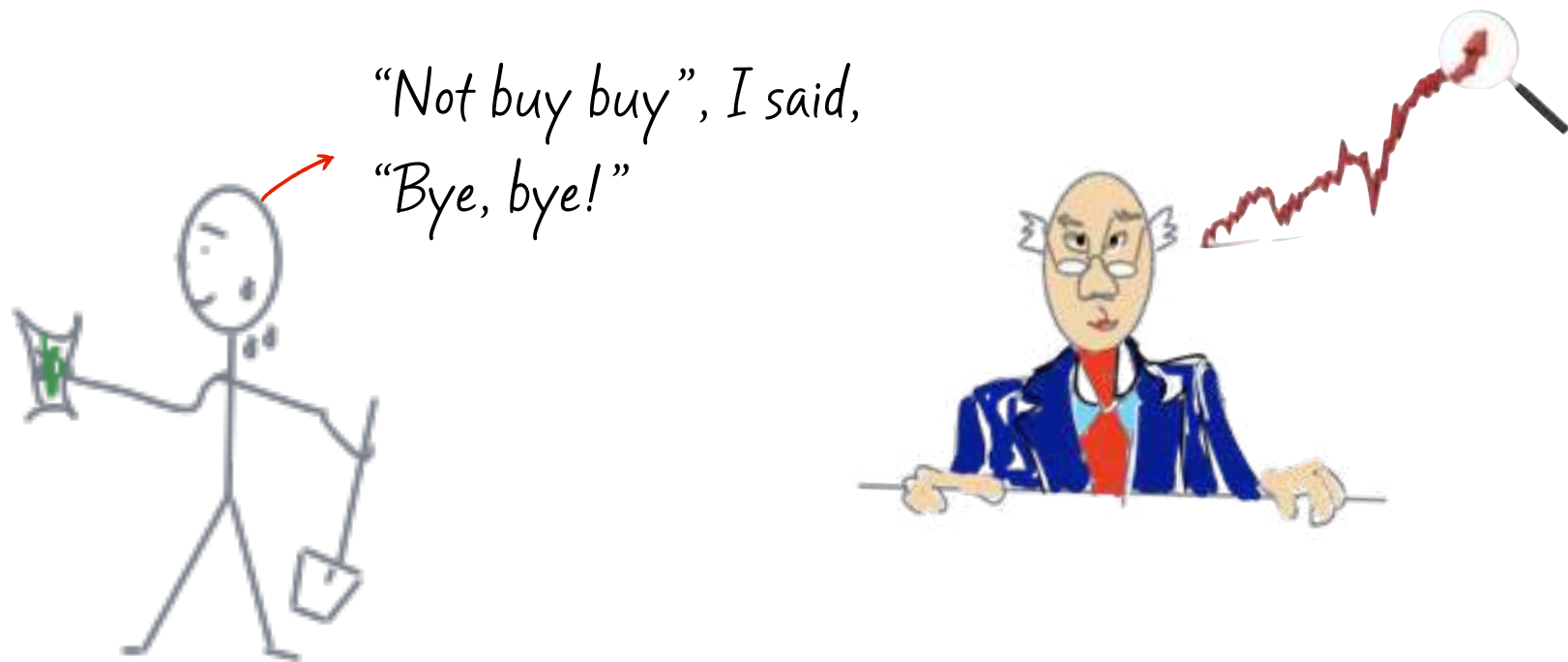
11. Life Insurance

12. Financial Planning



Valuation	Cash Flow
RoE	PEG
p/E	
EBITDA	DCF

Stock Picking: If you have the confidence that you can choose the shares and bonds you want to invest in, by educating yourself, then you can go ahead and **trade yourself** using a **broker or an online trading platform**



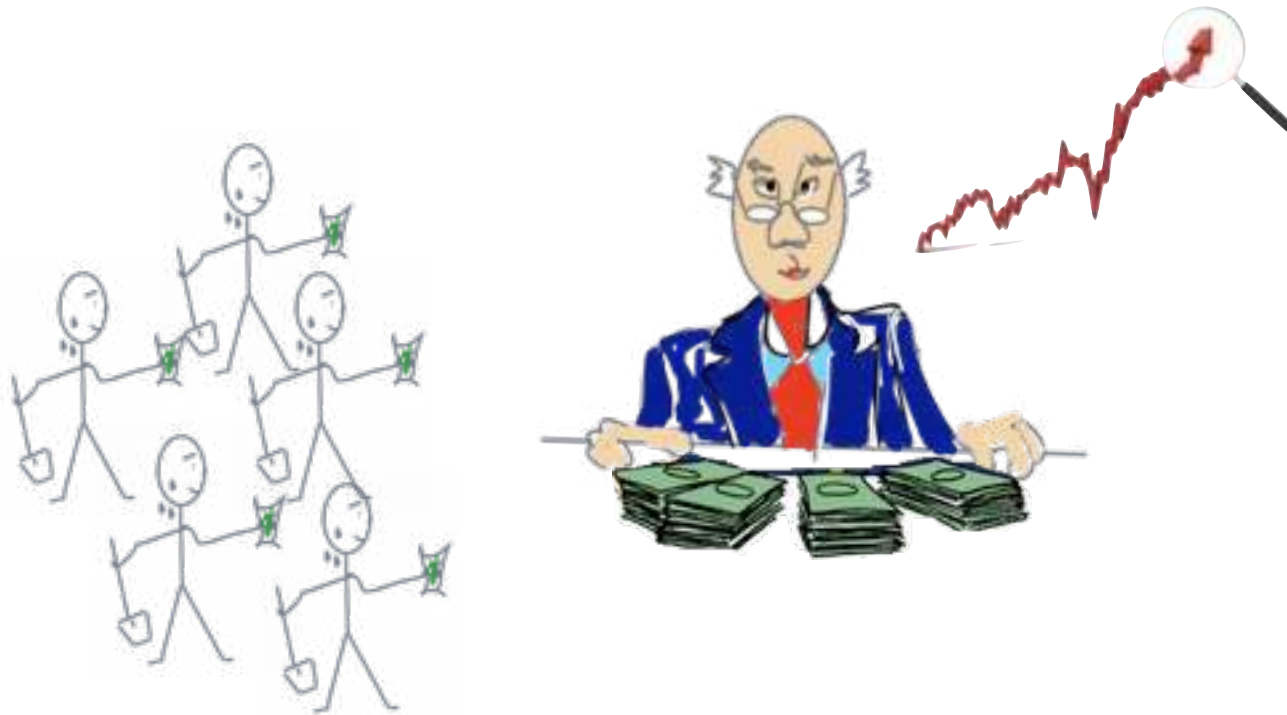
Stock Broker: you can trade in shares, bonds, mutual funds and ETFs through a stock broker (or a sub-broker)

You need to find out the fee/commission, minimum investment you have to make, non-trading fee and in case of sub-brokers, their reputation



Online Financial Services Providers: you can also use online trading platforms and money supermarkets

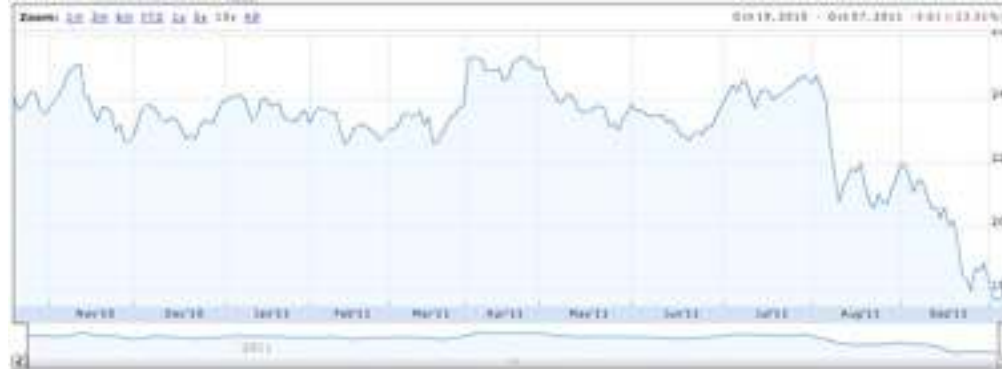
You need to compare the commission/fee structure, inactivity fee, what stock exchanges does the online platform cover, reputation, whether they also provide company research and reports...



Mutual Funds: If you are not so sure that you can choose stocks and bonds yourself then you can look for an appropriate Mutual Fund

Mutual Funds **pool money from thousands of investors** and their **professional managers** buy stocks, bonds and other securities (giving you a choice of asset classes)

Templeton Emerging Markets (MUTF:XEMFX)



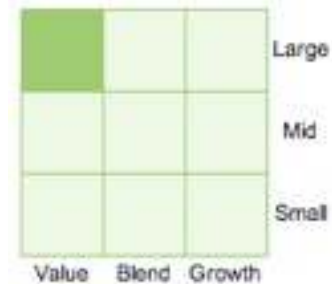
Performance

Trailing returns

Best 3 month return	+64.46%
Worst 3 month return	-45.68%

Asset allocation

Cash	0.26%
Stocks	99.74%
Bonds	0.00%
Other	0.00%



Top 10 holdings

Security	Net Assets
Petrobras S.A. ADR (PBR.A)	8.01%
Sesa Goa Ltd. (SESAGOA)	6.78%
Vale S.A. (RIOF)	6.78%
Akbank T.A.S. (AKBNK)	5.26%
Itau Unibanco Holding S.A. ADR (ITUB)	4.29%
Denway Motors Ltd. (203)	3.99%
Bank Bradesco ADR (BBD)	3.85%
PetroChina Company Ltd. (857)	3.13%
En Energy Co Ltd	3.11%
Aluminum Corp of China Ltd. (2600)	3.05%

There are many **types of mutual funds** - open-ended, close-ended, fixed-income (invest in bonds only), equity/growth (invest in shares), large-caps (invest in shares of large companies), mid-caps, small-caps

Mutual Funds thus offer a lot of choice on **different types of asset classes** you want to invest in

Key statistics	
Total assets	242.22B
Front load	-
Deferred load	-
Expense ratio	0.46%
Management fee	-
Fund family	PIMCO

Key statistics	
Total assets	63.15B
Front load	5.75%
Deferred load	-
Expense ratio	0.58%
Management fee	-
Fund family	American Funds

You need to consider the **costs involved** in investing in **Mutual Funds** (to compare different mutual funds consider their respective 'expense ratios')

- Cost of buying and selling shares of a mutual fund (called **entry and exit load**)
- **Management/Administrative fee**, which is usually a fixed percentage
- Cost of buying and selling securities with-in the fund by the fund managers (called **Turnover**), which may incur additional charge of **capital gains tax**

Name	Charges (%)	
	Initial ↑	Annual ↓
HSBC GIF Russia Equity (GBP) (Income) Specialist	5.54	1.75
HSBC GIF Brazil Equity (GBP) (Accumulation) Specialist	5.54	1.75
Investec Global Gold (Accumulation) Specialist	4.5	1.5
Investec Global Energy (Accumulation) Specialist	4.5	1.5
Fidelity Global Consumer Industries (Offshore) (Income) Specialist	3.5	1.5
Fidelity EMEA (Onshore) (Accumulation) Specialist	3.5	1.5

Critics of Mutual Funds argue that the **expenses of funds are too high** and eat into the investors' return

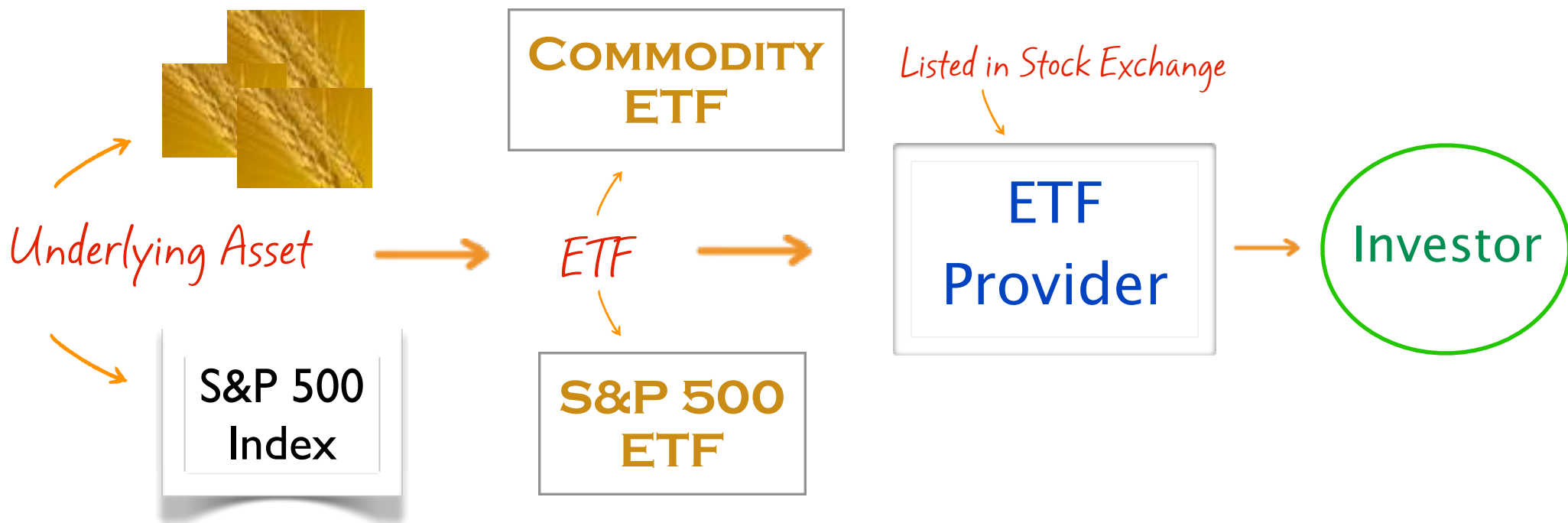


Index-Linked Mutual Funds: are mutual funds that simply replicate an index - i.e. the portfolio of securities held in the fund broadly match that of the index it is tracking

For example, an index-linked mutual fund could simply be tracking the S&P 500 index (i.e. the fund will have all the securities included in the S&P 500 Index), or a Russell 2000 Index Fund will have own shares of small companies listed in the index, or the MSCI Emerging Market Fund will have the emerging markets equities in the fund

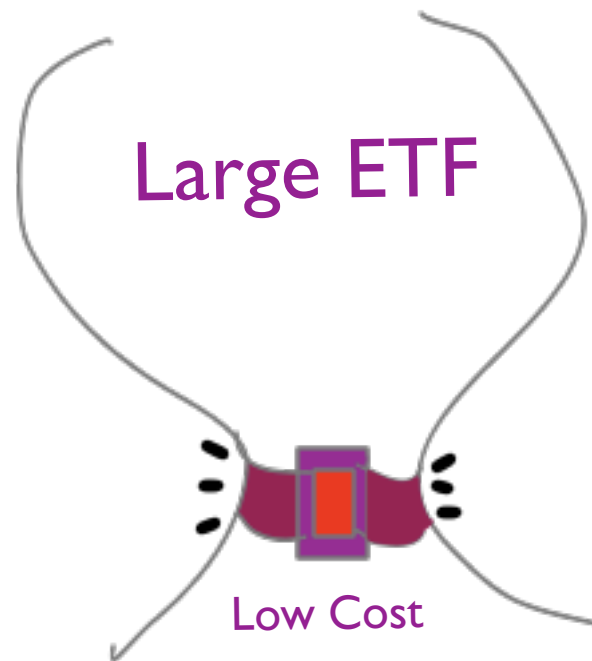


While it is a **passive form of investing**, given that most mutual funds are expensive, fail to beat broad indexes, and for a rookie investor picking own shares and bonds can be expensive, Index-Linked Mutual fund offer a **relatively safer way to invest, with decent returns**



Exchange Traded Fund (ETF): is a fund that tracks an index, or a basket of assets, but trades like a stock on a stock exchange

Only large players like a financial institutions can buy shares directly from the ETF, that too in bulk quantity, and then they in turn can sell to investors in smaller quantities in the open market



The ETFs can be very large, yet have **very low costs**

Thus, the ETF does not have to keep funds aside (called float) to meet the daily buying and selling needs and has more funds to invest than a mutual fund, they have lower administrative costs and are passively managed (i.e, have lower management fee)



ETF Risks

A **Physical ETF** owns all or a selection of the asset it is based on (e.g. shares of companies in the index it is tracking); a **Swap-based or Synthetic ETF** may not own **any of the underlying asset**, instead it may be relying on a **swap contract** with third-party at a future date

Synthetic ETF is thus subject to **third-party solvency risk** and if the third-party (with whom the ETF has a swap contract) goes bankrupt you will lose some money (in Europe, swap-based ETFs by law can only take 10% counter-party risk)

A physical ETF could also have a counter-party risk as it may be **lending its stock** to third-party who may become insolvent and not in a position to give the stock back



Mind the Risk

Swap-based ETF is thought to be cause of scandal at UBS in Sept 2011 (when a rogue trader led to a loss of over £1b for the bank though no individual investor lost money)

Experts point out that **even Mutual Funds sometimes lend their stock** and thus take on a different type of counter-party risk (like physical ETFs)

ETFs have become very **popular** due to their **simplicity, cost-effectiveness and ease of use**

As an investor you **need to do your homework** well and find out what **risks** your investment may be subject to



Real-Estate: you can buy and sell a property through a real-estate agent, or buy in the primary market from a property developer

Or, you can invest in a Real Estate Investment Trust (REIT), which is a company that invests in real estate and its shares are traded

Or, you can invest in a Real Estate Mutual Fund or Real-Estate Exchange Traded Fund (ETF)



Commodities: for trading in commodities you can buy **Mutual Funds** of companies dealing in commodities (producers or commodity trading companies), or buy **Exchange Traded Funds** (ETF) whose underlying asset is a particular commodity or a basket of commodities, or purchase commodities like **Gold or Silver**

LIFE INSURANCE OVERVIEW

1. Asset vs Liability
(Investment vs Consumption)

2. Active vs Passive Income
(Financial Independence)

3. Magic of Compounding
(Start Young)

4. Delayed Gratification
(Learn Self-Control)

5. Fear & Greed
(Control Emotions)

6. Risk vs Reward
(Risk Appetite)

7. Asset Classes

8. Your Intellectual
Property - an Asset

9. Risk Management

10. How to Invest

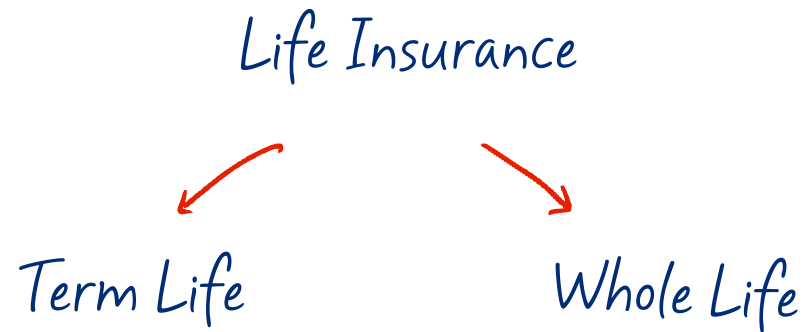
11. Life Insurance

12. Financial Planning



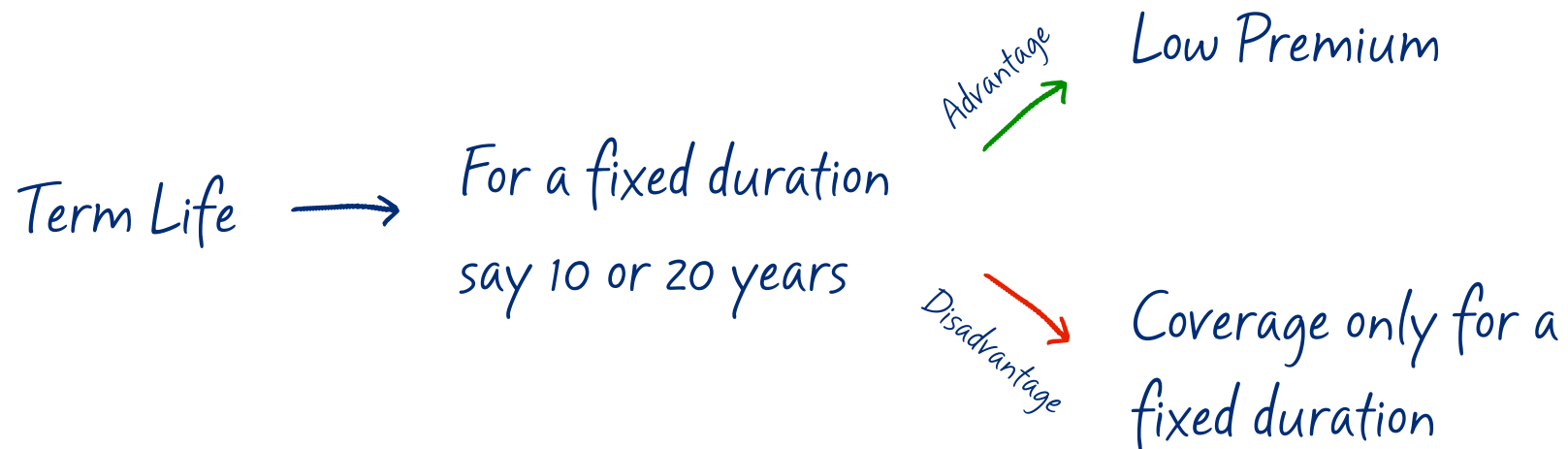
*“Insure all my nine lives
for the price of one, eh?”*

Life Insurance is an agreement between you and an insurance company, where you agree to pay a certain amount every year (called **premium**) and the insurance company agrees to pay a certain amount of money to a person of your choosing (called **nominee or beneficiary**)



Life Insurance policies are broadly of two types - **Term Life** and **Whole Life**

Besides death, a life insurance policy may also cover **Total and Permanent Disability (TPD)**



In a **Term Life Policy** your insurance is valid for a **fixed duration** only, say 10 or 20 years (you decide the duration based on your circumstances) and you pay a **fixed premium** in those years

Premium depends on your age and risk profile - smoker or non-smoker, nature of job - risky or non-risky, your health...

Term Life



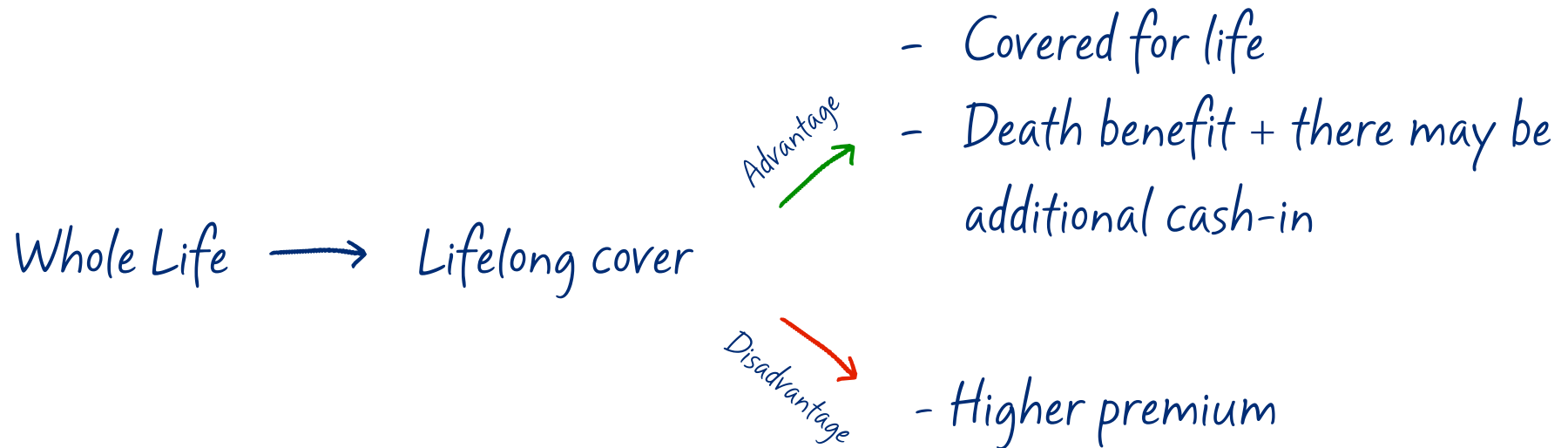
Death benefit only



i.e. objective of Term Life is to give money to your nominee/beneficiary in the event of your death - e.g. to repay a loan, or pay college fee for your children in case you die

In term insurance the **death benefit** (sum insured) is paid only if the insured person dies before the policy expires (i.e. you don't get back any of the premium you have paid if you don't die in the period for which you have term insurance)

Think of it as paying insurance on your car and never meeting with an accident - which is better than having an accident simply because you have insurance. Having term life insurance but not dying is infinitely better than dying simply because you have insurance!



In a **Whole Life Policy** your insurance **covers you till you die** and there is usually a death benefit and an additional cash-in value

You pay a **fixed premium** (either all your life, or for a certain period) and the **premium** you pay could be **3 to 10 times more than** what you pay in a Term Life policy

Whole Life Policy Premium

- Term Life Policy Premium

Difference

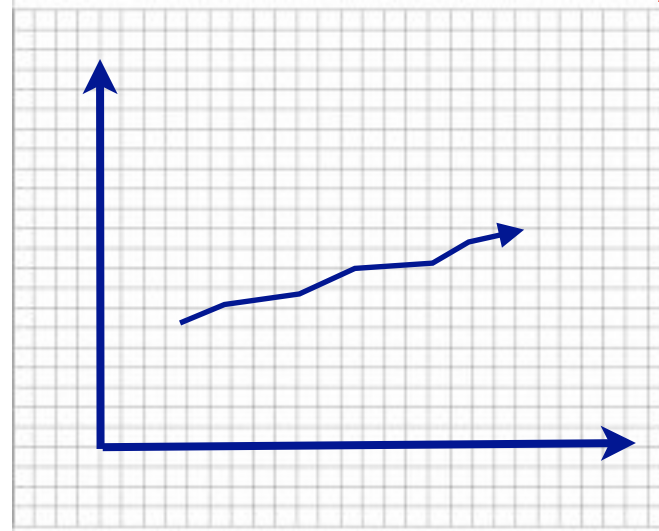
Critics of whole life policy say you could invest this difference yourself in assets that generate a higher return than the cash-benefit given by a whole life policy

In a Whole Life policy, part of the **premium** you pay goes into your death benefit and **part is invested to generate a cash value** but critics say the returns generated in the cash-value component are **lower than what you get from investing this amount yourself**, especially given the administrative and other overheads a insurance company has to pay for managing investments to generate cash-value

Returns if you Invest



Return on Whole Life Policy



Advocates of Whole Life Insurance point out that the **returns** on investments you make in the **open market** are too **volatile** and hence may be **lower than the guaranteed benefits** whole life policies offer

There may also be **tax advantages** of Whole Life policies

Insurance Multiple Choice Test

Write the pros and cons of...

- Term Life Insurance
- Whole Life Insurance
- Universal Life Insurance
- Variable Universal Life Insurance
- Indexed Universal Life Insurance

Newer type of whole-life policies, called **Universal Life** and **Variable Universal Life** are also becoming popular

They offer more flexible premium plans and allow you some choice on how the cash-value part of the premium should be invested

How to decide on a Life Insurance Policy?

You need to ask yourself 3 Questions?

- Do I need an insurance policy?
- How much insurance do I need?
- What type of insurance policy should I buy?



I. Do I need an insurance policy?

If there is someone financially dependent on you, or will suffer financially if you were to die then you will be better off with life insurance

E.g. your parents, spouse or children totally depend on you because you are the sole or main income earner in your family; or, you have taken a house on mortgage and if you were to die no one else in your family can pay the monthly installments



2. How much insurance do I need?

You need to figure out your **family's financial needs** - current expenses like family living expenses, medical costs, loans and debts you have and impact of inflation on these expenses; future expenses like your children's college education, or your own post-retirement financial needs

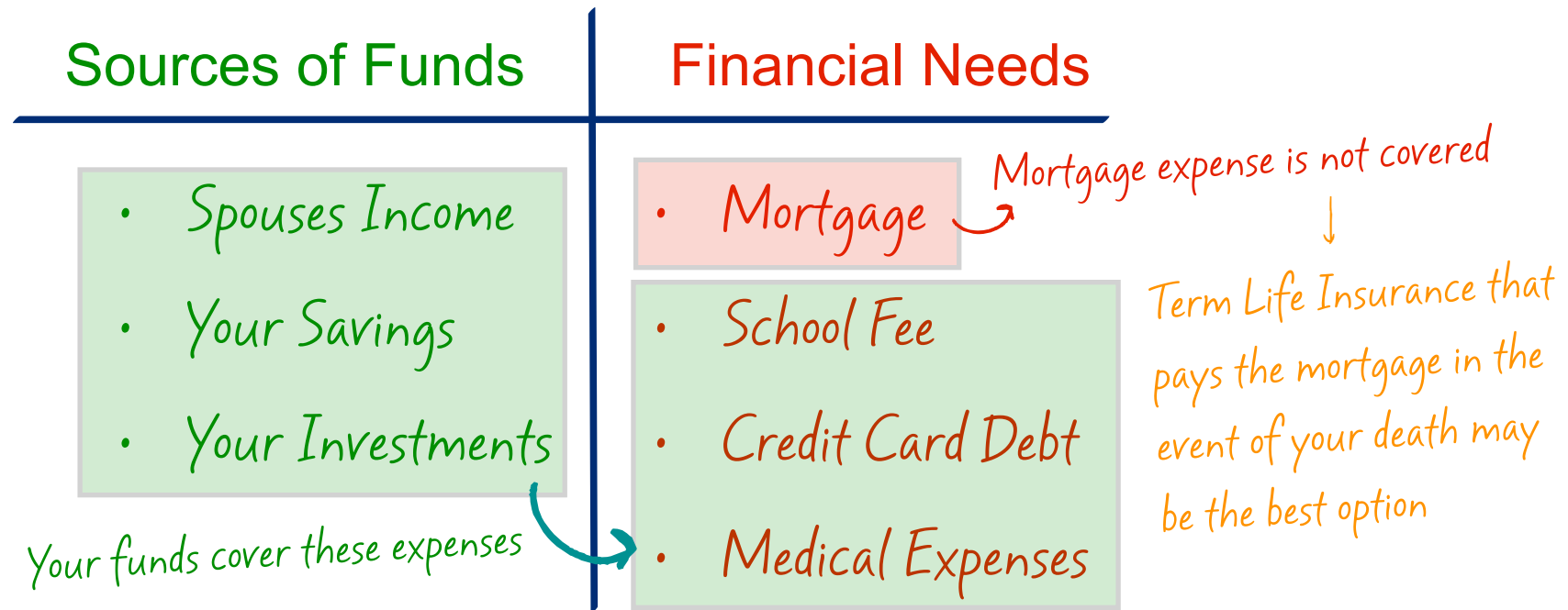
Sources of Funds	Financial Needs
• <i>Spouses Income</i> • <i>Your Savings</i> • <i>Your Investments</i>	• <i>Mortgage</i> • <i>School Fee</i> • <i>Credit Card Debt</i> • <i>Medical Expenses</i>

You then need to figure out what all **sources of funds** you have to meet these financial needs - like your spouse's income, your savings and investments and returns they will generate



*Your Family's Financial Needs - Your Current Sources of Funds
= Life Insurance Required*

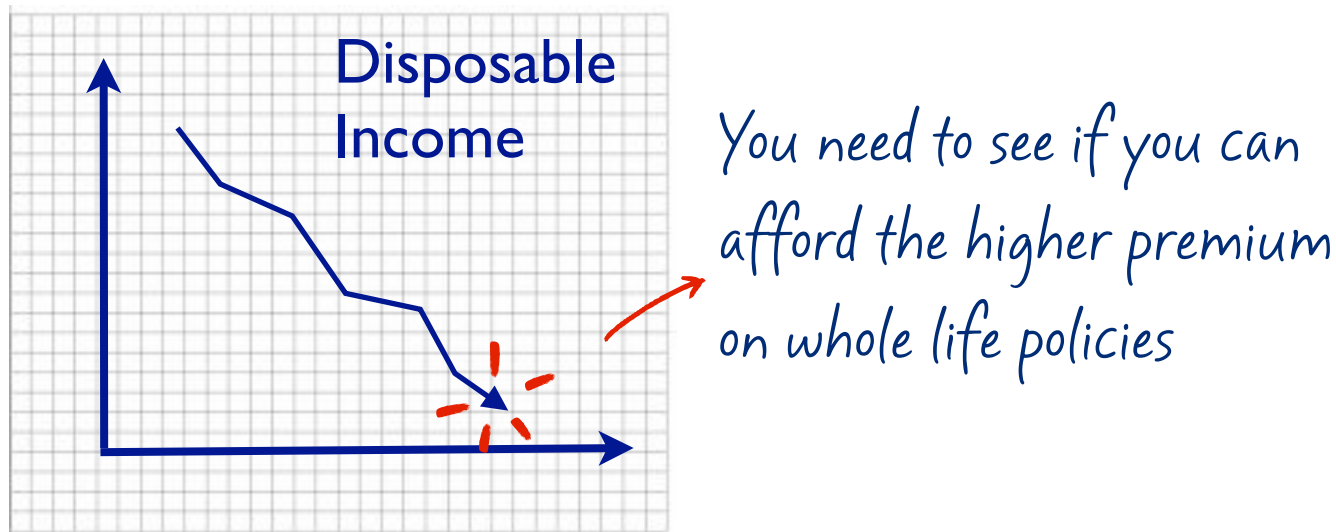
To cover the difference between your family's current and future financial needs and sources of funds available, you need insurance



3. What type of Life Insurance Policy?

This depends on how long you want the insurance for and how much money do you have for the premium payment?

E.g. your spouse's income covers most of your family's expenses but does not cover a 15-year mortgage you have on your house. In this case you may take a term life insurance policy for 15 years such that in the event of your death your insurance cover is adequate to pay off the outstanding mortgage.



If your **budget** for paying insurance premium is **low** (given that whole life and universal life insurance premiums are significantly higher) your best bet would be **term life** insurance



You must **shop around** for the right insurance policy for you, **compare the pros and cons**, insurance agents get a trailing commission and you may be able to negotiate better terms (like cash back on your premium)

Depending on your circumstances you may opt for **term life**, **whole life**, or **a mix of the two** (i.e. put a low percentage of your total portfolio/budget into whole life policy, if you can afford it)

Mortgage Payment Protection Insurance

Find the right mortgage payment protection insurance policy for your personal circumstances

Income protection insurance

Quote Me
Annuities

Medical insurance



Compare providers
options

Critical illness insurance



Cover for specified conditions
like strokes, diabetes,
heart disease and cancer

You should also consider taking **insurance** for

- ✓ Your health (medical insurance)
- ✓ Your mortgage
- ✓ Your income
- ✓ Your investments (e.g. physical assets like art, or old coin collection, valuable stamp collection)

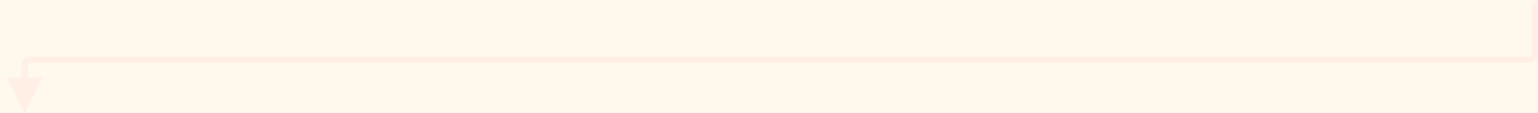
CREATING A FINANCIAL PLAN

Bringing it all together

1. Asset vs Liability
(Investment vs Consumption)

2. Active vs Passive Income
(Financial Independence)

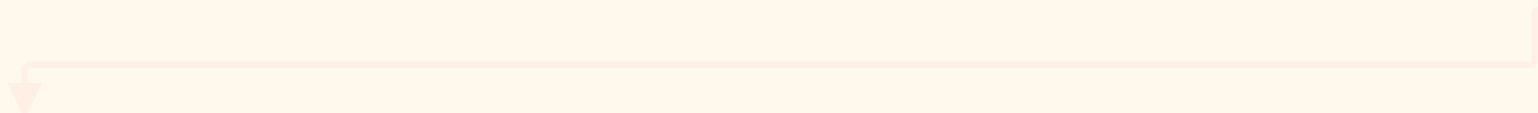
3. Magic of Compounding
(Start Young)



4. Delayed Gratification
(Learn Self-Control)

5. Fear & Greed
(Control Emotions)

6. Risk vs Reward
(Risk Appetite)



7. Asset Classes

8. Your Intellectual
Property - an Asset

9. Risk Management



10. How to Invest

11. Life Insurance

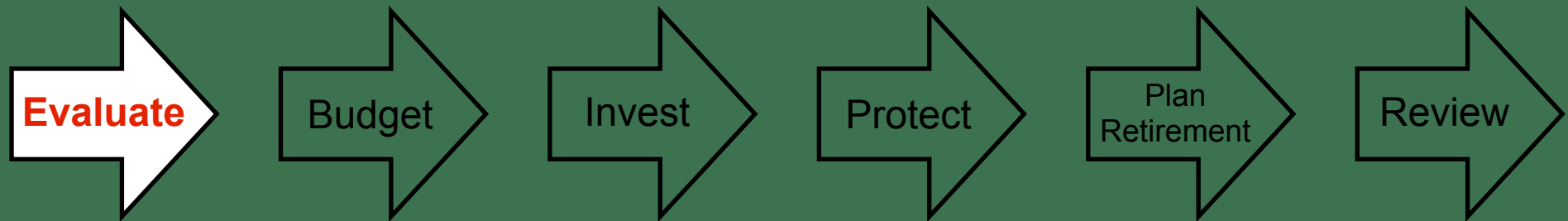
12. Financial Planning

Financial Plan



A **Financial Plan** helps you get from where you are to **where you want to go**, in a given **time-period**, with as **little risk** as possible

E.g. if you are 25 you may want to plan for life phases soon to come, like further education, or early retirement, or marriage, perhaps children, their education, what happens to your spouse, children and other dependents like your parents if you were to meet with a permanent disability or death

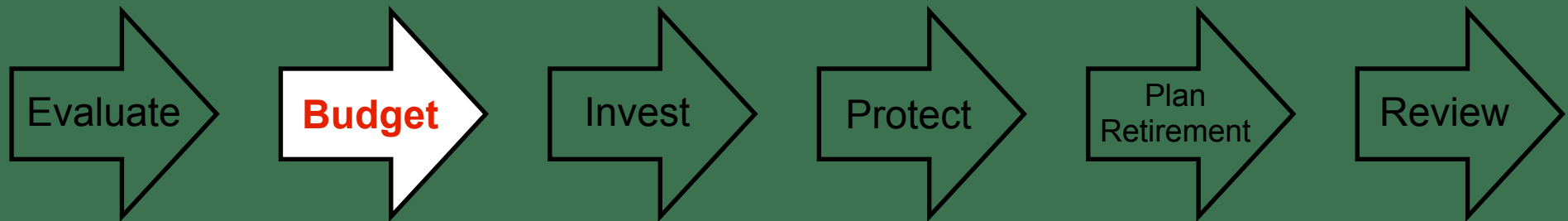


Financial Planning

Step-I: Evaluation

Evaluate your current financial position - your income, your expenses, your savings, your investments, tax you pay...

Write down your life aspirations - generate passive income stream, buy a car, buy a house, get married, plan early retirement...

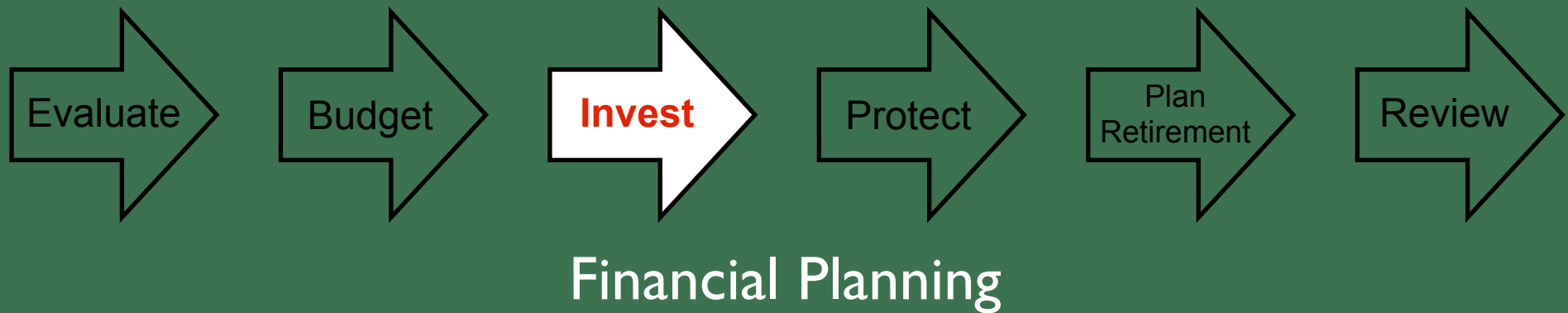


Financial Planning

Step-2: Budgeting

- ✓ Are your expenses lower or higher than your income?
- ✓ What expenses can you prune to create a **Surplus** (or savings)?
- ✓ Even if you start small you must start creating a surplus

Besides creating assets (or investments) that generate passive income stream from the surplus, you may also consider creating a **Emergency Fund**, which will provide you liquidity, and more importantly, peace of mind



Step-3: Investing

As we have discussed earlier in this module, financial savviness is really about creating assets or investments that generate passive income streams

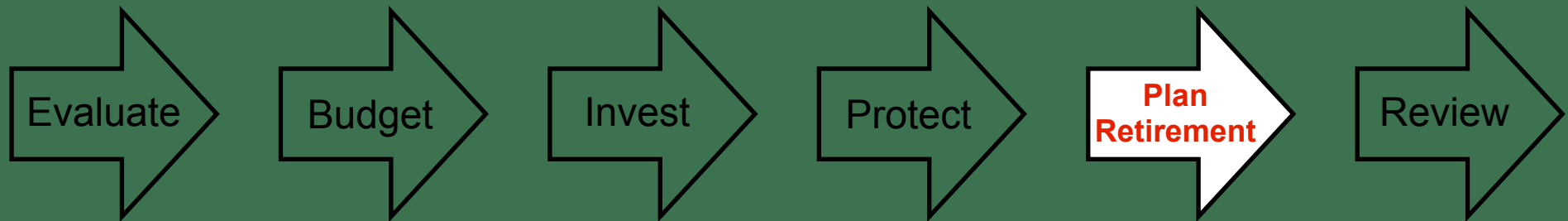
What type of assets should you invest in depends on your life situation and your risk appetite



Financial Planning

Step-4: Protection

- ✓ Is your **income** protected? Are your **investments** protected? Is your **house** protected?
- ✓ Are people who are **financially dependent** on you protected in case something were to happen to you (death or disability)?
- ✓ This will help you determine your **insurance needs** (also see section on Insurance)

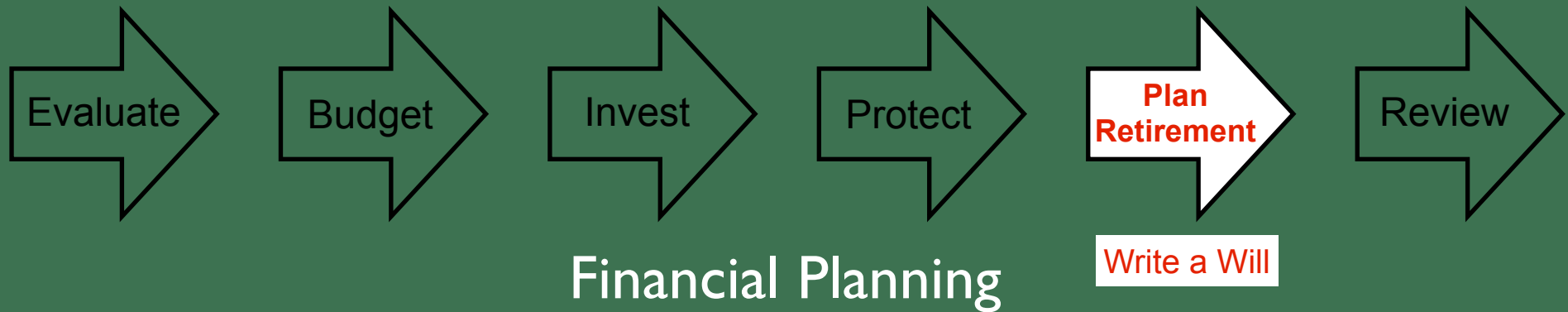


Financial Planning

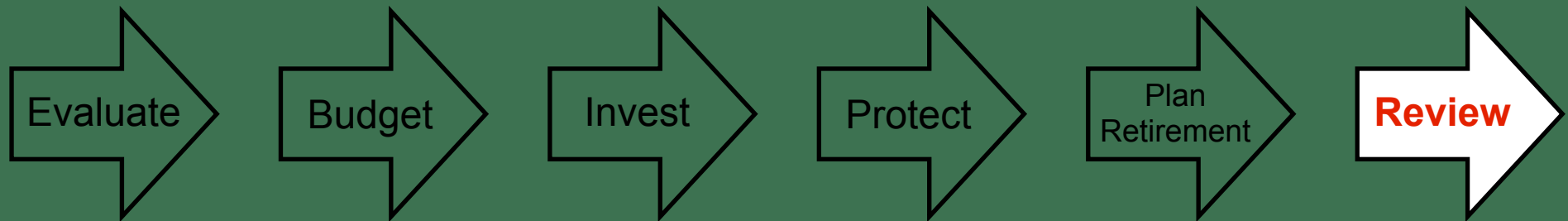
Step-5: Think about Retirement or Early Retirement

How many years before you retire? (when your active income stream will cease and you will need to live your desired lifestyle only on your passive income stream)

Also think about **Estate Planning** (what will happen to your assets once you are no more - who will get what); or, if you want to give away your wealth, think about options



Write a Will: so that your wishes and not the government policy determines what happens when you die; this also includes making it clear who should look after your young children if anything were to happen to both you and your spouse



Financial Planning

Step-6: Review Regularly

At least once a year review your financial plan to see if your investments are optimal, has the risk-reward equation changed, have your personal circumstances changed...

Reallocate the fund deployment in your portfolio accordingly

RECAP: WE COVERED...

1. Asset vs Liability
(Investment vs Consumption)

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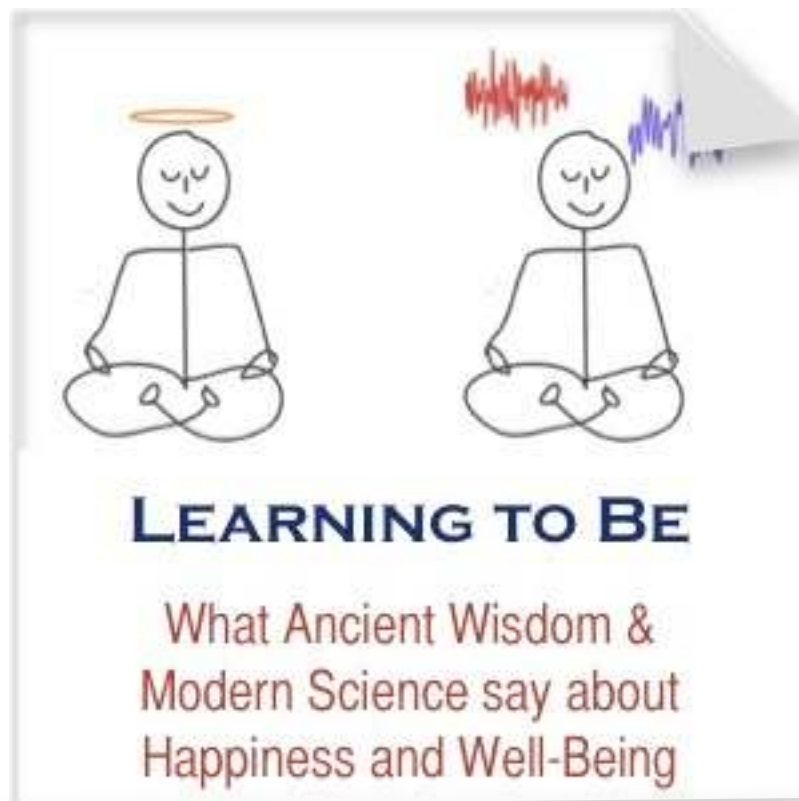
10. How to Invest

11. Life Insurance

12. Financial Planning

But remember the adage...

MONEY DOESN'T BUY HAPPINESS



For more on Happiness and Well-Being, check out the modules in the section 'Learning to Be' - <http://timelesslifeskills.co.uk/learn-to-be>

GOOD READS AND RESOURCES

- 'Rich Dad Poor Dad' - Robert T. Kiyosaki
- 'Learn to Earn' - Peter Lynch
- Khan Academy Videos on Finance, especially the 'Finance' and 'Valuation and Investing' playlists - <http://www.khanacademy.org/>
- Learning Markets videos
 - <http://www.learningmarkets.com/videos-and-courses/>
- Yale course on 'Financial Markets'
 - <http://academicearth.org/courses/financial-markets>
- More video resources are listed here
 - <http://www.diigo.com/list/atulpant/financialliteracy>

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