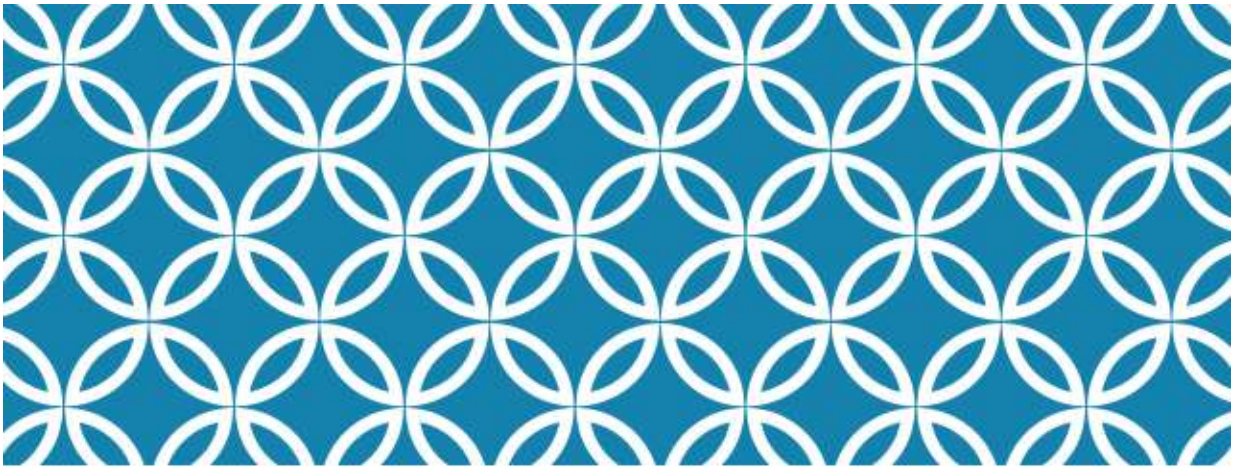

CHOOSING INVESTMENT | Chapter 1

Choosing Investment

Do you only save or do you invest also? Let us understand the basic difference between Savings and Investment. Saving means keeping a part of your income aside for future expenses. However, Investing that amount would mean putting that saved part of your income in another financial product for future expenses but in order to earn returns and grow your wealth. So, investment is done in order to grow your money from the saved amount.

What is your Saving Habit? Is it Received Salary or Income –(Minus) Spend = Saving the leftover?

Well, as Warren Buffet describes, the Ideal Saving Habit is Received Salary or Income – the amount you have pre-decided to Save & invest = Amount leftover for spending.

Difficult though it may sound, trust me it isn't when you actually follow the same. It just becomes a part of your investment habit.

The 1st Step for **Financial Planning** is penning down your **Goals**. Have you penned down, and I mean literally penned them down? If not then how would you know how much money you would need for your child's future education or your dream house or your dream vacation? In order to gauge the figure and get to the amount, you must and I repeat MUST pen it down. As long as it is not penned down, it remains to be a dream!

HOW DO YOU CHOOSE YOUR INVESTMENT?

Investment is done for: Tax Savings? Returns? Security?

Investment should be done based on Goals.

Thus, Goal Planning ⟶ Investment Objective

Goals vary with age, time, location, demographics.

Each Goal = SMART GOAL

Investment Product can be chosen according to the Goal + Tenure.

Investment needs to be Goal Based and not Outcome based.

Very important question: Why do you do your investment? Tax Savings? Returns? Security?

Well, investments should ONLY be done based on your Financial Goals. There can be no other reason for choosing an investment for any other reason. Investments should thus be Goal Based and not Outcome based. Goals vary with age, time, location, demographics.

Now the task for a financial advisor is to quantify each of your Financial Goal into a SMART GOAL. A SMART goal is a goal which is Specific, as in with numbers and figures and not vague, Measurable, i.e. can be tracked, Attainable, i.e. not unrealistic, Relevant to your life and lifestyle and of course Time Bound, i.e. specific to a particular timeline.

HOW TO QUANTIFY EACH GOAL AS A SMART GOAL?

Quantify each goal in Money Terms.

SMART Goal = Specific, Measurable, Attainable, Realistic and Time Bound.

Specify each goal in Measurable and Money terms in a Realistic way along with Timelines

3 **Primary Goals** of Indians:

- Child Education & Marriage
- Retirement
- Wealth Accumulation for smaller goals like holiday, house, etc.

In order to Quantify each and every goal in Monetary Terms, you need to make them SMART Goals. SMART is an acronym for

SMART Goal = Specific or Smart, Measurable, Attainable, Realistic and Time Bound.

Specify each goal in Measurable and Money terms in a Realistic way along with Timelines

The 3 **Primary Goals** of Indians are primarily Child Education & their Marriage, own Retirement and further Wealth Accumulation for smaller goals like holiday, house, etc.

Basically all larger goals like say Child Education can be broken down into