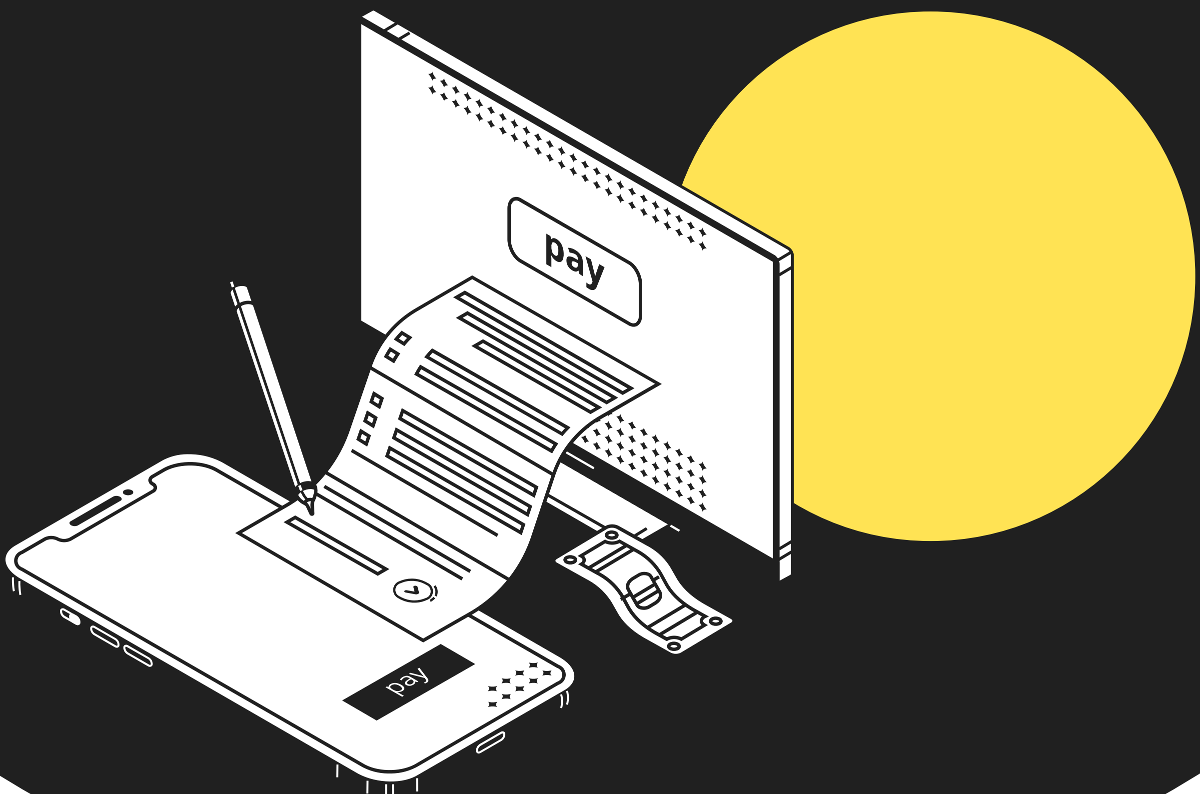
Wealth Creation Strategies

By Rishabh Shah

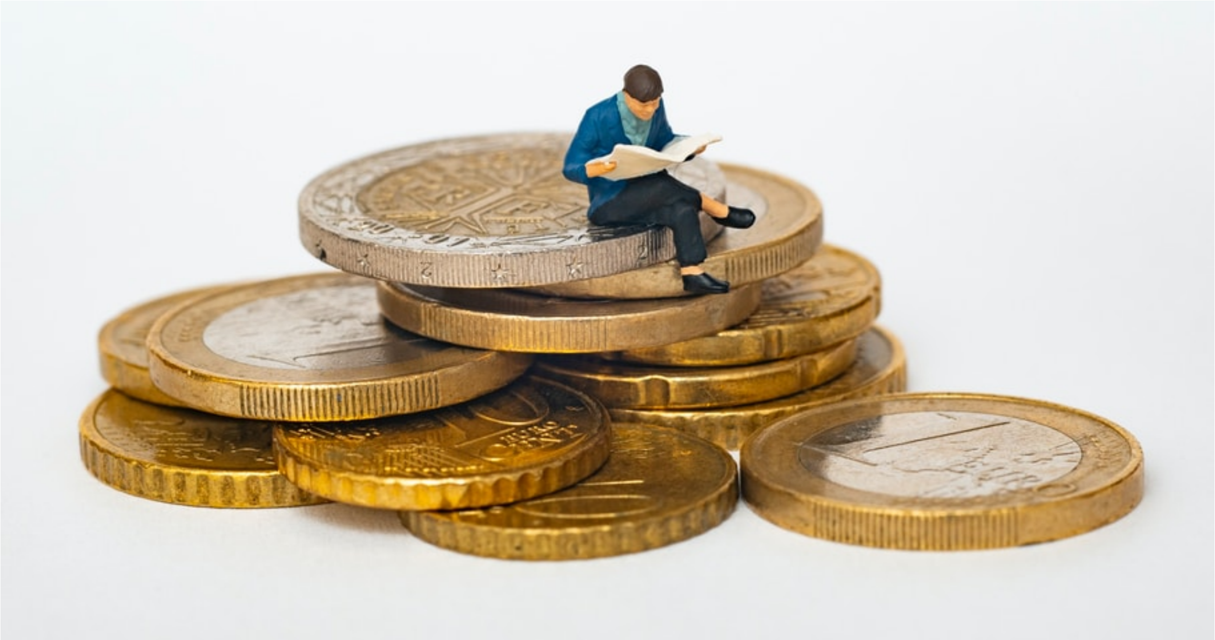


By Rishabh Shah

Welcome to the world of finance and investing. In this guide, you will learn more about investing and its core asset classes. The guide will offer you a broad overview of the different asset classes that you may want to invest in, with a few guidelines on how you can get started.

In addition, we will also be covering some of the fundamentals of investing for beginners – principles that apply to any type of investment. Once you understand and begin to implement these principles, you will be able to get started on your wealth-building journey.

INVESTING IS A SKILL. AND YOU CAN LEARN IT.

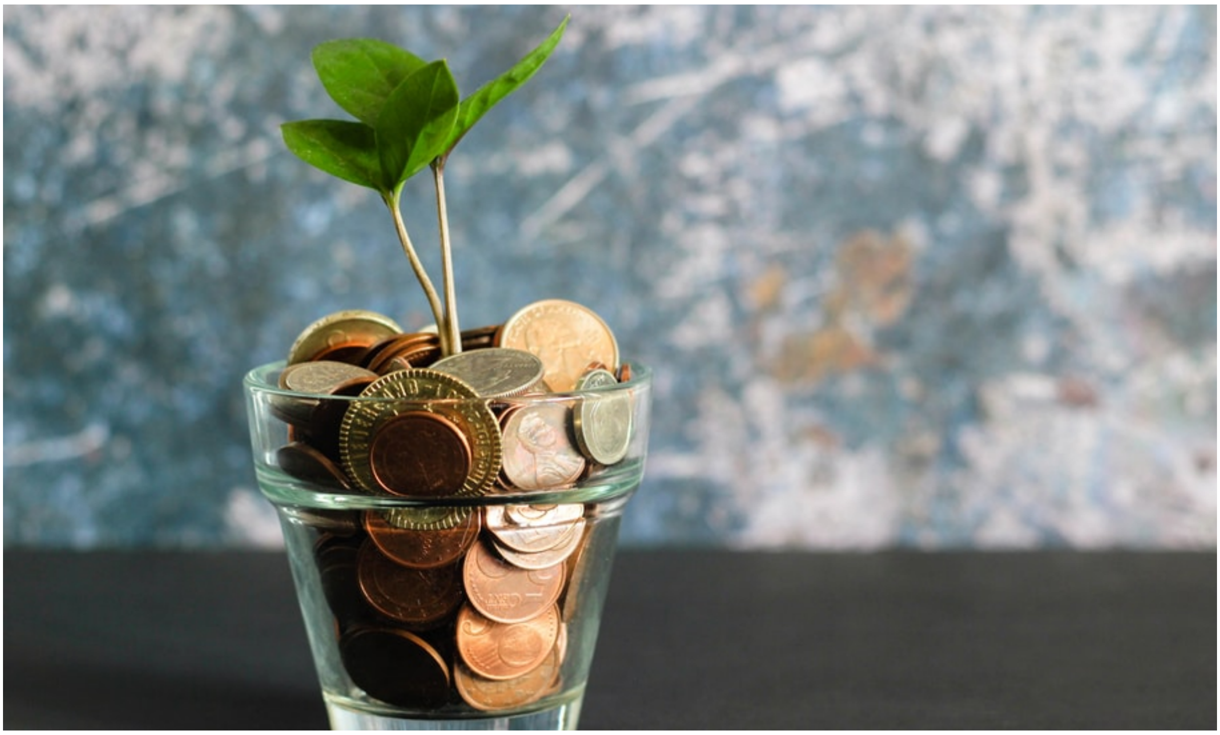


INTRODUCTION TO INVESTING FOR BEGINNERS

If you have never invested before, or just feel you are not the financial type, here's a piece of advice for you: just relax. While the world of investments is quite vast and there is a lot to learn, the good part is you don't need to know everything just to start. Learning about the world of investments is a long journey, and even experienced investors continue to learn with every turn of the market.

So you don't need to worry about how much or how little you know. The first step is to start. By signing up and opting to download this e-book, you have taken your first step towards unravelling the world of investments.

CONTENT



Money matters to note

While investments are the best way to beat rising inflation and grow your money, **we don't get taught financial literacy or investment planning in school or college.**

Financial gurus will tell you **it is not what you earn but what you save that makes you rich.** And what you invest makes you wealthy. Yet schooling trains you to merely earn. And the world teaches you to spend.
No one formally sets out to teach you to save, invest and grow wealthy. Hence **you are personally responsible to make yourself financially literate.**

Compounding interest has been referred to as the 8th wonder of the world. To avail of the max benefit of compounding, it makes sense to begin your financial journey while you are still young. Yet, no one ever insists that you start investing like they insist that you study.

There is no such thing as being too late to start investing. Understand that today, the average life expectancy is 90 years even in countries like India. This means, if you are reading this at 16, it's great. But even if you are reading this at 45 years of age, you still have another 45 years to invest and watch your wealth grow. The important thing is to start.

Understand what investing really is: when you work for a salary, you are exchanging your time and talent for money. **When you invest your money, you are putting your money to work, instead of working yourself.** Your money can work 24 hours per day, 365 days a year – it needs no holidays or breaks.

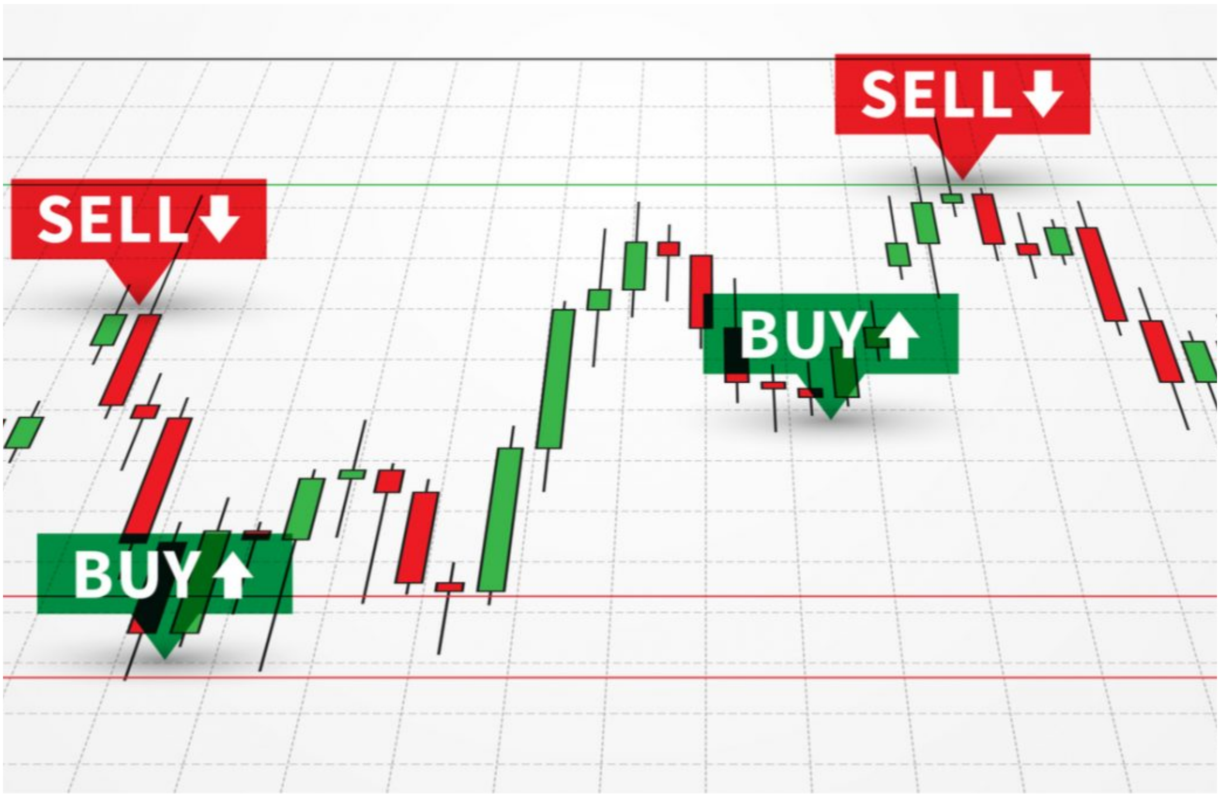
What's more, **the longer you keep it at work, the better it performs.**

The best part is financial literacy standards across the world are so low, that **even if you take the time to acquire a very basic knowledge of investing, you will be ahead of your peers in terms of financial literacy, and ultimately financial success.**

Basic Types of Investing

Different investment instruments are categorized into asset classes based on their characteristics and the financial regulations that govern them.

Common Asset Classes:



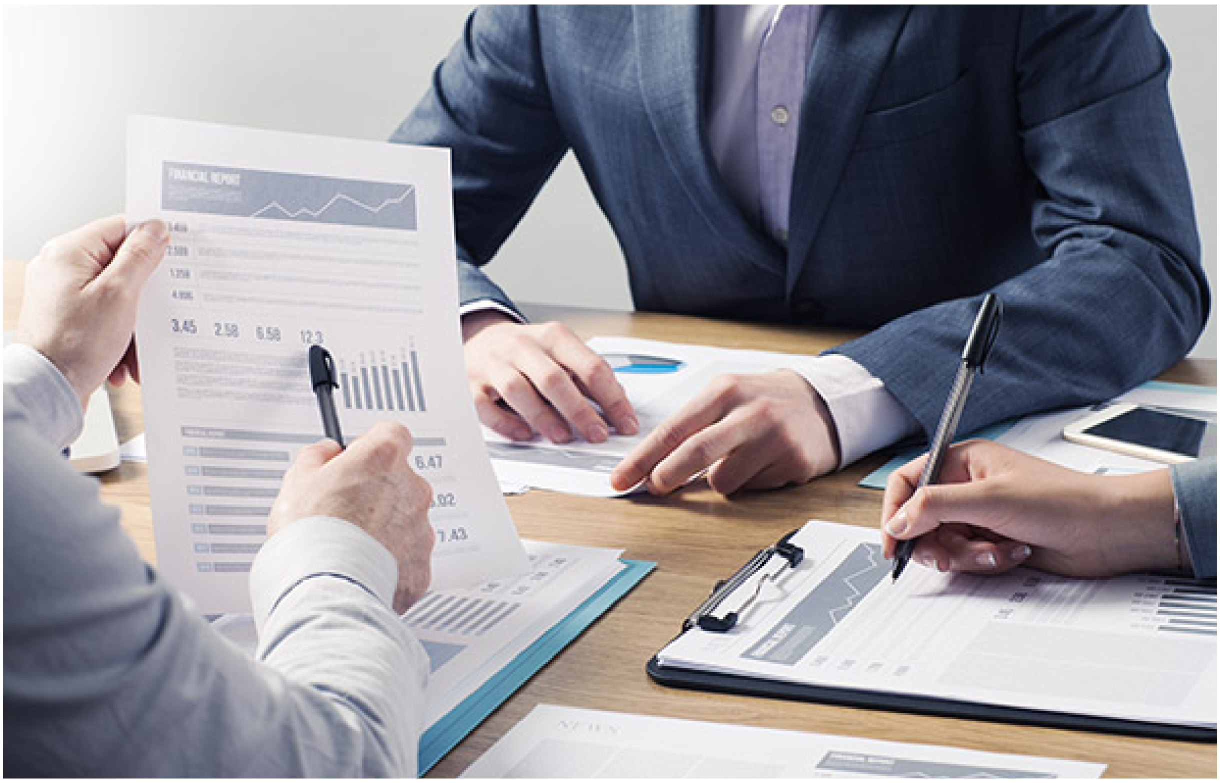
- Equities/Stocks
- Fixed Income investments/Bonds
- Cash or cash equivalents, such as money market funds

Not-So-Common Asset Classes:

- Commodities and futures, such as oil or gold
- Alternative investments, which include real estate, foreign exchange (forex), and collectibles
- Sustainable, Responsible and Impactful investments (SRI) with a primary focus on beneficial social or environmental effects

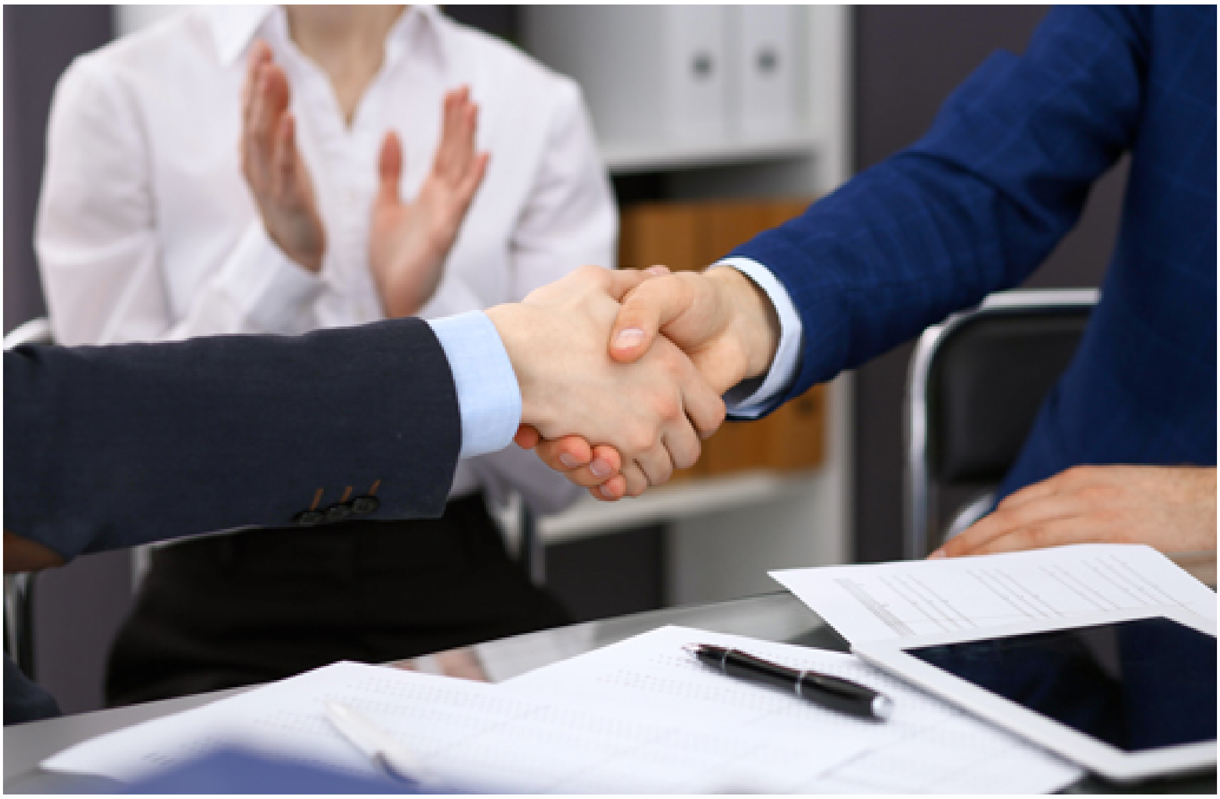
Important Thing To Remember:

Alternative class of investments tends to be less liquid than more traditional asset classes. For instance, while stocks are an extremely liquid asset, a private equity investment may require tying up your investment capital for a minimum period of five to seven years. You must understand the asset classes well before you actually make your investments.



Investments explained

Equity Investing:



- Buying and selling of stocks in publicly traded companies is most commonly known as equity investment. This is what most first timer investors look at when they get started on their investment journey.

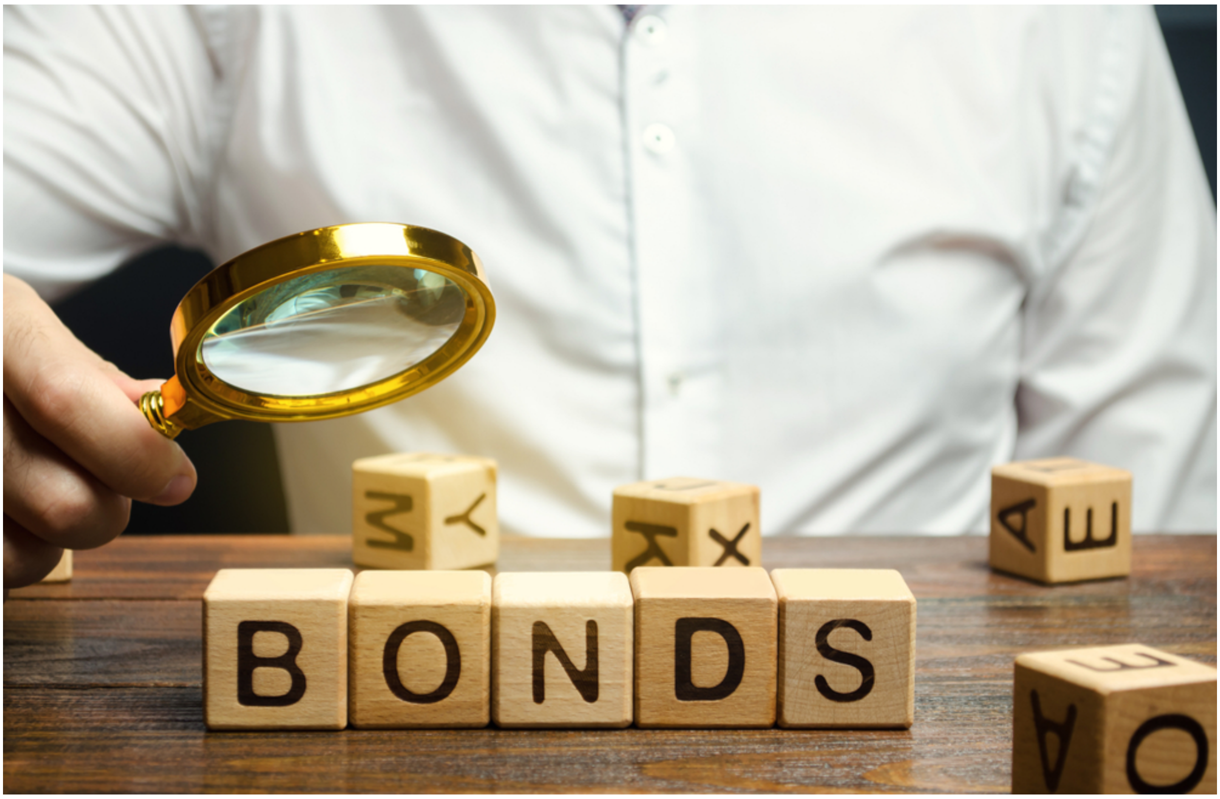
- Buying shares or stocks of a company gives you an equity interest in the company. For instance, if shares of Reliance Industries Ltd. are trading at INR 2,404 per share, then you can buy 10 shares for INR 24,040.

- Companies sell shares to raise capital that is used for their business expansion and growth. As the company profits, its stock price will rise and will benefit the investors. Depending on how the company is performing, how it stacks up against the competitors and how the specific industry is doing in the economy determines the profits of the company.

- A company declares and pays dividends to its shareholders as a measure of sharing profits with all the large and small owners of the company. Dividends and bonus shares are issued against current shares held. Keeping shareholders happy will mean more and more investors are interested in investing in that company. This boosts the company's stock price. Investing in stocks is subject to market volatility, and in a down market there is the chance that your investment may be devalued. The stock prices rise and fall as the markets fluctuate, and as an investor you must be aware of the same.

- Stocks are traded on exchanges such as the Bombay Stock Exchange (BSE) or the National Stock Exchange (NSE). Exchanges regulate and facilitate the trading of stocks.

Explore Fixed Income Investing:



- If you are looking for safe investment options to start with, you must consider fixed income options.

- Fixed income investing refers to investments in debt securities that offer investors fixed-rate interest payments over a specified time frame – the life of the debt security. Debt securities are most commonly referred to simply as "bonds." The bond market is one of the largest markets worldwide, thanks in part to the massive amount of debt being carried by most governments.

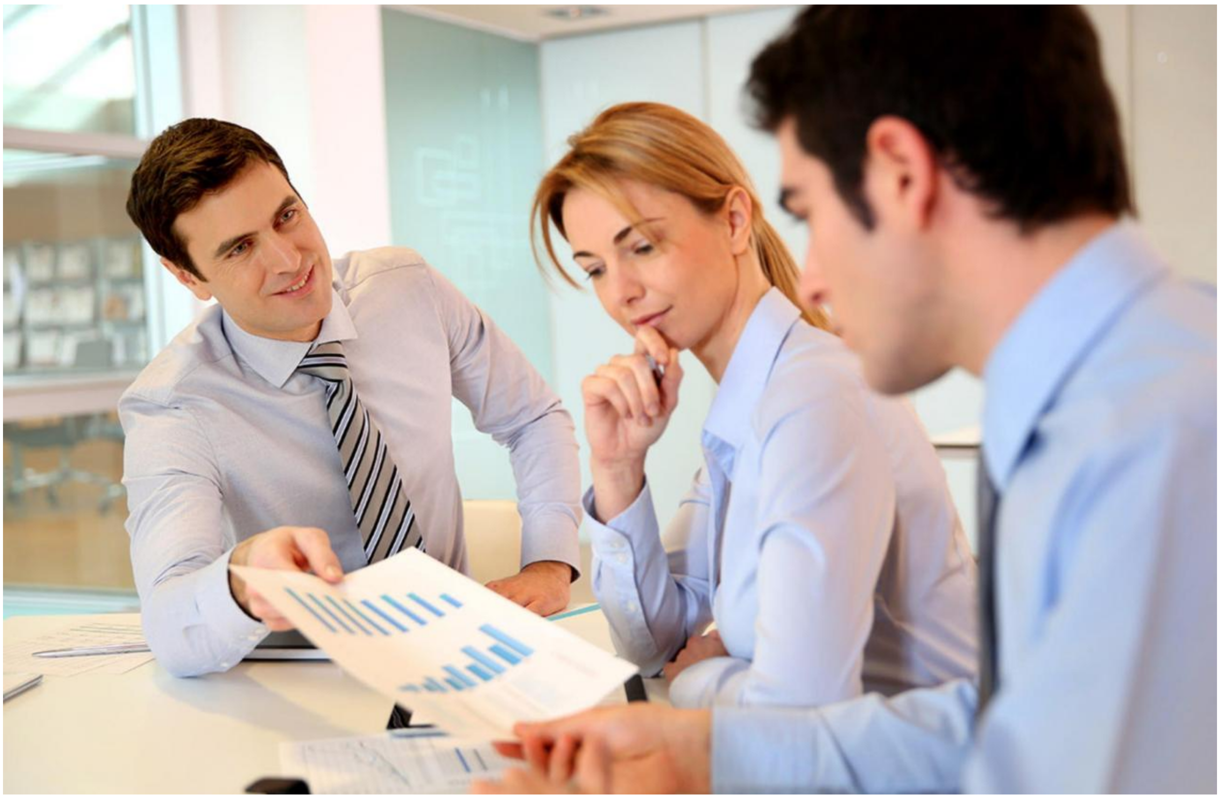
- When you purchase a bond, you are providing financing for a company or a government, and in return, you receive a specified interest rate. Interest on bonds is typically paid either semi-annually or annually until you receive the bond's full principal amount back on the bond's specified maturity date.

- Do note that the yield offered on the bond over time is affected by the changing interest rates in the economy. As interest rates rise, bond prices fall; conversely, as interest rates fall, bond prices rise.

- For investors who hold bonds to maturity, fluctuating yield to maturity rates during the life of the bond have no practical impact on their investment return. The current yield to maturity rate only comes into play if you are buying or selling a bond in the secondary market sometime prior to its maturity date.

- What makes fixed income securities attractive to investors is their relatively low risk. If you're buying bonds issued by a major company or the government, making the specified return is virtually guaranteed.

Bond Sellers – Governments and Corporations:



- Bonds are sold by national, state, and municipal governments, PSU and large publicly traded companies. In India, taxes applicable on interest earned on bonds vary. You must check the tax rules applicable for the specific bond while investing.

- Corporate bonds frequently pay higher interest rates than similar government bonds, but they also carry more risk. Corporate bonds are also typically more volatile than government bonds because their value can be affected by the perceived value of the corporate issuer.

- Fixed income investments may appeal to investors planning retirement who have large amounts of investment capital available during their working years. Such investors can purchase a large number of bonds, collect interest payments while they are working, and then around the time of their retirement, the bonds mature and return the principal (face value) to the investor.

Other Asset Classes – Commodities, Forex, and other Alternative Investments:

- These asset classes are more complex and need understanding of the technical aspects of how the indices and markets work. While these are not usually recommended when you start your investment journey, it is good to have a basic understanding of these classes.

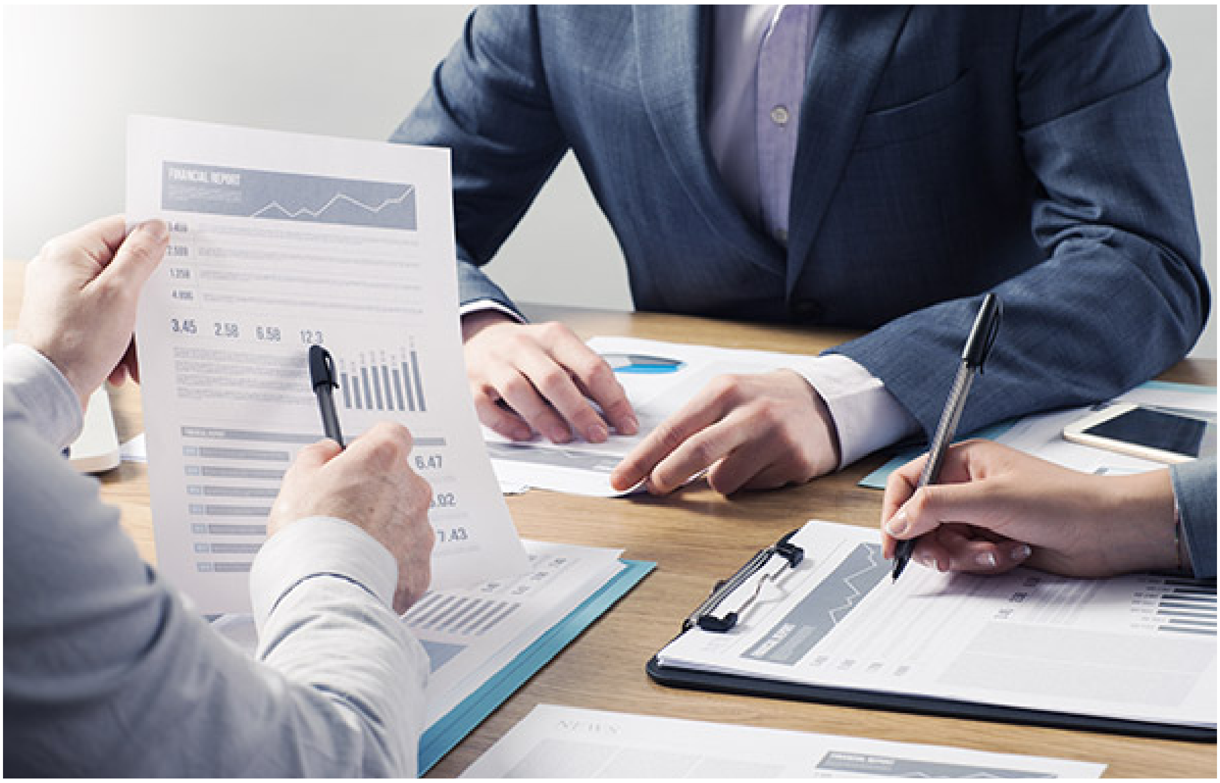
- The most common attraction and potential benefit that alternative assets, such as commodity futures and forex trading, offer are that of increased leverage the ability to use a relatively small amount of investment capital to control a relatively large investment. For example, commodity futures trading typically offers leverage in the neighbourhood of 10:1. In other words, to invest in a standard 100 troy ounce gold futures contract usually requires a margin deposit of only 5-10% of the total value of the contract.

- In short, leverage offers you the ability to make a lot of money with just a little money. However, leverage applies to both positive and negative investment outcomes. Just as leveraged investments amplify profits, calculated as a percentage of required investment capital, they likewise amplify losses.

- Investing in leveraged investments requires careful money management. Unlike buying stocks or bonds, where the absolute maximum possible loss is no more than your total investment, with leveraged investments, it is possible to lose more than your total investment.

- Investors who are unfamiliar with trading leveraged investments often see their trading capital erode at an alarming rate.

- Leveraged investments, used wisely, can be an excellent vehicle for rapidly growing your investment capital. But to successfully take advantage of such investments, you have to clearly understand the associated risks



Principles of Investing for Beginners

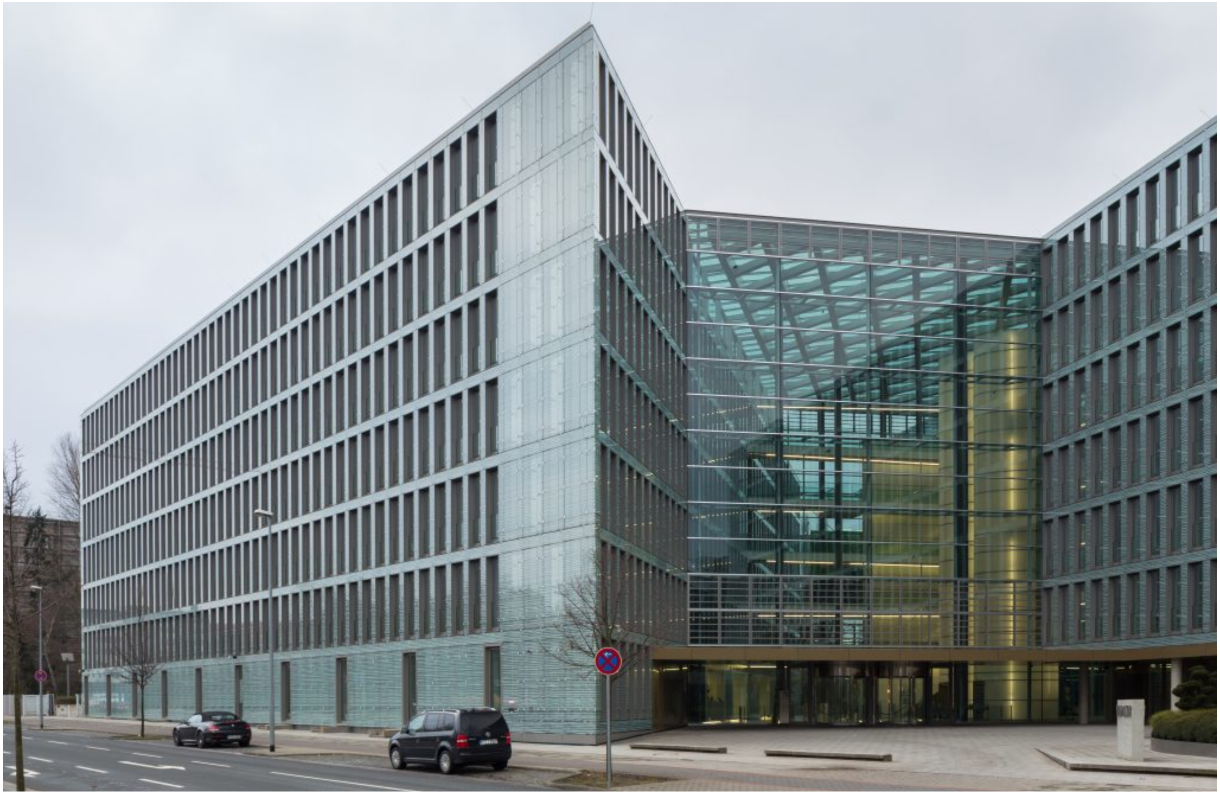
Principle 1: Understand your Risk and Opportunity

- In investing, you need to understand that anything that offers you a big return on your investment also comes with a high level of risk. Hence understanding your risk profile is important to avoid rude shocks at a future date that can be caused by market volatility.

- A rule of thumb often shared with new investors is to put only that money into the equity markets that you can afford to lose. That means you do not need these funds for a fixed date event like your child's education etc. The ups and downs of the markets are cyclical, so if you remain invested for more than 10 years, chances of you losing money are slim, unless you have invested in very small-cap companies. As a beginner, you are best advised to put your money is blue-chip and mid-cap companies that have been around for a while.

- Also investing in mutual funds is a good way to get started on your stock market investment journey. The risk levels are controlled, so you can invest and monitor your investments and learn how the markets move.

Principle 2: Invest in companies you can understand



- For instance, everybody around you seems to be making a lot of money in cryptocurrency. If you wish to do the same, you need to understand the concept of cryptocurrency, how it works, and comprehend what determines the pricing in this market. If you find it difficult to understand, study some more. Don't rush in to put your money in something where you could end up with huge losses.

- Look for shares of companies who do business that you can understand: any FMCG, IT, ITES, Electricity Board, Infrastructure company would be in this segment. You understand how these businesses work as they have been around for decades. When you read information about these industries, you will also have some idea how it will affect the company you are invested in. Hence your decision-making around your investments will be based on facts and your own analysis of the situation, backed by expert reports.

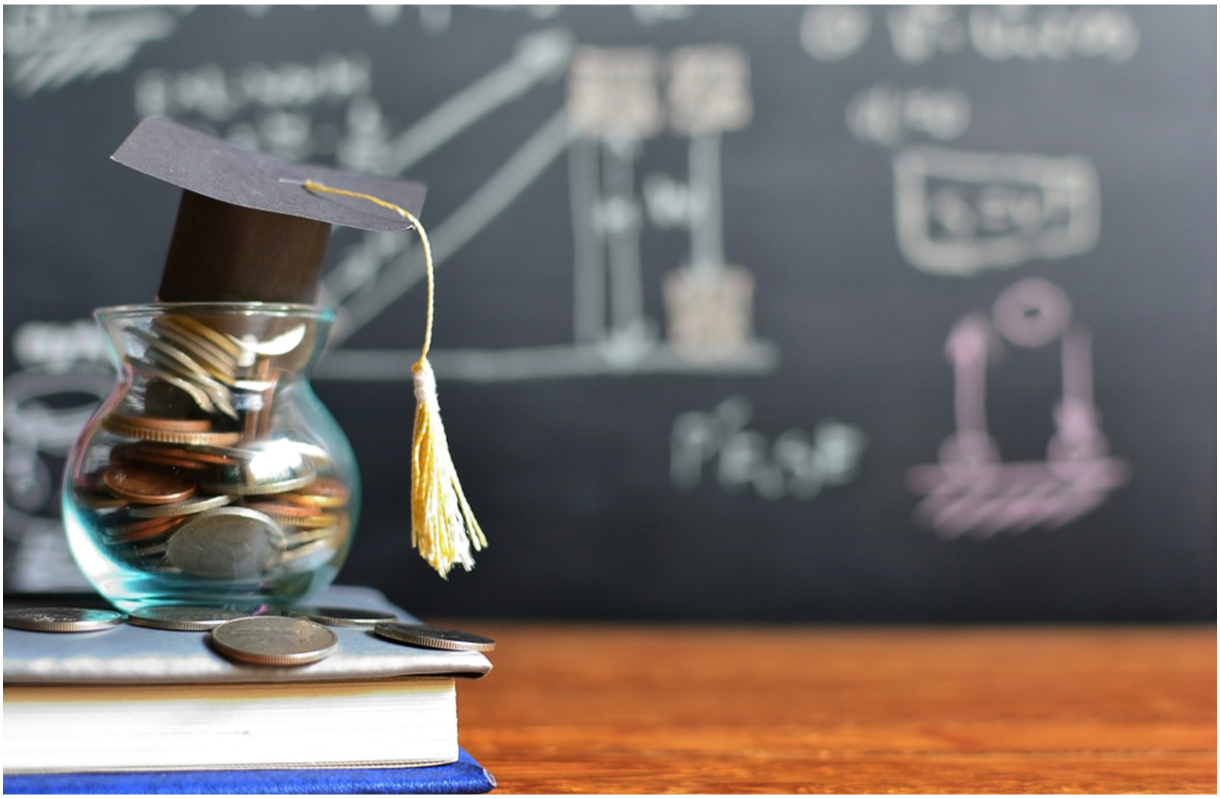
- When you invest in the equity of companies where you do not understand the business, you are totally dependent on market information. This can be a risky situation, and if the company suddenly runs into tough times, it may come as news to you. This can mean losing huge sums of money. So think your investments through when you invest.

Principle 3: Invest REGULARLY

- Let us say, this is almost a no-brainer, but most early investors miss out on this. Instead of making arbitrary investments as and when you manage to save some funds, the strategy to wealth creation implies regular monthly investments. No matter how small your investments are, do them regularly as soon as you receive your pay check. This will inculcate the discipline of living within your means, make you a serious investor and bring you the rewards of compounding interest and growing investments.

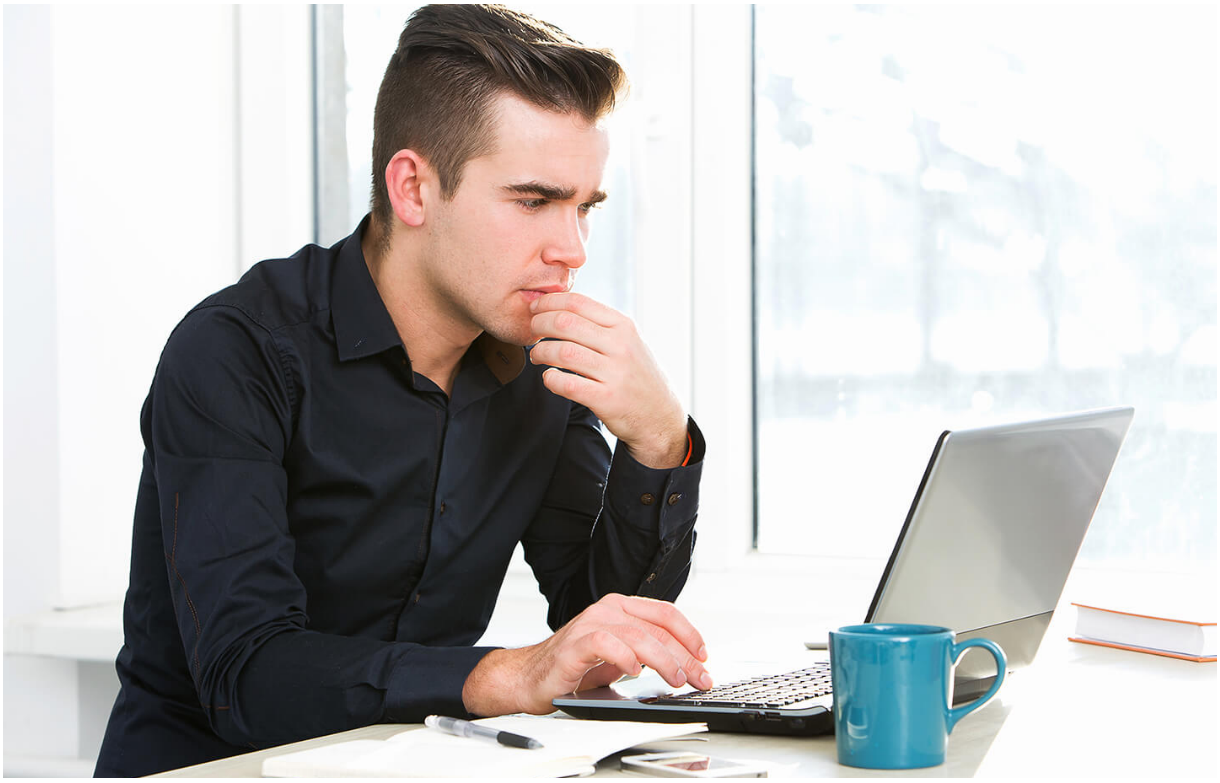
- The habit of regularly investing even small amounts of money is definitely a habit worth cultivating, a habit that will pay off handsomely for you.

Principle 4: Invest in an Education in Investing



- The most essential principle of successful investors. The investment market is dynamic and is affected by everything that happens around the world. The more you study how the various key indicators like oil and petrol, gold, large exporters, large importers, global arms deals and other such affect the economy, the better you will get at understanding what affects your investments

- Keeping a track of the global happenings is key if you wish to create wealth. The more you understand market movements, the less you will have to depend on outside information and opinion. So make time to read, attend seminars and learn around what kind of investments you need to make to reach your goals.



How to Get Started

- Define your investment goals as to how much money you want at the end of a given period of time. Remember, wealth creation is a long-term process. Get rich quick schemes are a formula for disaster.

- Next, define your monthly investment fund, assess your risk profile. Make a list of the milestone events in your life and how much money you would need for each of them. Put all this down on paper. This will give you a clear idea of how much you need to invest and calculate your investment growth at 10-11% per annum. This will help you arrive at how much your investment will grow over the years.

- The first step in your investment journey is to get started, and automate your investments. That way, you don't have to do anything special to make your monthly investments. Set up your Systematic Investment Plan (SIP), and you are on your way to creating the wealth you have always dreamt of.

- We, at 1 Financial Code, are committed to help you grow and make progress on your journey to creating wealth. Check out our website for regular updates on investment information and news.