HOW TO MANAGE YOUR MONEY

A Comprehensive Guide To Help You Plan Your Finances Better

Being one of the fastest growing economies in the world, India's standard of living has been increasing gradually. To maintain a good lifestyle, it is a critical that you plan your finances.

"Plan your finances today to fulfill your future needs and improve lifestyle"

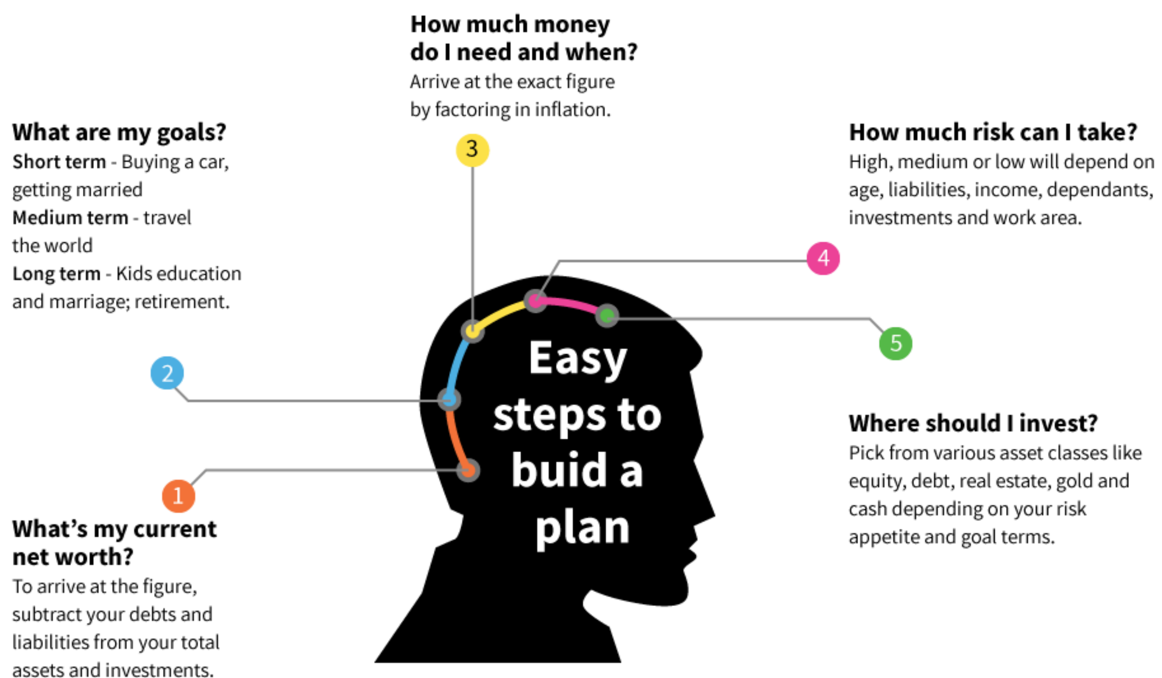
Financial Planning is a versatile domain that covers various aspects of life like managing money, investing, planning for retirement, managing debt, real estate planning and tax planning; both at the individual level and at the family level.

A good financial plan, can help you lead a financially secure life, meet most of your planned and unplanned expenses and keep up with the ever-increasing cost of living. It can help you attain financial freedom and achieve goals which earlier may have seemed impossible to achieve.

Why is financial planning important?

Financial planning can provide answers to difficult questions like 'how much you might require to lead a comfortable life after retirement' or 'what is the amount of life insurance required to secure the future of your dependents financially'. It can facilitate in taking important decisions like "how much money you would need to save for your children's higher education."

In yet another situation, it can assist in carrying out your duties as a responsible parent, like saving for the marriage of your children. Thus, building a financial plan is essential for every individual irrespective of which stage of life you are at.



Set a goal to achieve your financial milestones

Goal-based investing is the latest trend in the domain of financial planning. Instead of investing money in undirected avenues or bank fixed deposits, try a goal-based investing approach. Here, you assign your limited finances to invest in avenues like equity, debt, gold and other assets in a manner that your overall life goals are achieved. It doesn't stop there! Align your investment portfolio regularly as you move from one life stage to another.

It's pretty simple. Suppose you want to retire with a fund value of Rs 1 crore at the age of 60 years, here's what you can do. If you are 20 right now, then start an SIP of Rs 5000 every month in an equity fund. Assuming an annualized 12% rate of return, by the end of 60 years you will have Rs 1 crore. You need to understand that as you grow old, your capacity to take higher risks reduces. That's why it's wiser to move to safer havens as you move closer to your goals. So by the time you are 50 or 55, you can start a systematic transfer of your fund from equity fund to a safer haven like a debt fund. That's the magic of goal-based investing. It makes achieving life goals easy and fun.

Broadly, you can categorize your goals based on criteria, say a time horizon; your goals will look like the following, along with suitable investment havens:

A. **Short-term** refers to goals that include buying a car or planning a vacation and have an investment horizon of up to 3 years. In this period, you focus on the safety of your capital and expect reasonable returns. Your investing avenues will be Bank fixed deposits, Debt Mutual funds, Monthly Income Plans, Bonds, etc.

B. **Medium-term** refers to a period of 3-5 years which involves goals like children's education or buying a house, etc. In this form of investment, you may expect higher

returns compared to the short-term horizon and may even be willing to take a relatively higher risk. Some of the suitable investment vehicles for this kind of investment could be Fixed Maturity Plans of Mutual funds, Hybrid mutual funds, Bonds, Large-cap stocks, etc.

C. **Long-term** refers to a period of more than 5 years wherein you are capable of taking the highest degree of risk and might earn the highest rate of return. It involves goals like children's marriage, your retirement planning, which require accumulation of huge corpus. Some of the best-suited investment vehicles for this are equity mutual funds like diversified funds or pure large/mid/small cap funds.

Know your finance concepts

Now that you know the importance of financial planning to achieve your dreams let's discuss some of the related concepts in finance, which you need to know for the accomplishment of your goals.

A. Inflation:

When you are planning your finances, you need to factor in the impact of inflation. Inflation is a steady rise in the prices of commodities and services over a period of time. Your money loses its value, and the same product or service will require a higher amount after 10 years as compared to now. If you keep your money in a saving bank account or bank FD, you might fall short of funds to achieve your goals. Inflation has a de-compounding effect on your savings.

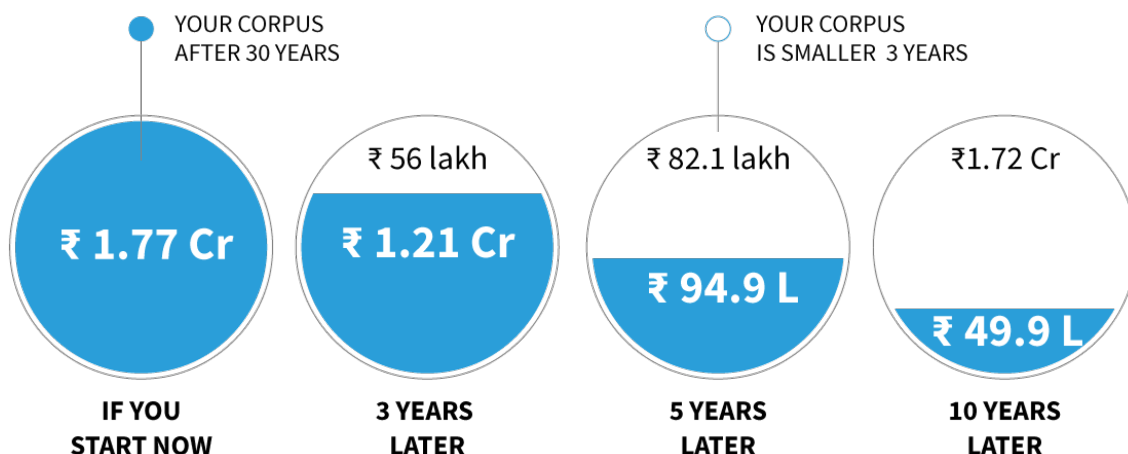
Consider a scenario where you invest INR 1 lakh at an interest rate of 7 percent per annum where inflation/prices are also rising at the same rate. In this case, the compounding returns on your deposit will just about keep pace with the inflation. This means that if you do not have a provision to adjust for inflation, your purchasing power will not increase even after years of investing. What you are able to purchase today with INR 1000 will not be available for the same amount 10 years from now, just like what we could purchase for INR 100 a decade ago is worth maybe INR 600 today.

B. Taxes:

Taxes cannot be avoided, but they tend to have a lasting impact on the success or failure of your goal-achievement. Plan your taxes to reduce the impact on end-returns. In fact, with planning, you can maximize your returns and minimize your losses. Before beginning, make yourself aware of the various exemptions and deductions available in the Income Tax Act 1961, to reduce your overall tax liability. Additionally, instead of procrastinating until the end, you can plan it from the beginning of the financial year.

C. Power of compounding

You might dream of becoming rich. But you might wonder how to create wealth to achieve that goal. At this juncture, the power of compounding can help you grow your wealth exponentially. It involves the calculation of interest on the interest that you have earned on the initial investment. Each time interest is calculated on the principal for the next period, the interest earned in the previous period forms part of the principal. In this way, Compound Interest will make your money grow at a faster rate than simple interest. Hence, the sooner you start investing, the larger would be the amount accumulated to finance your goals.



The Risk-Return tradeoff

While you are planning for your financial goals, don't ignore the risks involved in decision-making. Risk can be explained as the level of uncertainty surrounding an investment vehicle. The higher the volatility and uncertainty in the market, the riskier it is considered as an investment instrument. Your risk profile is determined by your ability and willingness to take risks. Here, ability relates to financial strength and capacity whereas willingness refers to your overall attitude towards risk-taking.

Whenever you invest your money in a haven, you need to factor in the risks involved. No two individuals will have the same risk-bearing capacity. You have to assess your own risk-taking ability before investing. Broadly speaking, there are 3 types of risk-return profiles, and you may belong to any one of these based on your income stream and the investment haven:

Conservative

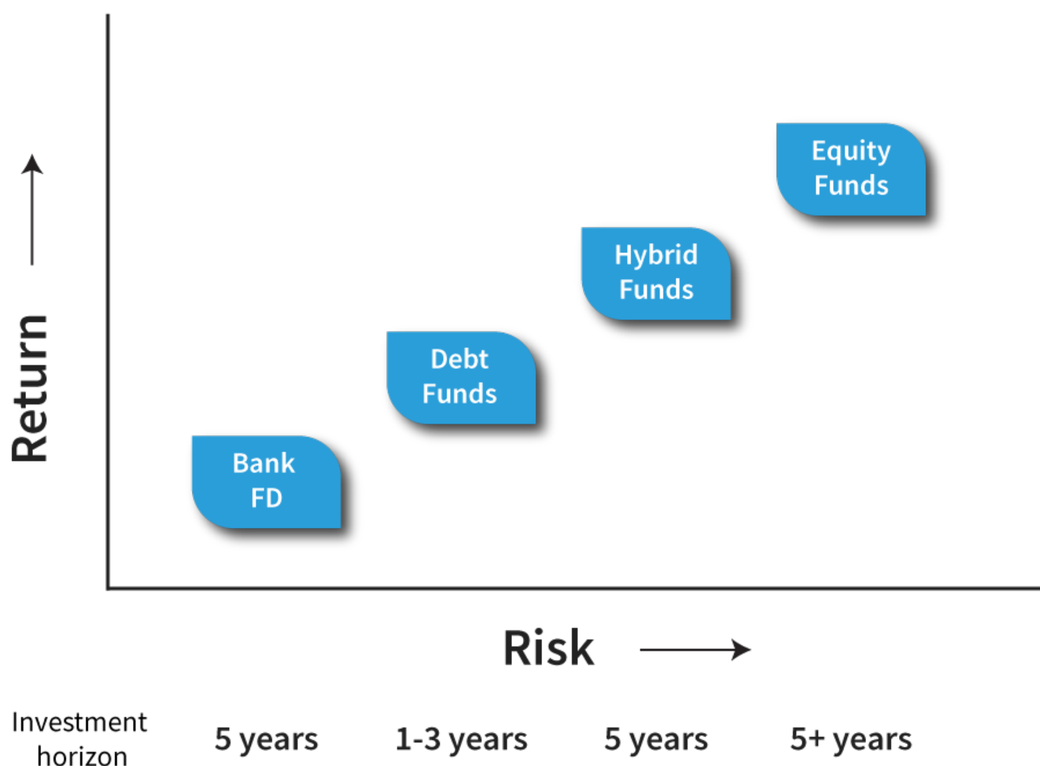
In a conservative risk profile you would take as less risk as possible and prioritize the safety of your funds compared to earning higher returns. The preferred investing options for this profile would be post office deposit schemes, bank fixed deposits and other fixed-income generating instruments.

Moderate

A moderate risk-taker would be eager to take some amount of risk and expect relatively higher returns than their risk-averse counterparts. The preferred investment vehicle for moderate risk could be mutual fund schemes.

Aggressive

As an aggressive investor, you love to take higher risks prioritising higher returns over the safety of your capital. Your preferred investing vehicle would be equity mutual fund schemes or directly investing in the stock market.



At this point, you need to remember that risk & return go hand-in-hand. To earn a higher return, one needs to bear a higher level of risk & vice-versa. Once you have invested in an instrument, it is essential to keep track of your portfolio and manage your risk.

Important Investment Tips Before You Start

Know the difference between saving & investing

Saving happens to be a necessary component of financial planning. Investment activity follows the former. There is a considerable difference between the two activities. Both saving and investing serve different life goals. Once you gain clarity on these two concepts, you can easily achieve financial freedom. Let's start with the definitions of both these concepts.

Saving refers to the accumulation of the unspent money after deducting all your expenses from your income. You can start saving money from any age. The primary purpose of saving is to maintain liquidity and to provide funds for future expenses in case of an emergency. Contingencies occur unexpectedly, and you may find yourself out of money due to sudden illness, disability or a job loss.

Ask these questions to streamline your saving activity:

- How much to save?

-What happens if I cannot save?

Start with a number. It can be expressed as a percentage, say 20% of your salary/income. There is a rule of thumb to determine the amount from your income that needs to go into your savings. It's called 50/30/20 rule. It means 50% of your income for living expenses, 30% for leisure and 20% goes into savings. If 20% looks scary initially, then you may want to start small. Begin with 1% or 2%, then increase the savings rate as you gain confidence and get comfortable with the whole idea.

There are no hard rules; you can adjust the proportions to suit your case. Saving money is not about giving up your lifestyle or comfort, rather it is meant to create a buffer to support you in emergencies. You need to ensure that you are saving regularly; even if it means 5% in a particular month. You can always increase the percentage of your savings as your income grows.

Now let's look at the investment side of financial planning.

Investment involves employing your money in an asset to achieve a specific financial goal. It is a way to accrue a larger corpus in a time-bound manner. At the same time, you consider the risk, return, liquidity, tax, and volatility involved in that specific asset in

which you are investing money. You aim to beat the inflation with as much margin as possible. The type of instrument that you choose for investing depends on your financial goal, risk appetite, and investment horizon. A high risk-seeking investor will be willing to invest in the stock markets, whereas a moderate risk-seeker may opt for mutual funds. Conversely, a low risk-seeker would like to invest in fixed-interest bearing instruments like bank deposits, PPF, bonds, etc. The type of investment instrument which one selects ultimately depends on one's risk profile.

Investing requires a relatively higher degree of patience than saving. It is always wiser to begin investing as early as possible. The moment you start investing, the power of compounding starts appreciating your initial investment, growing it every day gradually.

While a bank fixed deposit is a saving, investing in mutual funds will qualify as actual investment. Both are a great way to start the habit of putting your spare change to good use, it is crucial that you understand what you are allocating money for. A fixed deposit would give you guaranteed interest for the duration of the investment with zero risk. A mutual fund on the other hand will allow you to start investing with a low amount and offer an avenue to diversify your investment. The funds will be managed by professionals and you will have access to better returns.

Confused about where to invest? Learn about asset allocation, it's simple.

When it's about investing, you have to make an investment portfolio comprising various asset classes. You need to take decisions related to asset allocation. Asset allocation is a technique in which you select the asset classes for your portfolio and determine how much money you would assign to each asset class based on your income and risk appetite. The primary objective is to maximize your returns at a given level of risk. Each asset class comes with its own share of risk and returns. There are three asset classes in a mutual fund portfolio, i.e., equity, debt, and cash. Equity is regarded as the riskiest

investment, whereas cash is considered to be the least risky instrument. Debt falls somewhere in between these two. Debt delivers higher returns than cash but less returns than equity.

With asset allocation, you try to achieve a balance between your investment horizon, risk appetite, and personal financial goals. Apart from these factors, there are other variables like age, lifestyle and family commitments which determine the percentage of equity/ debt/cash in your portfolio.

As a basic rule of thumb, to start with, you may want to subtract your present age from 100 to ascertain the percentage of equity in your portfolio.

Asset allocation is a dynamic strategy. As the investor gets old, his portfolio becomes more conservative and the shares in equity decrease. In case of a long-term goal like planning for retirement, an investor who wants to retire at 60 years would have to reframe his asset allocation strategy as he moves nearer to the retirement age. However, as an investor, you are free to develop a plan which suits you the best.

Diversify your investments - Treat it as a 'Rule of Thumb.'

You will find that risk is attached to every investment. Risk arises as the value of the asset changes on account of changes in the market conditions. The higher the sensitivity of the asset to market movements, the riskier the investment is. Market price fluctuations of equity shares of companies are due to the rise and fall in the underlying benchmark. Similarly, the price of a bond is vulnerable to fluctuations in the overall interest rates.

While deciding about managing your portfolio, you need to keep the risks in mind. You may perceive risks to fall in one of the two categories:

(i) **Good risk** is one where you will get a compensation or a risk premium for taking that risk. Suppose you invest in an equity fund, the compensation will come in the form of higher expected returns as compared to those investment options which assume a lower risk of incurring losses in investment. You may want to take the good risk based on your overall risk-taking ability.

(ii) **Bad risk** is one where you will not get any compensation, or a risk premium, for taking the risk. You may look at that as investing in some mutual fund scheme which increases the overall portfolio risk without contributing anything towards the portfolio in terms of returns. You need to avoid bad risks in your portfolio because there is no value addition per se.

Manage your portfolio in a manner to gain advantage from the underlying risk. Because you cannot expect to earn higher returns without assuming higher risks. Start by allocating your limited resources among the various asset classes. Going by this premise, never put all your eggs in one basket. Simply put, investing surplus cash in one asset increases your likelihood of losing money. What you need to do is, opt for a well-diversified portfolio.

Diversification is an investment strategy to manage the portfolio risk effectively. It involves the distribution of your investible surplus across various assets like stocks, bonds, real estate, and cash alternatives and eliminates the non-market risks or the bad risks. However, there are no guaranteed returns when you invest in equity mutual fund.

Apart from spreading your money across assets, you can also diversify across several different industries and offset a loss in any one investment. The underlying belief here is, when the price of one asset falls, it is offset by the rise in the price of another asset. In this way, your portfolio will be able to stand resilient against market fluctuations. In the end, the portfolio will be able to deliver a steady performance across various time intervals and through various economic conditions.

Diversification happens to be one of the advantages, and the reason for the popularity of mutual funds over other investment havens. Usually, unlike big institutional investors, retail investors would have a small investible surplus. With a Systematic Investment Plan (SIP) of as small as Rs 500, they can have a portfolio that is sufficiently diversified. However, the choice of asset allocation would be decided by the fund manager alone. The type of asset classes in the mutual fund portfolio will depend on the investment objective of the scheme.

When it comes to diversification, it is recommended to have not more than 7-9 schemes in your portfolio. It becomes easier to keep track of the fund's performance.

Do note: Having too many funds in the portfolio leads to an overlapping of schemes which may cancel out the benefit of diversification. Additionally, you need to be guided by your goals while shortlisting funds for your portfolio.

Revisit & Rebalance your portfolio

Now that you know how the risk and return aspect of your portfolio is influenced by the changes in market conditions try and recall the moment when you had made an investment at a market low. You would have invested based on some fixed asset allocation.

Suppose on 1 January 2017, your portfolio contained stocks and bonds in the ratio of 50:50. At the end of the year, you realise that the market performed quite well and this changed your portfolio allocations away from the original allocation to become 40% bonds and 60% stocks. On the face, everything might look great. You may think that increase in the percentage of equity in the portfolio would lead to higher actual returns. But this in reality has increased the overall risk of your portfolio.

This should not deter you from staying invested for a long term. Keep in mind, investments require regular reviewing of the portfolio as per the prevailing macro-economic conditions. If you find that the investments are not giving returns as per your expectations, over time, it means that it is time for you to bring the portfolio back to its original allocation. The most effective way to ensure that your portfolio returns in line with your expectations are through rebalancing. Rebalancing is the process by which you take steps to restore your portfolio to its original risk profile. After all, the actions concerning portfolio management need to be guided by your personal financial goals, risk tolerance, and investment horizon.

You can rebalance your portfolio using either of the following ways:

(i) Use additional investment to bring back the changed asset allocation to the original asset allocation. Purchase assets which have fallen by adding new money to the portfolio. If bonds have dropped from 50% in a portfolio to 40%, then you can purchase enough bonds to make the portfolio allocation 50:50.

(ii) Another way involves using your existing funds. Here, you can sell the outperforming stocks and divert that money to buy underperforming stocks and restore the portfolio's allocations. It means that you can redeem the units of the equity funds and use it to purchase additional units of debt funds to rebalance the portfolio. This will ensure that you buy low and sell high.

Keep track of how your investments are performing with regards to the changes in your income, the financial markets, and the overall financial product. Instead of following a reactive strategy, develop a proactive strategy. You can set a timeline to rebalance your portfolio every financial year. It can be twice in a year or once a year. Ultimately, you need to match the portfolio risk profile with your risk tolerance.

An Intro to Common Financial Products

Mutual funds - A convenient way to grow wealth

What are mutual funds? Understand how they work

Mutual funds, especially Equity funds, have gained immense popularity in a short span of time among the retail investors. It has become a convenient way to multiply wealth by investing across different risk profiles. Unlike the direct investment in stocks, mutual funds provide a similar diversification and exposure to stock markets at a nominal initial capital. So, even a novice investor can start investing at a young age.

A mutual fund is an arrangement wherein a fund house invites subscriptions from multiple investors for an investment scheme. The scheme, in turn, invests in various asset classes which are referred to as a 'portfolio.' The entire invested capital in a scheme is regarded as an 'asset under management (AUM').

The investment portfolio is managed by a fund manager who is an expert in the domain of investment and portfolio management. Each investor receives a specific number of units of the scheme at the prevailing price which is known as the Net Asset Value (NAV). NAV is computed by deducting the fund liabilities and expenses from fund assets and dividing the resultant figure by the number of outstanding units.

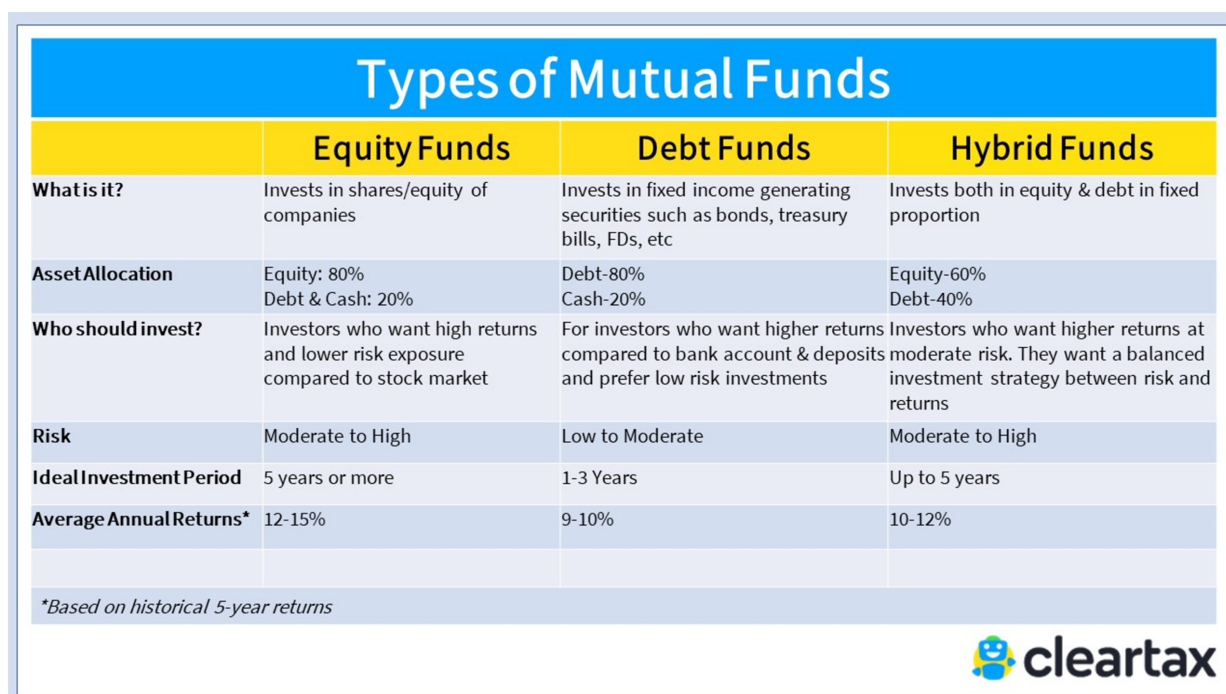
The NAV is affected by the ups and downs of the prices of asset classes. Hence, the NAV of a mutual fund scheme changes every day according to the movement in the market. A fund manager maintains a well-diversified portfolio to keep the returns intact, and in line with the expectations. However, the market risk still remains, and returns are not guaranteed. To manage your portfolio, the fund house charges an annual fee called an expense ratio. This has a direct impact on your take-home returns.

Invest in Mutual Funds

Get to Know the different types of Mutual funds

Different types of funds exist to cater to the needs of different types of investors. Mutual funds cam mainly be classified based on the type of investment (asset class) they focus on.

Equity funds invest in equity shares of companies with the objective of wealth accumulation. These can deliver high returns in the long run and are also known as Growth Funds. Based on market capitalization, equity funds are subdivided into large-cap, mid-cap, small cap, multi-cap funds, sector funds, ELSS and more.



Types of Mutual Funds	Equity Funds	Debt Funds	Hybrid Funds
What is it?	Invests in shares/equity of companies	Invests in fixed income generating securities such as bonds, treasury bills, FDs, etc	Invests both in equity & debt in fixed proportion
Asset Allocation	Equity: 80% Debt & Cash: 20%	Debt-80% Cash-20%	Equity-60% Debt-40%
Who should invest?	Investors who want high returns and lower risk exposure compared to stock market	For investors who want higher returns compared to bank account & deposits and prefer low risk investments	Investors who want higher returns at moderate risk. They want a balanced investment strategy between risk and returns
Risk	Moderate to High	Low to Moderate	Moderate to High
Ideal Investment Period	5 years or more	1-3 Years	Up to 5 years
Average Annual Returns*	12-15%	9-10%	10-12%

**Based on historical 5-year returns*

Large-cap/Mid-cap/Small-cap funds invest in stocks of companies of particular market capitalization. Multi-cap funds invest across market capitalizations and industry segments; these tend to be less risky as compared to those funds investing in particular market caps.

Sector/thematic funds invest in a particular emerging and promising sector/theme and may suit aggressive investors who are aiming for higher returns. Equity Linked Saving Scheme (ELSS) funds, in addition to wealth creation, enables tax-saving under Section 80C of the Income Tax Act.

Debt Funds are known to be a ‘low risk - low return’ investment vehicle. These funds invest mainly in fixed income instruments like money market instruments, bonds, debentures and commercial paper. Investors who prioritize the safety of capital above higher returns may choose to invest in debt funds. In increasing order of the tenure of investment, debt funds have sub-categories like liquid funds, short-term funds, dynamic

bond funds, fixed maturity funds, GILT funds, etc. The primary purpose of investing in debt funds is to generate a regular income stream along with capital appreciation over the short to medium term timeframe.

Hybrid Funds invest in both debt and equity funds. These fall in the middle of risk-return continuum aiming at a portfolio with a stable risk profile and reasonable returns. These are available in variations like balanced funds, dynamic asset allocation funds, arbitrage funds and equity savings fund.

Learn why SIP is such a powerful investing tool

It is often believed that to gain a significant amount of wealth, you need to invest a considerable sum. This is not true. You can, in fact, start investing by setting aside a small sum on a monthly basis. Mutual funds operate on this fantastic mode of investment called Systematic Investment Plan (SIP).

In this, you instruct your bank to deduct a fixed amount from your savings bank account, and it gets automatically invested in the mutual fund of your choice. SIPs start from as low as Rs 500 and can be stepped-up eventually as the investor's income increases. It, thus, inculcates a habit of disciplined saving before spending.

Additionally, it will help you to achieve your life goals like buying a home, saving for your children's higher education or for your retirement planning. While opting for an SIP mode, you can choose the frequency of the SIP to be monthly, quarterly or on an annual basis. It is recommended to go for a monthly SIP which helps generate a more significant amount of wealth via the power of compounding and rupee cost averaging. With the power of compounding, your earnings are reinvested at the same rate of interest so that the principal grows consistently.

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WHY 'SYSTEMATIC INVESTMENT PLANNING' IS THE BEST WAY TO INVEST

BE A **CHAMPION** INVESTOR WITH SIP

Long-term benefits with power of compounding

Start investment as low as Rs 500 every month

Take the advantage of 'Rupee Cost Averaging'

Become a disciplined investor

Withdraw any time with one-click

"**Rupee Cost Averaging** - The market is volatile in nature and when you do an SIP, you would buy more number of units during a slump and less nuunits in a blooming market. In the long run, investment averages out the costs of units and lessens the results of short-term market fluctuation on investments."

Suppose you invest an SIP of Rs 1000 every month for next 20 years in an equity fund. Assuming a rate of return of 20%, you may receive an amount of nearly Rs 13 lacs at the end of your investment horizon. This tells you that the sooner you begin investing the larger will be the amount that you are going to accumulate.

Invest in the best SIPs

Debunking few myths about Mutual funds

There are a lot of myths surrounding mutual funds. To get the best out of your investments, you need to bust these myths.

Myth A: Mutual funds are risk-free investments and guarantee huge returns.

Truth: Every investment carries risk; the level of risk, however, varies from one haven to another. The risk of investment in Mutual funds is directly related to the kind of assets they invest in. Moreover, these are managed by professional fund managers who build a well-diversified portfolio to reduce the risk. One cannot eliminate the risks entirely, and the returns can never be guaranteed.

Myth B: Investing in mutual funds will make you eligible for tax deductions.

Truth: You become eligible for a deduction from your taxable income only when you invest in Equity Linked Saving Scheme (ELSS). It is a specific type of equity fund which has a 3 year lock-in period and invests money in equity shares of companies. Investing in other types of mutual funds do not qualify you for income tax deductions.

Myth C: Past performance will be repeated.

Truth: While deciding on “where to invest”, most investors look at the past performance of a mutual fund, believing that it will be repeated in future. This, however, does not necessarily happen all the time. Fund returns are dependant on the underlying assets whose prices, in turn, are affected by the ups and downs of the market. Hence, a fund may or may not perform consistently year after year. It is advised to look at other factors, apart from fund returns, while choosing a scheme.

Myth D: Higher the NAV, the more expensive is the fund

Truth: Usually, investors look for lower NAVs believing them to be cheaper. NAV is dependent upon the price movements of the underlying assets and is not indicative of whether the fund is cheaper or expensive. Instead of comparing NAVs, you need to compare the expense ratio of funds and choose the fund that has a lower expense ratio.

Myth E: Mutual funds are long-term investments.

Truth: Mutual funds are a versatile investment tool. These cater to investors with different risk tolerance and investment horizons. Whether you want to invest for a short-term or a long-term, there's a mutual fund scheme to serve your investment goals. When it comes to equity funds, it is advisable to stay invested for at least 5+ years to maximize your returns using the power of compounding.

Myth F: Mutual fund investments require vast amounts of money.

Truth: Mutual fund investments are meant for investors of all kinds. It can be started with a sum as low as Rs 500 every month, using the Systematic Investment Plan (SIP). You can invest bigger sums later in life by stepping-up your SIPs.

Myth G: You can change your scheme's portfolio holdings as per your choice.

Truth: You do not get the liberty of customizing your portfolio's stock holdings as per your choice. Every mutual fund scheme is managed by a fund manager who is authorized to decide which stocks to buy/sell based on the fund's objectives.

Myth H: Higher rated mutual funds generate higher returns.

Truth: Investors think that funds with higher ratings are safe and will deliver higher returns. Fact is, fund ratings keep changing based on the performance of the fund, at any given point. If a fund has a higher rating at present, it may not carry the same rating in the subsequent period. You may want to use other robust measures like financial ratios and qualitative measures to choose funds.

Loan Management is an art that everyone should practice

If you are carrying the burden of debt/loan, you need a plan to manage it well and avoid getting trapped into the vicious debt cycle. You can follow these tips to reduce your burden of debt and keep it in check:

a. Know your credit score

It is essential to keep a tab on the extent of loans you take. You may find people who are not aware of their credit score. In reality, having a low credit score may be harmful to your financial health. In case you have many loan accounts under your belt, then it is essential to know what your credit score is as it can make or break your creditworthiness. You need to maintain a healthy credit score to be eligible for loans at lower interest rates.

b. Be your own debt manager

At times managing debt on your own along with other responsibilities might seem a challenging task. Seeking credit counseling may be an expensive proposition. Instead, you can resort to a cheaper alternative, i.e., manage debt on your own. All you need is a plan, and you should follow it to achieve your goal. To start with, you can make efforts to curb further borrowings and ensure that you do not default on repaying the already existing EMIs. This can be done by spending wisely and saving enough money to

finance your loans. Make sure you don't avail additional loans without a thorough analysis of your present situation.

c. Avail loans at cheaper rates

You can do background research to explore avenues of loan portability with banks which offer loans at a lower rate of interest. In this way, based on your credit score, you can transfer your expensive existing loan to a bank which can lend you at a cheaper interest rate. You can even look for banks which provide credit cards at low-interest rates. This will help you to reduce the cash outflow on account of a higher rate of interest.

d. Ensure timely payment of the loan

You need to know that the payment of your loan EMI needs to be done before/on the due date. Otherwise, you end up paying a penalty on the outstanding balance. The extra cash outflow is not productive from a financial prudence standpoint. Moreover, habitual defaulting on loan EMI repayment may put pressure on the achievement of your other priorities. Considering the limited financial resources at your disposal, you have to prioritize on what needs to be addressed first. Accordingly, you may allocate your resources to various goals. Apart from creating a financial burden, defaulting may also lower your credit score. To ensure timely payments of your loan, you can cut down on unnecessary expenses.

e. Pay your credit card balance in full

If you are in the habit of paying off the minimum balance on your credit card, then you need to review this practice. Paying the minimum balance doesn't extinguish the debt completely. Instead, the bank charges interest on the remaining balance which builds up into a massive debt till it's paid in full. Additionally, you need to track your credit behavior. Applying for multiple credit cards or hitting the credit limit regularly, could impact your credit score adversely. Understand that the extra outgo in terms of interest

is a wastage of resources as it does not lead to any form of asset creation. Instead of carrying the burden of debt, get into the habit of paying your credit card balance in full before the due date. This will not only save you from paying the unnecessary interest but also help improve your credit score.

f. Pay the expensive debts first

It is possible that you may be carrying a hierarchy of debts in your loan portfolio. If you are planning to get rid of this massive debt all at once, it may seem like an impractical reach. Deciding which one to pay off first may also present its own challenges. Instead of getting worried and ending nowhere, you may want to design a strategy to tackle this situation. Have you ever noticed that some debts happen to be more expensive than others? It is true that some loans might be attracting a higher rate of interest than others. You can start off in descending order by paying the most expensive debts first and slowly make your way through to the remaining debts.

Simultaneously, keep paying off at least the minimum balances on the debt with lower interest rates. Those debts which are small in size can be paid off right away. Don't postpone their payments. Learn to separate the good debts from the bad debts. Good debts have a lower rate of interest and lead to asset creation like a home loan or an education loan. Bad debts are expensive and don't lead to any asset creation like credit card debts. Avoid bad debts as much as possible. This way, with patience, self-discipline, and commitment you can accomplish your debt goals.

Stay safe, get insured

It is vital to protect your family and finances from the risk of financial losses on account of unannounced events like death, disability and destruction of assets. Creating an insurance portfolio is the first step in this direction. Individuals usually treat insurance as a tax-saving tool. However, it is an essential component of financial planning that can insulate you from various types of personal and property risks.

Life Insurance

Life insurance is a vital part of a sound financial plan. You will enjoy peace of mind as you can be assured that your loved ones will not face any financial difficulties in case of contingencies. The higher the number of dependents and the number of assets you own, the more critical would it become to hold life insurance. To serve this purpose effectively, you need to keep a few points in mind while buying life insurance. You can start by first estimating the amount of protection required.

According to the rule of thumb, the sum assured needs to be at least 7-10 times your annual income. From this standpoint, term insurance is an ideal way to cover the risks to life.

Individuals who have the added burden of loans on their shoulders should regard term insurance as an indispensable part of their insurance portfolio. Apart from that, an income protection plan will also help cover you and your family from losses of income due to a temporary or permanent disability.

Health Insurance

Health insurance is one such insurance that holds a special place in the insurance portfolio. With the rising medical costs, in particular, availing reasonable medical services during contingencies is becoming difficult. There are a plethora of health insurance plans available in the market, but you need to buy one which is a value-addition to your existing financial plan and can be availed conveniently in case of emergencies. Keep a few things in mind while selecting a health coverage plan. A family floater plan can be a suitable addition to your portfolio as it provides an array of benefits at a lower premium. Instead of staying dependent on only an employer-provided health cover, which might be inadequate, go for individual health insurance.

Car Insurance

Car insurance covers the damages caused to your car, and the passengers, under certain conditions. The contingencies will be specified in the insurance policy. Having car insurance has been made mandatory by law, and it covers your legal liability for the damage caused by your vehicle to a third party. The legal liability is for the injury, death, and/or damage to the other party's property as the result of an accident. Instead of taking separate policies, you can opt for comprehensive coverage.

The cost to obtain a comprehensive car insurance policy with third party legal liability cover costs around Rs 9,000 for a mid segment 2-3 year old Sedan like Honda City.

The premium outgo for auto insurance depends on the condition of your vehicle, the existence of deductibles and limits, the company and the agent who is offering it, your residential area, the lifestyle of the policyholder, etc.

Home Insurance

Your home constitutes the single most significant investment, and you need to understand that it is vulnerable to risks of damage and destruction which can cause substantial financial setbacks. With the increase in natural calamities, home insurance has become necessary to protect it from such dangers. Therefore, in addition to other types of policies, you need to have home insurance as well in your portfolio. Whether it's your villa or apartment, buying a home insurance policy provides you peace of mind.

While buying home insurance, you need to keep certain things in mind. The policy only covers damages caused to the building and its components. The coverage isn't extended to the land. If the construction is unauthorized, then you won't be able to stake your claim for the damages. While the policy is still in force, you can get an estimate of

the reconstruction cost from the contractor to get comprehensive coverage. To streamline the claims procedure, it's important to retain the proofs of all your insured items.

Emergency Funds

If you find yourself caught with unexpected expenses every now and then and find it difficult to cope, then an emergency fund is something that may be of help to you. In fact, not having an emergency fund could be fatal. This fund is aimed at protecting you from unforeseen expenses and serves as a cover for the rainy days. It will give you financial security and keep out stress in adverse situations. Creating an emergency fund is simple. Decide on how much you can put aside from your monthly income post all the necessary expenditure. This will also help you stick to a budget and not overspend. Have this saved in a fixed deposit or a liquid fund and automate the process so that your bank transfers a certain sum of money to your emergency fund account every month. This way, you will have some money saved up for your future when you actually need them. Be sure not to touch this fund unless you are in dire circumstances.

Deposits

Having a bank deposit account is another way to safeguard your finances. As mundane as it may sound, having a deposit account is a highly underrated tool for insuring yourself. Be it a Savings Account, Fixed Deposit, a Short-term Deposit or even a Recurring Deposit, one good thing about these is that your money is safe and that you earn some interest on it, regardless of how minimally you invest. It is advised to have at least one deposit account to save money regularly where you can have easy access to it in times of need. Having too many deposit accounts is not something you would want, as the returns on these are minimal. One deposit account should be good to start with.

Ok, so what next?

A good financial plan is one which helps you to achieve your financial goals. It provides the right funds at the right time, in the right amount. However, developing a financial plan can be pretty complicated. If you don't know where to begin at, then take advice from a reliable source. You can even consult experts at Cleartax to get the benefit of professional money management.

Get a Personalised Finance Plan