Wealth Creation

Overview

Understanding Wealth Creation: How to Make Money Work for You
“If you don't find a way to make money while you sleep, you will work until you die.”
- Warren Buffett

The above quote captures the essence of wealth creation. While many people earn and save money, only few are able to multiply it and create wealth. Wealth creation is the process of not just saving money but making that grow using different financial tools. By investing in these tools, you stand to gain better returns. In other words, wealth creation means putting your money to work with the expectation of earning a return. It's a key aspect of reaching your big financial milestones, whether it's buying your dream home, funding your child's education, or retirement planning. But what’s the formula for wealth creation? Well, there’s no short-cut or easy way. It’s all about staying disciplined and giving your investments time.

Investing: Balancing Today’s Desires with Tomorrow’s Security
Investing is just like planting a seed. You don’t expect the seed to become a tree and give you fruits in a few days. Similarly, investing is putting something now, hoping it will grow and yield more money in the future. Just like a tree grows over time, your investment can multiply if investments are made right. While investing is a long-term game, spending is instant gratification which brings instant pleasure. This is why people spend on all the things that make their lives look enjoyable. However, investing requires patience and thinking of financial future over the current desires and lifestyle.

Saving for Today, Investing for Tomorrow
Often people use the terms saving and investing interchangeably. But, two aren’t the same. There is a difference. In simple terms, saving is setting aside money for short-term goals or emergencies. It’s like putting money in a savings account. You save to cover immediate needs, unexpected expenses or upcoming purchases.
Investing starts with saving. But investing means setting essentially means putting your money into assets such as stocks, bonds, mutual

funds, gold or real estate. These investments can be categorised into two types: income investments and growth investments.

What are Financial Goals?

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How Do Financial Goals Shape Your Tomorrow?

In life, people need money for almost everything. It could be for buying a home, a child's wedding, a foreign trip, a business venture, retirement planning or healthcare. A financial goal is nothing but a monetary target an individual sets, driven by future financial needs. These goals are set keeping in mind the future need for money. Setting financial goals serves as a purposeful guide for financial planning and decision-making.

- **Short-term Goals:** Short-term goals are the ones that people wish to achieve in the immediate future, say within a span of up to one year. Short-term goals could be paying off credit card debt, buying household furniture, making minor home improvements or saving for a down payment on a car or two-wheeler. These goals are typically focused on immediate needs or desires.

- **Medium-term Goals:**;Medium-term financial goals require more time to achieve than short-term goals. Generally, these goals span from one year to about five years. It’s important to identify dreams and aspirations for the next few years when you are setting medium-term goals. The reason is that you can plan your saving and investing strategies accordingly. Sandwiched between short and long-term objectives, medium-term goals often don’t get the attention they need. Investing in education, certifications or training programmes to enhance career enhancement within a timeframe of 2 to 5 years, saving for an international holiday, saving for a down payment and improving creditworthiness are some of the examples of medium-term goals.

- **Long-term Goals:** Planning for a child’s education or marriage, retirement or student loan are some examples of long-term financial goals. The best thing about long-term goals is that there’s the luxury of time to achieve them. However, this also means that there’s a risk of procrastination. To achieve long-term goals, you have to stay consistent. Not planning for long-term goals means that savings may not keep pace with inflation or there will be a sudden financial stress.

Where to Invest?

Knowing Where to Invest is the Key to Wealth Creation
The ideal way to maximise your wealth is to invest it in the right places. However, knowing the returns is not just enough but you should know the risks involved. Here are some common investment options:

- **Fixed Deposits:** Known for their security and stability, fixed deposits offer assured returns. You can open fixed deposits through banks and eligible NBFCs, providing flexibility in deposit duration and interest payment frequency. While bank FDs are generally safer, corporate/NBFC FDs involve higher risk. FDs require a one-time investment, with the option for additional deposits. Interest income is taxable based on income slab, making FDs a reliable avenue for steady growth.

- **PPF:** Launched by the government in 1968, the Public Provident Fund (PPF) encourages small savings with attractive long-term returns and tax benefits under Section 80C. Only Indian residents can open a PPF account. Each individual can open only one account, including minors with proper documentation. PPF accounts are accessible through designated banks and post offices. Some banks also allow you to open a PF account online, if you are an existing bank customer. The initial deposit required to open a post office PPF account is Rs 500 and the maximum amount allowed is Rs 1.5 lakh. PPF accounts can only be prematurely closed after five years of completion.

- **Post Office MIS:** Post Office Monthly Income Scheme (MIS) is a popular investment choice, allowing an individual to invest multiples of ₹1500 with a maximum limit of ₹4.5 lakh for single and ₹9 lakh for joint accounts. Interest rates are declared quarterly by the government. Each joint holder has an equal share. Multiple accounts can be opened in any post office, but their cumulative balance across all accounts must not exceed the maximum limit. A Post Office MIS account can be prematurely encashed after one year but before three years, there will be a 2% deduction on the deposit. After three years, the deduction reduces to 1% of the deposit. The amount is deducted on encashment.

- **Government Securities:** Sovereign Gold Bonds: Sovereign Gold Bonds (SGBs) are a convenient way to invest in gold, without having to deal with the hassle of handling physical gold. With SGBs, investors get an assured interest rate (currently 2.5% per annum). Not only that, investors do not have to worry about storage costs and risks involved with physical gold. SGBs are redeemed at prevailing gold prices. Additionally, SGBs are exempt from capital gains tax if held until maturity. SGBs can also be held in the demat form.

- **Sukanya Samriddhi Yojana:** This government scheme aims to ensure a promising future for girl children by helping their parents in creating a fund for their education and marriage expenses. Any resident Indian girl child can be a beneficiary from the account's opening until maturity or closure. Parents or legal guardians of girls under 10 years can open the account. Although the guardian can deposit funds and manage the account, it must be operated by the girl child once she turns 18 years old. In a family, only two such accounts can be opened. Parents or guardians can contribute a minimum of ₹250 and a maximum of ₹1.5 lakh per financial year, with an investment tenure of up to 15 years. The money can be withdrawn for higher education expenses once the girl child reaches either 18 years of age or completes 10th standard.

- **Atal Pension Yojana:** This pension scheme targets the unorganised sector, offering fixed pension options of ₹1000, ₹2000, ₹3000, ₹4000, or ₹5000 upon reaching age 60. The pension corpus is created from your contributions that are invested in different assets. The account is overseen by the Pension Fund Regulatory and Development Authority of India (PFRDA).

- **Mutual Funds:** Mutual funds allow investors to pool their funds with others to buy a diversified portfolio of investments.These funds are managed by skilled fund managers who buy and sell assets according to the fund's objectives. These investments, along with the fund's objectives and assets, are outlined in its prospectus, managed by a professional fund manager. Investors in mutual funds have the option to make regular or one-time investments. In exchange for their investment, they receive a specific number of mutual fund units. These units can be redeemed or sold back to the Asset Management

Company (AMC) at a later date. As mutual funds are subject to market fluctuations and the performance of the underlying assets in the fund's portfolio, there are no guaranteed or assured returns.

- **Direct Equity/Shares/Stocks:** Investing in direct equity, shares or stocks means buying ownership in individual listed companies. Although they offer the potential for high returns, they also carry higher risk compared to other investment avenues such as mutual funds or bonds. It is, therefore, important that investors do their due diligence in researching companies, market trends and economic factors to make informed investment decisions. This also means keeping a constant eye not just on the investment portfolio but also on market trends, regulatory changes, sectoral changes and economic conditions.

- **Bonds/ Debentures:** Bonds or debentures represent debt instruments issued by corporations or governments to raise capital. Investors who invest in these financial instruments receive periodic interest payments and the return of the principal amount at maturity. Bonds typically offer lower returns compared to stocks but are considered safer investments. They provide regular income and are relatively less volatile than equities. When it comes to investing in bonds and debentures,investors must assess the creditworthiness of the issuer and understand the terms and conditions of the bond before investing.