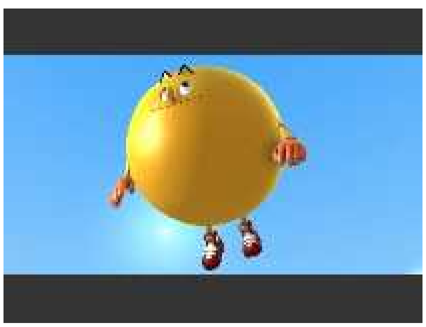
THE 3 FRIENDS

This is a story about 3 Friends Mr. Happy, Mr. Infy & Mr. Value.

Mr. Happy a highly successful, hard working person, employed with a reputed company having a handsome paycheck, started investing at an early age of 30 years. When he turned 45 he called his Agent and asked about the status of his investment for the past 15 years and was thrilled to know that his Investment of RS.50,000 PM (180 months) I.e. RS 50,000 * 180 = 90 lakhs (investment amount

for the last 15 years had grown to (1 crore 43 lakhs)



Mr. INFY?

Mr. Happy was excited and wanted to continue investing diligently in the same pattern for the next 15 years till his retirement at 60. Filled with total good spirits he happened to attend a Session on "Financial Wellness "where he befriended a person named Mr. Infy (who was about the same age and having the same profile as of Mr. Happy). Mr. Infy told Mr. Happy about the same Investment pattern of 90 lakhs (50000*180 months) and his corpus after 15 years turning to (1 crore 68 lakhs) rounded off.

Mr. Value.

Mr. Happy got disappointed comparing his investments with Mr. INFY. As the session went by, both of them happened to meet Mr. Value with the same profile and age .He told them that coincidently even he did the same investment i.e. RS 90 lakhs (50,000*180 months) and his corpus was Rs (2 crores 79 Lakhs) rounded off.

After listening to Mr. Values Investment structure both Mr. Happy and Mr. Infy were totally disappointed as well as curious to know as to how he could manage his investments grow so well .

All the three wanted to know what was the cause of the Differential Returns .To get into the depth of the matter they handed over the details of their Investment Planning report to the Adviser for his analysis during the final Session of the " Financial Wellness " Programme.

The Adviser after having a thorough study explained the reasons in a simple way.

- Mr . Happy's Investment return was 6% P.A Cagr for the last 15 years. (90 lacs turned to 1.43cr). [Most Traditional Insurance Plans/policies return fall under this category].

- Mr. Infys Investment return was 8% P.A Cagr for the last 15 years. (90 lakhs turned to 1.68cr). [Most FDs post-tax fall under this category]

- Mr. Values Investment return was 14% P.A Cagr for the last 15 years. (90 lacs turned to 2.79cr). [Most Mutual Funds (Debt & Equity), Direct Equity fall under this category]

<u>Further he mentioned about the two concepts to be considered</u>

Wealth Erosion & Wealth Creation

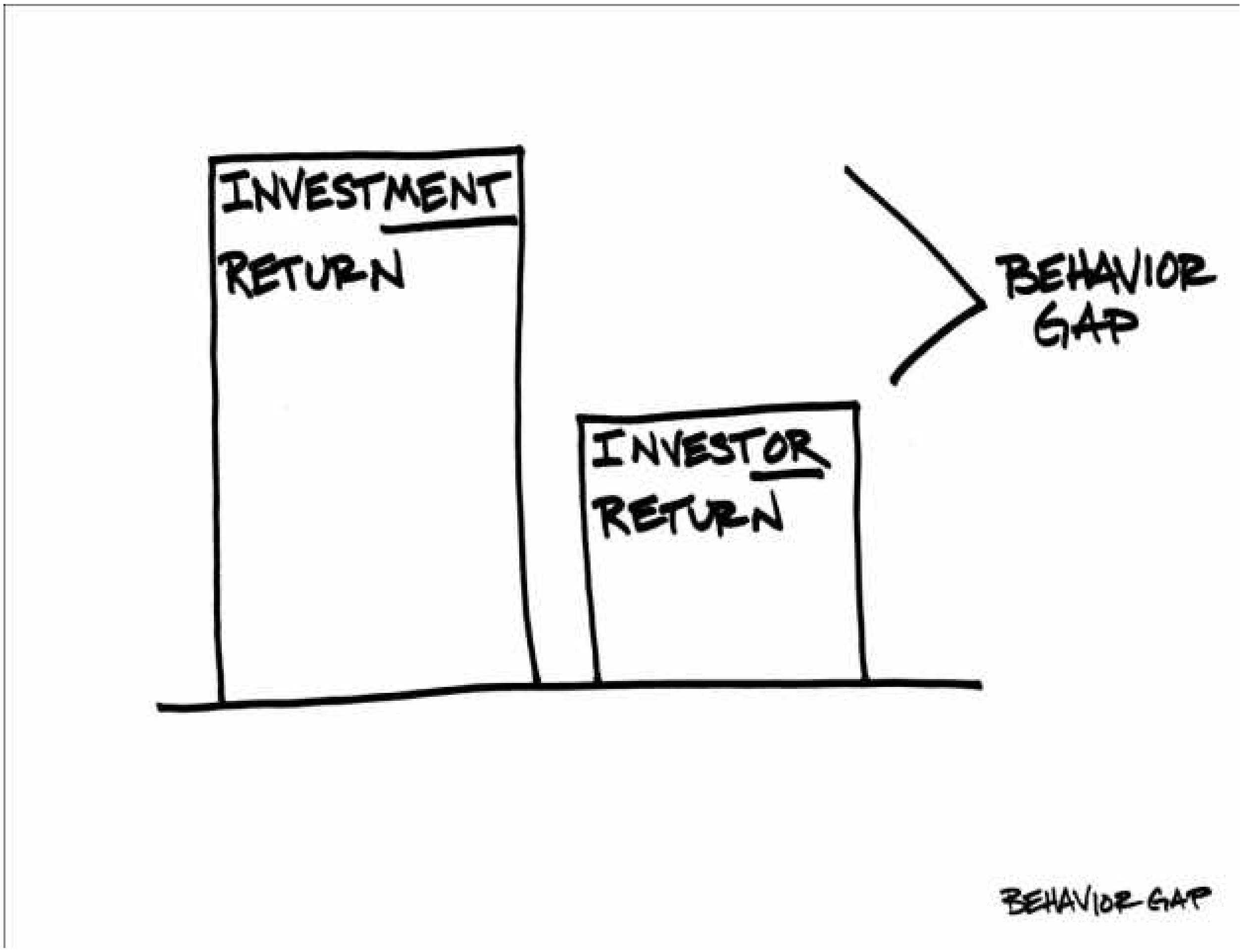
Any returns below the Inflation rate destroys your wealth causing Wealth Erosion

As seen above it happened with the difference between Investment 1 and Investment 2. Since the Inflation Rate (Mr. Infy) was 8% and returns 6%, it consistently destroyed the wealth.

Any returns above the Inflation rate creates wealth causing Wealth Creation

As observed above the difference between Investment 2 and Investment 3. Since the returns earned is above the Inflation rate 8% (Infy) wealth gets created (after considering the tax incident]

Now Mr. Happy was completely upset and he wanted to know about the measures to be taken to rectify such mistakes.



By stating the example of the PACMAN GAME played in computers, the Adviser explained to Mr. Happy that INFLATION in the same way eats through our savings and most of us face the following challenges which is more related to behavioral in nature .

1) It is observed that most of us are tuned to think in ***Absolute Numbers*** while calculating Returns. Similarly in the story Mr. Happy got very excited when his Investment of Rs 90 lakhs turned to 1.43 cr in 15 years but if he had the knowledge that his return is 6% he would have never made the decision .
2) ***Mixing Risk and Investment*** leads to poor Returns ranging from 5 to 6% p.a. We should understand that both Risk and Investment have to be covered with separate instruments. Never combine the both, as blending does not help to fulfill both the parameters of Risk and Wealth creation.
3) Lack of Knowledge or Under Estimation of ***the Power of Compounding and Value Averaging*** which can be attained by SIP (Systematic investment monthly plan).

4) ***Fickle mind set*** like shifting to asset class which has performed well in recent period, Recency effect or selling an asset class during temporary downslide, stopping SIP's etc.
5) ***Attitude*** with overconfidence and "I know everything "kind of mentality & lacking patience and ability to learn and understand.
6) **Not *mapping*** *your investment to your goals*.
7) ***Wrong thoughts about starting investment process only when Surplus Money or waiting for High-income*** phase to start off Financial Planning. Surplus money has to be created from the earnings and there has to be a habit. The Early the Better. Income-Savings = Expenses which is called AUTOMODE.
8) **Not Reviewing *or Rebalancing*** the Investments Periodically.
9) **Understanding about the *availability of different Productive asset classes*** and the wealth they have created is utmost necessary.
10) **We think that for creating wealth we need complicated and High octane strategy** but the Investment World works differently .The ***emphasis is more on Simple and consistent strategy*** which will create wealth. The starting point would be savings and later on finding the right asset class to invest on a consistent monthly basis.
11) **Finally, *Long Term Horizon combined with consistency and proper advice* creates Wealth**.

PLAN YOUR LIFE LIVE YOUR PLAN

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