

The wealth destroyers

Whenever we think about money the one think that comes to our mind is wealth creation through investments, but have we ever thought of identifying those where our wealth is destroyed if we do not plan properly?

I have identified few Wealth destroyers which may have an impact on our hard earned money if not taken note of or neglected.

- 1) **Insurance policy (Term Policy)**. It is surprising how we do not think twice before insuring our car and physical assets which cost a few lakhs of rupees but, when it comes to our own life we completely overlook or we underinsure ourself and under rate ourself. When we take insurance (Term Policy) basically we are insuring our future pay checks for our family which can run in crores and if not insured our family can be deprived of our future income as well as goals like children education marriage etc.
- 2) **Health Insurance**. One of my client asked me what is personal bankruptcy and immediately it came across to me as "ILL HEALTH " and then I thought how this can be avoided. Having a proper Medical insurance (family) is the solution for this problem as we cannot be sure of future events and health. Looking at the increasing medical cost if we neglect proper medical cover it can destroy our wealth very rapidly.
- 3) **Investing in a depreciating asset through loan**. This is more related to salaried people (as they do not get the depreciation benefit for tax purpose) who do invest in "Depreciating assets " through loan (EMI's) without properly understanding the financial implications .Now let us take an example of 2 friends Rajesh and Satish both are colleagues having identical paychecks. Rajesh has thought of buying a Car through a car loan and Satish thought of investing in an appreciating asset. The table below shows the financial implication of the between two friend's decision making process.

	Rajesh	Satish
Car loan	10,000,00 (ten lakhs)	Not taken
Loan period	5 Years	Investment period 5 years
Emi @ 12% for 5 years	Rs.22,244/- for 60 months	Investing the same EMI amount in 12% earning asset for 60 months.
End of 5 years Amount paid	Rs.13,34,666 /-	Amount saved Rs.18,16,696/-
Net worth after 5 years	Rs. 5,00,000 (Depreciated car value)	Rs.18,16,696/-
Wealth Destroyed	Total outflow Rs.13,34,666/- less Depreciated car value after 5 years Rs.5,00000 = (-8,34,666)	Created wealth >18,16,696 -13,34,666 = 4,82,029/-

- 4) **Bad Return Investment decision:** Many of us invest in products giving us return of 5 to 6% (post tax returns) like endowment policies and Fixed deposits, where as inflation is around 8%. So a 2 % to 3% difference in the earnings over a period of 20 to 30 years makes a difference in crores of rupees to the accumulated asset at the end of the period. In this manner we are destroying our wealth by improper decisions. In Fact we are giving money for free and getting back less then we gave as many do not consider the inflation effect. In fact for every 1% lesser return in earnings over period of 20 to 30 years (Sip amount ranging from 40k to 50 k) the availability of our retirement corpus will reduce by 1.5 to 2 years during our retirement period .

5) **Proper Asset allocation with periodically Reviewing and rebalancing:**

As we all know asset allocation is done on basis of time frame of the goal and Risk Profile of the client. Adhering to asset allocation is the “KEY” .A wrong asset allocation without reviewing and rebalancing can erode our wealth and make our investments look very bad.

- 6) **Legacy planning or Estate planning.** We normal create wealth but we do not give much importance to the distribution of our hard earned wealth to our loved ones. If we do not have proper “Nominations “or “Will” done during our life time it will create a lot of confusion and legal problems, regarding our wealth distribution and there by Destroy our wealth by going to a wrong person or getting involved in long drawn legal battle.

These are some of the wealth destroyers which should be taken care of and though off. Like these there are many more which can be identified. This is where a financial advisor helps the clients in identifying these pit falls and thereby the process of Wealth Protection, Wealth Creation and Wealth Distribution is addressed through proper financial planning tools.

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