# *AVOID THESE MISTAKES*

### *Your best teacher is your last mistake*

Financial planning is well adopted and followed by vast majority among developed countries, especially USA and Europe. In India also it is gaining popularity, gradually and particularly among young population.

Objectives of Financial planning would include building one's wealth gradually and consistently to reduce financial uncertainties, provide adequately for contingencies & medical emergencies, equip oneself for realising one's dreams of an own house, children's education, foreign tours and stress free relaxed retirement life. The exercise would entail setting specific goals, saving regularly, wisely investing those savings, and protecting your assets. This needs to be done on an ongoing basis through various life cycle stages.

There are, however, many common financial planning mistakes that can cause sub optimal results to your money and wealth. Some major mistakes that you should avoid are:

**Ignoring inflation**

When planning finances, the time value of money, or how money loses its value over time is very commonly overlooked by most. Loss in money value over a period of time is inevitable and the hard reality of financial world. While incorporating increase in income with time, it is vital to consider the increase in expenses and the drop in the value of money thanks to the annual overall increase in prices of common goods and services.

Being over-dependent on "safe" investments such as saving accounts, Bank FDs, and government bonds will lead to your portfolio giving returns at a rate lower than the inflation rate.

Ignore inflation and you might just see your savings slowly erode away while your financial plan goes haywire.

**Undervaluing long term expenses when considering retirement**

When investing and saving for your retirement, the most important point to consider is the correct estimation of health care and other long term essential expenses, owing to the process of aging. Health care and other costs increase with age, and incorporating these expenses correctly is necessary for an effective retirement plan. Not doing so would compromise your savings and finances during your years of zero income.

**Not saving enough or investing when you are young**

The initial years of your investing life must be focused on savings. The rate of savings during that time should be more than the rate of returns.

An effective investment plan can be made, gradually, once you are saving consistently and as much as you can in those initial years. Remember, the earlier you start, the more will be the power of compounding.

Savings should be made not just by controlling daily expenditures, but also by considering the money paid towards taxes. Figure out a good plan to maximize your savings during the initial years of your investment life. If you are in a higher income category, tax savings (through correct choice of investments) should be important.

**Investing too aggressively or too conservatively**

It is very commonly opined that people in the age group of 20-40 years should invest aggressively. Investing more and more is okay but it is also necessary to invest using reasonable logic and not blindly as investments would also entail some risks. One may end up losing more if one exposes to a risk not compatible with one's goals. Failure will lead to frustration and moving from investing in future.

Similarly, too conservative investment approach also has its downside. Choosing conservative investment options can lead to loss in the value of your money. Stocking up cash in your savings account will bring down its value over a period of time; inflation would eat up most value of your money, with passage of time.

Hence, it is of paramount importance to choose appropriate investment options with varying degrees of risks so that your money grows consistently.

**Thinking that Insurance is about saving tax**

Far too many individuals make this common mistake in India. Insurance of any kind is an expense and not an "investment". Buying insurance (life or health) just to save tax is one of the worst ways you can spend your money, unless you actually need the insurance.

**Life Insurance is a must only if you have dependents**. Life insurance is much beyond tax saving. Think about the need and utility of life insurance first before you think about the concomitant tax benefits. Life insurance cover at early age gives you benefit of lower premium as well as higher multiplier for maximum cover amount. At the same time, lower income at young age would cause a lower premium paying capacity. So plan well and draw a balance. Build up gradually.

Health Insurance in today's expensive healthcare scenario is a must. With longer life expectancy, its criticality goes up in advance years of life.

Overall, DIY approach is good and economical. It works in financial planning. But there comes a point and stage where someone's experience can give you better result.

**Thinking financial planning is all about investing**

A very common misconception is that financial planning is all about investing. IT IS NOT. One must appreciate that investing is just one part of an ideal financial plan to meet your long term goals.

It is important to focus on day-to-day budgeting, appropriate insurance cover (for everything of real value to you, including your health) and smart tax decisions, to make an effective and appropriately long term financial plan.

## So go ahead & choose an experienced Financial Planner

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