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Simplify wealth creation

Go through these four principles to ensure you do not complicate financial planning

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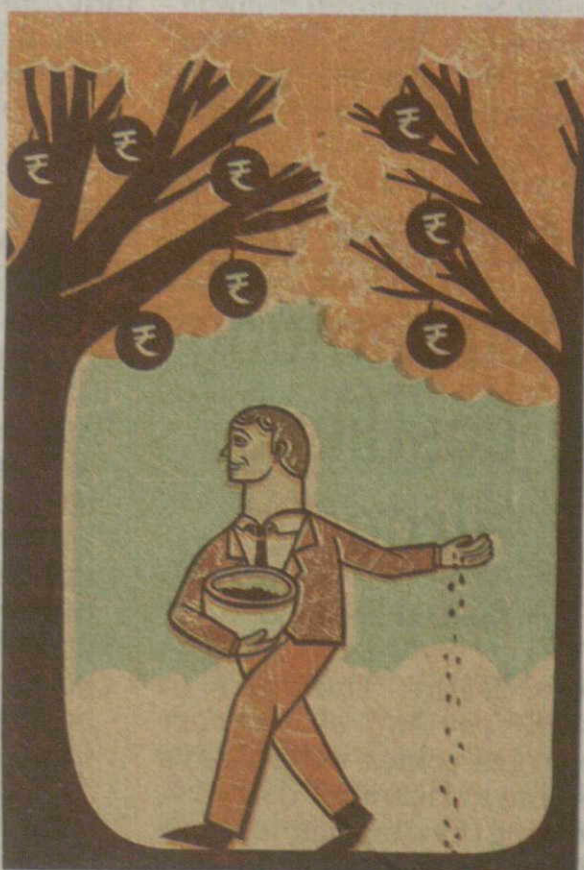
Wealth creation for the long term need not be complex. Some readers seem to be caught in the web of multiple financial goals, numerous investments designed to meet those goals, and the stress of monitoring and managing with too much math. Young earners, who have just begun their financial lives, worry about too many choices before them; retired investors, who have built wealth over a lifetime, stress about its adequacy. Those in the middle like to be sure about being on the right track. Here are four simple principles to help build long-term wealth.

First, your savings are likely to be held in five major categories-property, equity, debt, precious metals, and cash. Whatever the investment product, however complex it's terminology and working, it is likely to fit into one or more of these categories. Equity shares, IPOs, equity funds, PMS are all equity. If you have your own business or profession, and money is invested in it, you should classify it as equity, even if it is not a listed company. It is risky capital invested for long-term growth based on the profitability of your venture. Your investment in the PF, PPF, deposits, bonds, post office, and everything else that returns the principal after a particular time and pays interest, is debt. Whatever lies in your savings account, or in your vault, is cash. Property includes everything in real estate that you buy—residential, commercial or land. As long as you are not spending all that you earn and are putting something aside in any one of these, you have begun well.

Second, you are unlikely to build wealth to a formula. The trick is to diversify, or ensure that your wealth is spread well across these categories. You might buy a house early in your career. You may not be conscious about your PF deduction building up as your debt portfolio. You could be investing via SIPs in a dozen funds, hoping they turn out fine in the end. Every time you make an investment, rather than focus too much on it in isolation, try and see what it does to what you already have. For example, if you have bought a property and it represents all the wealth you have, be conscious about building other categories of wealth before jumping in to buy one more. If you are obsessed with gold, ensure you don't invest all your savings in it. It is fine if you have spent a few years of your life building one type of asset; focus on others in the next few. Building debt in the first five years, adding a home in the next 10, adding equity in the next five, and spending the rest of your earning life building each one of these into a bigger size is not bad at all. You don't have to do everything at the same time.

Third, learn to focus on making good the imbalances, in a steady manner. In the early days of earning, you may have time and attitude to take risks in equity. However, without the cushion of wealth, that would be risky. In the middle age of low expense and high saving, buying property might become an obsession. In the retired phase, there may be an overt focus on protecting capital and getting an income. Long-term wealth building needs balance. If an investment product is offered to you, look at it in terms of how it would add to, or take away from the balance between all the components you already have. Have a target for making corrections and work on it. If all your saving is going back into your business, and you have bought property with all the gains you could stash away, recognise the lack of debt in your portfolio, and begin to build it. Do not worry too much about actual proportions. That keeps changing. Look for extreme positions, such as 80% in property, 90% in gold, 80% in equity. It is fine to keep these for some time, as long as you have a plan to balance it out and implement such plan. For example, by the time you retire, if you have 30% of your wealth in property, 30% in equity, 30% in debt and 10% in cash, you have balanced your wealth well.

Fourth, do not allow your wealth to be a victim of your attitudes. Protect and fence your wealth from your emotions, insecurities, overt optimism, and mistrust. Whether you bought equity shares, or set up your business, you would face a crunch from the ups and downs of equity. Not all of us can lose our shirts and start all over again. Do not stake your wealth to win by trading in stocks. Set



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aside a portion of your wealth in debt products before pursuing your dream, or even your whim, so that your family is protected. If you invest only to save taxes, your wealth will suffer the long-term peril of poorly chosen products. If your wealth is in a property that you are adamant about passing on to your children, who may or may not need it, you may be holding unproductive assets. If you buy gold only because it makes you feel good, you may have too much of an asset that earns no income. Recognise emotions that may lead you to overdo something and keep a check on those that harm your wealth.

Building wealth is about persisting over time in allocating your savings across diverse products, ensuring a balance, and keeping emotions in check. Everything else is detail. Do not miss the woods for the trees, trying to search for the next best thing to buy, or panicking about economic cycles. You have at least 45 years or more after you turn 21 to build and enjoy your wealth. That is long-term orientation for you.

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