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Get on the Wealth Creation Expressway

It is not enough to save regularly with help of a budget. You also need to invest regularly. Here are simple tips follow and common pitfalls to avoid

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The slip between the cup and lip can happen in your financial world during your journey towards your financial goals despite a disciplined financial life and regular savings. To fulfil your big dreams like buying a home, child's higher education and your retirement, you need to accumulate ample savings. To create this wealth you need your savings to grow. This means your savings needs to be channelised to investments earmarked for different needs. But this is easier said than done. Here's a brief primer on how to get this job done without fuss.

Identifying the targets

The first step involves identifying various needs, the amount required and the regular investment that will take you past the line. Needless to say, the earlier you get started, more time you give your money to benefit from compounded growth. Regrettably, the benefit of compounding is not universally appreciated. "According to economists, almost one in three people can understand the concept of compounding. This is partly because the magic of compounding lies in small incremental gains over time, whereas our minds are configured to understand big absolute gains or losses. These small steps can be huge," says Ravi Menon, CEO, HSBC Asset Management.

Vishakha RM
Managing Director & CEO, IndiaFirst Life Insurance

"You need to invest one third of your total income for the future, starting with 5-10 per cent in early life, going up to 50 per cent later in life."

One of the ways of benefitting from the power of compounding is to get into a regimen of regular investments with the deduction happening from the savings bank account. In this background, systematic investment plan (SIP) offered by mutual funds can be of great help. "Systematic Investment Plan (SIP) is the best route to ensure regular savings. One should make a list of their goals and name each SIP based on the goals," Anuradha Rao, CEO & MD, SBI Mutual Fund.

The regular investment effort can be supplemented further. "Investing lump sums in a fixed income scheme and opting for Systematic Transfer Plan (STP) into an equity scheme is one approach to add-on to your regular investment efforts. Another way to boost your current regular investments is through SIP top-up," suggests Rao.

While regular investments go a long way in helping you in your wealth creation process, there are some common pitfalls you need to guard against.

Anuradha Rao
CEO & MD, SBI Mutual Fund

"Systematic Investment Plan (SIP) is the best route to ensure regular savings. One should make a list of their goals and name each SIP based on the goals."

Idle savings

As one progresses in life, one's income and savings increases. One needs to guard against any savings lying idle, especially in a low interest paying bank savings account. "One common mistake that people make is that they confuse saving with investing. They put their money in savings accounts thinking that the returns would be enough for all future needs. This could be one of the costliest mistakes since the low return may not be able to beat inflation," points out Menon

Ignoring risk

Many people remain unaware of the risks involved in their investments be it to their principal or returns. So, despite regular investments they can still fall short in the end. "While making investments, people often make emotional decisions and don't balance out the risk and return," says Vishakha RM, managing director & CEO, IndiaFirst Life Insurance.

Unduly influenced by recent events

Regular investments made by people often get disrupted with ill-considered and flawed decisions on premature exits and additional investments. These are typically influenced by recent performance of certain investments or an investment class like equities and market events.

Chasing returns instead of pursing goals

"Investors should focus on goal achievement rather than taking decisions based on short term performance of the funds," says Rao. Investors often lose focus of their future requirements and take more risk than required. Again, this may mean ending up with less.

The final objective of wealth creation is to have ample savings to meet various needs. "You need to invest one third of your total income for the future, starting with 5-10 per cent in early life, going up to 50 per cent later in life," says Vishakha RM. Your individual financial conditions can determine the paths that you choose to your financial goal. But clearly, in budget and regular investments you have two accessories in your travel kit that enhance the chances of your journey's success.

The author is a personal finance expert and a founder of FundooMoney Media, an e-learning company

Simple Tips for Regular Investments

- Enrol for investment plans like systematic investment plan (SIP) from mutual funds where direct debits happen savings bank accounts.
- Identify your major needs, the required amount and timelines. Earmark one regular investment or a combination of such investments i.e. portfolio, for each such need.
- Classify needs according to the proximity of needs and choose regular investments accordingly.
- Ensure lump sums and windfalls that you receive, bolster regular existing investment efforts. Consider facilities like Systematic Transfer Plan (STP) of mutual funds

4 Common Pitfalls to Avoid

Keeping savings idle
It is common for people to save but not put money to work with investments. Idle savings account balances don't let your money grow well for major future needs.

Ignoring risk
Many people remain unaware of the risks involved to the principal investment amount and returns. So, despite regular investments they still fall short.

Unduly influenced by recent events
Regular investments get disrupted with ill-considered and flawed decisions on premature exits and additional investments, influenced by recent performance and events.

Chasing returns instead of pursing goals
In trying to make their money grow, investors often lose focus of their future requirements and take more risks than required.

Ravi Menon
CEO, HSBC Asset Management

"One common mistake that people make is that they confuse saving with investing. They put their money in savings accounts thinking that the returns would be enough for all future needs."