



Introduction to **Financial Literacy Program**

Building a strong foundation for your life goals

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AGENDA

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The 6 Pillars of Financial Literacy

2

Needs v/s Wants v/s Desire

3

50 -30-20 Rule

4

Sutras of Investing

5

Mutual Funds

6

Types of frauds and how to avoid them

Money

“Money doesn’t buy happiness; money buy choices . It is what you do with those choices that makes you happy”

“If you buy things that you do not need, soon you will have to sell things that you need”.

Money is a medium of exchange. - Enables trade and commerce. It is essential for meeting basic needs and achieving aspirations.

Hence, it is important to manage money.

The 6 Pillars of Financial Literacy



Pillar 1 Income



Money earned from various sources.

Two types of income



Active income

What one gets by working and deploying their time and skills.



Salary



**Professional
Fees**



Business Income



Passive income

The income from investments. Keeps accruing even when one takes a break or even in retirement.



Dividends



Interest



Rent

Pillar 2 Expenses



Expenditure - Money spent on various items

**Mandatory or
non-
discretionary
expenses**

expenses that every family must incur, largely on basic needs.

**Money spent towards
needs and
responsibilities**

**Two Types
of Expenses**

**Discretionary
expenses**

expenses relate to wants and desires.

**Money spent
towards wants and
desires**

Needs vs Wants vs Desires

Needs:

Essential for our survival and well-being. Food, a roof over the head, water, clothing, and healthcare. It is not possible to live without these.

Functional Need

NEEDS

Wants:

Once the needs are met, we strive for things beyond those, for things that are not essential for our survival but enhance the quality of life. Entertainment, travel, and luxury items.

WANTS

Physical Benefit

Emotional Satisfaction

DESIRES

Desires:

The big difference between wants and desires could be in the form of affordability.

Understanding the difference helps prioritise the allocation of money first towards needs and then towards wants and desires.

Needs vs Wants

Win with prioritization	Urgent	Not Urgent
Important	I. Urgent and important as well Action: Need to do now	II. Important but not urgent Action: Plan to do it later
Not Important	III. Urgent but not important Action: Do it if cash flows allow	IV. Neither urgent nor important Action: Ignore

Demand	Urgent Important	Important Action	Action
Shawl for Mr. Singh's mother	Y	Y	Buy
Sahil's Cycle	N	Y	Plan for later
Rohan's new videogame	N	N	Don't buy
Marriage gift for common friend	Y	N	Buy a less expensive gift to the extent cash flows permit
House decoration	N	N	Ignore

Pillar 3 Budgeting



The first step in managing your income and expenses is to create a budget.



A budget is a proactive and realistic plan that outlines ALL your spending each month.



Make a list of all your income sources and expenses.



Then, subtract your expenses from your income to see how much money you have left over.



In fact, you can be making good money and can still end up broke because you don't know how to manage it.

50-30-20 rule

The 50/30/20 Budgeting Rule



Needs

Groceries

Utilities

Housing

Health insurance

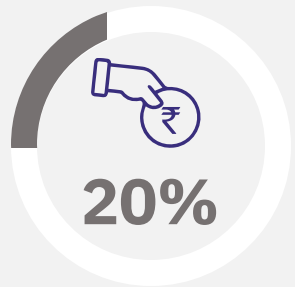


Wants

Shopping

Dining Out

Hobbies



Savings



Categorize the pocket money you receive into needs, wants, and savings. The spending threshold for each category should be **50%, 30%, and 20%** respectively.



For example, if you get pocket money of **Rs 1000** per month, you will allocate **Rs 500** to your needs, **Rs 300** to your wants, and **Rs 200** to your savings and investments.

Test your understanding

Salary is a form of Active income or Passive income ?



Give one example of Passive income?



Rent is a Discretionary expenses or Nondiscretionary expenses?



The first step in managing your income and expenses is to create a___



What is the difference between wants and desires?



What is the 50, 20, 30 rule?

Pillar 4 Savings



Income:

Earnings from work or investments.



Saving:

Portion of income set aside in a bank account to meet future expenses.

But, if Saving and Investing both mean putting money aside for future consumption, what's the difference?

	SAVINGS	INVESTING
Pros	- What does money mean to you? - Helps meet short-term expenses like buying groceries, or goals such as purchasing a new phone, or going on a vacation. - What does money mean to you?	- Can earn higher returns than savings - Can help achieve long-term financial goals - Several options to diversify help reduce risk
cons	- Much lower yields compared to other options - Does not help to beat inflation	Subject to a risk of loss, especially in the short-run

Pillar 5 Investing



**Create a
budget**



**Cut unnecessary
expenses**



**Invest for the
future (The 6
Sutras)**



**Prioritize your
expenses**



**Save
for emergencies**

What is more important? (Savings or Investment)



Savings

Investing is a way to grow your money over time by putting it to work in financial instruments such as stocks, bonds, and mutual funds. Investing involves taking on some risk, but it also has the potential to earn higher returns over the long term.



Investment

Illustration: Savings Vs. Investment

What if you saved and invested ₹500 every month? What could it grow into in 5, 10 and 20 years?

Savings

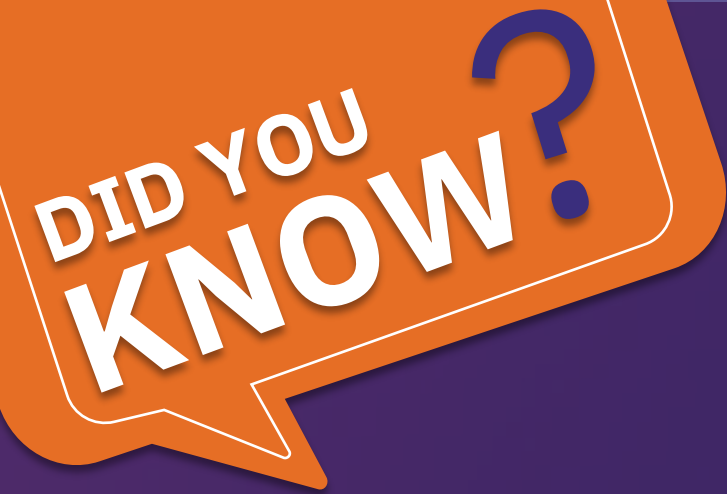
VS

Investment



	Savings at 4% p.a.
5 Years	₹ 33,259.99
10 Years	₹ 73,870.32
15 Years	₹ 1,83,998.60

	Investments at 12% p.a.
5 Years	₹ 41,243.18
10 Years	₹ 1,16,169.54
15 Years	₹ 4,99,573.96



Money Loses Value Over Time...

- Raj's grandparents bought a house for Rs. 50,000 in the 1970s. It costs Rs. 9.5 crores to buy the same house today!
- Do you remember how much these things cost 10 years ago?
Bread | Milk | Eggs | Tea
- What do these things cost now? How has the cost of living changed for you over the years?

Inflation is the general rise in prices over time, eroding purchasing power.

It can also affect our savings. If **inflation is 7%**, but your savings account only pays you an **interest of 3%**, is your money growing to meet the prices of things you buy?

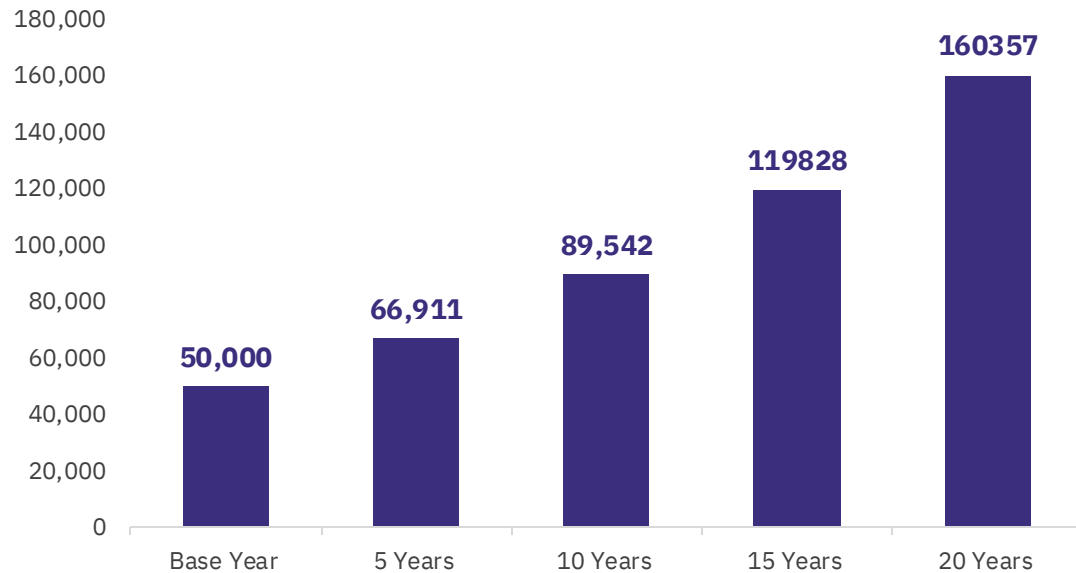
Impact of inflation on value of money



Inflation reduces the value of money.

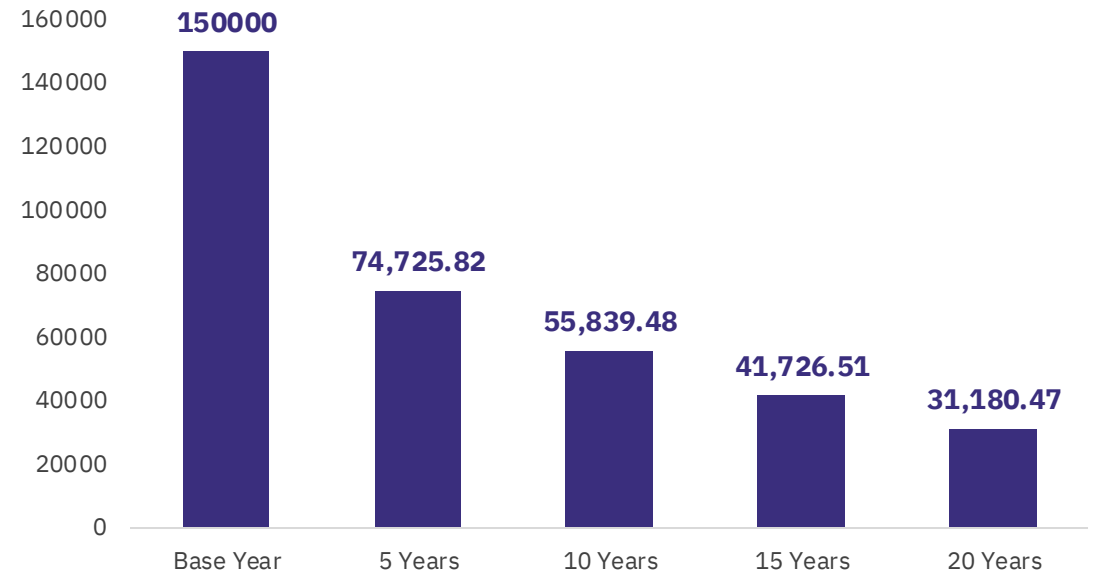
Inflation & its impact on savings

Cost of Living (per month)



Inflation assumed @ 6% p.a.

Value of Money



**Cost of living increases year on year due to inflation.
Money value reduces due to the same impact**

The power of compounding

"Compound interest is the eighth wonder of the world."

Albert Einstein.

What is compounding?

Earning returns on reinvested earnings i.e. you earn an interest on your principal amount and earn an interest on the interest accumulated too!

Example

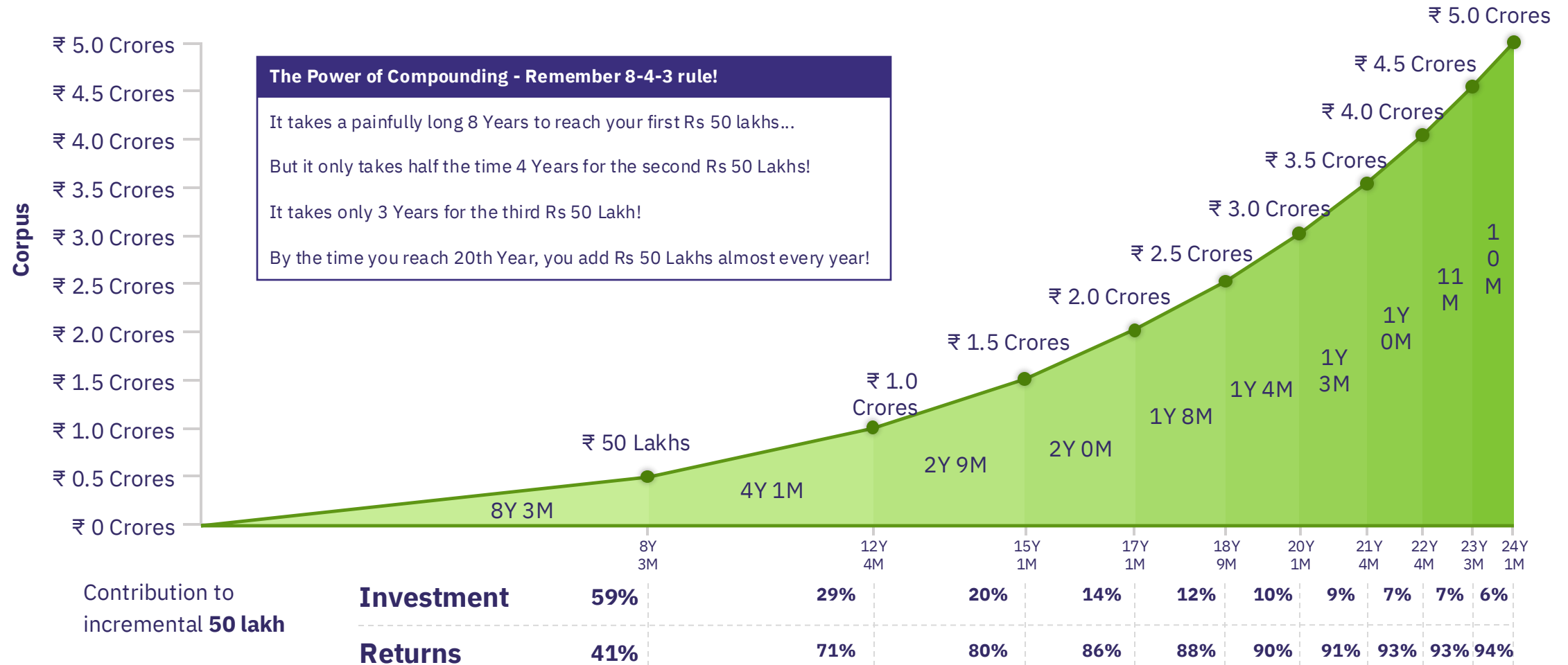
Earning returns on reinvested earnings i.e. you earn an interest on your principal amount and earn an interest on the interest accumulated too!

Years	Value
1	₹ 1,12,682.50
3	₹ 1,43,076.88
5	₹ 1,81,669.67
7	₹ 2,30,672.27
10	₹ 3,30,038.69
15	₹ 5,99,580.20
20	₹ 10,89,255.37

**The longer you stay invested,
the more your money can grow!**

The Power Of Compounding - Slowly & Then Suddenly

Portfolio Value when investing Rs. 30,000 every month @12% per annum returns



The Power Of Systematic Investments



Inculcates disciplined investing - Invest a fixed sum consistently and continuously



Helps you buy more units when the markets fall and lesser when the markets rise



Reduces risk by spreading investments over a long period of time and at different market levels

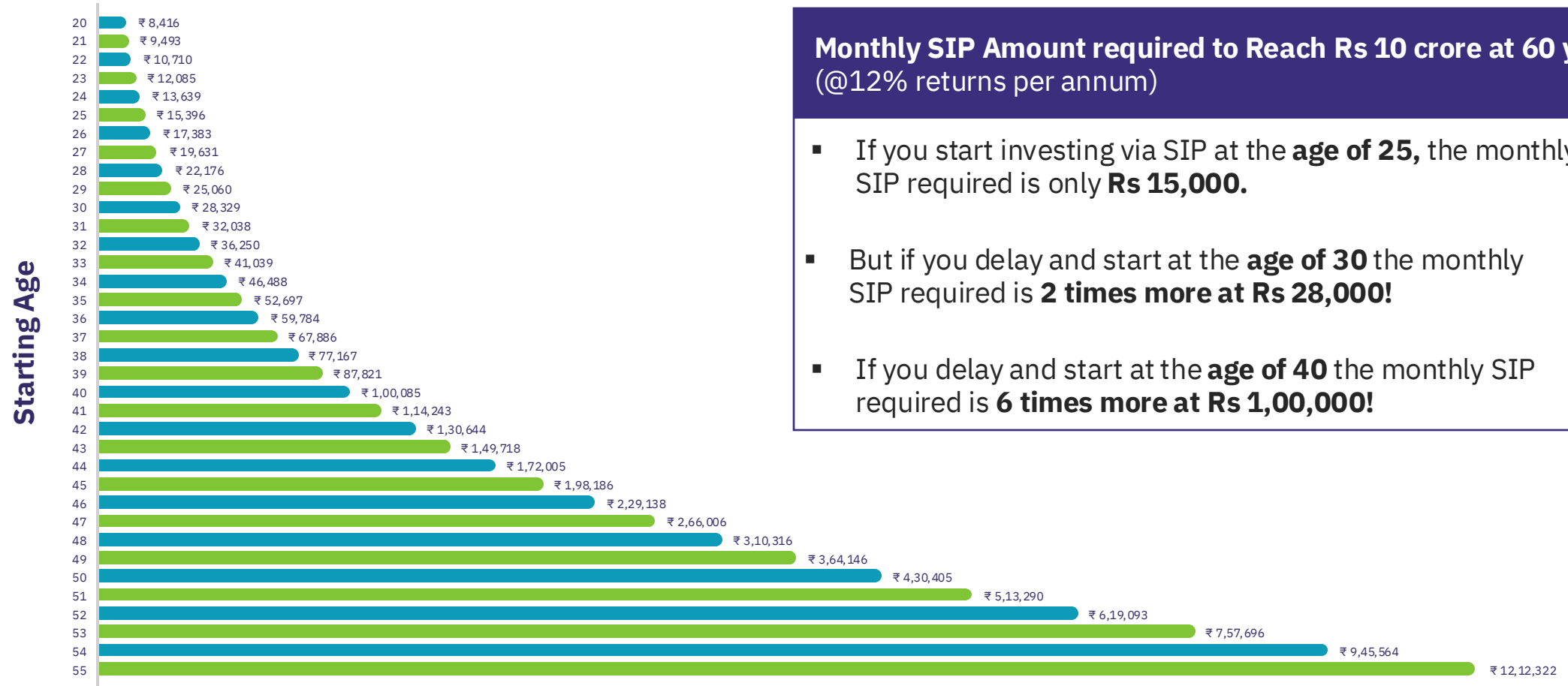


Reduces the average cost of investment

Here's how an SIP of **₹5000** a month grows over time, at assumed returns of **12%** compounded annually.

Years	Invested	Value	Difference
1	₹ 60,000.00	₹ 64,046.64	₹ 4,046.64
3	₹ 1,80,000.00	₹ 2,17,538.24	₹ 37,538.24
5	₹ 3,00,000.00	₹ 4,12,431.83	₹ 1,12,431.83
7	₹ 4,20,000.00	₹ 6,59,894.99	₹ 2,39,894.99
10	₹ 6,00,000.00	₹ 11,61,695.38	₹ 5,61,695.38
15	₹ 9,00,000.00	₹ 25,22,880.00	₹ 16,22,880.00
20	₹ 12,00,000.00	₹ 49,95,739.60	₹ 37,95,739.60

Start Investing Early



Monthly SIP Amount required to Reach Rs 10 crore at 60 years (@12% returns per annum)

- If you start investing via SIP at the **age of 25**, the monthly SIP required is only **Rs 15,000**.
- But if you delay and start at the **age of 30** the monthly SIP required is **2 times more at Rs 28,000!**
- If you delay and start at the **age of 40** the monthly SIP required is **6 times more at Rs 1,00,000!**

Investing Can Beat Inflation, But What Else?

Investing can:



Help you reach your Financial Goals, such as buying a home, funding a child's education or saving for retirement.



Help you stay prepared for emergencies

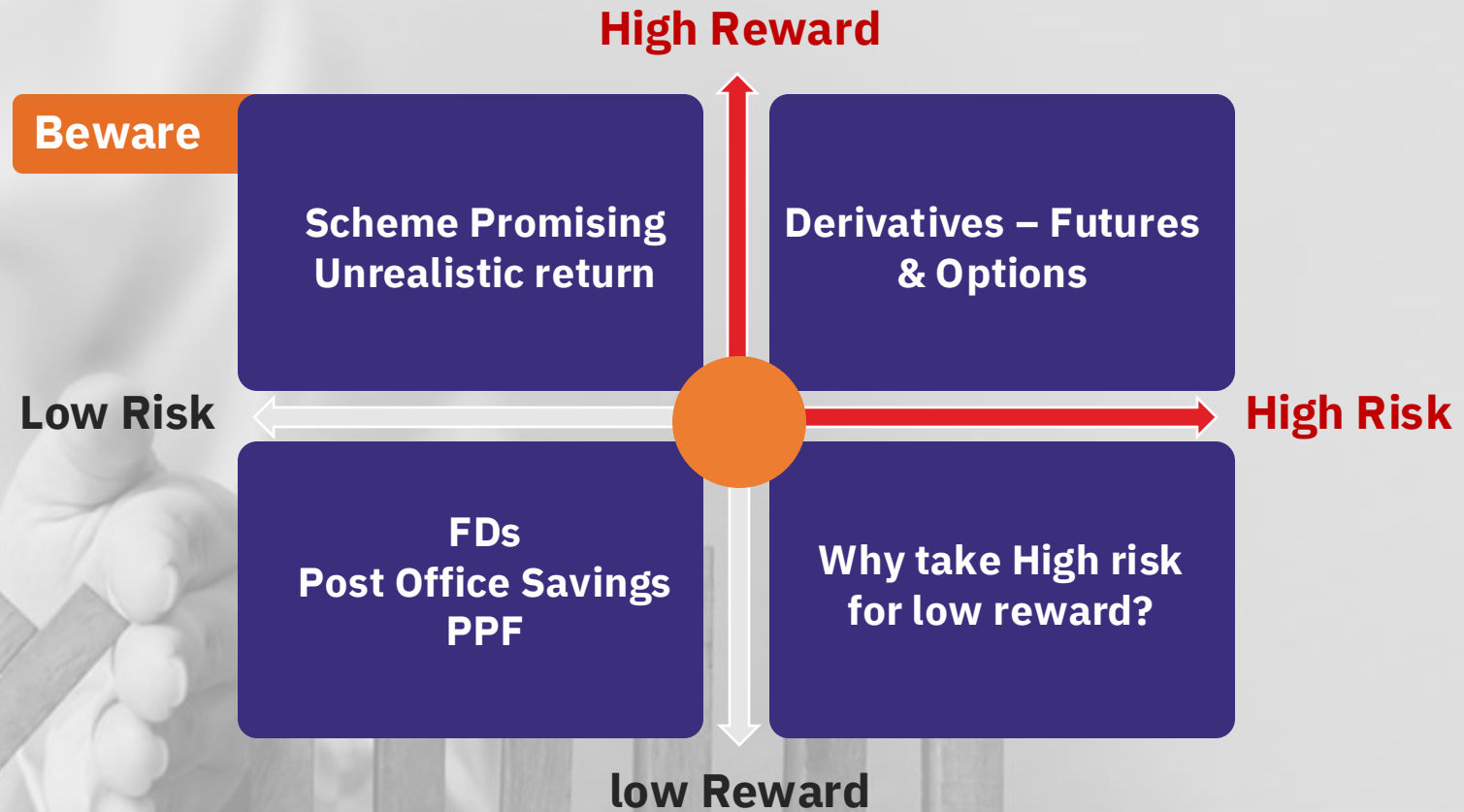


Provide liquidity, for example open-ended mutual fund schemes, can be easily redeemed to meet your financial needs.



Provide tax benefits, helping you save on tax

Risk and Reward Matrix



Financial Products as per your Goals



Savings account Fixed
Deposit Recurring Deposit
Post Office Savings account
Money Market Instruments

**Short Term goals &
Emergencies**



Stocks ETF & Index funds
Bonds & Debentures
Mutual Funds, Public Provident
Funds, Gold, Real Estate

**Medium & Long-term
goals**



Medical Insurance
Life Insurance
Other insurance

Insurance needs

Test your understanding

2 tips to increase your savings



How much of emergency fund should one have



Goal is to reach 1 Crore. If you start 5 years later, how much more amount you must save per month?



What Financial Products you should invest in for short term goals



What Financial Products you should invest in for long term goals



Why You Should Start Investing Young

Diving Into Investments In The Capital Market



Equity

Shares, representing ownership in a company.



Fixed Income/ Bonds

Also called debentures and bonds, these represent money borrowed by companies/ institutions from an investor.



Derivatives

Financial instruments linked to the value of other assets (e.g., shares, bonds, commodities).



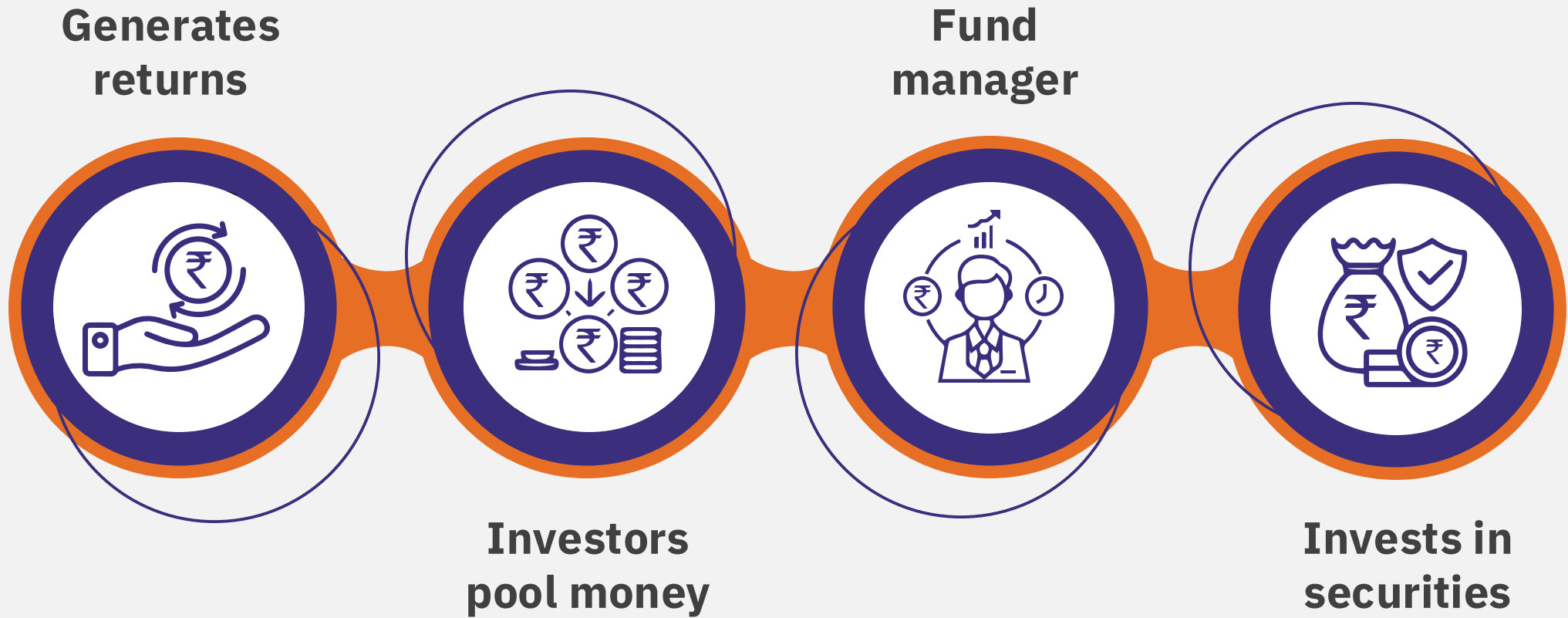
Mutual Funds

A product that pools money collected from several investors and deploys it in diverse securities like shares, bonds, money market instruments, and other assets.

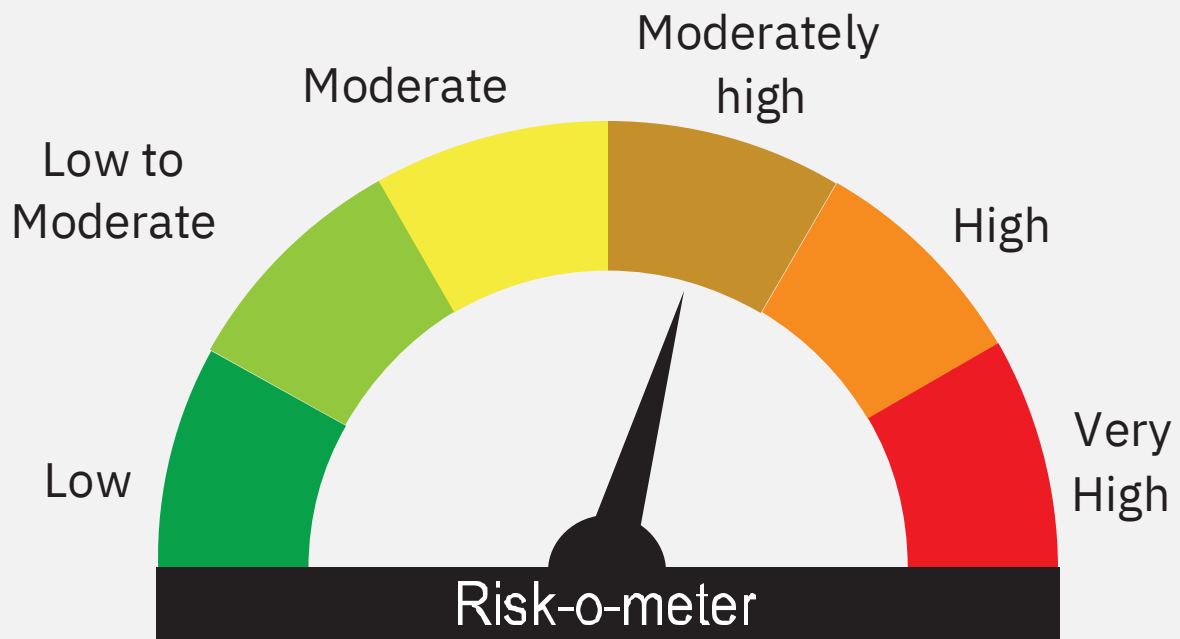
Returns from different Classes in last 30 years



What is a Mutual Fund?



Risk classification of mutual funds

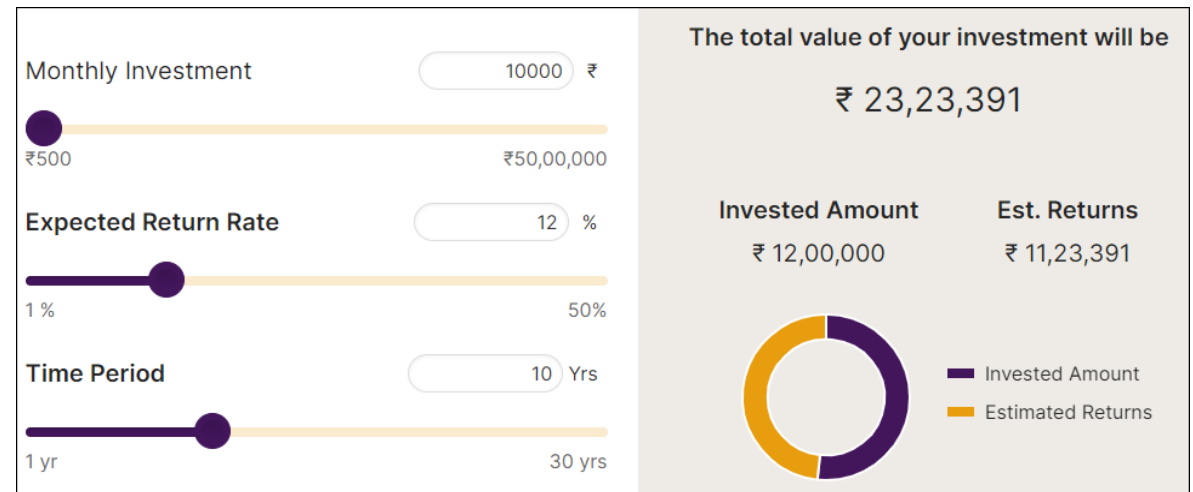
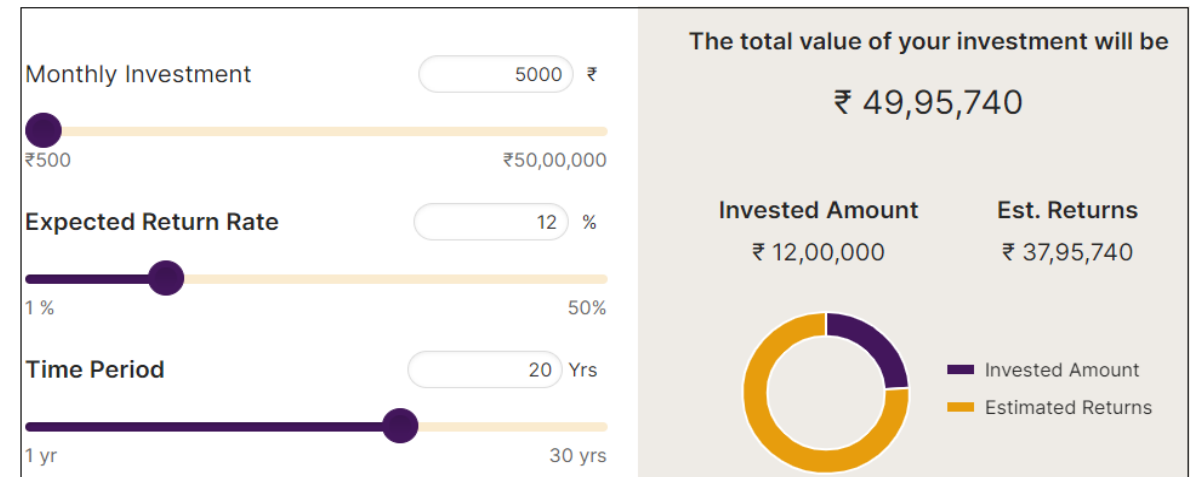


Risk Level	Investor Type
Low Risk	Conservative Investors
Low to Moderate Risk	Moderately Conservative Investors
Moderate Risk	Moderate Investors
Moderately High Risk	Moderately Aggressive Investors
High Risk	Aggressive Investors
Very High Risk	Very Aggressive Investors

Plan to buy a house?

Start Early, Be disciplined, Invest Long Term

When you give your investments time,
you are leveraging the power of
compounding



Pillar 6 Loans and Debt Trap



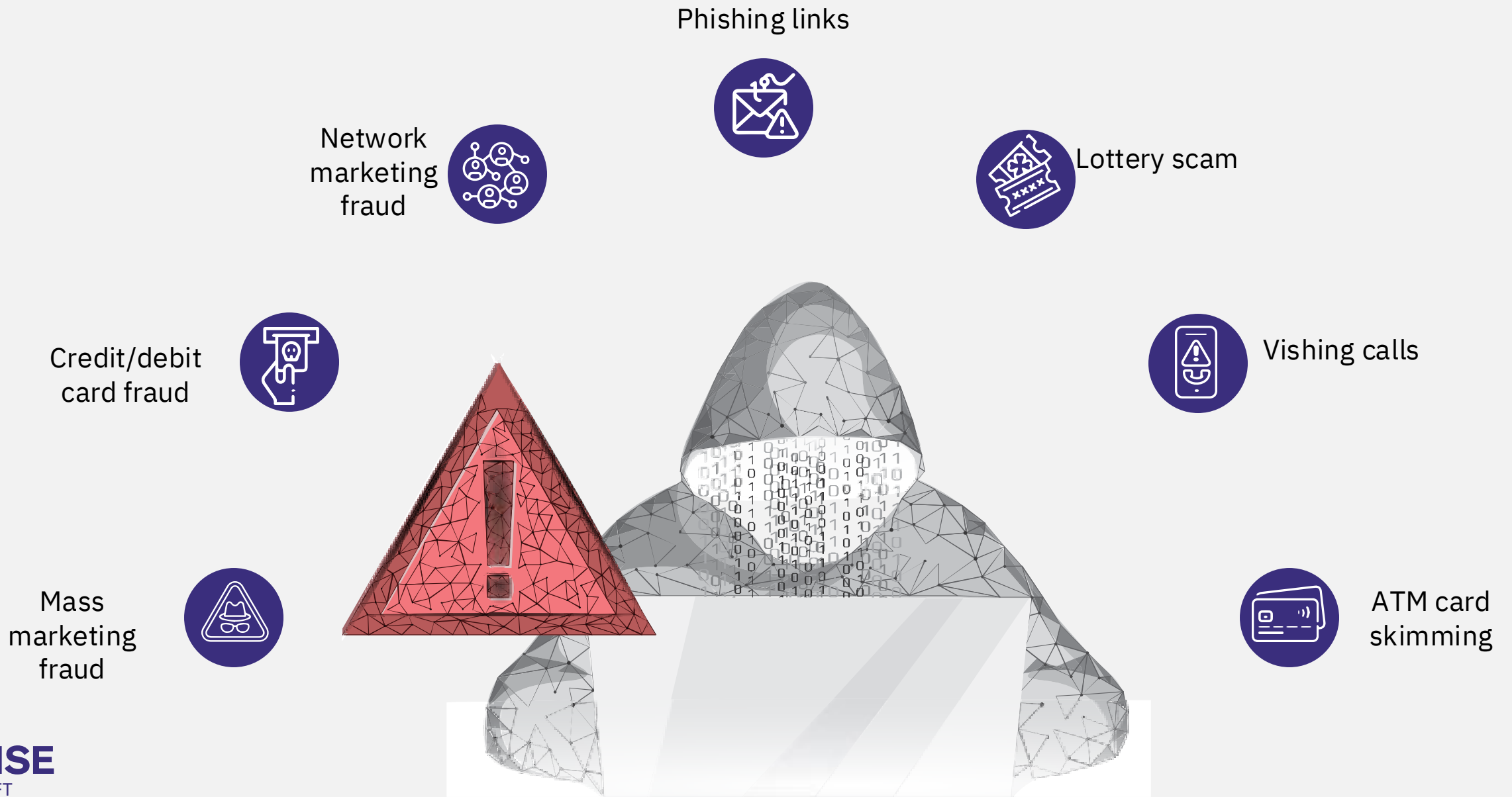
Loans

- When you take a loan, compounding will work against you.
- Loans with a longer tenure to reduce the EMI will translate into a higher compounding effect and you end up paying more as interest over the longer tenure.
- Interest that is due (i.e credit card) and unpaid will add up to the principal. You pay interest on interest

Debt Trap

- Debt Trap – When one is compelled to take new loans to pay off your old loans.
- A good debt is a debt taken to purchase an asset can help generate revenue for you for a long time.
- A loan taken against an asset that does not generate any revenue is known as a bad debt.

Types of fraud



Beware of fraud



Be aware of the various types of online fraud and be alert



Make sure your internet connection is secure and use smart and verified apps only



If you lose your debit or credit card, call your bank and get yours cards blocked immediately



Refrain from downloading files from unfamiliar websites



Don't share your password or account details with anyone



Invest only with registered intermediary

**How to
avoid them**

To know more about securities market.....



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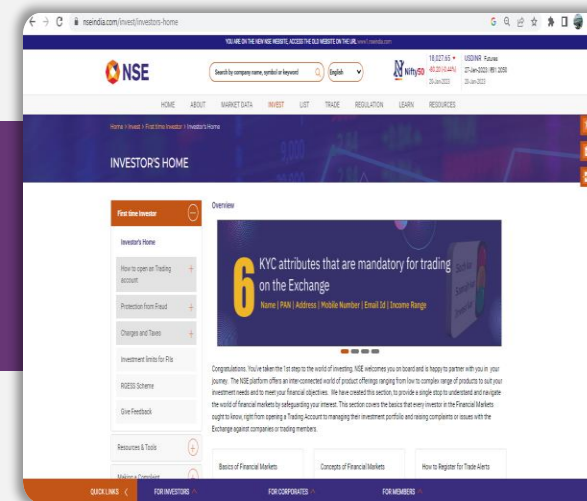


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