

Four Common Mistakes of Investing



1

Invest primarily only to save tax

Most investors wake up only towards the financial year end and invest to claim either tax deductions or tax benefits. Do remember that tax is an incidental benefit and not the primary benefit. Not that one should fully ignore it either for it does impact what you finally get in hand. For example in company deposits the returns or gains that you get are fully taxable at the tax rate that is applicable to you. So ultimately the returns mentioned need to factor in 30% taxes if you fall in the highest tax bracket.

2

Invest in something just because your friend has invested

What works for your friend may not work for you. For example your friend may have invested in a fixed income instrument because there is a need for withdrawing this money within a year. But if you have a surplus that you don't really require over 2-3 years then what your friend invested is not at all ideal for you. Basically don't jump in with the rest. Ask these three important questions

- What is the ideal investment horizon of the instrument?
- Is this investment liquid enough that is how fast can you get your investment back in case you want it?
- Where does the investment ultimately invest in or What is the risk that is being undertaken?

Once you have answers to this question match your investment objectives with these.

3

Invest whatever is surplus without actually deciphering what is the amount to invest

If you don't know where you are going you will go nowhere goes the cliché. Inflation in India has averaged ~ 7%. This rate can completely make your future plans go awry. A look at higher education fees over the years is enough to make the point. IIM fees for the 2013-15 batch were around ₹ 16.5 lakhs. With an inflation rate of 7% this amount balloons to over ₹ 31 lakhs in 10 years. Thus if you have to provide for your kids education you need to save an amount that gets you there in 10 years. Just investing a surplus is therefore not enough. One has to curb spending if necessary to manage this saving.

Assuming that you are about 25 years old, by age 40 you could have :

- An extra ₹ 21,13,723 in your bank provided you start saving from age 25 instead of age 30 ^
- An extra ₹ 2,50,755 if you cut down on four cigarettes a day starting now*
- An extra ₹ 4,17,924 if you cut down on one meal out every month**

Postpone investing in the hope that once you earn more you will invest more

4

The following two classic scenarios make the point effectively, don't they

Scenario 1

- You start at age 23 with just ₹ 25000 per annum @ 8% and stop at the age of 33
- Your investment of ₹ 2.5 lakhs would have grown to more than ₹ 31 lakhs at the age of 60.

Scenario 2

You start at age 45

You will need to invest ₹ 10 lakhs for the next 15 years to give you the same payoff of ₹ 31 lakhs at the age of 60.

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