moneycontrol

Ladies, take charge of your finances! Six golden rules to get you started

The CMD of First Global, Devina Mehra writes that true independence comes from managing your own money

DEVINA MEHRA | MARCH 08, 2023 / 02:27 PM IST

Don’t underestimate your capabilities and overestimate those of your male family members. (Photo by Oleksandr Pidvalnyi/Pexels)

"I just don't have a head for numbers"

"My fiancé knows investing really well, I don't. He even trades on the Nasdaq!"

"I am so busy with shooting all day. My father takes care of my finances"

"Between work and the kids, I hardly have any time. My husband is happy to do this... so let him"

How often have you heard or made these excuses for not managing personal finance and investments? I see even Bollywood celebrities and high-ranking professional women looking blank when asked about the management of their hard-earned money.

But remember there is no real independence or security in life without being in charge of your own finances. So how do you go from here to there?

1.The knowledge problem

True, the education system in India, and in many other countries, does not train you for financial literacy. But that problem is easily solved!

Now it is easier than ever to educate yourself and that too in a form that makes learning interesting. Today you can do a formal course in finance and investing from a university, you can listen to podcasts, read books and articles or watch videos–whatever helps you to learn the basics. Only, be wary of social media influencers, especially since content is available from well-known respectable institutions and credible sources.

And always ask questions of any intermediary who is helping you make investments. Never think that you will look like a fool if you ask for explanations.

Just because they sound confident does not mean they are competent.

Let me tell to you a secret: just because a man in your life acts more confident and can ‘talk’ about investments, it does not mean that he knows more about financial matters. Confidence does NOT equal competence.

Several studies show that women actually perform better at investing than men, even though men think they are better at it!

Don’t underestimate your capabilities and overestimate those of your male family members.

2.Losses are a feature not a bug

When you do start investing, one thing is for sure: there will be losses at some stage of your investing journey. Know this and accept this upfront.

The important thing is not to look at these losses as a personal failure or as a sign that you don't know what you're doing.

Invert your thinking: Look at losses as the price of a ticket to the investment game. You do not think of concert tickets as a loss, do you?

As the software guys say: the losses are a feature, not a bug. What does that mean? That losses are meant to happen. That is the way the investment game is designed.

If you do not understand this, you are likely to beat yourself up when losses occur and tell yourself that you should not have gone into something you did not understand. More than likely is that some family members may tell you this.

Unfortunately, men are not derided for losses in the same way women are. So be tough to ride out the inevitable losses.

3.Savings alone are not enough

It is often said that women are great at savings but not at investing those savings. Like many clichés, there is a grain of truth in it. And the fact is that you need your savings to compound.

A couple of examples will make this clear.

If you save Rs.1 lac a year and put in the bank at 5.5% per annum (pa)interest, it will become Rs.77.4 lakhs at the end of 30 years... it doesn't even cover inflation

If you don't want to take outsized risk and invest it in a reasonably conservative multi-asset portfolio compounding at 9.5% pa, you will have Rs 1.65 crores at the end of 30 years.

If you have a somewhat higher risk/equity portfolio compounding at 12.5% pa, it will be Rs.3 crores at the end of 30 years. For context, Indian equity markets have compounded at 15-16% pa over 40 years--of course, year-to-year and even decade-to-decade variations have been huge.

The returns from this is 4 times the returns from the most conservative option.

So some risk is inevitable if you want the returns.

4.Manage the risks!

Of course, you must take adequate precautions so that none of these losses are crippling or more than you can afford.

Risk management is always key in investing. Learning about this and putting it in place is extremely important in your investing journey.

As explained above, risk management does not mean that you go only for investments that are 100 percent risk-free for 100 percent of your corpus because such a strategy will also limit your returns.

5.Avoid extreme ends of the risk spectrum

Yes, losses are inevitable but risk needs to be calibrated.

Often women—and men—can have a bias (conservative or aggressive) in risk management and this tendency has aggravated of late. Thus, people can lurch from bank fixed deposits straight to crypto (quite the rage a year or two ago) or option trading. As SEBI data has shown, less than 10% of option traders make any profit at all!

Therefore do not think that the stock or option or currency markets offer you a way to give up your day job altogether.

Be sensible and make deliberate decisions about what you want to do and why, rather than going with whatever the current trend is.

6.Delegate other tasks but not money management

Often even professional women do not get involved in the family finances and investments.

Part of the reason is that they already feel overburdened by the physical and emotional labour of running a household.

So when you are already working outside the home, managing household staff, juggling everything from the children’s schedules to mother-in-law's medication, you don’t want to take on more responsibilities.

The trick? Negotiate and delegate other tasks, but keep control of your finances. Even if you are a homemaker and do not have direct income of your own, you can still volunteer to do this as part of your share of family duties.

The really good news

All investing studies show that most of your returns come from asset allocation in your investment pie chart and not from security selection.

In simple language, what this means is that it is more important to know how your entire portfolio is allocated across assets--fixed income (including fixed deposits, income mutual funds, etc), equity (both direct and through mutual funds), commodities, real estate, gold, etc--and across geographies, including those beyond India, than it is to know every hot stock that someone may be boasting about in a party.

This also means that the time that you need to spend on your investment is reduced dramatically. You don't have to search for that elusive multibagger. Instead, you have to follow strategies that give you the optimum returns over time with proper allocations.

The choice of your asset or investment manager may be the most crucial investment decision you make—more so with the limited time that most women have with multiple demands on their time.

Happy Women's Day and Happy Investing!

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