Investment tips for

Millennials

IFE Academy

Education Simplified

INVESTORS FINANCIAL EDUCATION ACADEMY

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COMMON REASONS WHY MILLENNIALS DON'T GET LIFE INSURANCE	REASONS WHY MILLENNIALS SHOULD GET LIFE INSURANCE
• Lack of patience for the process	• Protection for the family, especially if you're a breadwinner
• A false sense of security	• For settling debts
• Not fully understanding the value of life insurance	• For starting a business
• Saving to buy a home instead	• For saving money for the long term
• Overestimating the cost of premiums	• Premiums are more affordable while young and healthy

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Attributes of Millennial:

Millennial are those who are born during 1980s and 1990s. They have the qualities that put them in a great position to be terrific investors. They are the most educated generation and are more disciplined financially. Also they have a healthy scepticism of financial institutions and conventional wisdom; and they place a huge premium on customizing their financial decisions at a time when the options for doing so and pursuing an independent path have never been greater.

How Millennials can do their Asset allocation?

- Millennial are more tech-savvy and in tune with various investment options, where and how they invest vary depending on their age and income bracket.
- Asset allocation for millennial consists of mix of investments. A sound asset allocation strategy ensures investment portfolio is diversified and aggressive enough to meet life time goals without any unnecessary risk.
- It is important for the investors to decide which asset allocation they are comfortable with. And, if they are investing for different goals, they should maintain different target allocations for each goal.
- Choosing an appropriate asset allocation depends on two things:
  - How long you have to invest?
  - How much risk you can tolerate?
- In terms of retirement, the asset allocation will look very different at age 25 than it will at age 65. When they are in their 20s, they are likely to have 30 or 40 years to invest before they need that money back, so they can choose

aggressive investments that have high growth potential but also higher risk.

- At the time of their retirement, they no longer have decades for their money to grow and they will need to withdraw money every year. At that time of retirement it is wise to choose more conservative investments that are less risky.

Why millennial should start investing early?

It is the 20s, where the first step is taken to convert dreams into reality. 'Start today to see the magic power of compounding.' At the stage of 20s, person has relatively less responsibility, less financial obligations, low expenses resulting in higher saving potential. And the earlier a person invests; money will multiply quicker and grow higher. Below mentioned reasons suggest that investment at an early age is a great idea.

- **More Recovery Time:**

  If investments are made early and a loss is incurred, they have more time to recover. Whereas, an investor who starts investing at a later stage in life, will get less time to make up for his losses. Thus with early investments, the investment gets more time to grow in value.

- **Save More:**

  With early age investments, they will develop a habit of saving more. The more they invest, the more they get in future. To follow that thought process, they tend to save more by cutting on unnecessary expenses and divert such saved money towards investment.

- **Improves Risk Taking Ability:**

  Millennial have more risk-taking ability than older people. Adult investors are generally conservative and prefer stability, in turn avoiding high-risk investment avenues. There is an old saying, “More the risk, more is the reward”. The probability of earning handsome returns at a young age increases with high risk taking ability.

- **Time Value of Money:**

  Early investments lead to compounding returns. The time value of money increases over a period of time. Regular investments made right from an early age can reap huge benefits at the time of retirement. Moreover, early investment facilitates the entry in the world of finance early. The money grows with time. Because of early investments, they can afford things which others might not, at that age. This puts ahead of others who prefer investing at a later stage of life.

- **Secured Future:**

  There will be times in life when they will need urgent money to meet unavoidable expenses. During such times, the investments made at an early age can prove to be very handy and will help them to get through the tough times all by themselves. The need for borrowing money from others decreases drastically with early investments.

- **Supports Financial Independence:**

  Early age investments increase the probability of reaching financial stability at a young age. The earlier investor start, the easier it is to build wealth. Starting to Invest at a young age is the best decision a person can take in his or her life.

Role of Power of compounding for millennial in investing:

Compounding is when interest is earned on the investment over a period of time, due to which the investors witness a growth on their earnings. Power of compounding enables the earnings to grow as their investments grow. The best way to take advantage of the power of compounding is to start saving and investing wisely as early as possible.

For example Mr. Sachin started investing Rs 2,000 per month at the age of 19 and when he reaches 30, he stops investing and locks all his investments till retirement. On the other hand Mr. Saxena however, doesn't make any investment till he is 30. At 31, he starts investing Rs 2,000 a month till the age of 58.

The following table tells how their investments would turn out when they both are 58, assuming that the growth rate is 8 per cent per annum.

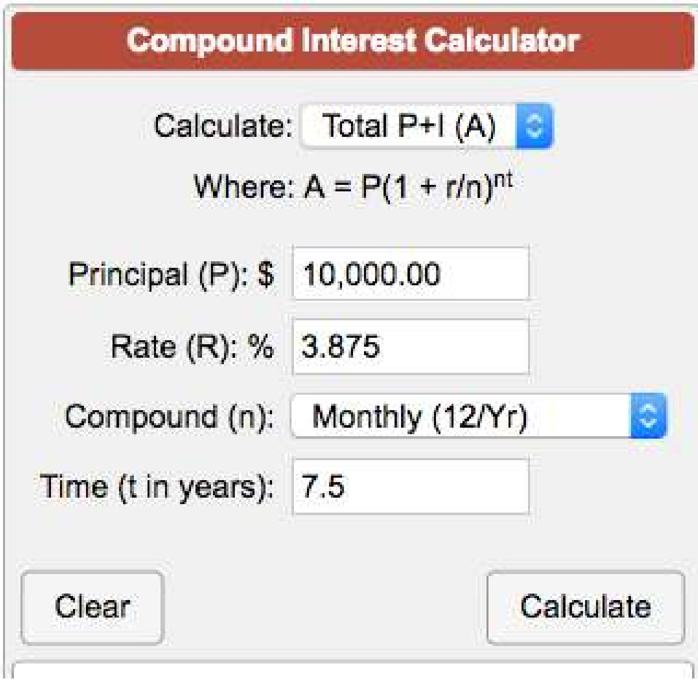
Age	Sachin		Saxena	
	Annual Investment (Rs.)	Year end value (Rs.)	Annual Investment (Rs.)	Year end value (Rs.)
19	24000	24900	0	
20	24000	51866	0	
25	24000	224227	0	
30	24000	481017	0	
35	0	716641	24000	146954
40	0	1067684	24000	365892
45	0	1590685	24000	692076
50	0	2369875	24000	1178041
55	0	3530748	24000	1902053
58	0	4484887	24000	2497129
Total	**2,88,000**	**44,84,887**	**6,72,000**	**24,97,129**

Amount Invested by Sachin **Rs. 2,88,000** has grown to **Rs. 44,84,887** whereas amount invested by Mr. Saxena is **Rs. 6,72,000** which has grown to **Rs. 24,97,129**. Hope now it is clear that "early bird gets the bait!"

Effective ways to increase the earning through Power of Compounding:

- Compounding is basically a long-term investment strategy. The process requires two things to work, reinvestment of earnings and time. When the investors decide to reinvest the interest earned on an investment, the returns themselves start earning.
- The investors are effectively converting their investments into an income-generating resource where their money is working for them to generate wealth. The "power of compounding", has the ability to generate enormous returns, if invested in the right assets.

Calculation of Compound Interest Rate:



Compound interest can be calculated with a simple formula.

A = P (1 + [r / n]) ^ nt

These variables indicate:

A: The final amount

P: principal amount also known as your initial deposit

r: the annual interest rate, in decimal format

n: the number of compounding periods per year
(for instance, monthly is 12 and weekly is 52)

t: the amount of time that your money compounds (in years)

For example Mr Ajay starts investing at the age of 25, an amount of Rs 1,000 per month for 25 years and Mr. Raj begins at the age of 35 Rs 2000 per month for 15 years. Assuming a rate of return of 12% compounded annually for both of them, by the time they are at the age of 50, Mr Ajay would have accumulated an amount of Rs.18,78,847 while Mr Raj would have accumulated only Rs. 9,99,160.

	Amount Invested(Rs.)	Age the age of	Maturity Amount (Rs.)
Ajay	1000 x 25 = 25000	50	18,78,847
Raj	2000 x 15 = 30000	50	9,99,160

Therefore, the sooner a person starts investing, the more time he will have to reap the benefits of compounding.

Key Rules of Investment that enables Power of Compounding:

Start Young: Starting investments early will help in making the most of the power of compounding. Early investing will help in building wealth to achieve long term goals. It enables funds to grow over time.

Make disciplined investments: Financial discipline is essential. Define goals and work towards achieving them by investing regularly. Small investor or a big investor, it doesn't matter, investing periodically and staying invested for long will help in reaping maximum benefits.

Be Patient: Investing for the long term is the key. Don't be in a hurry to earn a quick return. Long term investments reap higher returns due to the power of compounding. Always give a reasonable amount of time for investments to grow significantly.

Watch your spending: Saving is easier said than done. However, watchful spending will help in saving at least a small amount. Investing doesn't necessarily have to be only in large sums. Start with small amounts, and as the income increases, make sure to increase savings proportionately. It will help in achieving financial goals comfortably.

Consider interest rates: While choosing any investment return is very important. Similarly, a higher annual compound interest rate implies higher returns.

Compounding Intervals: The frequencies of compounding and wealth accumulation are directly related. The higher the frequency of compounding, more the accumulation of wealth.

Power of Compounding and its role in mutual funds:

Mutual funds are designed in a way to magnify the benefits of compounding. The possible way is through Systematic Investment Plans (SIPs).

Investment in a fixed sum in mutual funds can regularly be done through a Systematic Investment Plan (SIP). This can be monthly, quarterly or semi-annually. Investors can select the fund of their choice, and invest regularly through SIPs could magnify their returns over time. Investment in SIP can be made as low as with Rs 500.

15*15*15 rule :The 15*15*15 rule says that investors can receive a return of 1crore by investing only Rs 15,000 a month for a duration of 15 years in an investment that offers 15% returns per annum. It is purely an effect of compounding.

COST OF DELAYING INVESTMENT

5 YEARS DELAY - STARTING AT AGE 30					
INVESTMENT AMOUNT per month @12% p.a	CORPUS ACCUMULATED AT THE AGE OF 60				DELAY COST INCURRED
	Present Age 25		Started at 30		
	Cost of Investment	Expected Value	Cost of Investment	Expected Value	
3,000	12,60,000	1,94,85,807	10,80,000	1,05,89,741	**88,96,066**
5,000	21,00,000	3,24,76,345	18,00,000	1,76,49,569	**1,48,26,776**
20,000	84,00,000	12,99,05,381	72,00,000	7,05,98,275	**5,93,07,106**

10 YEARS DELAY – STARTING AT AGE 35					
INVESTMENT AMOUNT per month @12% p.a	CORPUS ACCUMULATED AT THE AGE OF 60				DELAY COST INCURRED
	Present Age 25		Started at 35		
	Cost of Investment	Expected Value	Cost of Investment	Expected Value	
3,000	12,60,000	1,94,85,807	9,00,000	56,92,905	**1,37,92,902**
5,000	21,00,000	3,24,76,345	15,00,000	94,88,175	**2,29,88,170**
20,000	84,00,000	12,99,05,381	60,00,000	3,79,52,702	**9,19,52,679**

20 YEARS DELAY – STARTING AT AGE 45					
INVESTMENT AMOUNT per month @12% p.a	CORPUS ACCUMULATED AT THE AGE OF 60				DELAY COST INCURRED
	Present Age 25		Started at 45		
	Cost of Investment	Expected Value	Cost of Investment	Expected Value	
3,000	12,60,000	1,94,85,807	5,40,000	15,13,728	**1,79,72,079**
5,000	21,00,000	3,24,76,345	9,00,000	25,22,880	**2,99,53,465**
20,000	84,00,000	12,99,05,381	36,00,000	1,00,91,520	**11,98,13,861**

25 YEARS DELAY- STARTING AT AGE 50					
INVESTMENT AMOUNT per month @12% p.a	CORPUS ACCUMULATED AT THE AGE OF 60				DELAY COST INCURRED
	Present Age 25		Started at 50		
	Cost of Investment	Expected Value	Cost of Investment	Expected value	
3,000	12,60,000	1,94,85,807	3,60,000	6,97,017	**1,87,88,790**
5,000	21,00,000	3,24,76,345	6,00,000	11,61,695	**3,13,14,650**
20,000	84,00,000	12,99,05,381	24,00,000	46,46,782	**12,52,58,599**

Golden Rules for Investments:

Investors are filled with plenty of questions when it comes to investments and returns. The most asked question is "How long will it take for my money to be twice the amount?" or "where will my money be in two year's time?" there are so many more questions, investors have in mind regarding the speed at which their money would grow. The following are the various golden rules that an investor should know for understanding the yield from their investments.

1. The rule of 72:

The rule of 72 is the most fundamental rule every investment entity applies to, be it an investor or fund house or fund manager.

It is a simple and effective method of estimating the time the investments will take to double themselves. The rule can also be used to determine the rate of return it would take for the money to double itself.

The rule goes as follows:

Time for investment to double
72 / %age Rate of Return

For example, if a mutual fund investment gives an annual return of 14% then the number of years the money is going to take to double itself is (72/14) = 5.14 years.

Investor can use this rule to compare different investment avenues like fixed deposits, bank savings, mutual funds, real estate, etc.

Another use of the rule of 72 is to determine the time their money going to take in order to halve itself due to inflation. For example, if inflation hits at 8% then it will take the money (72/8) = 9 years in order to halve itself.

Note: The rule of 72 is a generalized rule of calculating and estimating the number of years. If you wish to look at a more accurate number there are other variations of the rule available as well. Instead of 72, try using 69.3 for calculating continuous compounding calculations.

2. The Rule of 114

The rule of 114 tells an investor the duration the investment would take to triple the return on investment.

The rule goes as follows:

Time for investment to triple
114/ %age Rate of Return

For example, if a mutual fund investment gives an annual return of 14% then the number of years the money is going to take to triple itself is (114/14) = 8.14 years.

3. The rule of 144

The final rule in line is the rule of 144. This rule tells how long will it take for the money to become four times its original value or Quadruple. This rule is basically for investors who stay invested for a really long-term in order to see their money actually become four times.

The rule goes as follows:

Time for investment to double
144 / %age Rate of Return

Following the above example of a mutual fund with 14% annual return, the time it would take the money to become four times is (144/14) = 10.28 years.

Note: Investors can make use of these calculations in order to determine a rough estimate of the fund's performance in terms of time value.

Top Investment Options for Millennial:

Millennial are always looking for alternative sources of income and/or investments to ensure a degree of financial security. With most people working remotely and with reduced mobility around, this techno-savvy generation is looking at the options where they do not have to physically go around. They are basically looking at three vital factors when going ahead with their investments; they are Convenience – Cost – Reach.

The following are the investment options that are open up for millennial to start up their savings.

Equity Investments:

- Equity has been an asset class, which has generated inflation beating returns in the long run.
- Market is volatile but when invested with a long term outlook, it has been rewarding.
- To invest in equity is to invest in the future of a business enterprise. We need expertise to predict, which business would succeed.
- Keep monitoring the investment to identify the warning signs of a trouble.
- The decision to buy is a tough one. There are several listed stocks and it calls for in-depth knowledge and expertise to identify the right stocks.
- People who do not have the time and expertise can choose to invest through equity oriented mutual funds.

Mutual Funds : Equity-linked Saving Schemes (ELSS)

- ELSS is the best investment option for the working professionals. The reason most of the millennials opt for ELSS is potential for higher return along with tax saving.

- There is a lock-in period of 3 years in Equity-linked Saving Schemes and the majority of the investments are done in the stock market.
- 3 year Lock in is a blessing in disguise. It helps the Fund Managers to take investment decisions without worrying for frequent redemption.
- This diversified equity mutual fund offers tax-saving benefits up to Rs 1.5lakh under Section 80C of the Income Tax Act.
- Also , they can invest in smaller amounts through SIP.

Debt mutual funds:

- Debt mutual fund schemes are suitable for investors who want steady returns and who are saving for a short / medium term goal.
- They are less volatile and, hence, considered less risky compared to equity funds.
- Debt mutual funds primarily invest in fixed-interest generating securities like corporate bonds, government securities, treasury bills, commercial paper and other money market instruments.

- These mutual funds are not risk free. They carry risks such as interest rate risk and credit risk. Therefore, investors should study the related risks before investing.

National Pension System (NPS):

- Millennial could invest in NPS to build wealth while saving taxes. For young and an aggressive investor, NPS helps to build a corpus for retirement.
- Under NPS a tax deduction up to a maximum of Rs 1.5 lakh per year under Section 80C. It is on the contribution towards the Tier 1 account of the NPS.
- They may also claim an additional tax deduction on the NPS Tier 1 account, up to Rs. 50,000 per financial year under Section 80CCD(1B) of the Income Tax Act, 1961.
- Also, their salary could be restructured in such a way that a portion is contributed by their employer in 80CCD (2).
- The NPS subscriber has 2 choices – Active choice and Auto choice:

Active Choice: Subscriber will have an option as to how their wealth is to be invested between following 4 options:

- Asset Class E - Investments in equities.
- Asset Class C - Investments in Fixed Income securities of Corporate.
- Asset Class G - Investments in Government Fixed income securities.
- Asset Class A - Investments in Alternative Investment Funds.

Subscription can be distributed among E,C,G,A with a cap of 75% for Asset Class "E" and 5 % or Asset Class "A".

Auto choice (Life Cycle Fund): Subscriber has the choice of three life cycle funds viz., Aggressive Life Cycle Fund (LC75), Moderate Life Cycle Fund (LC50) and Conservative Life Cycle Fund (LC25). Under these options, fund investment management is done automatically based on the age of the Subscriber. Moderate Life Cycle Fund (LC50) is the default option under NPS for the subscriber who do not opt any choice.

- **Public Provident Fund (PPF):**

The PPF scheme is one of the most popular long-term saving-cum-investment products, mainly due to its combination of safety, returns and tax savings. The least that can be contributed towards PPF is Rs.500 and the maximum contribution allowed is Rs.1.5lakh. PPF can be opened by Resident Indian individuals, salaried and non-salaried individuals. A HUF cannot open a PPF account. The current Interest rate on PPF is 7.1% with a lock-in period of 15 years. The amount that is being contributed towards PPF is eligible for tax deductions under Section 80C of the Income Tax Act under old tax regime.

- **Sovereign Gold Bonds:**

  SGBs are government securities denominated in grams of gold. They are substitutes for holding physical gold. Investors have to pay the issue price which is based on the market rate and the bonds will be redeemed at prevailing market rate during maturity. It gives an annual interest of 2.5% and tenure of the bond is 8 years. SGBs can be subscribed in multiples gram(s) of gold with a minimum unit of 1 gram and maximum of 4 Kg per person/entity in a fiscal year (i.e. April to March). SGB can be bought through the existing demat account through your Stock Broker or through Banks. It is one of the safest option for investors who look for Gold as option for Diversification.

- **Life Insurance Plans**

  - Preparing for family's future, is more than investing appropriately for goals and time horizon. It also involves purchasing the right amount of life insurance to protect family's lifestyle.

  - Life insurance can help reduce the financial impact in the event of death. Life insurance policy provides the opportunity to help replace lost income, eliminate debt, pay for college, keep a business going, protect family wealth, or other financial needs while family adjusts to a new life.

- Life insurance policies also offer you the ability to save, which helps provide financial stability.
- With the right life insurance plan, you can get a regular stream of money every month after your retirement.
- Taking a life insurance policy is a long-term investment, which can help you achieve long-term goals. You create a second source of income or leave a legacy.
- Life insurance plans give you the ability to lock in low premium rates while you're young. If you buy the same policy when you are older, you will be paying a much higher premium compared to if you bought the same plan when you were younger.
- Life insurance plans offer dual tax benefits. The premiums paid offer tax deduction under Section 80C of the Income Tax Act. This means up to ₹ 1.5lakh premium paid annually is deducted from your gross income, thus lowering your tax outgo. Separately, the maturity insurance plans may be entirely tax-free. This tax benefit is under Section 10(10D) of the Income Tax Act.

- **Health insurance:**

All individuals would like to lead a healthy life but in any unforeseen situations if they or their family members have met with any critical illness or with an accident, it may be difficult for the individual to meet up with the medical expenses. Health insurance protects the individual from unexpected, high medical cost. Without health insurance, even those who are financially stable sometimes find themselves difficult to manage expenses in case of medical emergencies.

Many individuals have thinking that holding health insurance with their organisation is more than sufficient rather than having a separate health plan. However, it is very much necessary for them to have a separate personal health insurance plan apart from the one that is being held up in their organization. The major reason for the holding of personal health insurance is that, when the individual leaves the job or when the organization is being shut down due to unforeseen situations, this personal health insurance would be held up by them as an asset to their family even when they are out of their job.

Tax benefits with Health Insurance:

- Every individual or HUF can claim a deduction under Section 80D for **the premium paid towards** their medical insurance in any given year.
- An individual can claim a deduction of up to Rs 25,000 for the insurance of self, spouse, and dependent children.
- An additional deduction for the insurance of parents is available to the extent of Rs 25,000 if they are less than 60 years of age, or Rs 50,000 if their parents are aged above 60.
- If both the taxpayer and the parent whom the medical covers have been taken for are aged more than 60 years, the maximum deduction that can be availed under this section is to the extent of Rs.1,00, 000.

Tips for Young Investors:

- Set Your Investing Goals.
- Begin your investing activities as early as possible.
- Never Invest in Anything You Don’t Understand.
- Learn to save rather than spend.
- Choose the Investment options based on your goals.
- Understand Your Own Attitude to Risk.
- Start Building up Your Financial Knowledge.
- Diversify your portfolio.
- Manage your savings and your debts.
- Get to know the taxes and inflation.

LIFE INSURANCE TIPS FOR MILLENNIALS

1. Shop around
2. Research about different types of life insurance to find one that fits your goals.
3. Quit unfavorable habits and hobbies that will cost you.
4. There are insurance companies that offer good deals for millennials.
5. Trying to be healthy is always a good idea.
6. Always speak the truth about the status of your health and habits.
7. It's possible to adjust your coverage and change your beneficiary.

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About IFE Academy

IFE Academy was established in 2011 as a Not-for-Profit entity to promote Financial Education. IFE Academy conducts Investor Awareness Programs across the country with the support of other market participants. www.ifea.in is a comprehensive website on Financial Education. It has various sections such as Videos, Puzzles & Games, Financial Calculators and Library. It gives a holistic view on financial education combining various aspects such as Savings, Investments, Credit, Insurance and Pension at a single place. IFE Academy periodically publishes Investor Educational materials and distributes it to general public.

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