# From Savings to Investing: The Key Challenges

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Most of us would have been taught the virtues of saving from a very young age. One famous story is about the grasshopper and the ant – where the grasshopper made merry all summer, the ant slogged and saved food. When winter came, the ant was comfortable and well fed, while the grasshopper was freezing and hungry. Unfortunately, the story does not take into account one harsh reality of life: Inflation! If one were to simply stash one's savings under the mattress, over the years, one would find that the money saved would progressively buy lesser and lesser goods over time. Hence it is essential to invest the money saved in the right places so as to be able to earn a return that can beat, if not at least match inflation.

Today, there are so many options for investments – equity, commodities, mutual funds, savings linked insurance plans, bonds, debentures, etc that at times it becomes quite confusing as to how and where to invest one's hard earned savings.

The three key challenges that people face in moving from savings to investing

- Identifying the right financial advisor/partner
- Making an Asset Allocation plan and sticking to it
- Portfolio monitoring and re-evaluation

***Identifying the right financial advisor/partner***

A vast majority of Indians do not seek any professional financial advice at all. Most investments are made based on 'tips' from a friend or relative who is supposedly knowledgeable about financial matters. As a consequence, large sums of money are invested in products or schemes that are unsuitable for the investor.

Hence, the first thing one should do is to find a competent financial advisor or partner. There are many such service providers in the market today – including banks, stock brokers, chartered accountants and others.

Some of the key criteria in making this choice in an Indian context would include

- Necessary certifications from AMFI (Association of Mutual Funds of India), IRDA (Insurance Regulatory and Development Authority), etc to be authorized to sell different financial products
- Track record of the advisor in terms of returns delivered and services levels
- Professional qualifications, if any
- Fees and charges

While many of us may not like to pay for financial advice, one should realize that this is a professional service very much like a doctor or a lawyer, and that quality service and advice will come at a cost.

***Making an Asset Allocation plan and sticking to it***

One of the first things that a financial advisor would do is to develop an asset allocation plan for the investor based on the existing savings, expected earnings, key financial goals and timing of these and the risk appetite of the investor. As an investor, one must provide the right information to the financial advisor to help create the appropriate asset allocation plan.

Of course, informed investors would be able to do this on their own, and there are many websites with simple tools and calculators that help in this process.

Once an asset allocation plan has been made, one should have the discipline to stick to it in order to reap the benefits; some of the common mistakes to avoid in doing this include

- Investing purely for tax considerations: Many investment options come with the added advantage of tax savings; while this can certainly boost the returns generated, one must be aware that many of these come with lock-in restrictions of several years. One must make sure that the maturity of these is aligned with the timing of the future funding needs
- Attempting to 'time the market': It is indeed very difficult to identify exactly the right time to enter and exit an investment, particularly in the equity markets. More often than not, one could end up losing money in attempting this. Instead, sticking to a regular rhythm in line with the asset allocation plan through measures like SIPs (Systematic Investment Plans) and SWPs (Systematic Withdrawal Plans) that are offered by many mutual funds and brokers is more likely to succeed in the long run
- Deviating from the asset allocation for a 'hot new idea': Sometimes, one may come across what seems like a tremendously exciting and attractive investment opportunity. However, one must consider whether such an investment fits in within the overall asset allocation plan and one's risk appetite before taking the plunge. If that investment idea does not work out, it may cause irreparable damage to the financial plan that may take years to recover from.

**Portfolio monitoring and re-evaluation**

Another common mistake that can have disastrous consequences is to 'invest and ignore'. Given a dynamic economy, different asset classes will be in and out of favour at different points in time, and hence there is a need to constantly monitor and rebalance one's portfolio from time to time.

Ideally, the financial advisor should lead the investor in doing so, but one should always keep an eye open on this. It certainly pays to look at the performance of different investments and track their performance on a regular basis

One of the most painful decisions in this process can be to 'Sell at a loss'. Sometimes it becomes necessary to dispose of an investment at a loss if one believes that it can lead to even larger losses in the future. Many investors choose to hang on to loss-making investments out of an irrational hope that somehow things will improve in the future and they will make good their losses.

In conclusion, the financial services industry is in a constant state of evolution, thus it is prudent that we follow these simple yet critical steps to ensure a successful transition of being a true investor.