Financial Literacy

It's Importance , Path to Financial Literacy and Freedom and Cautionary Warnings

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Purpose and Intent of Project

- Today , in our country , the masses seem to distrust the capitalistic system , due to the fear instilled in them by socialist leaders. They look as foreign companies as future colonisers that hope to imprison them akin to the British. As a believer in free market enterprise , I dismiss all of those baseless claims and wanted to educate those who are completely ill-informed in these matters. By using the stock market and investing with discipline and intelligence , they can improve their financial standards , prepare of financially difficult times and become less prone to scams.
- I plan to work with AB Carter India Pvt Ltd to work on this project , they will assist me as part of their CSR fund. I will be educating those workers on the AB Carter premises.

My AIM'S

- Will not fall for fake schemes , will teach you how to evade financial traps.
- Awareness , educates you on the smart places to invest , to multiply your money efficiently.
- No herd mentality , most losses made in investments result due to panic which is largely caused by "herd mentality".
- Prudent Planner , learning how to make budgets and plan family finances , decreases the need to take loans , frees up income for luxuries and prevents bankruptcy.
- Stops cycle of generational poverty , financial literacy helps elevate socio - economic standing , ensures a better and more prosperous future for children.

Challenges

- 1. Language Barrier : While I can understand Kannada , I am not fluent , I required the help of a translator who was proficient in both - English and Kannada.
- 2. Explaining Financial Terms : I tried to simplify the financial jargon to the best of my abilities but they seemed confused about most of the terms until further explanation , which required the use of an analogy , with something they were familiar with.
- 3. Trust : Most of the workers , especially the elders seem to have a deep distrust of the financial system. They have been prone to many scams , with the promos of quick and easy money. They also don't trust the government due to the experiences they've faced.

Budgeting ,Planning and Forecasting

- 1. Create Financial Forecast , this can be for 6 months or even a year. Calculate the total possible income for a fixed period.
- 2. Calculate total average daily expenses such as : food , shelter , medicines , school fees , transportation. Items that are bought / consumed on a daily or weekly basis.
- 3.Calculate possible periodic expenses , these are expenses not borne on a daily or weekly basis. Insurance , taxes etc.
- 4.Prioritze and categorize expenses , there are two types : basic expenses and quality of life expenses. Basic expenses are expenses that you cannot go without , quality of life expenses are those expenses that can be considered to be luxuries.
- 5. Using this information , create a budget , income on one side , expenses on the other , example is on the following page

Family Budget

Category	Monthly Budget	Monthly Actual	Difference	Notes
Income				
Salary				
Partner's salary				
Net Pay				
Alimony or other support received				
Other Income				
Total Monthly Income				
Expenses Fixed				
Mortgage or rent				
Property tax				
Insurance				
Day care				
Other loans				
Alimony paid				
Other				
Total Fix Expenses				
Expenses Variables				
Electric				
Gas/heating				
water/sewage				
Phone				
Groceries				
TV cable				
Credit Cards				
Eating out				
Parking				
Entertainment				
Clothes				
Gifts				
Other				
Total Variable Exp.				

Note: The Sum of the Total Monthly Expenses (Fixed + Variable) should be lower than Total Income

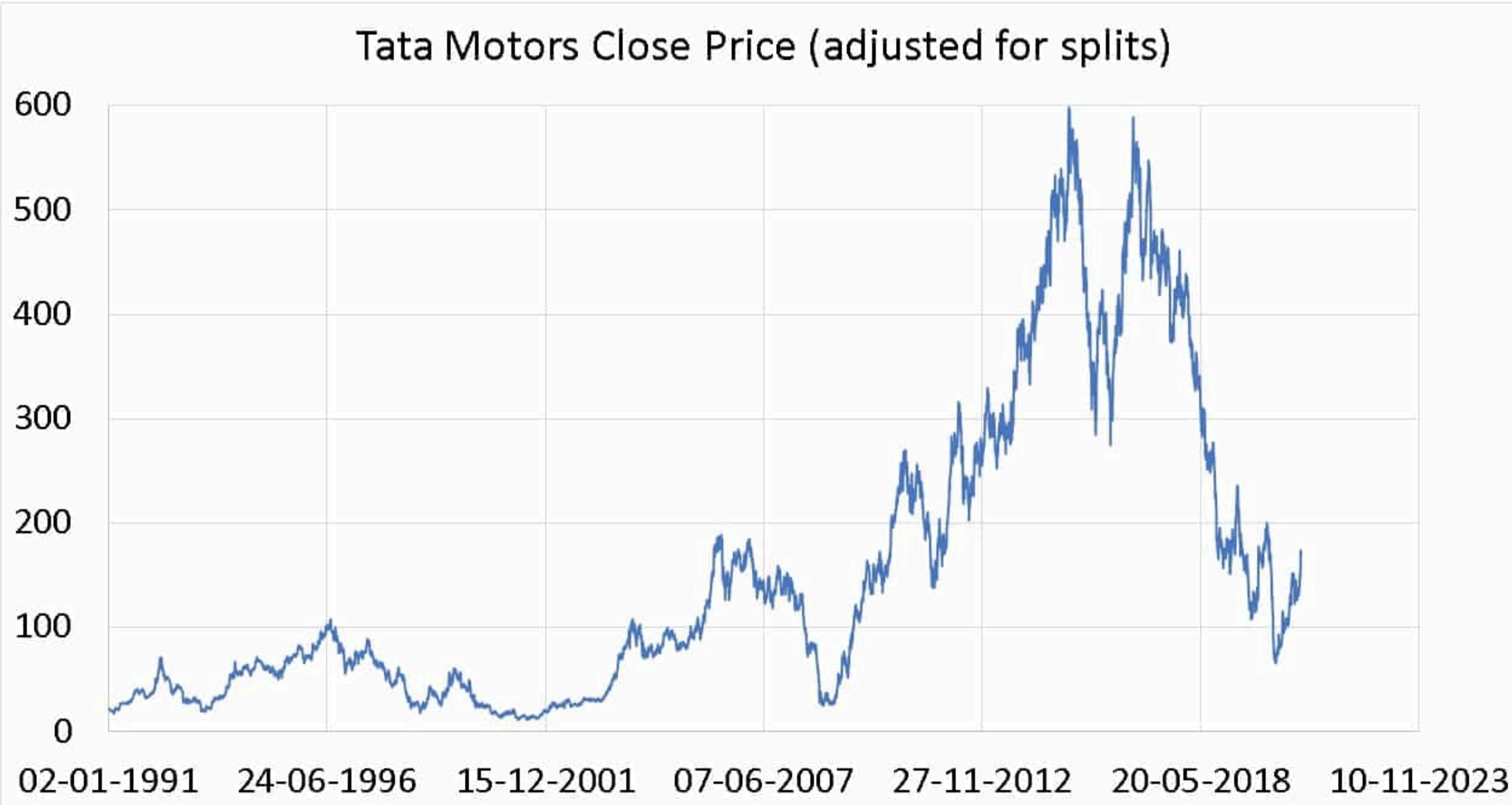
- 6. Live as frugally as possible , it may not be glamorous but it is better than being in debt , you will also be able to spend more extravagantly on larger events , such as marriages , houses and retirement.
- 7. Save each month for an emergency fund , ,one must be disciplined while doing this to prepare for unforeseeable events. Bad health ; heart attacks or organ transplants can be expensive and one never knows when they’ll need it. An emergency fight will provide you with the resources and safety net to weather anything.
- Additional Income , these are methods that involve little to no time but will grow your income significantly, examples are provided in the other chapters.

Investing - Different Methods

- 1. Direct Equity
- 2. Mutual Funds
- 3. SIP’S Systematic Investment Plans
- 4. Pradhan Mantri Vaya Vandana Yojana

Direct Equity

- When a company wants to raise money , they go to the stock market , they sell a certain part of their company to the general public , when the public buys a part of the company (called a share) , they raise money and they can use this money for whatever purpose they intend. By owning that share , you thereby become a part of their company.
- Example : A farmer who owns 5 acres of land wants to buy a tractor but can't get a loan , his family and friends won't give him money , he goes to the market and he says that I am willing to sell 1 acre to whoever wants to buy it , he says that he will sell 1 acre for 10 lakhs but even though you own 1 acre he will mange it.
- Why would a person do this is he can't farm on the land or use it for anything ? If the farmer uses the tractor to make more money , then other people will be interested in the company and they may offer you 12 lakhs for that 1 acre of land you own , if you sell it you will make 2 lakhs just like that. The same way , each company on the market has a fixed stock price , this can go up and it can also go down , if more people want the stock , the price will go up and you can make money on the difference , if fewer people want the stock then the price will go down and you will lose money. All of this depends on the company.


Tata Motors Close Price (adjusted for splits)
600
500
400
300
200
100
0
02-01-1991
24-06-1996
15-12-2001
07-06-2007
27-11-2012
20-05-2018
10-11-2023

Advantages and Disadvantages

- Advantages :
- 1. Capital Gains : The other source of return on investment apart from dividend (we will come to this later) is the capital gains. Gains which arise due to rise in market price of the share. These gains are generally higher than the other forms of investment.
- 2. Limited Liability : Liability of shareholder or investor is limited to the extent of the investment made. If the company goes into losses, the share of loss over and above the capital investment would not be borne by the investor. If the company goes bankrupt , you will not be expected to help them pay of their debts.
- 3. Dividend : An investor is entitled to receive a dividend from the company. It is one of the two main sources of return on his investment. Companies are not bound by the law to do this but do this to make stock more attractive or reward investors. Ex. ITC's dividend in 2020 was 5.8 % of their stock price , if stock price was 100 , then you would receive Rs.5.8 , if you owned 20 shares , you would receive Rs.116.
- 4. Liquid : The shares of the company which is listed on stock exchanges have the benefit of any time liquidity. The shares can very easily transfer ownership. You can sell stocks whenever you want.

- Disadvantages :
- 1. Dividend : The dividend which a shareholder receives is neither fixed nor controllable by investor. The management of the company decides how much dividend should be given. If there is a loss, there is no question of dividend. If there is a profit, unless Board of Directors (a group of individuals who set up management policies and have absolute control over the company) propose dividend, investors will not receive dividend.
- 2. Risk : Equity share investment is a risky investment as compared to any other investment like debts etc. The money is invested based on the faith an investor has in the company. There is no collateral security attached with it , if the company becomes insolvent , you will lose everything you put into it.
- 3. Fluctuation of Market Price : The market price of any equity share has a wide variation. It is always very difficult to book profits from the market. On the contrary, there are equal chances of losses.
- 4. Time Consuming : Investing directly in the stock market requires a great deal of time , patience and discipline. Understanding the complexities of the stock market and reading company accounts requires much study and experience.

Mutual Funds

- What is it : A mutual fund is an investment vehicle where many investors pool their money to earn returns on their capital over a period. This corpus of funds is managed by an investment professional known as a fund manager or portfolio manager. It is his/her job to invest the corpus in different securities such as bonds, stocks, gold and other assets and seek to provide potential returns. The gains (or losses) on the investment are shared collectively by the investors in proportion to their contribution to the fund.
- Example : If a farmer goes to the market and asks for money from whomever will give it to him , he clearly explains what he will do with your money. A 100 people give him 1000 each , he will have 1 lakh , he will take that one lakh and invest it in various crops , once he sells the crops , he will keep a little money for himself and distribute the remainder of the profits to the other investors , he tells them - they can keep the money or they can give it back to him so that he can invest money in crops next year as well and try to make a profit once again.

- Why Invest in Mutual Funds ?
- 1. Professional Expertise : Consider a situation where you purchase a new car. But the catch here is that you don't know how to drive. Now, you have two options:
- i) you can learn how to drive
- ii) you can hire a full-time driver
- In the first scenario, you would have to take driving lessons, pass the driving test and obtain a license. But if you don't have the time for driving classes, it is better to opt for a driver. Same is the case with investments.
- Investing in financial markets requires a certain amount of skill. You need to research the market and analyse the best options available. You need knowledge on matters such as macro economy, sectors, company financials, from an asset class perspective. This requires a significant amount of time and commitment from you.
- But if you don't have the skill or the time to delve deep into the market, investing in mutual funds can be an excellent alternative. Here, a professional fund manager takes care of your investments and strives hard to provide reasonable returns. And just as you would pay the driver for his chauffeuring services, you have to pay specific fees for the professional management of your mutual fund investments.
- 2. Returns : One of the biggest mutual fund benefits is that you have the opportunity to earn potentially higher returns than traditional investment options offering assured returns. This is because the returns on mutual funds are linked to the market's performance. So, if the market is on a bull run (rising stock prices) and it does exceedingly well, the impact would be reflected in the value of your fund. However, a poor performance in the market could negatively impact your investments. Unlike traditional investments ,mutual funds do not assure capital protection. So do your research and invest in funds that can help you meet your financial goals at the right time in life.
- 3. Diversification : You may have heard the saying: Don't put all your eggs in one basket. This is a famous mantra to remember when you invest your money. When you invest only in a single asset, you could risk a loss if the market crashes. However, you can avoid this problem by investing in different asset classes and diversifying your portfolio.You may have heard the saying: Don't put all your eggs in one basket. This is a famous mantra to remember when you invest your money. When you invest only in a single asset, you could risk a loss if the market crashes. However, you can avoid this problem by investing in different asset classes and diversifying your portfolio.

- Types of Mutual Funds :
- 1. Asset Class Based : The three types are Debt Funds , Equity Funds and Hybrid Funds.
- Debt Funds : Debt funds (also known as fixed income funds) invest in assets like government securities, the government offers “bonds” to the general public , the government bond is a guarantee you buy from the govt saying that they will pay you back , it can be 3,5 or 10 years but they will eventually pay you back , longer the time period , the larger is the interest the government will pay you , you can trust the government on this.Corporate bonds ares the same as government bonds but these are companies that are asking you for a loan. These funds aim to offer reasonable returns to the investor and are considered relatively less risky. These funds are ideal if you aim for a steady income and are averse to risk.
- Equity Funds : In contrast to debt funds, equity funds invest your money in stocks. Capital appreciation is an important objective for these funds(focus on growth rather than safety). But since the returns on equity funds are linked to market movements of stocks, these funds have a higher degree of risk. They are a good choice if you want to invest for long term goals such as retirement planning or buying a house as the level of risk comes down over time.
- Hybrid Funds : Hybrid funds invest in a mix of both equity and fixed income securities. Based on the allocation between equity and debt (asset allocation), hybrid funds are further classified into various sub-categories.
- 2. Structure Based : Open ended and Close ended
- Open Based : Open-ended funds are mutual funds where an investor can invest on any business day. These funds are bought and sold at their Net Asset Value (NAV) , like a stock mutual funds also have prices at which they can be bought and sold. Open-ended funds are highly liquid (easy to sell and buy) because you can redeem your units from the fund on any business day at your convenience.
- Close Ended : Close-ended funds come with a pre-defined maturity period. Investors can invest in the fund only when it is launched and can withdraw their money from the fund only at the time of maturity. These funds are listed just like shares in the stock market. However, they are not very liquid because trading volumes are very less.

- 3. Investment Objective : Based on the reason you are investing you are money.
- 1. Growth Funds : The main objective of growth funds is to multiply your money as quickly as possible. These funds put a significant portion of the money in stocks. These funds can be relatively more risky due to high exposure to equity and hence it is good to invest in them for the long-term. But if you are nearing your goal, for example, you may want to avoid these funds.
- 2. Income Funds : As the name suggests, income funds try to provide investors with a stable income. These are debt funds that invest mostly in bonds, government securities and certificate of deposits (FD but you can negotiate interest rates), etc. They are suitable for different -term goals and for investors with a lower-risk appetite.
- 3. Liquid Funds : Liquid funds put money in short-term money market instruments like treasury bills, Certificate of Deposits (CDs), term deposits, commercial papers and so on. Liquid funds help to park your surplus money for a few days to a few months or create an emergency fund.
- 4. Tax Saving Funds : Tax saving funds offer you tax benefits under Section 80C of the Income Tax Act. When you invest in these funds, you can claim deductions up to Rs 1.5 lakh each year. Equity Linked Saving Scheme (ELSS) are an example of tax saving funds.

Advantages	Disadvantages
1) Portfolio Diversification	1) No Tailor-Made Portfolio
2) Risk Management	2) No Control Over Cost
3) Professional Management	3) Managing a Portfolio of Funds
4) Reduction of Transaction Cost	4) Dilution
5) Liquidity	
6) Well Regulated	
7) Transparency	
8) Convenience to Unit Holders	

SIP'S Systematic Investment Plan

- What is it : A Systematic Investment Plan (or SIP) is an investment mode through which you can invest in mutual funds. As the term indicates, it is a systematic method of investing fixed amounts of money periodically. This can be monthly, quarterly or semi-annually etc. When you invest steadily in this manner, it can become easier to meet your financial goals.
- How Does it Work : When you invest through a SIP, you invest a fixed sum of money in a given period. This amount lets you purchase a certain number of fund units. If you continue to do this for a long time, you get to invest in the fund during the highs and lows. In other words, you don't need to time the market to make your investments. Market timing can be a risky proposition as one can invest at the wrong time. SIP investments remove this factor of unpredictability.Having decided on the investment tenure and frequency, you can choose to automate your investments. Give a standing instruction to your bank to transfer the amount directly from your bank account into the mutual fund SIP of your choice, on a fixed date every month (or quarter) etc..

- Benefits
- 1. Power of Compounding :

Power of Compounding

- The following table shows how much your money would grow when you invest a fixed amount per month over a period of 5,10, 15, 20, 25, and 30 years at following interest rates:

Rs.1,000 Invested Monthly Amount (Rs)					
Years	8%	10%	15%	20%	25%
5	73,967	78,082	89,682	103,454	119,844
10	184,166	206,552	278,657	382,364	532,805
15	348,345	417,924	676,863	1,134,295	1,955,785
20	592,947	765,697	1,515,955	3,161,479	6,859,095
25	957,367	1,337,890	3,284,074	8,626,708	23,754,942
30	1,500,295	2,279,325	7,009,821	23,360,802	81,974,715
					Excel

- 2. Low initial investment : Low initial investment You can invest in mutual funds through a SIP with just Rs. 500 per month. This can be an affordable way to invest each month without hurting your wallet. You can increase your monthly investment amount with a rise in your income via SIP step-up feature. Mutual fund houses allow investors to top up their SIPs on a regular basis. So, even if you start with Rs. 500 or Rs. 1,000 every month, you can invest more over the years. This strategy can help you reach your investment goals at a faster rate.
- 3. Convenient : SIP can be a convenient mode of investing. Like most investors, you may not have the time for extensive market research and analysis to adjust or balance your portfolio. So, once you pick a good fund, you can give standing instructions to the bank and let the SIP take care of your monthly investments.

- Notable SIP and Mutual Funds :

Fund Category	Fund Name	1 Yr Return	3 Yrs Return	5 Yrs Return	10 Yrs Return
Large Cap Fund	Franklin India Bluechip Fund (G)	11.98%	17.26%	9.73%	16.58%
	S&P BSE Sensex (Benchmark for Fund)	2.31%	13.66%	6.37%	13.02%
	ICICI Pru Focussed Bluechip Fund (G)	7.38%	18.63%	11.11%	-
	CNX Nifty (Benchmark for Fund)	3.50%	13.38%	6.45%	12.98%
Large and Mid Cap	Franklin India Prima Plus Fund (G)	18%	23.85%	13.89%	19.33
	CNX 500 (Benchmark for Fund)	6.96%	15.30%	6.61%	12.54%
	ICICI Pru Dynamic Fund (G)	3.50%	18.67%	10.95%	18%
	CNX Nifty (Benchmark for Fund)	3.50%	13.38%	6.45%	12.98%
Small and Mid Cap	HDFC Mid Cap Opp Fund (G)	19.33%	20.02%	17.85%	-
	CNX Midcap (Benchmark for Fund)	16.53%	19.47%	7.27%	-
	Reliance Equity Opp Fund (G)	11.44%	21.37%	14.07%	20.07%
	S&P BSE 100 (Benchmark for Fund)	4.00%	13.87%	6.18%	13.03%
Balanced Fund	HDFC Balanced Fund (G)	13.99%	21.04%	13.95%	16.92%
	Category	11.27%	16.55%	10.17%	13.19%
	ICICI Pru Balanced Fund (G)	9.95%	20.70%	14.44%	14.41%
	Category	11.27%	16.55%	10.17%	13.19%
Tax Saving Funds	Franklin India Tax Shield (G)	17.38%	23.76%	14.47%	17.99%
	CNX 500 (Benchmark for Fund)	6.96%	15.30%	6.61%	12.54%
	ICICI Pru Long Term Equity Fund (G)	8.46%	22.43%	12.34%	15.63%
	CNX 500 (Benchmark for Fund)	6.96%	15.30%	6.61%	12.54%
Note-Values as on 23rd Oct, 2015 (VR)					

- Pradhan Mantri Vaya Vandana Yojana (PMVVY)

- This is a Pension Scheme announced by the Government of India exclusively for the senior citizens aged 60 years and above which was available from 4th May, 2017 to 31st March, 2020. **The scheme is now extended up to 31st March, 2023 for a further period of three years beyond 31st March, 2020.**

- Features :
- Scheme provides initially an assured rate of return of 7.40 % per annum for the year 2020-21 per annum and thereafter to be reset every year. For Financial Year 2021-22, the Scheme shall provide an assured pension of 7.40% p.a. payable monthly.
- This assured rate of pension shall be payable for the full policy term of 10 years for all the policies purchased till 31st March, 2022.
- Pension is payable at the end of each period, during the policy term of 10 years, as per the frequency of monthly/ quarterly/ half-yearly/ yearly as chosen by the pensioner at the time of purchase.
- Scheme is exempted from GST
- On survival of the pensioner to the end of the policy term of 10 years, Purchase price along with final pension installment shall be payable.
- The scheme also allows for premature exit for the treatment of any critical/ terminal illness of self or spouse. On such premature exit, 98% of the Purchase Price shall be refunded.
- On death of the pensioner during the policy term of 10 years, the Purchase Price shall be paid to the beneficiary.
- The ceiling of maximum pension is for a family as a whole, the family will comprise of pensioner, his/her spouse and dependants.
- The shortfall owing to the difference between the interest guaranteed and the actual interest earned and the expenses relating to administration shall be subsidized by the Government of India and reimbursed to the Corporation.

Pradhan Matri Vaya Vandana Yojana for Senior Citizen				
Frequency of payment	Minimum		Maximum	
	Purchase Price	Annuity	Purchase price	Annuity
Yearly	1,44,578/-	12,000/-	7,22,892/-	60,000/-
Half-yearly	1,47,601/-	6,000/-	7,38,007/-	30,000/-
Quarterly	1,49,068/-	3,000/-	7,45,342/-	15,000/-
Monthly	1,50,000/-	1,000/-	7,50,000/-	5,000/-