Ten Steps to Financial Success

By FinanceTrain.com

Introduction

The objective of this ebook is to help you become financially successful, to help you save, and grow your money.

It is definitely not an easy task because the kind of society that we live in today calls for us to spend every penny that we earn immediately, or often, even before we have earned it. Most people in the cities live from paycheck to paycheck without having any clue of their future. However, every one of us understands the importance of and dreams about becoming financially independent, saving for their future, and giving back to the society.

To maintain a certain lifestyle most of us walk fast and furiously on the conveyor belt of debt. Time and money are the big luxuries most people seek now. We want it all and fast. That apartment, the HD TV, that vacation in Europe, the PlayStation and so on. Unfortunately many of these do not get funded by our current revenue streams, and so we seek debt. Pretty soon, we have a lot and spend more time servicing the debt we took to buy them.

Introduction (Continued)

It is not uncommon now to see people from both rural and urban end their lives due to high financial liabilities. Many of us find it extremely hard to come out of these debt traps. A long realistic look at our finances, expenditures and investments is long due.

The financial legacy we leave our children cannot be a mountain of debt!

There is always a way out.

You need to take control of your finances and get onto the path of becoming financially successful. That's the purpose of this short ebook. In this ebook, I lay down ten simple but effective steps that you can follow to build a better, financially successful, stress free future.

The Ten Steps

1. Get Out of Debt
2. Create an Emergency Fund
3. Set Your Financial Goals
4. First Save, and then Spend Money
5. Plan Your Expenditure
6. Invest in the Right Instruments
7. Automate Your Finances
8. Earn Extra Money
9. Review Your Investments
10. Keep Yourself Updated

Step 1: Get Out of Debt

I decided to put this as the step number one towards becoming financially successful because I think this is the most responsible factor that eats away your money.

No, I am not talking about the home loan here (even though I feel even that should be avoided or minimized). I am talking about personal loans, credit card debt, and buying items on EMIs.

The way financial products are promoted to us everyday, most of us have started to believe that that's the correct way of life. If you see a new mobile phone in the market, so what if you don't have money, you can always buy it on installments, and pay bit by bit. Unlike our elders, we don't have the patience to first save the money and then buy things that we want. We somehow want everything right now. Unfortunately that's not going to help if you are seriously thinking about building wealth.

Step 1 (Continued)

You need to get out of debt, right now! Start by making a consolidated list of all the debt you have, including personal loans, credit card outstandings on all credit cards, EMIs, etc. Prioritise which ones you want to pay first based on the interest being charged. Depending on your capacity make a plan for within how much down you want to become debt-free.

The credit cards outstanding will most likely be the first on your list to be tackled. For most credit cards, you will be paying not less than 3.2% as interest per month. This needs to be eliminated first. Even if you don't have sufficient money to clear this debt, find out alternative means to reduce the interest. For example, you can use the balance transfer offers, which can help you lower the interest payment. You should also explore borrowing money from family and friends if need be.

Make a commitment to yourself that you will clear all your loans within a stipulated time frame. This time frame doesn't have to be one or two months. Your plan can stretch to one year or two years. Remember that you won't build your wealth overnight. rather, it a slow process and can take many years.

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Step 2: Create an Emergency Fund

Most people including me have been living on paycheck-to-paycheck every month, without saving a rupee. But what happens when an emergency arrives (e.g., falling sick, or losing a job) or you have an unexpected expense (e.g., car breakdown)? Since you spending all your money in the same month and have no emergency fund, you are most likely to fund this emergency through credit cards or hand loans, and then to payback that loan will be a burden.

Having an emergency is as important as getting out of debt. I would suggest that you build an emergency fund even before you start tackling your debt. Decide how much money you should have in your emergency fund and start building it. An amount equivalent to your 6-months income is ideal for your emergency fund.

Having a fund for a rainy day build confidence, gives you peace of mind, and allows you to focus on the larger goal of wealth creation.

Step 3: Set Your Financial Goals

"If you don't know where you are going, any road will take you there."

What's your financial goal? By what age do you want to become financially independent? What kind of a lifestyle do you want?

Everyone has different expectations from their life and lead a different lifestyle. Someone may be willing to live a simple, frugal life in their desire to have a good tension-free retirement. Someone else may want to have a luxurious lifestyle, and at the same time wants to retire early. Someone else may instead be wanting build wealth for their children.

Step 3 (Continued)

It's only you who needs to decide what your financial goals are. Unless you set these goals, you will not be able to measure your efforts. For example, suppose you are aged 30 today, want to retire by the age 50, and should have Rs. 2 crores when you retire. That could be a financial goal. You need to breakdown this goal into a monthly savings plan.

You need to save Rs. 30,000 per month for the next 20 years and invest it at 9% interest rate, for it to become Rs. 2 crores. This is a principal investment of Rs. 72 lakhs, and interest earned of Rs. 1.28 crores.

If this was your goal, you would need to see if you can save Rs. 30,000 per month and invest them in the financial instruments that give you atleast 9% return. If it's not possible, you need to reassess and make your goals more realistic. You can set a smaller goal, decide to work for a few extra years, or try to earn more money.

Step 4: First Save, and then Spend Money

Once you have clearly identified your financial goals, it's time to get into action. You need to be true with your goals, and change your spending habits to accommodate the desired amount of saving.

The best way to do it is to first save the money as per your goals, and then spend the remaining on your needs. This may be difficult in the beginning as you will notice that you have much lesser money to spend than in the previous months. However, if you are serious about wealth creation, you will get used to it.

Remember that you will be able to execute this only if you have set realist goals. if you want to save Rs. 10,000 per month, it won't be possible if you have an income of only Rs, 15,000 per month.

Step 5: Plan Your Expenditure

The previous step of saving and then spending could be done effectively if you plan your expenditure properly. You need to be conscious about how you are spending your money. You will be surprised to see how much of your money goes into unnecessary expenses, which you could have easily avoided. For me it's always been into dining out.

Once you know where your money is going, you can start allocating budget for each activity. For example, you don't have to stop dining out completely. Instead, you can fix a budget for how much money you can spend each month on eating out.

Step 6: Invest in the Right Instruments

Saving money itself is not enough. As in our example, if you are saving Rs. 30,000 per month for the next 20 years, you would have actually saved Rs. 72 lakhs. That's the amount without any interest earned.

You need to take advantage of the power of compounding interest rate, you make your money grow.

Again, in our example, because we invested every month at an average interest rate of 95, the total money grew to Rs. 2 crores, which includes a principal amount of Rs. 72 lakhs, and interest earned of Rs. 1.28 crores.

This would not be possible without the power of compounding interest.

Step 6 (Continued)

So, you need to act on the money you save and invest in the financial products that will fetch you the desired interest rate. You need not put all your money in one type of financial instrument; rather diversify your investment and invest in 3-4 different kind of products.

For example, some money can be put in long-term fixed deposits, some and be invested in mutual funds, and stocks. You can also look at post-office deposits. Being in India, we are also inclined towards investing in gold, which is a very good saving option. You may also want to keep some money aside to buy a property. Overall you need to aim at a higher return from your investments.

You will find lots of investment ideas on the FinanceTrain.com.

Step 7: Automate Your Finances

We live in the age of Internet and automation, and personal finance is no exception. Most banks now offer internet banking, and allow you to automate many routine transactions, such as paying your bills, saving and investments. You can setup your saving accounts such that your utility bills are automatically paid off before their due date. Similarly you can give standing instructions to transfer a pre-defined amount of money in a systematic investment plan. You can even automate transfer of funds from one account to another account on a pre-set date.

The main advantage of automating these transactions is that there is very little chance of messing up, you save time, and in the end you know how much money you are left with to spend.

So, go and find out from your bank about these facilities.

Step 8: Earn Extra Money

You can cut down on spending, and use the right financial products to reach your financial goals. However, if you want to put your plan on the fast track, you need to boost your income by earning extra money. By earning extra income, you will be able to ease up your current situation and at the same time contribute more towards your savings.

There are various ways to earn extra income:

- Don’t shy away from asking an extra raise from your employer
- Consider changing jobs if your current pay is not satisfying
- Take up a second job if needed. this may be a temporary solution, but it needs to be done if you are lagging behind in your financial plan. However, I will recommend this only in extreme situations, as financial success should not come at the cost of burning out your present.

Step 8 (Continued)

- Capitalise on your skills. If you have a skill or a hobby that you can earn money from, start doing it right way. For example, a friend I know has taken her jewellery making hobby and turned it into a profitable business. Many people I know take tuitions in the mornings and evenings to earn that extra income.
- Sell the items you don't need. This not only helps in earning that extra income, but also helps you de-clutter you life. That old bicycle you don't use, children's toys, and many such items just need to be sold. Now there are even online options such as Quikr, where you can post the items you have and people in need will call you asking for them. I've sold many items in this way, such as a mattress, and a water cooler.

This extra money can help you with building your emergency fund or paying off your debt.

Step 9: Review Your Investments

Reviewing your investments would be an easy task if you have followed your investment plan correctly.

Nonetheless, it is an important step and must be taken seriously. Every 3-months, or 6-months you should consolidate your investments and assets and assess your net-worth. Find out if you are on track or are lagging behind.

If your FDs have matured, it's time to reinvest the money. if you have invested in mutual funds, you need to review how the fund is doing and if you need to switch to a better plan. If you want to buy land, be on the look out for good deals. regularly check the BDA site, and apply for a site, as you will get the site at government rates. Don't leave any stone unturned, when it comes to getting a better bargain for your money.

Step 10: Keep Yourself Updated

Financial literacy is important and the world of financial products is ever changing. You need to constantly update yourself and make changes to your portfolio such that it yields maximum benefit.

You can subscribe to Finance Train and receive regular updates including the saving and investment ideas. Subscribing here will be a worthwhile investment!

Concluding Thoughts

The key thing is that everyone can be financially successful, and have a secure retirement. I am doing it and so can you.

No, you don't have to follow every step listed in this book. this is just a guide to show you the path to financial Independence. However, every individual is different and need to adopt the tips provided here to their requirements. Whatever method you follow, I urge you not to lose heart and keep at it. As the Chinese philosophers Lao-Tzu said, "**A journey of a thousand miles begins with a single step**". Success is bound to be yours.

Best of luck for your financial success!