

10 Steps to Financial Freedom

GREETINGS FROM ETHOS WEALTH MANAGEMENT (P) LTD.

Financial planning should not be difficult or confusing. The below steps recommended by Ethos Wealth are simple and straightforward. If you don't understand an investment, you should not invest in it. Same is true for a plan to build wealth; if you don't understand it, chances are it's not going to work for you. Ethos uses 10 steps to take your finances from where you are to where you want them to go.

1. Create a written spending plan

A budget, or spending plan, is the single most powerful and practical tool for wise money management. It is the foundation for the 10 Steps towards Financial Freedom. Money that comes in with each paycheck but does not have a written purpose will mysteriously vanish! You'll wonder why your money doesn't last for the entire month - it is because you didn't have a written plan!

No one wakes up in the morning excited about putting together a budget. Using a budget is not the goal, it is simply a *means* to your goal. Do you want to become debt free? Buy a house? Take a special trip? Now *those* are goals that will get you up in the morning, and using a budget will help you get there!

2. Create a beginner emergency fund

You will not be able to achieve your goal of becoming debt free if you do not have savings – small cushion to fall back on while getting started. It is advisable to put aside Rs. 20,000 – Rs. 50,000 in case an emergency comes up while you are beginning to implement and manage your comprehensive financial plan.

3. Get your employer's match

If your employer matches part of your retirement savings, through a qualified retirement plan, save an amount to maximize this match. Many employers match rupee-for-rupee to a certain percentage of your monthly savings. This is like getting a 100% return on your investment! If your employer does not offer a retirement savings match, proceed to step 3.

4. Get out of debt

List out all of your debt (except home -that comes later). Some choose to list the debts smallest to largest based on the balance, others choose to list debts largest to smallest based on interest rates. For

most individuals and families the smallest balance method works best because paying off that first debt, even if it is a small amount, is a victory! That victory gives you momentum to pay off the next largest debt and the next largest debt and the next largest debt... you get the picture.

The right way depends on you; the goal is to pick one debt and attack it! While attacking that debt, all other debts get only minimum payments. When the first debt is paid off, you take the payments you were making on the first debt and add that money to the minimum payments you were making on the second debt. Now that second debt is in focus, it automatically gets eliminated faster rate than the first. This process is continued until all debts are gone!

5. Expand your emergency fund

Rain falls on the just and unjust alike. Everyone is going to have an unexpected home or auto repair, a job loss or an unplanned medical bill. By expanding your emergency fund from your beginner balance to 3-12 months of living expenses you will have gone a long way to eliminate the “what if” stresses in your life. Emergencies which used to be financially disastrous are now merely an inconvenience.

Your money should bring a sense of peace, not stress or worry. Ethos Wealth recommends the following emergency fund:

- Single person: save and set aside 3 months of expenses
- Two income family with stable jobs: save and set aside 3-6 months of expenses
- Single income family or two income with unstable jobs: set aside 6-9 months of expenses
- Self-employed family: save and set aside 9-12 months of expenses

6. Save for a major purchase

You’ve started saving for retirement, paid off all your debts and set aside enough money to cover any unforeseen emergencies. Great job! If you need to save for a down payment on a house or to pay cash for a car, this is the step. Save at least 20% of the home price for a down payment. Never finance an automobile purchase; always save enough to pay for a vehicle purchase.

7. Invest for retirement

The younger you start, the longer your money has to grow (compounding effect). There is a benefit to saving early; Ethos Wealth recommends saving the following percentage of your annual pre-tax (gross) income into your retirement account(s), based on when you start saving:

Starting in your 20’s: save 5-10%

Starting in your 30’s: save 10-15%

Starting in your 40’s: save 20-25%

In step 2, once you have begun to put aside money for your retirement, we need to understand the

time-frame of your retirement. Investing in FD's (30% taxes), PPF (growing at 7.5%), Insurance or Child Plans is not the most efficient way to accumulate wealth for your retirement. Find more tax efficient ways to grow your money, where it at least beats Indian inflation of 9%. Your golden years should be filled with satisfaction and dignity; you must start planning for those years now in order to make that happen!

8. Invest for college

If you have children, then you will need to worry about paying for college. The earlier you start saving money for education, the more funding you will be able to accumulate, the better off you and your kids will be.

College tuition inflation averages around 9 to 11% per year (much higher than standard inflation). Because college costs are growing rapidly, you will want to be sure to use tax-advantaged accounts to their fullest extent.

9. Pay off your home

Now that you have your debts gone, retirement funded and children ready for school, it's time to pay off your home. For most individuals this is often your largest monthly payment. An EMI payment is a tax-deductible expense! If you are in the 30% tax bracket, it is highly advised to study your cash inflows and outflows to better understand an optimum re-payment schedule.

10. Creating Wealth

Your debts are zero, your savings are full, your retirement is funded and your children are financially ready for school and now you live in a paid for home – wow!

Finally, your money has the opportunity to start earning money for you!

Taking all the payments you used to make earlier for EMI's, retirement planning, education planning etc., is what you should efficiently use to help you Create Wealth. Creating wealth by understanding current, tax-efficient investment opportunities is where Ethos can truly guide families.

Creating Wealth is about receiving high returns with the lowest amount of risk, being tax-efficient, getting right amount of Life Insurance cover, right amount of Health Insurance cover post retirement etc.

But wait, it's not over yet... building wealth should not be your only goal. You now have the financial freedom to live your dreams and bless others through your resources!

Contact Ethos Wealth for all your Financial Concerns!

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