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Financial Planning By Millennials

India has traditionally been a nation of savers, but this preference for savings is now witnessing a paradigm shift. Today's youth, primarily the millennials, believe more in living life to the fullest today instead of saving for tomorrow. Whether it is buying a new smartphone or owning the latest car, millennials do not shy away from having a lifestyle, even though it may cost higher than what their finances may permit. Thus, there are always high chances of having a financial profile that has lower savings, higher expenses, and higher debt to fuel the consumption expenditure. No wonder, one needs to adopt a systematic approach towards financial prosperity, which will include prioritising monetary goals, understanding the expenses, and then chalking out a realistic strategy.

It is said, "when you do not know your destination, any road will take you there." Financial goals are akin to the destination one must set while boarding the investment journey. Everyone tends to have specific financial goals, even if such goals have not been formally documented. Such goals may be short term like dream holiday, buying a car etc. or long term goals like retirement planning, having a big house, child's education etc. It is always helpful to know the financial goals in advance, as it helps you to quantify the progress that has to be made to achieve those financial goals. The millennial population tends to have clarity in respect of what their goals in life are, be it life goals, career goals and even financial goals too. As such, they are generally straightforward in their financial aspirations, thus helping them to chalk out a clear strategy to achieve such goals in a time-bound manner.

Once the financial goals (destination) have been determined, the next step is to choose the right investment vehicle for the investment journey. One can invest in various options according to their risk appetite. With mutual funds offering different options to investors with different risk profiles and age groups, investing has now become easier for the savers. Millennials tend to be more inclined towards investing in equity funds, which have an aggressive investment strategy. At the same time, longer investment horizon with higher equity allocation also helps as equities tend to perform well over long term. Investing in an investment product generating lower returns can prove to be virtual waste of money. For example, if one invests Rs 10,000 per month for 20 years in an investment product generating 12% annualized returns, one can accumulate an investment portfolio of Rs 1 crore. As against this, if the investments generate 8% returns, the portfolio will only be valued around Rs 59 lakh.

Systematic Investment Plans (SIPs) inculcate a sense of financial discipline into lives as savings are regularly channelised into specified mutual funds chosen by the investor. The journey to financial prosperity needs to pass through the road of financial discipline, which not only calls for regular savings, but also staying invested amid ups and downs of market.

Another important aspect of prudent financial planning by millennials is to stay debt-free to the extent possible. One must take debts only for funding purchase of productive assets and luxury expenses should be met through savings. EMIs on personal loans and credit cards generally reduce disposable surplus and hence savings to achieve financial goals faster. In any case or situation, one must always avoid falling into the debt trap.

The concept of financial independence and early retirement is also gaining popularity steadily amongst the millennials, thereby leading to lesser time available for their investments to compound and grow. As such, it is always good for them to start investing early. For example, if one starts investing Rs 10,000 per month at the age of 30 and wishes to retire by the age of 50, one would be able to accumulate the retirement corpus of approximately Rs 1 crore, assuming the investments generate 12% annualized returns. However, if one starts investing the same amount five years earlier, the retirement corpus can grow to Rs 1.90 crore, keeping everything else constant.

A wise man once said, "Best time to start investing was 20 years ago; the second-best time is right now." So, one must make use of the most significant asset with them and 'time' to help their investment portfolio work hard for them. You only need to give time to your investments, and it can create wonders for your retirement corpus.

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