FACILIS FINANCITIO

FINANCING MADE EASY

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Commerce Department

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EDITORIAL NOTE

"Sometimes a change of perspective is all it takes to see the light". We, the Commerce batch of 2023-24 believe in the ideology of encountering problems by putting on rose tinted shades. With the creation of this financial journal "FacilisFinancitio" (Financing made easy) we aim to provide easy understanding of how the finance world works.

Financial education has far been neglected which leaves most of us unaware of how to make good use of our earnings or how to manage our earnings. In this edition, we embark on a journey through the nuances of personal finance, unravelling the tapestry of investment, savings, taxation and the wealth building strategies employed by successful individuals.

When we were bestowed with this idea of creating a journal about finance, our commerce department could not be any happier and straight up got started with the work. "A knowledge kept unshared is a knowledge wasted" so we are happy to present to you the 1st edition of our financial journal. This would not have come into existence without the evergreen minds of the teachers from our department and our respected Principal's grant. We express our gratitude to all the readers for taking your time to understand our insights,the designated teachers for guiding us throughout the process and the team for being consistent and cooperative to bring this mere idea to life.

As you delve into the articles within, envision this as your roadmap to financial success, where each piece serves as a building block towards a more secure and prosperous future. Wishing you financial success!

INVESTING

Investing is the strategic allocation of funds to assets with the aim of generating returns over time. It involves assessing risks, understanding market trends, and selecting suitable financial instruments. Successful investors master the delicate balance of risk and reward, weaving a tapestry of diversified portfolios.

MISCONCEPTIONS OF INVESTING

In our societal landscape, the practice of investing is not as widespread as one might expect. This relative unfamiliarity, has given rise to a variety of misconceptions surrounding the term "investing." Therefore, it becomes imperative to engage in a comprehensive discussion to unravel and dispel these misconceptions, thereby fostering a deeper understanding of the nuanced world of investments.

Here, we will discuss four common misconceptions of investing.

1. "You need to be rich!"

In the past, the barrier to entry for investing was often higher, and access to financial markets was limited. However, the idea that one needs to be extremely wealthy to invest has evolved over time. With the advancements in financial markets, technology, and the availability of various investment vehicles, individuals can even start investing with a capital of 100rs.

2. "It's a quick way to make money!"

Social media influencers often suggest that it's easy to make money on high-risk investments. But don't be fooled. In reality, successful investing generally involves a long-term approach, strategic planning, and an understanding of risks. While investments can yield returns over time, there's no guarantee of quick wealth.

3. “It’s too risky!”

Yes, there are risks involved in investing, that’s why it comes with a warning. But it’s never too risky. It is all in our knowledge and how we utilise it. If we don’t take a little bit of risk, we will never grow. Henceforth, financial knowledge is important.

4. “You need to lock away your money!”

You have probably read that ‘an investment should be seen as a medium of long-term commitment’ or ‘you should hold your investments for 5 or more years’.

This is because the longer you hold an investment, the more chances you have of holding something out of bumps.

This doesn’t mean you must physically lock your money away. With most investments, your money isn’t locked anywhere, and you can access your money at any time.Still, you shouldn’t treat an investment like a savings account. Withdrawing your money early could negatively affect your returns.

BENEFITS OF INVESTING

1. **Wealth Accumulation-** Investingprovides the opportunity for your money to grow over time, allowing you to accumulate wealth and potentially achieve long-term financial goals.
2. **Inflation Hedge-** Investing helps protect your purchasing power against inflation. Assets such as stocks and real estate have historically outpaced inflation, preserving the value of your money.
3. **Liquidity-** While some investments have lock-in periods, many can be sold or converted to cash relatively easily. This liquidity provides flexibility, allowing you to access funds when needed or take advantage of new investment opportunities.
4. **Income Generation-** Specific investments such as dividend-paying stock or bonds, can provide a steady stream of income, supplementing your regular earnings.

WAYS TO INVEST YOUR WEALTH

Venturing into the world of investing opens doors to financial growth and wealth accumulation. In this exploration, we will look into the diverse avenues of investing.

Stocks-A stock is an investment you make in a specific company. When you purchase a stock, you're buying a share (a small piece) of that company's earnings and assets and you also become a shareholder and own a portion of the company.

For instance, suppose you bought 500 shares of Titan company at Rs3 per share in 2003 so the total investment of shares would be Rs1,500. And in 2023 one share of Titan is valued around Rs3,400 so your initialinvestment of Rs1,500 would now be worth Rs17,00,000!

How investors make money

1. **Capital Gains**- Profits in the stock market are strategically made by buying of shares at a lower price and selling them when their value rises. Stock prices are influenced by the demand and supply in the stock market.
2. **Dividends-** Some companies may share their profits with the shareholders in terms of dividends. Through dividends, you can make a regular source of income through the stock market.

Mutual funds– Mutual Funds are a collective investment vehicle that collects and pools money from a number of investors and invests them in various securities. Mutual Funds allow an investor to diversify their portfolio, spreading investments across different assets to reduce risk.

For example, suppose you start a Systematic Investment plan (SIP) in a mutual fund where you invest Rs5,000 per month for a period of 15 years and you get an average return rate of 12% p.a. So after 15 years your invested amount of Rs9,00,000 would have turned into Rs25,22,880.

How investors make money

1. **Capital Gains-**Investors can make money in mutual funds through capital gains. When the fund manager sells securities within the fund at a profit, these gains are distributed among investors.
2. **Dividend distributions-** Some mutual funds may invest dividend paying stocks or bonds. Profits earned from these investments are distributed periodically to investors in the form of dividends.

Cryptocurrency- Cryptocurrencies are digital money that doesn’t require a bank or financial institution to verify transactions and it can be used for purchases or as an investment.

Imagine you bought 20 Bitcoins for Rs2,000 each in the year 2011. In 2023, one bitcoin sells for Rs30,93,000 so your initial investment in the year 2011of Rs40,000 would have turned into an impressive Rs6,18,60,000.

How investors make money

1. **Capital Gains**- Investors make money when the value of the cryptocurrencies they own goes up and they are able to sell them for a profit.
2. **Mining**- Crypto mining involves using powerful computers to solve complex mathematical problems, validating transactions on a blockchain and earning cryptocurrency rewards.

Real Estate- Real estate is the process of investing in lands and properties.

People looking to invest in real estate having less capital or without having to manage real estate directly might consider buying shares of Real Estate Investment Trusts (REITs) through the stock market.

How investors make money

1. **Rental income**- Real estate investors earn passive income through rental properties. By leasing out their properties, owners receive a regular rental income with minimal day-to-day involvement in property management.

2. **Capital gains-** Real estate capital gains occur when a property's value increases over time, allowing the owners to earn profits by selling it for a higher price than the purchase cost.

Bonds- Bonds are debt securities issued by governments to raise funds. Investors lend money to the government in exchange for periodic interest payments and the return of the principal at maturity.

How investors make money

1. **Interest payments-** Bonds provide regular interest payments, rewarding investors for lending them money.
2. **Capital gains-**Capital gains on bonds occur when one sells a bond for more than its purchase price. Fluctuations are influenced by interest rates.

Government Schemes-In India, government schemes serve as a strategic avenue for investments, fostering economic growth and social development. From infrastructure projects to welfare programs, these initiatives provide opportunities for individuals and businesses to benefit from a supportive framework designed to stimulate investment across diverse sectors.

In India, some of such schemes are the Senior Citizen Saving Scheme which is currently giving a fixed return of 8.2%, the Public Provident Fund giving a fixed return of 7.1%, and Sovereign Gold Bonds which gives an average return of 9-12%.

Investing vs Saving

Effective Financial management involves a dynamic synergy between the twin pillars of saving and investing, constituting a sophisticated strategy for comprehensive wealth accumulation.

Saving is the process of accumulating funds in a bank, and it serves as a fundamental cornerstone offering a sense of security for both short-term and long-term needs. However, this disciplined practice may not actually help you in growing your wealth. Though saving is a very important aspect in being financially stable, sole reliance on saving may prove insufficient due to the effects of inflation.

Despite the interest rates offered by banks on savings, which typically ranges between 2-5%, p.a these interest rates often struggle to keep pace with the prevailing inflation rates. Consequently, you lose your real value of saved funds over time which may prove insufficient to meet financial goals.

Whereas investing involves the strategic allocation of funds across diverse assets with the anticipation of generating returns. While investing inherently carries risks, it presents a very high potential for growth and high returns over a period of time. The potential for high returns, especially in comparison to the limitations of traditional savings, positions investing as a foundation for those aiming to significantly grow their wealth over time.

In conclusion, saving provides a stable foundation for financial security, while investing aims at accumulating higher wealth. It is important to focus on both aspects as together, saving and investing form a dynamic duo, orchestrating economic well-being and propelling individuals towards lasting prosperity.

The Wealth Gap: Understanding the Dynamics of Prosperity and Poverty

In this topic of economic disparities, we will look at some factors which contribute to the phenomenon of how the rich are able to sustain their wealth while others face financial challenges.

1) **Asset ownership-** Wealthy individuals often build their wealth through strategic asset ownership. Whether it's real estate, stocks or businesses, these assets generate passive income, creating a continuous cycle of wealth accumulation. While the poor may accumulate liabilities, such as high-interest debt or depreciating assets, which limits their ability to accumulate wealth over time.
   "The key to financial success is the mindful ownership of income generating assets".
2) **Multiple sources of income-**The rich understand the importance of diversifying income streams. Beyond a salary, they often have investments, business ventures, or dividends contributing to their wealth. This multifaceted approach shields them from the volatility of a single income stream. Whereas, the common man may rely heavily on a single job, leaving them vulnerable to economic downturns.

   "If your salary is your only source of income, you are one step away from poverty".

3) **Making money work for them-**Wealthy individuals leverage their capital to make money for them through investments. This compounding effect accelerates wealth growth. On the flip side, those with limited resources may miss out on the opportunities that come with investing, thus limiting their ability to build substantial wealth.

   "In the world of finance, the real game-changer is when money hustles for you while you sleep".

4) **Risk taking and innovation-**The rich often embrace calculated risks and innovation, leading to the creation of new ventures and opportunities. This entrepreneurial spirit often propels them to financial success. Conversely, the fear of risk or lack of innovative thinking may hinder the poor from seizing opportunities for financial growth.

   "The greatest risk you can take is not taking the risk at all."