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The Financial Kaleidoscope
Defining the different shapes of investment

March 2023

Celebrating International Women's Day

From The Editor's Desk

Dear Reader,

Do women behave differently from men as investors? Do women face unique challenges that need unique solutions and strategies? What are some of the things that impact women as investors and how are they unique? Are there strategies that women can adopt to beat the odds against them?

If women are single, single parent, homemakers or working professionals - can they all follow the same strategies to plan their finances.

In this issue of Kaleidoscope, we bring you the topic 'Money Mantra for Women' to understand why it is so imperative for women to be financially literate.

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Regards,
NSDL – Your Depository

Money Mantra for Women

While it is encouraging to see great strides being made toward gender parity in our country, a conversation that needs far more attention than it has so far, is making women financially independent so that they have the right to make choices. Historically, women are more risk averse than men. So sometimes, they become risk averse in investing too. Now, is this a good thing or a bad thing? Both, depending on how risk averse they are and why they are risk averse. People tend to be averse to something they don't understand. Since women sometimes shy away from understanding investments, they naturally become risk averse. That can be a good thing when you are managing money as a couple. Imagine a situation, when the husband is an aggressive investor and the wife is risk averse. The portfolio thus becomes balanced- a combination of both their personalities. But otherwise, this might work against women as they might stick to only debt investments like fixed deposits, etc., and hence the financial portfolio may be low.

Why is it important for women to prioritise their investing journey?

More women are working today than was the case two decades ago. They are also earning more than they did before and breaking the glass ceiling across multiple sectors and areas of work. This means more income and hence the need to manage it.

With the law of the land making, it clear that men and women have equal right to ancestral property, more and more women are inheriting wealth and not knowing how to manage it. Women also need to tackle vulnerabilities arising out of death of spouse, divorce or choosing to stay single and having dependants to take care of, be it parents or children. And perhaps, more importantly, the higher life expectancy of women as compared to men, means they will live longer than their spouse, and hence cannot be financially illiterate.

How to manage money as a Couple?

When two people start living together, plan their future together, they need to have "The Money Conversation". Just a few simple questions:

- What does money mean to you?
- How important is it?
- What if I stopped earning?
- What if you stopped earning?
- Will they have a budget?
- Will they stick to it?
- What are our goals going to be?
- What do you think of the risk?
- What if I lost some of our money?
- What if something happened to me?

Depending on the stage of life, it is important for women to ask questions and not feel like they don't contribute. It is as much their responsibility to ensure the family's financial well-being whether they are the bread earners or homemakers. Setting goals together is a great way to figure out what your destination is and the conversations will help you smoothen the journey. It's very important to have common goals and money conversations to set the right expectations.

So, to manage money better as a couple you could follow these tips. Ensure you have your complete expenses in sight. Having a partner is great, but you need independence too. Somewhere, you can spend or splurge without being answerable to anyone. So, keep some money separate in your account and spend as you like- for yourself, kids, parents, parlour, vacations - whatever works for you. While doing this, ensure you plan your investments too. While today is great as you have an income coming in, tomorrow when income stops (due to unforeseen events), your money invested should be able to sustain your needs, - so plan for that too.

Having conversations around money with partners and kids, in an age appropriate manner is the most important of all. Setting goals, setting expectations helps get everyone on board in tough times and enjoy together in easier ones. Plan well in advance, so the investments can follow a strategy that you have decided and works for you as a family and for you as an individual. For example, if you are planning for one goal, your spouse can plan for another one - both set aside monthly amounts for the same. If you're risk averse, you can invest more in debt products and your spouse in equity, thereby ensuring as a family you have a good allocation.

Perhaps the number one goal for a couple is their child/children's education. So, if your goal is to send your child for further education, the fees today are about say Rs.50 lakhs. The education inflation is higher than normal inflation reported, it is about 10%. So, Rs.50 lakh today would be a requirement of Rs.1.3 crore 10 years later. You would need to save Rs. 56,000 (at 12% p.a) on a monthly basis if you invest in equity. However, if you choose to invest in debt you would need to save/invest Rs.71,000 per month (at 8%p.a). So, decide on what and where you're saving for and plan accordingly. Else you may end up saving less if you don't account for inflation and fall short towards the actual goal.

Managing Money for Single Women

Single women need to be aware and conscious of their financial planning. It is quite easy to focus only on "Now" and today and hence spend a lot. Ideally, focus on budgeting as a priority as this is the way to get financially free as soon as possible. This part is often ignored. Save, save and then save some more. Saving is quite difficult as the temptations are many- be it outings or vacations or shopping!

Invest in low-risk assets for maintaining emergency fund of at least 12 months and 12 months of expenses and the rest can go to equity. Owning your own home could be an option if you don't see yourself moving too much, but it would be good to build a strong financial asset base vs investing in property. You could invest in property during your 40's close to retirement once you decide on that.

If you do have dependants, do take term insurance, else health insurance and critical illness covers are important.

Set your goals, your way - be it vacations or buying a home or retiring or being financially free. Think about things that matter to you and start focusing on them sooner to make these dreams come true. Start with equities in a small manner. You may start with an ELSS scheme which is equity but also gives tax savings benefit. It helps as it has a 3 year lock in, so you can't make any changes to it.

Start a small investment in a balanced advantage fund - so that you can understand how different types of funds work and more importantly what works for you.

Think about retirement- what is your monthly expense now- what corpus would give you that same amount even after inflation were to come into play- how soon can you retire.

So, for example: If you are a 34-year-old female and want to retire at 55 and your current monthly expenses are Rs.35,000. At the time of retirement, this Rs.35,000 would become equivalent to Rs.1.18 lakhs and you would need a corpus of Rs.5.7 crore to meet this till you live say for 90 years of age, basically 35 years in retirement.

So, you need to invest approx. Rs.55,000 (at 12% return p.a. so in equity investments) today to meet this goal. So, it isn't that it's not achievable, you need to start doing this in a disciplined manner.

This is just one example and that too if you haven't saved anything yet, but the reality would be that you would have started EPF, some other investments too, so your monthly requirement could go down.

Remember, you might live longer in retirement than in your working life so better to start investing in equity earlier to let compounding work its magic.

So, start off the easy and smart way. Start small. Start with what you can afford losing, Let the journey be long and comfortable rather than short and bumpy.

All the best!

The article is written by Ms. Shweta Jain, Certified Financial Planner, Founder, Investography Private Limited

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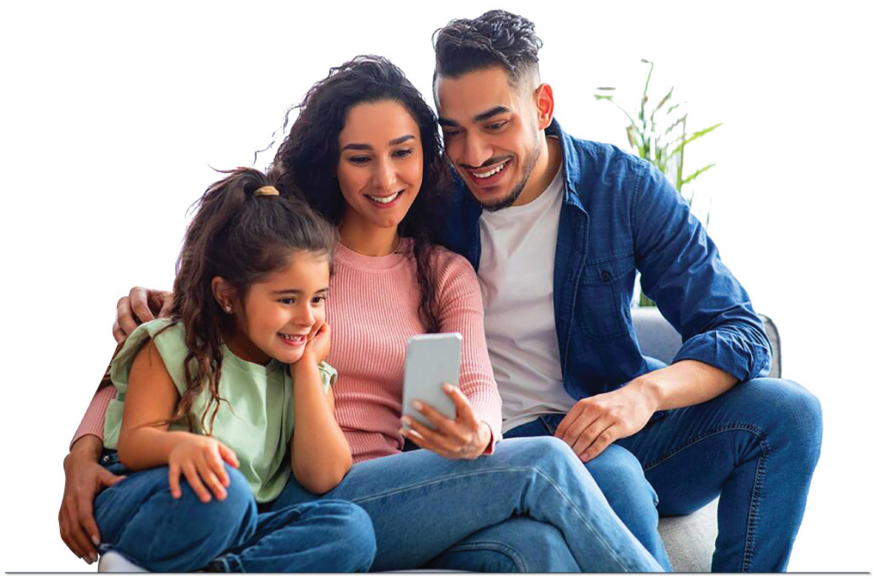

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