

# Common Sense rules of Money Management: Investments and money

Everyone wants to become rich "Fast", maybe through stock market investments or other shortcuts. Our common sense is often overrun when we see others making money in a certain way, and we often think of copying them. Amid all this we often forget the basic rules of money management. Let's revise them one by one..

With a high paying job, common sense is often in way, and we often forget the basic rules of

## 1. TAKING CREDIT IS AN OBLIGATION - NOT A CONVENIENCE, COMFORT OR FREE MONEY:

The basic idea of taking credit is to finance items which are absolutely essential to live, which help us to rise in life and which we cannot pay for them now but do expect to pay them off conveniently over time. Therefore taking loans for home, education, business or may be a car makes sense but taking credit is not free pass to enjoy those unaffordable luxury and short conveniences that we cannot effort otherwise. Buying a big new car just because our heart says we want, just because we can enjoy "today" is stupidity. Taking a huge loan to finance a big house which is more than you can actually afford is not intelligent. People who make investments in a big home by taking loan expecting it's price to rise over time are gambling and not buying a true home for themselves sole purpose of living. Similarly, making minimum down payment on credit card clearly means that you are currently or have been living beyond your means. Money management was probably best handled by our elders when they actually lost a few nights of sleep before thinking about taking a credit. Nowadays you go to any store, say to 'buy a computer', the sales person offers if you would like to finance it with a low interest rate. When you arrive at the checkout counter the cashier asks you if you are interested opening a credit card account with them, it's surprising that the basics of money management have been lost, partly because of corporate greed too. Do apply some common sense before taking a credit or buying an item using your credit card.

## 2. SAVE MONEY REGULARLY:

We often realize the importance of saving money until we have a dire need of money. Most people who are millionaires didn't win a lottery jackpot or were blessed with rich parents; most of them are disciplined savers. An important concept of money management is saving money at a regular basis. It may serve as an emergency fund or a nest egg for your retirement. At least 20% of your savings or about 6 months of money should be kept aside in your savings account or in form of CD's or Fixed deposit investments. This amount will likely not grow too fast but in the time of need, it will be your best help. Always apply common sense when using this fund, do not buy just "nice to have" items with it.

## 3. HAVE A SECONDARY SOURCE OF INCOME:

What happens if you lost your job today and are unable to find another one fast enough. Before tapping your emergency fund (above), if you are married, then it may be a good idea for your wife to pursue a part-time job. If you are single, then make your hobby as your secondary profession, like writing a book, selling items on eBay, taking an evening or a weekend job that is less stressful. Your secondary job may not pay you much but it can be extremely helpful during emergency and help you to keep moving till things become normal.

## 4. LIVE WITHIN YOUR MEANS:

This is probably the number one rule of money management. Spending money is the easiest thing to do, earning it is not. Living a life which matches your finances is important. If you are single and your apartment payments are high, then consider a roommate. If you cannot afford a SUV, well then a compact car is what you should drive. We often make spending decisions which can have a long-term effect on our savings. Living within means can decide if a person retires a millionaire or ends up broke in a senior center. If gas prices go up, then consider driving less, pay off your loans faster instead of paying interest on them. Enjoy in life but do not go overboard. Be very careful while spending.

money. Making small changes in life like not eating out everyday or drinking Starbucks coffee can add up a lot in a long run.

#### 5. AVOID SPONTANEOUS PURCHASES:

If you look at your wardrobe or garage, there may be several items that are almost unused and just collecting dust for months or years. We often buy items which we hardly use later. Add those all up and think if you had put that money in a bank, it's difficult to imagine how much extra money will end up with. Avoid emotional purchases, if needed keep it on hold, give your mind some rest, then go back and buy it next day.

#### 6. USE TECHNOLOGY/ INTERNET - BECOME AN INTELLIGENT BUYER:

These days you can save a lot by buying some essential items through the internet. People even get quotes for buying the car through car portals instead of walking directly in the dealership and save ton's of money. You can get great deals on electronics, jewelry and almost everything through the internet.

#### 7. ALWAYS DIVERSIFY YOUR INVESTMENTS:

All money management experts will recommend you to keep a fine balance of all flavors in your investment portfolio, when investing in stock market select a balanced fund which invests in a combination of domestic stocks, international stocks, bonds and precious metals. Usually balanced investments keep a check on each other, often times when one goes down, other still holds its value or goes up. This will also help to Recession-Proof your investments.

#### 8. LONG TERM INVESTING AND RISK TOLERANCE:

Be aware of your Risk Tolerance, people often put money in investments with the hope that it will go up, however if they start losing money they abandon the ship in the loss. When that investment goes up

again, they are net losers while the long term makes money in the field of investing, always see long term prospects instead of only short term profits. Some people are good in stock market but most are not.

When you are in the market gambling but

#### 9. KEEP YOUR REPUTATION IN GOOD STANDING:

Let your boss always feel that he can depend on you to sail through rough times or avoid job loss as much as possible. Even if you do need credit, you can easily take a loan/credit.

, this will help you as possible. Even if you do need credit as the last resort,

PROFIT