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### How do I plan my household budget?

The equity markets in India have given a very valuable investment lesson this year. For the large part of the year post elections the markets were driven by the negative data points related to the economy, local and global. As more and more data points came in, many investors deferred their decision to invest into equities. The government then announced a slew of measures to address the economic slowdown and equity markets bounced back sharply. Investors waiting on the side lines lost out an opportunity. While the recovery came faster than anticipated, it proved a simple point that the business of predicting / timing the markets is a futile one. Wealth creation ultimately will be a function of asset allocation and our own investment behavior. But even before asset allocation, wealth creation will be driven by the choices that you make as an investor on a daily basis between expenses and savings as well as savings vs investments.

We believe that it is not worth focussing on the noise surrounding various economic developments. Any economy moves in cycles and a period of slow growth will follow a period of high growth and so will the markets move from a period of despair to exuberance. As long as the fundamental premise for choosing equity as an asset class does not change, it makes a lot of sense to ignore the surrounding noise and focus on financial plans and behaviors that help achieve financial freedom. My premise for investing in equities has been, as Eddie Elfenbein said in his blog, and I quote "Equity is completely different from other classes of investments. Its the only one that captures human ingenuity, which is the ultimate asset".

One of the key challenges faced by an average Indian family is with regard to household budgeting. Budgeting is always a challenging task with a three way pull between necessities, luxuries or wants and investing for financial security. Necessities would include expenses that are unavoidable for a certain standard of living like housing EMI, school fees, grocery, medical insurance premia etc. Spending on luxuries could include optional expenses like eating out at a newly opened fine dining restaurant, buying latest gadgets, etc. The big question is what portion of the income should be spent on each of these categories? Luckily even this question has a thumb rule that can act as a guiding principle. Remember thumb rules are just that, thumb rules. It just helps you with a starting point.

The thumb rule for this is called the 50/30/ 20 rule. According to this rule

- 50% of the earnings after tax should be used towards necessities.
- 30% of the money should be spent on luxuries or wants / desires.
- 20% money should be saved and invested towards your financial goals.

Prima facie it may look very simple but can be quite a challenging one. To begin with, how does one distinguish between necessities and luxuries or wants. There cannot be an uniform definition for necessities. Depending upon the income levels and surrounding environment what could be classified as a necessity for one can easily be a luxury for another.

For overall financial well-ness, the 50/30/20 is a broad guideline and will need to be supplemented by a good financial plan customised to the income levels and the goals of an individual investor. Its best to consult a good advisor for the same. The percentage of regular income that should be set aside for long term investments can be debated, however what remains a universal truth is the fact that the path to achieving financial well-ness starts by inverting the equation of income minus expenses = savings. to Income minus savings = expenses.

From the perspective of long term financial well being, sticking to a financial plan is important. However it is equally important to spend a decent amount of time and money with our near and dear ones to create memories for the lifetime. As we have just come through the holiday season, heres hoping that you have built many beautiful memories with family and friends. As we strive to find a balance between spending to create memories and savings for a secure tomorrow do also remember to take care of your health. Goes without saying that a good savings and investment corpus is best enjoyed when one is in the best of health.

Happy investing.