for her
FINANCIAL EDUCATION

Investing Tips for Beginners

Podcast Episode #2 for February 2022 – Host + One Guest

[Host]

Hello everyone, thank you for joining us for a new podcast episode For Her. My name is _________, and I'll be your host for today's segment. In this episode, we will be discussing how women can get started with investing.

I am excited to have an expert guest join us today! Our guest is ____________, she is ______________________. Thank you for joining us ___________!

[Name]

Thank you for having me!

[Host]

For ages, women have played a pivotal role in our society managing the family finances. While they stayed out of major financial decisions, they did hold access and control over the 'Ghar ki Tijori', or to put it metaphorically, keys to the wealth of the family. What is the concept of 'Ghar ki Tijori' in its modern avatar? The lady of the house manages the household budget and successfully ekes out savings from it for a rainy day, of course which none of the family members are aware of. What are your thoughts on this [Name]?

[Name]

It's very true, I remember my mom having emergency money whenever we really needed it. But for all intents and purposes, no one knew this extra money existed. The only problem with this setup is that the money remains idle when it could be growing.

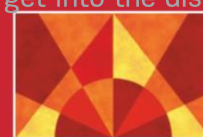
There's a big difference between saving money and investing money. Saving money is the process of putting cash aside and parking it in extremely safe, and liquid savings vehicles or accounts. Liquid savings vehicles means that they can be easily sold or accessed in a very short amount of time. The money you save is usually to pay for short term financial goals such as saving for a vacation or putting aside an emergency fund for any unexpected expense or loss of income.

Investing money on the other hand, is the process of using your money to buy an asset or securities that you think have a good chance of producing an income in the future or which later can be sold at a higher price for a profit. Investing your money typically requires a longer-term perspective in order to realize the potential benefits.

[Host]

That's great perspective on the differences. Perhaps you can get into the discussion a bit on why it's important to invest in the first place?

Mutual Funds
Aditya Birla Sun Life Mutual Fund



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[Name]

Absolutely! I understand the hesitation towards investing as media and our hobby of watching movies depict men, in expensive suits, screaming at each other in a large rotunda against a backdrop of flashing red numbers. This is the image imprinted by the mainstream cinematic media via movies, which ironically portrays the male dominated stock exchange environment while being themed on financial scams.

But reality for us, the consumer, or what we call retail investors, is very different. That is not our reality and financial firms in India, and around the world actually, have done a great job at making investing extremely accessible. But you are right, there is a case to be made as to why you should invest and why it has become so much more important.

The first thing everyone needs to consider is Inflation. Everyone has likely heard the term inflation – and if you haven't, you have definitely experienced it – actually, we are experiencing it right now. Inflation is the rate at which the value of currency is falling while the general prices of goods and services rise. Inflation occurs when prices rise, decreasing the purchasing power of your money over time.

[Host]

That's so true [Name 1]. I know I'm experiencing this just in my grocery bill alone. What I was able to purchase in 500 rupees is no longer possible as the costs have gone so much higher on everything.

[Name]

Right! So go back to the woman of the house who is putting money away for emergencies. That money hiding under the mattress is actually losing value. But if it were invested, that then brings me to my second reason why you want to invest – it's called Compound Growth.

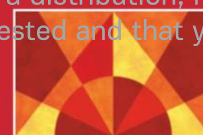
Essentially what I mean by this is that when your money is invested and is growing, you are also growing the money that was the growth itself. It's an amazing thing, it's growth on growth.

[Host]

So how does one take advantage of compounded growth, meaning how do you do it?

[Name]

Well, say that you invest in a high interest bond, or a mutual fund that pays dividends, or even a stock that pays dividends – every time these securities make a distribution, meaning they pay out interest or dividends, you ensure that this money is reinvested and that you don't pull it out



– if you pull the dividend out and use it, then that money can't grow – but if you leave it and reinvest those dividends, now your growth, the dividends, are also growing in addition to your original investment.

And that is what brings me to point three of making my case to invest. Investing will help you "create" wealth. The basic fundamental is that you should try spend less than you earn and manage your debt – and really, where possible, avoid debt where you can. And then invest your savings. If your invested money is growing at a higher rate than inflation, you are taking advantage of compounded growth, then you are well on your track to create wealth and put yourself in a strong position to reach your personal and financial goals.

[Host]

Thank you [Name]! Now that we know why we must invest, perhaps we can get into what we need to know before we get started.

[Name]

Absolutely, but my answer may shock a lot of listeners. You don't need to know the markets or have knowledge on the various investments yet. First, you need to know yourself!

The first thing you will want to do is get a better understanding of yourself.
Think of things like your spending habits or your saving habits. When your paycheque comes in, are you spending it right away? Are you spending it on things you want and don't need, or are you spending it on paying bills? Are you saving anything at all and where is it being saved?

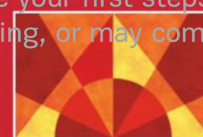
And how about your risk tolerance. Is money a sensitive topic for you? Do you feel anxiety at the topic of investing? Or are you comfortable with investing and just need to learn a bit more? And if you are going to get started with investing, do you have the time to set aside and learn.

Are you able to manage and keep track of your financial plan, or perhaps if you have made the amazing move in working with a professional, are you taking time out to meet and discuss with your advisor?

Really know yourself and understand your habits, share it with a professional where applicable and put a strategy in place to move forward.

And then the next thing is still focused on you – what are you investing for? What are your goals?

Your investment portfolio will look comparably different when it's meant for retirement versus a portfolio that's meant to help with your children's education. Determine your goals, outline the timeline as to when you need to meet these goals – these are your first steps. And try to think about various life events you will face, things that are upcoming, or may come due to



unforeseen circumstances, you want to be prepared. Things like, getting a job or starting a business, getting married, your children's education, retirement, death, both yourself or a loved one, and there are many more!

[Host]

That's very important advice and you are right, not many would first think to look at themselves and would simply start by researching the markets online.

But getting to the things you can look into online, what would people need to understand?

[Name]

Well, after you have done the introspective work I just outlined, sure, there are things you can look into online, mainly to help educate yourself. Financial literacy in this process is also very valuable and you're only helping yourself by being more prepared, I mean, this is why programs like ForHER exist right? It's to help women get started on their path to financial empowerment.

So my suggestion would be to get a better understanding of the financial jargon out there, so that when you do meet with a professional, you are better prepared and there's no gaps in your understanding when you are discussing your investments and portfolio. I can outline a few right now if it helps?

[Host]

Yes, absolutely, please do!

[Name]

Sure, here are a few I would consider essential terminology:

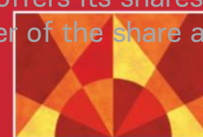
Stock exchange is a specific facility where stocks are listed for sale/purchase. All stock exchanges in India are now digital, and you can access them online through a brokerage firm or demat account.

When stock prices in a market are generally rising, it is called a bull market.

The exact opposite of a bull market is a bear market- when the stock prices in the market are generally falling it is called bear market.

Liquidity refers to how easily a stock can be sold off. A share that can be sold off quickly that means high trade volumes is said to be highly liquid.

IPO/ Initial Public Offerings occurs the first time a company offers its shares for trading on a stock exchange. Typically, you buy shares from previous owner of the share and not the



company directly. In case of an IPO, you get to buy shares directly from company and thereby maintain the loyalty of profits and losses from the very start of the company.

Market capitalization is simply the value of the company as per the stock market. That is, the current value of all its shares put together.

Mutual funds is a way of investing across a large number of stocks by pooling your funds with other investors. This allows you to diversify your investment even if you have limited funds. Further, a fund manager, who is an investment professional, takes care of selecting the right stocks to invest in.

Exchange traded funds: These are pooled funds that you trade like shares on the stock exchange. They usually track an index which is preconceived.

Index: A benchmark that is used by investors and portfolio managers to measure market performance. Nifty and Sensex, the popular terms are such benchmarks. If your portfolio returned 10% that may sound really good but if Sensex returned 18% during the same period – your portfolio did not perform as well.

Your portfolio is simply the collection of all investments you, as an investor have made.

Dividend is a part of the profit distributed by a company among its shareholders. When a company earns profit during a financial year, a part of that profit is usually distributed as dividends among its shareholders.

I know it feels like going back to school with your teacher dictating you definitions, but these are just some that I felt are important to understand. And the other thing I would say here is that learning definitions on its own isn't all that helpful, you really need to understand the concept behind them. I believe you have a ForHER investing course that goes into some of these…

[Host]

Yes we do, and thank you. Sure, it's not easy to completely understand definitions being dictated but it's the start of a much longer education process! If I may, I would like to ask you a series of questions that we have accumulated from women we have been engaging with as we have been rolling out the ForHER program. Our thought is that if we can review it here with you as the expert, it becomes a live FAQ for our listeners and may be questions they are thinking themselves.

[Name]

Sounds like a great idea, go for it!

[Host]

Ok, so for the first question, what are my investment choices. As an average everyday woman, what is actually available for me to invest in?

[Name]

Starting off with a loaded question!

Sure, in order to understand where to invest your money, it is important you understand the different types of investments available and the types of return you can expect from them.

Generally speaking, there are three main types of investment asset classes you can invest in.

First, let's look at equities or stocks - these are shares of ownership issued by publicly traded companies. They are traded on stock exchanges. You can potentially profit from owning equities either through a rise in the share price or by receiving dividends. Equities are considered higher risk investments as share prices can change dramatically over time and there may be a risk of losing your money.

The second is bonds or fixed income investments. These investments pay investors a rate of return in the form of fixed interest payments until the investment's maturity date. At maturity, investors are repaid the principal amount they had invested. Government and corporate bonds are the most common types of fixed-income products and are generally considered less risky than investing in equities or other asset classes.

And the third is cash or cash equivalents. These are highly secure financial assets that are liquid, meaning they can be readily converted into cash, such as high-interest savings accounts, short-term Guaranteed Investment Certificates (GICs), and other debt instruments with less than a year to maturity.

There are also investment vehicles that provide you with an opportunity to own a "basket" of these investments and can potentially provide you with access to a wider array of investment holdings. For example, a mutual fund. A mutual fund is an investment security that enables people to pool their money together into one professionally managed investment. Essentially, a mutual fund is a pool of money managed by a professional or group of professionals. Ongoing research is conducted by the financial professional and their team on several companies to determine whether they are good investments to add to the fund. The fund manager then picks the stocks or bonds of selected suitable companies and puts them into a fund.

Mutual funds can invest in stocks, bonds, cash or a combination of those assets. The underlying security types, called holdings, combine to form one mutual fund, also called a portfolio. It is important to note that you do not own the actual underlying securities, you own units (or

Mutual Funds

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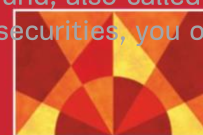

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shares) of the mutual fund but still participate in the growth (or loss) of the holdings collectively. Owning mutual funds offers you several advantages such as making it simple for you and letting professionals do the research. You own a variety of investments through the fund thereby reducing your risk and there are normally low minimum investments required making it accessible to almost everyone.

And then there are ETFs. An ETF is a type of investment security that tracks an underlying benchmark index, such as the National Stock Exchange (NSE). ETFs are baskets of securities that have multiple stocks, bonds, and/or other assets, or sometimes even just one asset like gold. ETFs are similar to mutual funds in that you do not own the underlying stock. However, unlike mutual funds, ETFs trade like stocks, meaning that you buy and sell shares of an ETF on an exchange similar to a stock.

Both mutual funds and ETFs can be either actively or passively managed which can affect the rate of return you receive. With actively managed funds, the portfolio manager will often buy and sell the holdings in an attempt to get a better return than a specific benchmark. With a passively managed fund, the portfolio manager will only buy and sell holdings to match the benchmark it tracks to.

This may look like a limited option for a beginner investor but realistically, this is the vast majority of it. As you learn, take advantage of mutual funds and the education and learning you can get from product distributors and advisors.

[Host]

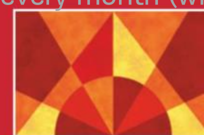
Great, following that, the next question is the when and how, meaning when should I invest and how much should I begin with?

[Name]

For the first part of that question on the when, the simple answer is now. There's no rule that says you have to wait till you're 40, or if you didn't start in your 20s then it's too late. No such thing. Start investing as soon as you're ready. Remember, timing the market isn't a strategy, no one can tell you when the market is going to be up or down. Know what you're investing for and get started.

Now there's a huge misconception out there where people feel you need a lot of money to start investing. Though it's great to have a lump sum of money to invest, when that's not possible, then consider automating your savings into investments at regular intervals. For many, this is the best way to get into a habit of saving and to begin investing. And it has advantages.

There actually is the option of a fixed date direct debit wherein you can have say Rs 5,000 per month debited from your account and credited to a couple of mutual fund houses. Having this fixed amount, debited on a fixed date to a fixed mutual fund every month (without fail) is what



is known as a Systematic Investment Plan. You can select the day after salary day for this to happen.

If you do happen to succeed in talking yourself out of a few splurging sprees, then you could also do lump sum investments as and when you accumulate sufficient savings.

[Host]

Thank you [Name]. Last question. Some women have said that they hear people saying that the two most important things to get right when investing is choosing the right asset class and diversifying. Can you explain what this is?

[Name]

Yes, asset allocation and diversification are important. I wouldn't say it's the absolute most important thing but it is important. And this again is why I recommend mutual funds for beginners as the asset allocation and diversification is managed for you.

Asset allocation is the percentage of stocks, bonds and cash in your portfolio. Whereas Diversification is the spready of money within each asset class. Diversification aims to maximize your returns through investment in different areas that tend to react differently to the same event.

For example, in your stocks asset class, instead of concentrating all your money into a single company, industry, sector, or geography, you should diversify your investments across a range of different companies, industries, and geographies.

When you divide your funds across companies large and small, at home and abroad, in both stocks and bonds, you have fewer chances of losing all of your money during markets ups and downs. Diversification aims to maximize your returns through investment in different areas that tend to react differently to the same event. According to investment professionals, it does not guarantee against loss, but diversification is an important strategy of reaching long-range financial goals while minimizing risk.

[Host]

Thank you. To conclude, do you have any final tips you would like to outline?

[Name]

Well, in summary, I would say that you need to start with knowing yourself and setting your goals and objectives so that you know what you are investing towards.

Identify your risk tolerance as that will help you, and your professional advisor help determine what investments are best suited to you and your situation. One of the primary requisites of investing in the stock market involves controlling your emotions. As you continue on your path of financial learning and knowledge, it will be easier to manage your emotions as you will be far more knowledgeable on what is actually happening.

[Host]

[Name], thank you so much for joining us and sharing your time, knowledge and expertise!

[Name]

You are very welcome, pleasure to be here!

[Host]

And thank you to all of our listeners, I truly hope you found some useful tips to help you get started. We look forward to you joining us on our next episode!