Are You Trying To Find Ways to Get Higher Returns On Your Investments. We Got You Covered

WORK SAMPLE FOR FINANCE NICHE

Return on investment is the key parameter that decides whether one can achieve financial goals on time. A greater percentage in your returns over a long term (>10 years) can determine if you can retire early or have to work the next 5 to 10 years.

Returns in long-term investments can decide if you can holiday in Shimla or Hawaii, or you would drive an SUV or an Alto.

Spending on Luxury is a personal choice, but higher and consistent returns in long-term investment will give you options to do several things in the future.

Before digging further into how to increase the returns, let us be clear on the expected returns and the importance of making financial goals, as this can be subjective and very personal to an individual. So, how to set financial goals?

An Introduction To Financial Goals!

Financial Goal is the first thing an investor should consider according to their needs. So what are those needs?

The needs include buying an asset like a house or car, marriage, a foreign holiday, early retirement, financial independence, etc. One should calculate and contribute monthly to the portfolio and target expected returns according to the needs. I have encountered several people who, even after 50 years of age, have no financial goals or a plan to achieve them. However, it is never too late, do it today! Once you have set a goal and planned things well, find ways to achieve it.

What Should be the Expected Returns?

Each individual has their own expectations. For traditional debt investors, 6-7% is considered satisfactory. For mutual fund investors, 10-12%, direct equity investors expect more than 15-20%. You may think that this, too, is subjective. There should be some standard calculations for returns that we can benchmark, as in these days of new age investments like crypto, even a 30% annual return by a few is considered low. The good news is that a standard return calculation is simple and will be helpful in our goal-based investment.

We primarily invest in inflation, and our investment return depends on GDP growth; therefore, returns should be at least Real GDP Growth minus Inflation.

For India, the average GDP growth is 7-8%, and inflation is approximately 4-5%; therefore, our expected returns should be more than 7-8% + 4-5% = 11% to 13%. Thus, 15% returns should ideally help us reach our long-term goals (>10 years). This will cover even more inflation, a factor that is currently the fear.

Since we work hard for money, it is in our best interest to ensure we take steps to maximize the portfolio returns.

How to increase the returns?

1. Choosing high-return products

Choosing PPF, bonds over FD, equity mutual funds, REITS (Real Estate Investment Trusts), Stocks, real estate, Crypto, etc., can enhance the returns; however, higher returns can attract higher risk-more on it later.

2. Keep Investment Costs Low

Lowering your investment expenses by just 1-2% can significantly boost your investment portfolio in the long run. Some options which can be considered are mutual funds with lower expense ratios such as index funds, ETFs, lower brokerage charges and annual fees, avoiding insurance products such as ULIPs, etc. One example can be taking term insurance instead of expensive endowment and ULIP policies and investing the balance amount in higher return investment products.

3. Tax-Efficient Products

Products such as PPF, EPF, and ELSS help save on tax. Keeping equity investment for more than one year can lower tax as it qualifies for LTCG (Long Term Capital Gain).

4. Diversifying Portfolio

The bull market in any asset class, including stocks, never lasts forever, and the decline in a particular asset class can be very sharp as well as can stay depressed for longer than expected. This decline can damage the portfolio if the allocation in any asset class is very high. Therefore one should maintain an appropriate allocation of fixed income (FD, Bonds, etc.) cash equivalents and gold. One can even have invest in REITS to have exposure in real estate.

5. Rebalancing Portfolio

Periodically rebalance your portfolio to maintain the original level of diversification (Example: Debt products like FD, PPF, Bonds – 30%, Equity mutual fund – 30%, Direct equity-10%, Gold-10%, Cash equivalents, and emergency fund-20%). If mutual funds have not performed well, their allocation may have dropped; therefore, one may increase its allocation back to the original level by putting fresh money. When the market recovers, one can gain from it and take some profits if mutual fund/equity allocation goes higher.

6. Think Long Term

A long-term horizon is a better option for higher returns and achieving financial goals. It takes care of fluctuations in the equity market and allows the portfolio to compound at a higher rate.

7. Discipline and Consistent Contribution to the Portfolio

One has to earn, save and deploy additional funds each month/year consistently for several years (>10 years) to benefit from higher returns and compounding. Even better would be to automate the contributions each month and do it in SIP mode. But remember, the contribution each month should be according to the goals, as a person may not achieve the goals with very high returns if the contribution is too low.

Final Thoughts

Risk Will be There!

Never ignore risk, and one shouldn't be carried away by the Bull market nor get scared by the Bear market. Even investing in bonds and FDs carries risk. Therefore, one should know the risk involved in each product and invest accordingly. Some ways are diversifications, keeping a cap on each asset class, and rebalancing periodically. Furthermore, invest only after proper due diligence and avoid products that you don't understand, be it mutual funds, insurance, or even bonds.

Additionally, it also depends on each individual's risk appetite. Someone with a stable income can take higher exposure to the equity market for higher returns. Someone who doesn't have a continued cash inflow should have higher emergency funds and significant money in cash equivalents such as liquid funds and FD.
The exposure should be minimum in equity for senior citizens and more in debt instruments. These measures will ensure long-term compounding without wiping out capital and losing sleep.

Remember! Anxiety and Lack of sleep should not be part of the investment journey; it should be a peaceful one.

There is no shortcut to higher returns and becoming rich quickly. For higher and consistent returns, make your financial goals and plan, keep emotions in control, devise a proper allocation and diversification strategy, have a long-term horizon, and add every month to your portfolio. These would take care of short-term fluctuations and help you achieve your goals more realistically. Therefore, enjoy your investing journey and target higher returns to achieve your goals.

If you face a challenge in making a financial plan as per your goals and allocation to different asset classes, you may contact a Certified Financial Planner (CFP) to make an investment plan. But it helps if you know the basics of investments before approaching a professional, and hence these articles.