

# PERSONAL FINANCE FOR TEENS

Saving money, and investing prudently are essential for wealth creation and ensuring long-term financial sustainability.

Manage money well and you could easily fulfill your long-term goals like buying a dream car or a house; manage money recklessly and well...

This document aims to highlight the basics of saving, investing, and the risks associated.

## Why save or invest money?

I had this question growing up, "Why do we need to invest money, why can't we just store it in a cupboard?", well turns out storing your earnings in a cupboard is a terrible idea because of something known as inflation. Inflation is the general rise in the value of goods and services over time. Think about it, your favorite packet of crisps or the stationery you use is probably more expensive today than they were five years ago. This is inflation in action. Another way to look at this is that money slowly loses its value or purchasing power over a period of time. It is therefore imperative to grow your money over time to counter inflation - invest your hard earned savings to beat inflation!

## Saving

Savings are essentially a part of your income that you keep aside or don't spend. These savings accumulate over time.

## How to Save

To save the first step is to have funds from which you could save, as teens, most of us can try cutting back on expenses to save a decent proportion of our pocket money.

1. Make a list of all your monthly expenses (Food, Food, More Food, Stationery, Transport, and More Food).
2. Try to find out items that you could cut back on and calculate how much you could save on them weekly, monthly, and annually.
3. This will probably encourage you to cut back on more items, so continue to do that.
4. Now the last step is to actually cut back on expenses and try to save, now that's your responsibility.

To put this practice into perspective, if you save INR 50 per day, you'll have INR 18,250 saved annually.

## Investment

Now channelizing your savings into different options to grow them over a period of time is nothing but investing. You can invest your savings by depositing them in a bank to get interest, putting them into the stock markets to get a part of the profit different companies make, or by purchasing different commodities like gold and silver. There are a plethora of investment options out there ranging from giving loans to your buddy and earning from interest (don't try this one) to trading orange juice online (or this one).

As teens, we cannot invest our savings right now, however, it is always good to scout investment options at this age to help facilitate better financial decisions in life, when the time comes. Trust me, learn about financial markets, mutual funds, real estate and it's surely going to make you an exceptional investor later in life.

## Power of Compounding

Consistently investing, and investing for the longer term can help our savings grow at a faster rate.

Let's build upon our previous example of saving INR 50 per day or INR 1500 per month, additionally, this time we invest them in a savings account yielding a 5% annual interest.

### Scenario #1 (Only Saving)

If you continue to save INR 1500 for the next 5 years, you'll have a total saving of INR 90,000. Save for 5 years more, and you'll have INR 180,000.

### Scenario #2 (Saving and Investing)

If you save and invest that save money, you'll have precisely INR 102,198. Save and invest for 5 years more and you're at INR 232,569.

Refer to the table below:

Year	Year Deposits	Year Interest	Total Deposits	Total Interest	Balance
1	₹18,000.00	₹486.37	₹18,050.00	₹486.37	₹18,536.37
2	₹18,000.00	₹1,410.68	₹36,050.00	₹1,897.05	₹37,947.05
3	₹18,000.00	₹2,381.22	₹54,050.00	₹4,278.27	₹58,328.27
4	₹18,000.00	₹3,400.28	₹72,050.00	₹7,678.55	₹79,728.55
5	₹18,000.00	₹4,470.29	₹90,050.00	₹12,148.84	₹102,198.84
6	₹18,000.00	₹5,593.81	₹108,050.00	₹17,742.65	₹125,792.65
7	₹18,000.00	₹6,773.50	₹126,050.00	₹24,516.15	₹150,566.15
8	₹18,000.00	₹8,012.17	₹144,050.00	₹32,528.32	₹176,578.32
9	₹18,000.00	₹9,312.78	₹162,050.00	₹41,841.11	₹203,891.11
10	₹18,000.00	₹10,678.42	₹180,050.00	₹52,519.53	₹232,569.53

This is the power of compounding, you start earning interest on the money you save and as well as on the interest you make. Linked below is a compound interest calculator for you to experiment with:

<https://www.thecalculatorsite.com/finance/calculators/compoundinterestcalculator.php>

## Risks

Saving money is essentially risk-free, primarily because that money is still with you. Investment on the other hand can be risky. You might diminish a part of the money you invest or might end up losing all of it. Many people lose money in investments simply because they are not aware of the risks associated, this is another reason why learning about investments at an early age can help you better manage your finances later in life.

To give examples of risk, think about it this way, you lend your money to a buddy who agrees to pay it back after two days (with interest preferably), and well that buddy never returns it. You can face a similar scenario with investments although the risks are negligible when you compare it to your buddy.

To give more examples, the Indian stock markets declined 35% during the pandemic. That means if you had INR 100,000 invested, you would have immediately lost INR 35,000.

However, to give you a positive outlook, the markets have almost recovered now, and if you stay invested for the longer-term there's only a minimal risk that you'll lose money. There's a lot of ways to manage and mitigate risk, so get on with that research.

## Conclusion

Saving and investing is essential to ensure your long-term financial security. Risks are associated but they can be minimized.

These are the basics of personal finance. Later, we'll be discussing various investments instruments in detail, so stay tuned!