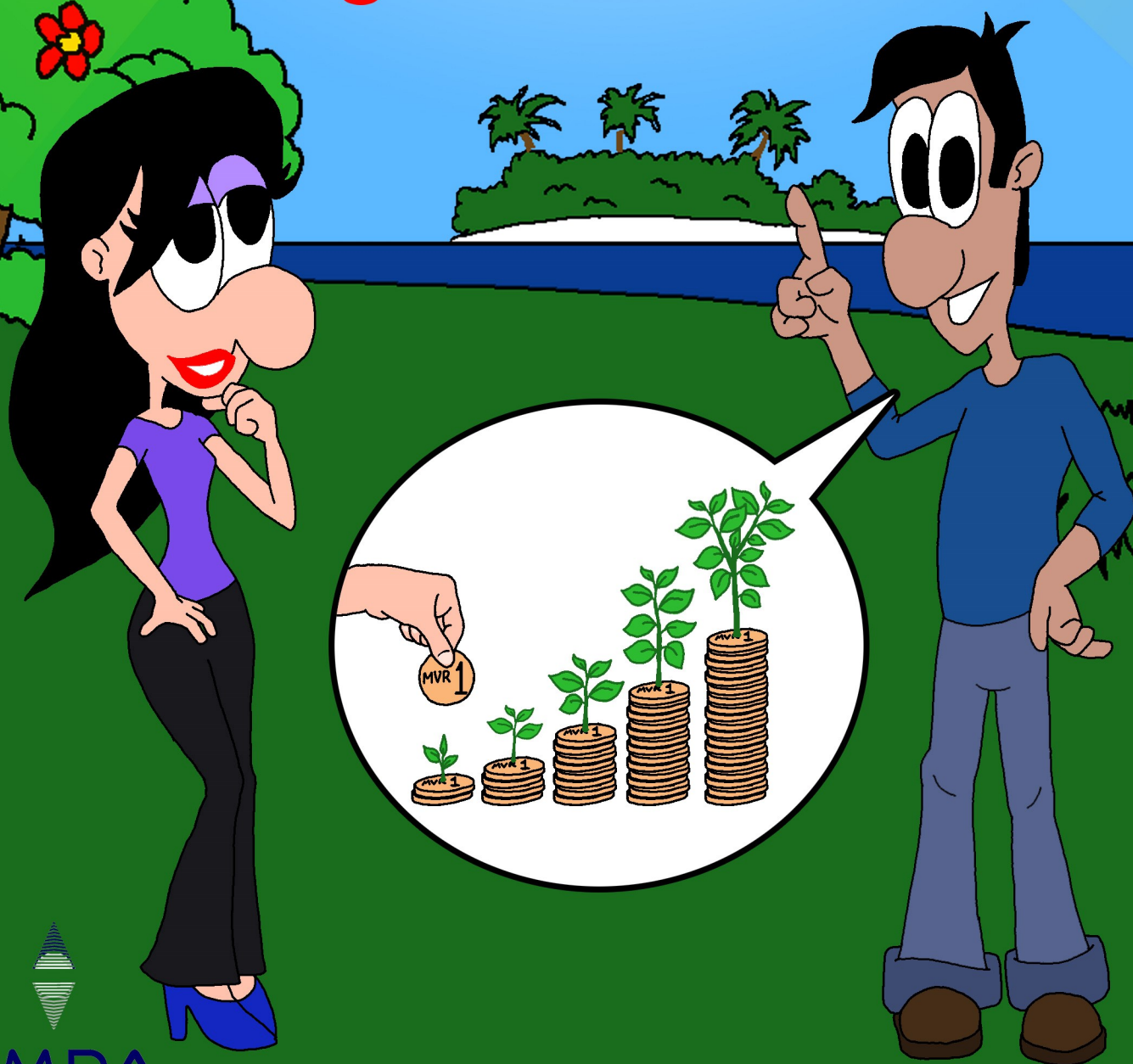




SAVING FOR MY FUTURE

How to budget, save and invest money




CMDA

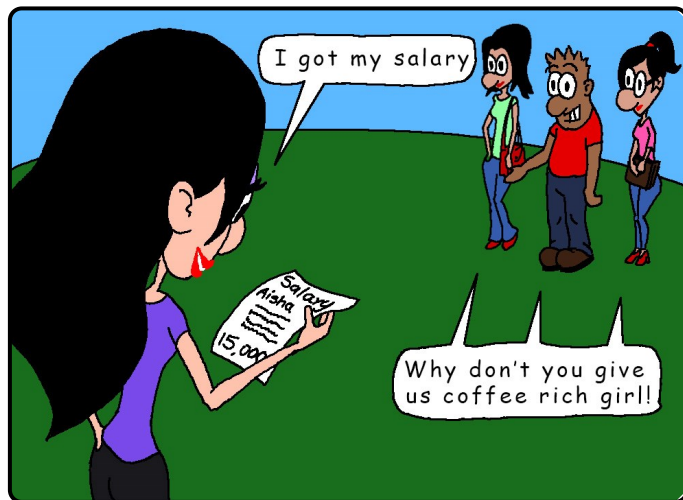


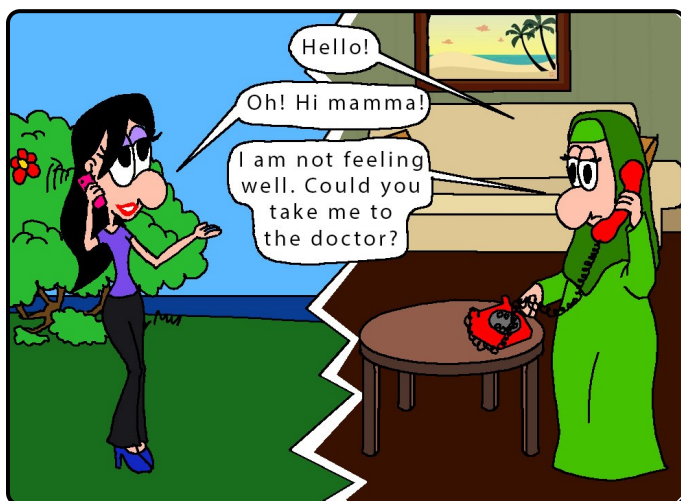
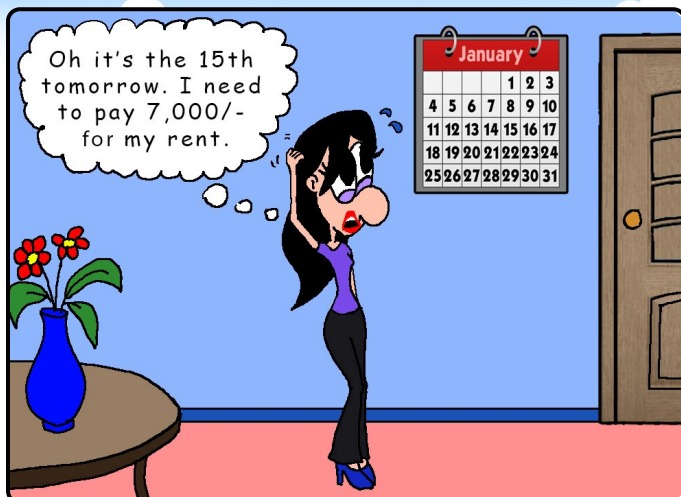
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1. Meet Aisha





We all have dreams. But to make those dreams come true, we need money. This book will teach you how to save and grow your money. In the first part of the book, Aisha's friend Ali will help you (and Aisha) learn the steps to do that.



2. Step 1: What are your goals?

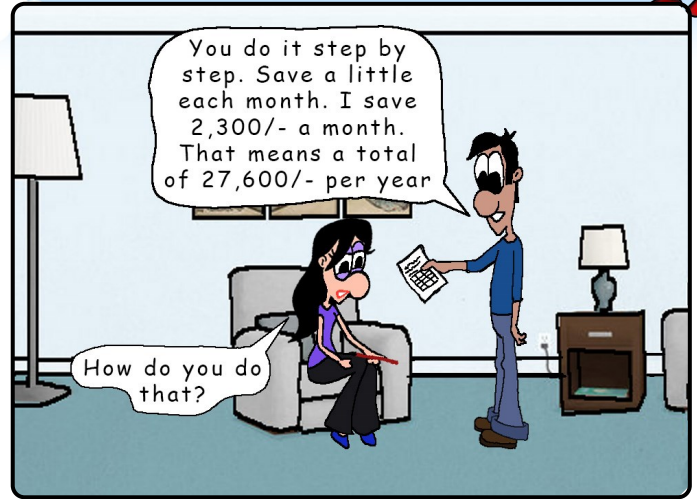
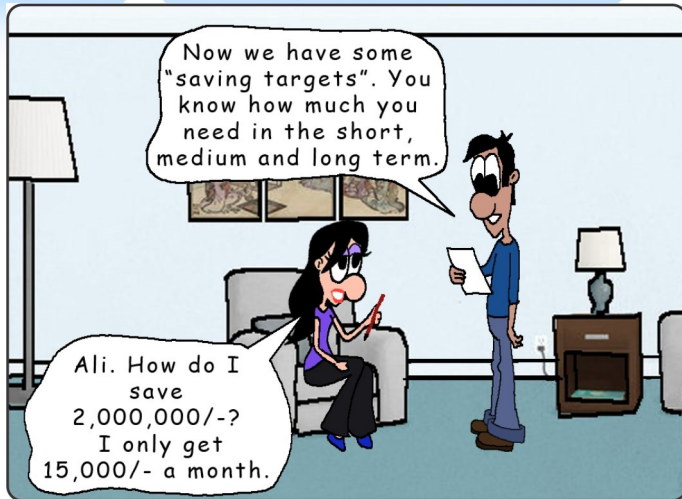


Change your dreams into clear and measurable goals. This is how:

- Write down things you would like to have, and things you would like to do in the future.
- For each of those, ask “When do I want to do/have it?”
- Goals can either be:
 - ♦ **Short term:** 3 years or less
 - ♦ **Medium term:** 4 – 7 years
 - ♦ **Long term:** 7 years and more
- For each goal, list out (in as much detail as possible), all the things you need to do to achieve them.
- Are there things you need to pay for? Estimate all the costs. Now you would know roughly how much money you would need to achieve each goal.



		How much money do I need?		
My Goals	When do I want to achieve them?	Short term	Medium term	Long term
Holiday to China	in 2 years	10,000/-		
Higher studies	in 5 years		100,000/-	
Buy house	in 20 years			2,000,000
Save for my retirement	in 25 years			800,000/-



3. Step 2: Make a budget



A budget is made up of a very simple equation:

$$\text{Saving} = \text{Income} - \text{Expenses}$$

You save money when your income (what you get) is greater than your expenses (what you spend).

Ali lives in Male' with his wife Sana and daughter Zara. The couple works very hard because life in Male' is expensive. Here is Ali's budget for next month:

If you have a family, you need to record the income earned by all family members and record all family expenses.

NEEDS AND WANTS

Notice that expenses are divided into needs and wants. Needs are things you cannot do without. Wants are things you can do without.

Income

My Salary	10,000	
My Wife's Salary	8,000	
TOTAL INCOME		18,000

Expenses (Needs)

Rent	10,000	
Electricity	300	
Water	150	
Internet	650	
My Mobile	500	
Wife's Mobile	500	
Food	3000	
	15,100	

Expenses (Wants)


Zara's birthday treat	500	
Charity	100	
	600	

TOTAL EXPENSES

15,700

SAVING

2,300



Remember the equation:
Saving = Income - Expenses

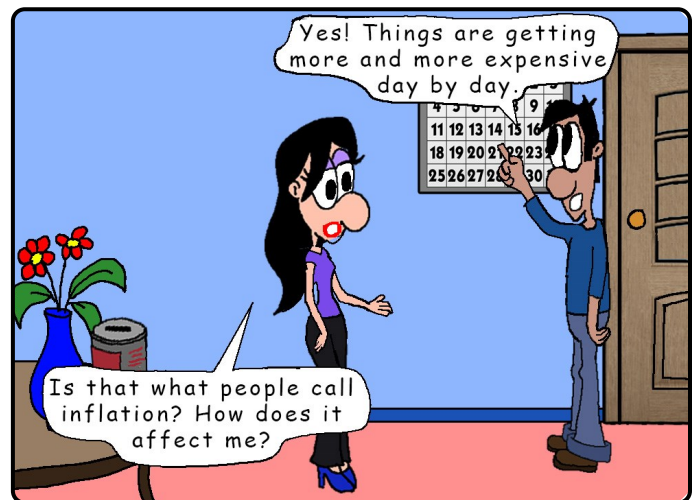
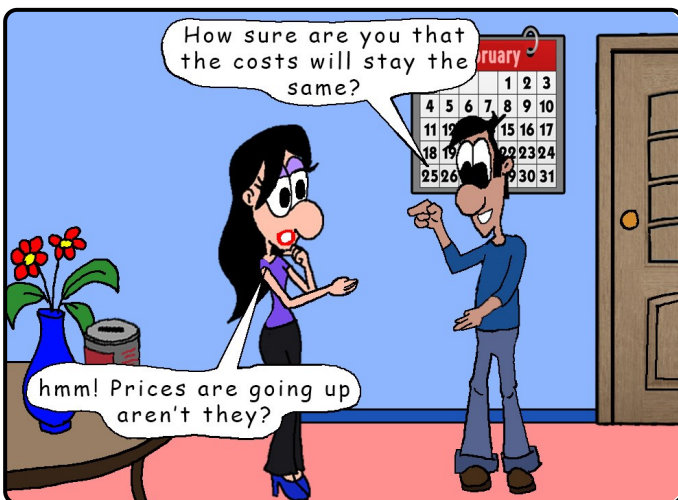
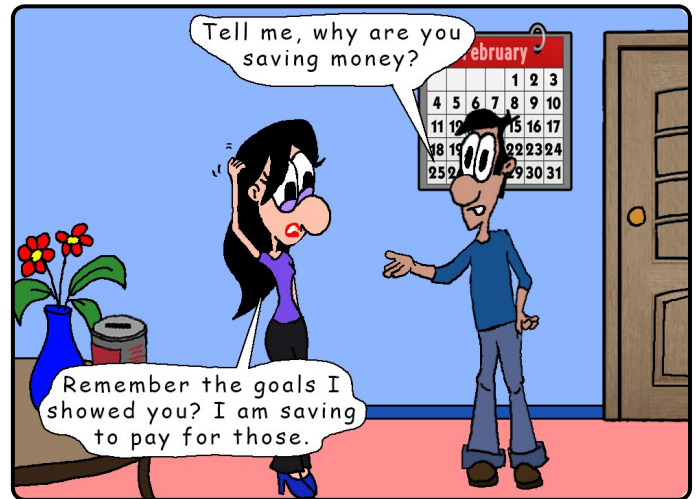
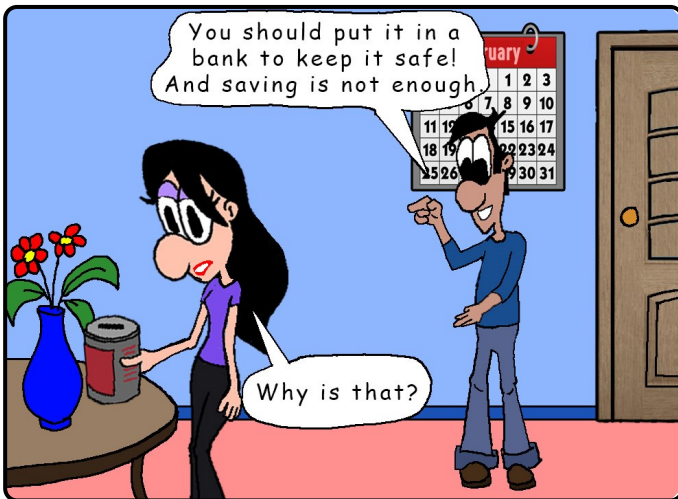
To increase your savings, try to:

- Increase your income.
- Reduce unnecessary spending (reduce your wants).
- Do not waste (even while spending on your needs).

Always remember, making a budget is not enough. You have to stick to it! Spend only on things that you have budgeted for. Keep records of your receipts so that you can compare actual spending with the budget at the end of the month.



4. Step 3: Investing





Let's say you have 100/-. Today a tuna can costs 20/-. How many can you buy?

$100 / 20/- = 5 \text{ X5}$

5 of course.

Now, next year if the price of a can goes up to 50/- how many can you buy for 100/-?

$100 / 50/- = 2 \text{ X2}$

Two! So that means the 100/- is not going to be enough right?

Inflation is the increase in the price of all goods in the economy. As time goes on, you will be able to buy less and less with the money that you have saved. So it is important to **GROW** your money to be able to keep up with increasing prices.

How do I **GROW** money? Do I plant a money tree? Haha!

Not quite. But it's very similar.

Just like planting seeds, growing a tree and getting fruits, you **INVEST** money and earn a **RETURN** on the money.

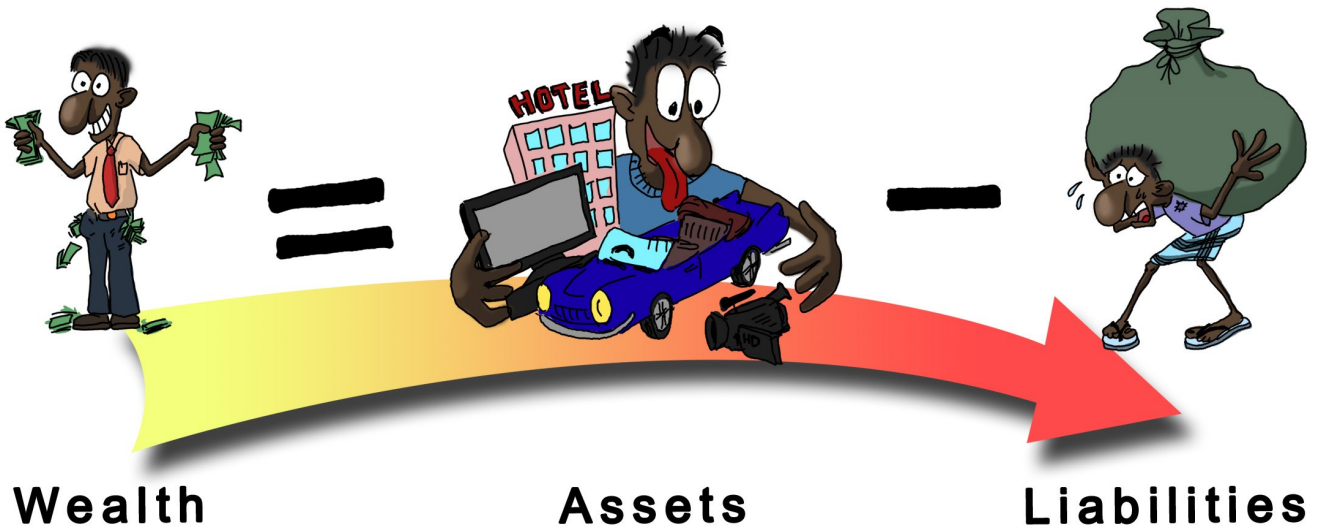
Ok. So how do I do it?

You put your money in different **ASSETS** that will give you more money in the future. The increase is called return. Your wealth will grow like that.

Ok now it's getting complicated.

Not so, let me explain.


$$\text{Wealth} = \text{Assets} - \text{Liabilities}$$

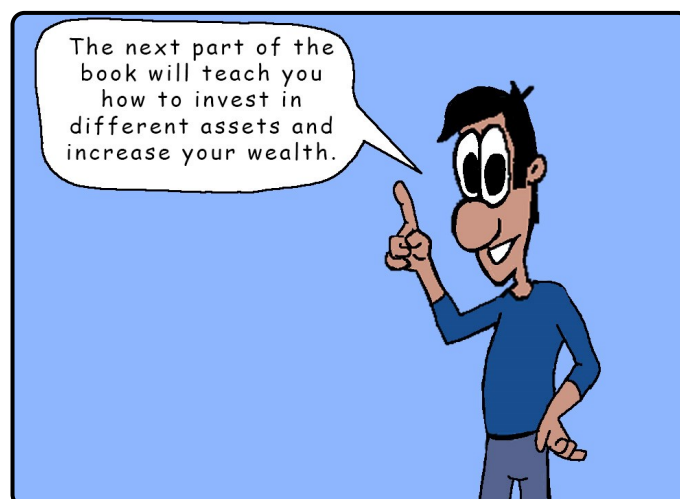


An **ASSET** is money and anything else that you own and that either already earns you money right now or can earn you money in the future (either by selling or renting it to someone else).

Money in your wallet/bank account, money you have lent to someone, gold, silver, jewelry, land, building, your business, shares and bonds are all assets. Think of ways in which you can obtain money from these things.

A **LIABILITY** is money and anything else that you owe to someone else. You have those things temporarily and they need to be returned to the owner.

Money that you borrow from the bank/someone else, rent due from the apartment that you rent, a motorbike bought on installment are all liabilities. Think of the reason why a motorbike that you have bought on installment is considered a liability and not an asset until the full payment is made?



5. Ways to invest money



There are lots of ways in which you can invest your money. The following table gives you some of the ways and how you can earn a return from it.

Investment	Type of Return
Deposit money in a bank	Interest
Hold equity (ownership of a business) Investing in private companies Investing in public companies by buying shares	Profit, Dividend (share of profit), Selling ownership to someone else
Hold debt (lend money to a business) Lending to private companies Buying bonds in public companies	Interest
Own property (land, buildings, vehicles etc.)	Rent or Profit from selling
Own precious metals (gold, silver)	Profit from selling

Depositing money in a bank

When you deposit money, the bank uses your money to lend/invest in various assets. It earns a return on its investments. In turn, you are paid an interest. You can regard interest as a payment for the use of money.

There are two main types of interest: **Simple Interest** and **Compound Interest**.

Ali wants to deposit 10,000/- in a savings account. He has two choices, depositing the money in a saving account or putting it in a **Term Deposit** (for 5 years).

A Term Deposit will pay a Simple Interest at the end of a fixed period (in this case, 5 years). Let's say Ali deposited in a Term Deposit that earns 2.5% interest per annum (per year for 5 years). This means he will earn 250/- as interest ($2.5\% \times 10,000$). He will only get the total interest amount at the end of 5 years.





SIMPLE INTEREST	Year 1	Year 2	Year 3	Year 4	Year 5
Total at the beginning of the year	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
Interest	250.00	250.00	250.00	250.00	250.00
Total at the beginning of the year	10,000.00	10,000.00	10,000.00	10,000.00	11,250.00

A saving account will usually give compound interest. Let's say Ali deposited 10,000/- in a savings account that gives 2.5% interest per annum. With compound interest, the interest amount is added to the total amount in the account every year. The following year, interest is calculated on the original amount plus the interest earned the previous year.

COMPOUND INTEREST	Year 1	Year 2	Year 3	Year 4	Year 5
Total at the beginning of the year	10,000.00	10,250.00	10,506.25	10,768.91	11,038.13
Interest	250.00	256.25	262.66	269.22	275.95
Total at the beginning of the year	10,250.00	10,506.25	10,768.91	11,038.13	11,314.08

Holding equity and holding debt

These are two ways in which you can invest in a business.

'Holding equity' means owning a business. You can either own your business by yourself, or you can share ownership with some other people. As an owner you share in the **profit** of the business.

'Holding debt' means lending money to a business. When you 'hold debt' you do not own the business that you have lent money to. As a lender you earn **interest**.

Ali is planning to start a business operating a ferry service between two islands. He requires 3,000,000/- to build a Dhoni.





Ali, Aisha and her brother Hassan make a partnership. They were able to contribute the following amounts to buy a Dhoni.

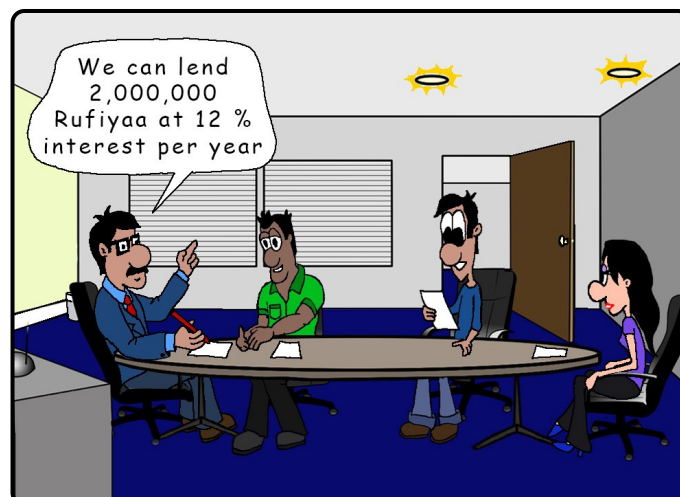
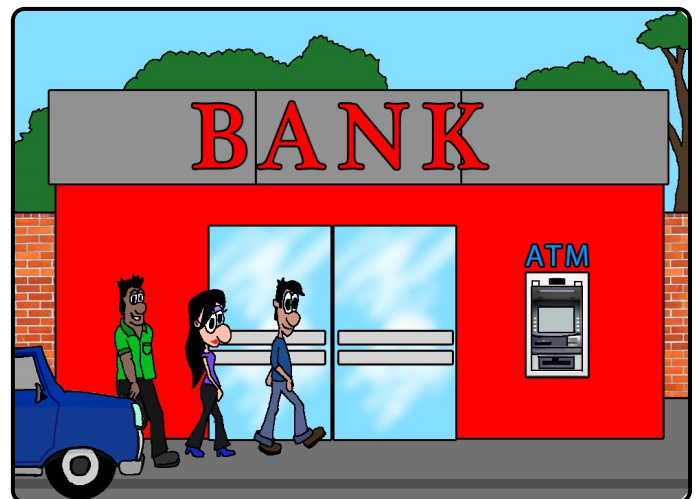
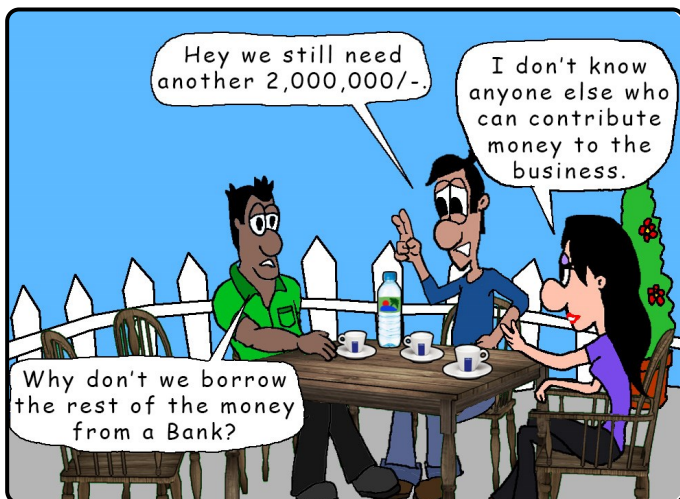
Aisha	500,000	50 %
Ali	100,000	10 %
Hassan	400,000	40 %
Total Capital	1,000,000	




Since the three of them contributed a share of money to start the business, they are known as partners or shareholders. Aisha has a 50% share in the business. Usually, profits are distributed according to how much of a share each partner has. This means Aisha will get a 50% share of the profits. Such a share of profits is called **dividend**.



Always write down a contract stating things like how decisions are to be made, how profits are to be shared and what to do if the business is to be terminated.



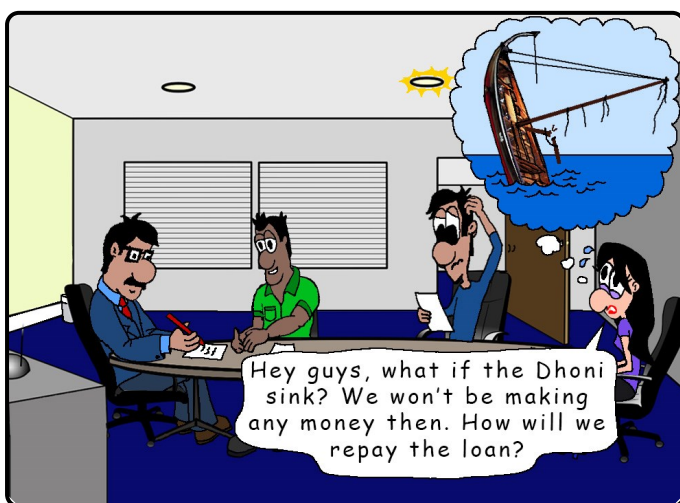


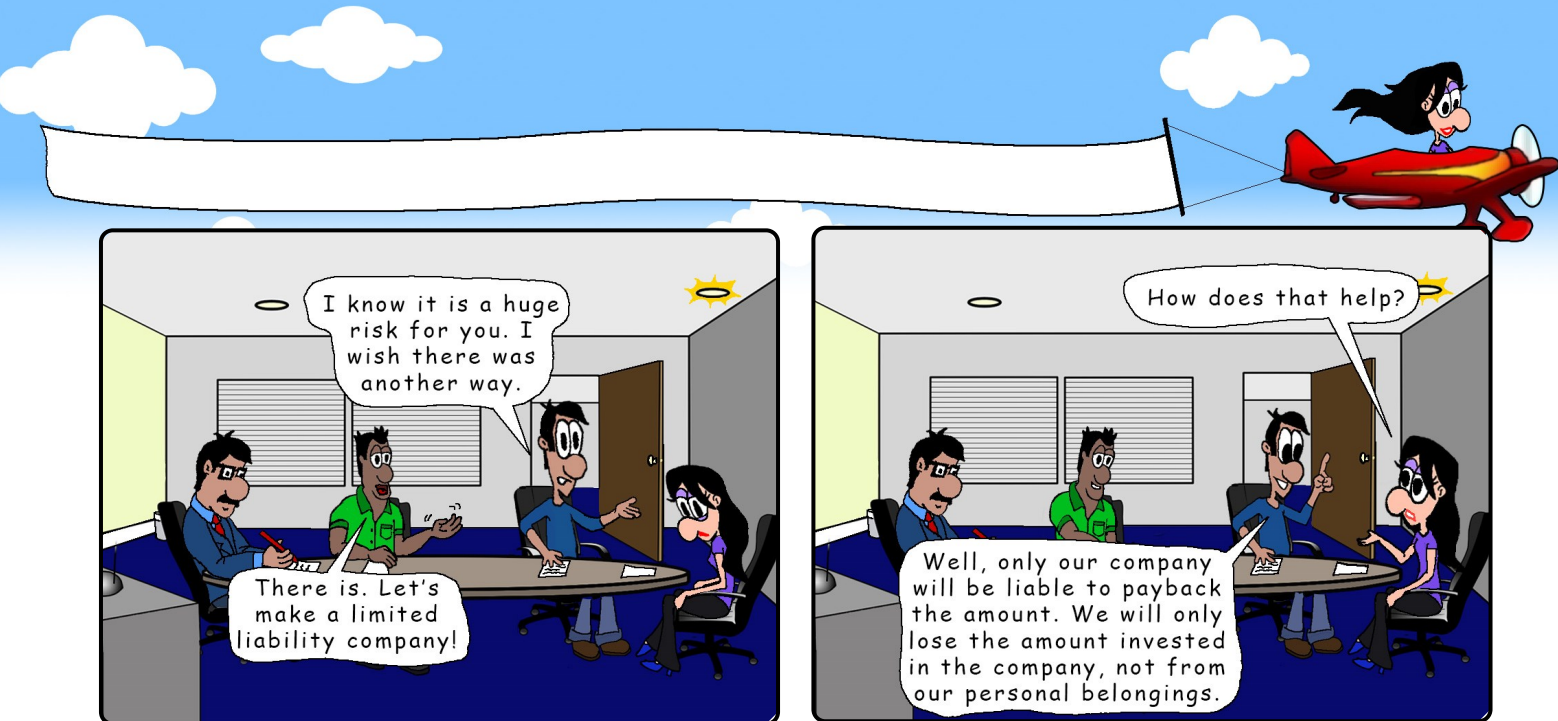
When you borrow money from the bank or any other financial institution, they will provide you a schedule (a table) of how payments are to be made. If you are borrowing from a person, write a contract detailing how payments are to be made.

Anyone who lends money (banks, businesses, individuals) is a debt-holder in the business. You can become a debt-holder yourself by lending money.

Debt-holders are different from shareholders.

Shareholders	Debt-holders
They have power to make decisions for the business.	They can't make decisions for the business.
They are responsible for what happens in the business.	Not responsible
If there is a profit, they get a dividend. If there is no profit, they do not get anything.	They get interest whether the business makes a profit or incurs a loss.
They can only recover the amount invested (capital) if the business makes a profit.	The amount lent needs to be repaid whether the business makes a profit or not.





Limited liability

We have learnt that all debts are liabilities. You can limit the liability to repay debts by registering as a private limited company. The liability of shareholders of a private limited company is limited to the amount of capital they invest in it. This means if the business goes bankrupt; the shareholders will not have to repay business debts using their own personal savings. However the loan/debt have to be repaid to bank with interest. The company assets will be liquidated to pay the debt.

Profit

A financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. Any profit that is gained goes to the business's owners, as such profit gained may be very high or low depending on the business operation and duration. Therefore the opportunity for Aisha's return on investment may be greater than 2 million in 5 years time. Thus she can invest her savings or profits to grow her money.





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