



8 Personal Finance Rules You Should Know



Embrace financial empowerment by mastering the following eight crucial personal finance rules, designed to help you make informed decisions and manage your finances effectively.



100 Minus Your Age Rule

Achieving Optimal Asset Allocation:

Subtract your age from 100 to determine what percentage of your portfolio should be invested in equities.

Formula: Optimal Equity Allocation = 100 – Current Age

Example: If you are 30, you should allocate **70% to equity** and **30% to debt**.



Rule of 70

Measuring the Impact of Inflation:

Calculate quickly how fast the value of your investment will be reduced to half its present value.

Formula: Years to Halve Value = 70 / Inflation Rate

Example: With **7%** inflation, your money's value will halve in **10 years**.



Rule of 72

Doubling Your Money:

Calculate the number of years required to double your money at a given interest rate.

Formula: No. of years to double your money = 72 / interest rate

Example: At **8%** interest, it will take **9 years** to double your money.



10-5-3 Rule

Aligning Expectations with Reality:

The **10-5-3 Rule** is a guideline for setting realistic expectations for returns on your investments.

You can expect to earn an average of **10% on equity investments, 6% on debt investments**, and **3% on savings accounts**.



6X Emergency Rule

Mitigating Financial Emergencies:

Always keep at least **6 times** your monthly salary in an emergency fund.

Additional Tip: For self-employed individuals, aim for around 12 times monthly income in liquid assets.



50-30-20 Rule

Balancing Your Budget:

This rule is a guideline for allocating your income. You should spend **50% of your income on needs, 30% on wants, and 20% on savings.**



40% EMI Rule

Keeping Your EMIs Under Control:

You should not spend more than **40%** of your monthly income on EMI.

Formula: Maximum EMI = Monthly Income * 0.4

Example: If your monthly income is **₹1,00,000**, your EMI should not exceed **₹40,000**.



Life Insurance Rule

Estimating Your Life Insurance Requirements:

Determine your appropriate life insurance coverage based on your age.

Formula: Sum Assured = (Retirement Age - Current Age) × Income

Example: If you're **50**, earn **10L** annually, and plan to retire at **60**, aim for at least **One Crore** insurance.

Sum Assured = (60 – 50) × 10,00,000 = 1,00,00,000



In conclusion, while these ten rules serve as valuable guidelines for making informed financial decisions, it's essential to recognise their generic nature and basic framework.

A thorough need analysis is crucial for critical investment decisions to tailor financial strategies to individual circumstances.



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