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Give Your Child An Early Financial Start

As With Tendulkar & ace investor Buffett, Time Can Be A Powerful Ally For Growing Career, Wealth

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Sachin Tendulkar and Warren Buffett, the two biggest achievers in their own fields, belong to two diverse areas of human activity. However, look closely and there is something which is common to both these giants: Both were early starters in their respective careers.

Let's look at the numbers. Search on the net and a Wikipedia entry throws nearly 100 records against Tendulkar's name. Although some of his records have been surpassed by his contemporaries, like the highest individual score of 200 in one-day internationals, but some seem insurmountable. For example, his 18,426 runs in one-day internationals, which is the most by any individual. Records like these are on the back of both, his batting prowess and the length of his career.

While there have been other prolific scorers in the game before him, along with him and hopefully there will be after him, some of his records seem unbreakable as he was not just prolific but he also started his career early and then kept himself fit to play. He played for 24 years till his 200th test in Mumbai that ended on Saturday.

Coming to Warren Buffett, he is possibly the greatest stock investor ever, apart from being a wealthy guy, a great business leader and a philanthropist. Few realize that there is more to his wealth than just buying the right stocks and right businesses. Fortunately, it is something that most of us can understand and implement for ourselves. It is as simple as compounding.

The compounding formula is: $A = P (1+r)^n$

Here, A=Your wealth at a certain point of time. All of us want this to be a really big number.

Now the factors that contribute to this big number are all on the right hand side of this equation. They are:

P — How much you save?

r — How much you earn on that savings?

n — How long you keep that savings invested?

Buffett's stock-picking skills basically mean that he had a high 'r' in the above equation. That said, Buffett was very well aware of the other two factors as well and he picked this up very early in his life. The r does not work without a P.

Here are a few milestones from his life:

He started working, earning and saving from age six

By 11, he had saved \$120 with which he made his first stock investment (P)

At 19, when he was out of high school, he was worth \$11,000-plus, mostly earned from delivering newspapers and previous investments

He turned 83 recently

So that's a 72-year (n) period of investing from his first investment at age 11, three times the length of Tendulkar's career. And Buffett does not have to retire. He actually gets better at the game. Despite giving a huge chunk of his money away every year for charity, he is still worth more than \$50 billion — that's nearly Rs 3.1 lakh crore!

Now, I'm not sure how good a cricketer can your child be, but he or she can be very wealthy if you give them a head start. So if your child is less than a year old today and you start saving Rs 10,000 for him/her every month and earn interest at 12% per annum, he/she will have more than Rs 1 crore by the time he/she is 21. Change the input number and the output shall change.

Apart from the mathematical exercise, open a bank account for children as soon as you have their birth certificate and put something in it regularly, save the cash gifts they get on their birthdays and festivals. As they grow, involve them, teach them basic money skills, help them understand the difference between spending, saving and investing.

By the time they grow up they would not just be richer in terms of money but, hopefully, wiser on what to do with it.

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