Unshakeable: Your Financial Freedom Playbook

EDELWEISS MUTUAL FUND INSIGHTS

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Book Summary

"Unshakeable: Your Financial Freedom Playbook" is a truly exemplary book in which Tony Robbins shares tips from financial gurus like Warren Buffett, Alan Greenspan, and David Swensen. It tells you about the rules of the financial game, who are the key players, what is their agenda, and how you can ride the financial storm to build your financial freedom. The book can genuinely act as a playbook for you to chart your financial planning journey and stay on course as you go through the ebbs and flows of the investment market.

Key takeaways:

- Knowledge and understanding of the basics of financial planning is very important if you want to optimally plan your financial journey
- When creating an investment portfolio, ensure that you create an asset allocation strategy that enables you to diversify your investment across asset classes, geographies, and time-frames
- Know and understand the importance of financial planning and the need to create a financial cushion that can help you weather the storms in the financial markets
- Your behavioural biases act as an impediment in your financial planning journey. Thus, it is important to actively deal with your behavioural biases.
- Your best friend in your financial planning journey is the power of compounding. Start your investing journey early and stay invested for the long-term to benefit from the power of compounding.
- One of the best ways to create a robust portfolio is to invest in index funds
- Regularly rebalance your investment portfolio to ensure that it is aligned with your changing personal circumstances and the investment landscape

Know the rules of the game

When you start playing any game or sport, the first thing that you need to know and follow are the rules of the game. Without that, failure is guaranteed. Similarly, when you start your financial planning and investment journey, you must know the rules of the game. This includes, but is not limited to, the following:

Know the fund type: In the financial markets, there are 3 main types of funds. These include hedge funds (for high net worth individuals), mutual funds (the most common funds in the market), and index funds (which simply buy and hold all the stocks in an index). Know the pros and cons of the type of fund in which you are investing. A key recommendation is that you should go for index funds rather than "actively-managed funds" like hedge funds.

Know your costs: Often, investment managers overcharge and underperform. This can prove to be very costly for you and can have a significant impact on the long-term performance of your investment portfolio. Plus, there is also the cost of taxation and other 'inefficiencies'. Thus, it is very important for you to look at costs while making investment decisions.

Know that the true path to financial success is through the power of compounding: The power of compounding helps you multiply your wealth over a period of time as it enables you to earn not just on your invested capital but also on the returns that are generated. You must actively try to harness the power of compounding. This means that you should start your investing journey as early as you can and stay invested for as long as you can.

Know who to trust: When you look for financial guidance, you should avoid taking advice from friends, family, self-proclaimed financial pundits, influencers, etc. Just like you go to a professional like a doctor when you need health advice, similarly you should go to a qualified financial planner when you need financial advice.

Your unshakeable playbook

The "Core Four" strategy is a revolutionary approach to investing that encompasses the main strategies used by the greatest investors to build their portfolios. It also tells you how you can prepare for the next bear market to weather the storm or even leverage the opportunities.

1. **Have a diversified, customized asset allocation mix that matches your goals:** It might come as a surprise to you that all the best investors in the world do not primarily focus on enhancing returns. Instead, they are obsessed with avoiding losses. Why? Because they understand a simple but profound fact: The more money you lose, the harder it is for you to get back to where you started. And this is where asset allocation comes into play. Asset allocation is simply creating a well-diversified investment portfolio that is spread across different types of investments. The goal of asset allocation is to diversify in such a way that you are able to reduce your risks while maximising returns. The generally believed thought that higher risk equates with higher return is a myth. What you should ideally seek are investments with asymmetric risk/reward, i.e., investments that enable you to gain as much as possible while taking as little risk as possible. There are four important ways to diversify effectively:

   I. Diversify across different asset classes
   II. Diversify within asset classes
   III. Diversify across market, countries, and currencies around the world
   IV. Diversify across time

2. **Build up a financial cushion:** You should never be in a position where you have to sell your investments or assets to meet a goal or requirement. Thus, it is imperative that you focus on creating a financial cushion. This way, when the bear market or volatility hits your portfolio, you will be in a strong position and won't have to make decisions that stem from fear. The first thing that you need to do is start with an achievable goal. For example, you might start with a goal of saving three or six months of income, and then work your way—over many years—toward the ultimate goal of setting aside seven years of income. To achieve this, you must understand the power of disciplined saving combined with long-term compounding. The biggest threat to your financial well-being is your own brain, or simply your behavioural biases. These impact your ability to make optimal investment decisions. You can do everything right but if you fail to master your own psychology, you may ultimately become the victim of a costly form of financial self-sabotage. For example, as an investor, you might be vulnerable to confirmation bias. This means that you will actively seek information that confirms your opinion and avoid information that proves it wrong. You must ensure that you avoid this bias at all costs. A common investment mistake that investors make is to believe that the current trend will continue. And when your expectations are not met, which can often be the case, you tend to overeat and end up making sub-optimal investment decisions.

   The bottom line is that you need to overcome these biases. If you are successful in doing so, it will give you a tremendous advantage and help you create a comfortable cushion which will soften the blow of a hard landing.

3. **Use index funds for the core of your portfolio and explore other stocks and alternatives at the margins:** An index fund is simply a collection of the stocks that are listed on a particular index. When you invest in an index fund, you are not just investing money in a single stock. Instead, you are investing in all the stocks in a particular index. For example, have you heard of the S&P 500? This is a list of the 500 biggest US companies including Amazon, Apple, Google, Walmart, McDonald's, etc. Now, if you choose to invest in any of the S&P index funds that are available, then you end up investing in all 500 of these company stocks at the same time. Index funds are an excellent investment option because they make investing far more safe and predictable. Although individual stocks have always been risky and individual companies can always go out of business, the stock market as a whole has always gone up over the long term. This means that if you invest in every company on the market, then the probability that your money will grow over time is fairly high.

4. **Rebalance your portfolio regularly:** Another important aspect to focus on is rebalancing your portfolio regularly. Ofcourse, this doesn't mean that you should regularly churn your portfolio, but it does mean that you need to be aware of what is happening around you. The financial markets are in a constant state of flux. Some of the changes are transitory in nature and some are more structural and long-term in nature. While you do not need to respond to the former, you must take cognisance of the latter and accordingly rebalance your portfolio in response. Another thing to think about is the changes in your personal circumstances. With time your goals and risk profile changes. It is important to keep rebalancing your portfolio in response to these changes.

On the face of it, the playbook seems almost intuitive. However, many individuals are not able to follow the playbook, as a result of which, they are unable to meet their financial goals. This is probably because there is a significant gap between knowing what to do and being able to do something. Mutual funds can potentially do a good job of bridging this gap. Mutual funds are investment vehicles that pool investor money and then invest it across different asset classes and strategies based on the investment mandate of the scheme. They are professionally managed and if you invest in them via the Systematic Investment Plan (SIP) route then you will also be able to reap the power of compounding while mitigating the impact of behavioural biases and maintaining investment discipline. Several fund houses in India also offer index funds, thereby enabling you to get the right exposure and ticking multiple boxes in your investment playbook.