Ancient Investment Tips - that still work!

A book was cast in stone more than 3,500 years ago in Babylon and was found by a British professor late last century. What impressed him -- and helped him come out of a debt crisis -- were the inscriptions on how to manage one's finances.

The book is now available as *The Richest Man of Babylon.* It's a very small book, but with some very profound thoughts.

1. Pay yourself first

YOU are the most important person in your life, so pay yourself first before you pay others. You should save money first for yourself before you pay all those bills. Typically we look at our expenses: how much do I have to pay my landlord, my grocery bills, my medical expenses, my entertainment bills, etc. Once we have decided on our expenses, we find out what our savings will be.

Financial advisors and many credit card companies (or banks) today help clients in estimating their lifestyle expenses and help them understand where their money is being spent.

The old book turns this theory on its head: it says 'pay yourself first.' You are working for yourself and not just for paying your bills and, hence, you should receive a fair share of your income for yourself.

The Richest Man of Babylon decrees that you should pay a minimum of 10% of whatever you earn to yourself. And the best thing is: once you have paid yourself, you will realise that your lifestyle does not change at all!

In today's consumption-driven world, this simple philosophy takes a back seat. It is important to nip the temptation of over-spending at the bud. With facilities like internet banking available today, it is easy to transfer money to investments as soon as income is received.

For the clients that we have done that, they say that after the first couple of months, they have become used to the lesser disposable income, and do not feel the pinch in their life style at all.

2. Make your money work harder

The nature of money is prolific: money begets more money, and more money begets more money. The Richest Man of Babylon says that the only way for your money to grow is if it procreates. Using a wonderful analogy, it states that the money saved -- and invested -- is the father and it should bear children. The joy -- and the secret to financial independence -- lies in seeing the children grow bigger than the father.

It is very instructive to learn the difference between savings and investments. We may be saving a lot, but idle sitting money is not investment. Investments earn Returns, while savings do not.

Leaving money in the savings account for a rainy day is not investment. Such savings is impotent, progressively eaten away by inflation.

With the development of the financial markets, there are many avenues in which savings can be easily invested to procreate. Depending on your circumstances and requirements, you can invest in equities, real estate, long-tenor fixed deposits, etc. The idea should be that the children (the interest or dividend or capital appreciation) is so large that they can support their original father -- you.

Once your passive income is enough to sustain you, you are out of the rat race.

3. Take calculated risks -- but *do* take them

It is not always that the best intentions produce the best results. After having saved for one year as decreed by The Richest Man in the book, his disciple gave all his money to a merchant who was to go into far seas in search of the spices. Neither the boat, nor the man returned and all the savings of the disciple were lost.

While it is important -- rather it is a prerequisite -- that you need to take some risks to earn returns on your savings, you need to be careful in evaluating the risks that you can/should take. The first thing that you need to understand is the amount of risk that you are able and willing to take. It is easy to confuse between the ability and willingness -- and this is where you will need the assistance of your financial advisor.

Depending on your circumstances, you should define the amount and nature of risks that you can take. If you are nearing your retirement and have painstakingly built your nest-egg over your working life, it is important for you to ensure safety of your principal. When you are young and without responsibilities, you can risk your savings for higher returns.

4. Be Persistent

After losing the money with the sea merchant, the disciple wanted to give up on saving and investment, saying that it is an illusory game leading to losses and pain. The Richest Man warned him not to lose heart and to continue the process year after year throughout his life. When the disciple invested -- more cautiously -- the second time, he not only received his principal back, but also received handsome interest.

It is easy to be lost in the maze of headlines and advisors who talk about the uncertainties in the markets and their abilities to time and make more money out of it. While one can try to get that extra return by tactically optimising on the portfolio allocations, what should not be lost sight of is that the mantra to investment success is to be disciplined.

There will be shocks on the way, but it is important that your savings are working for you.

It is surprising how the logic of wealth-creation written down millennia ago is still relevant today. The British archaeologist who found these stone tablets was in a debt crisis, with credit card companies knocking at his door daily. By following the simple dictates above, he not only made his life debt-free, but set out on a path to financial independence!