SmartPlan Finance FAQ Guide

Q: What is a budget?

A budget is a financial plan that tracks your income and expenses over a specific period, helping you control spending and save for goals.

Q: What is the '50/30/20' rule?

It’s a budgeting framework: 50% of income for Needs, 30% for Wants, and 20% for Savings and Debt Repayment.

Q: Why is an emergency fund vital?

It provides a liquid safety net (typically 6 months of expenses) to handle job loss or medical emergencies without accumulating debt.

Q: How does inflation affect personal wealth?

Inflation decreases the purchasing power of money over time; if your investment returns don't exceed the inflation rate, your real wealth shrinks.

Q: What is the difference between assets and liabilities?

Assets put money in your pocket (e.g., stocks, real estate), while liabilities take money out (e.g., high-interest credit card debt).

Q: What is compounding?

It is the process where your investment returns generate their own earnings, leading to exponential growth over long periods.

Q: What is an SIP?

A Systematic Investment Plan is a method of investing a fixed amount regularly into mutual funds, minimizing market timing risks.

Q: What is diversification?

It is the strategy of spreading investments across different asset classes to minimize overall risk.

Q: What is asset allocation?

It is the practice of dividing an investment portfolio among different asset categories based on risk tolerance and time horizon.

Q: What is the 'Rule of 72'?

A formula to estimate the time required to double an investment (72 / Annual Interest Rate = Years to double).

Q: What is a mutual fund?

A pooled investment vehicle where money from many investors is managed by professionals and invested in securities.

Q: What is an Index Fund?

A fund designed to mirror the performance of a specific market index.

Q: What is the risk-return trade-off?

The principle that higher potential returns usually come with higher risk.

Q: What is an Equity investment?

Investing in shares of companies, which offers potential for high growth but involves market risk.

Q: What is Debt investment?

Investing in fixed-income instruments like bonds or FDs, which generally offer lower, predictable returns.

Q: When should one start retirement planning?

As early as possible to maximize the effect of compounding.

Q: How is a retirement corpus calculated?

By estimating your post-retirement monthly expenses, adjusting for inflation, and determining the lump sum needed.

Q: What is a Public Provident Fund (PPF)?

A government-backed long-term savings scheme offering tax benefits and guaranteed returns.

Q: What is a National Pension System (NPS)?

A voluntary, market-linked defined contribution retirement scheme.

Q: Does an early retirement require a higher savings rate?

Yes, because you have fewer years to accumulate capital and need your funds to last longer.

Q: Difference between tax evasion and tax avoidance?

Avoidance is legal tax minimization; evasion is the illegal non-payment of taxes.

Q: What is the benefit of a Term Life Insurance?

It provides a large death benefit to your family at a low cost, focusing purely on protection.

Q: Should you pay off debt before investing?

If the debt interest rate is higher than expected investment returns, pay off the debt first.

Q: What is credit score?

A numerical representation of your creditworthiness, based on your history of borrowing and repaying debt.

Q: How does a Credit Card work?

It allows you to borrow money up to a limit, which must be repaid; high interest applies if not paid in full.

Q: What is dollar-cost averaging?

Investing a fixed dollar amount at regular intervals, lowering the average cost per share over time.

Q: What is volatility?

The degree of variation in the trading price of a security over time.

Q: What is the 'FIRE' movement?

Financial Independence, Retire Early—a movement dedicated to extreme saving and investing.

Q: Why are FDs considered low risk?

Because Fixed Deposits offer a guaranteed interest rate regardless of market conditions.

Q: What is the most important factor in long-term wealth creation?

Consistency and time in the market (discipline), rather than timing the market.