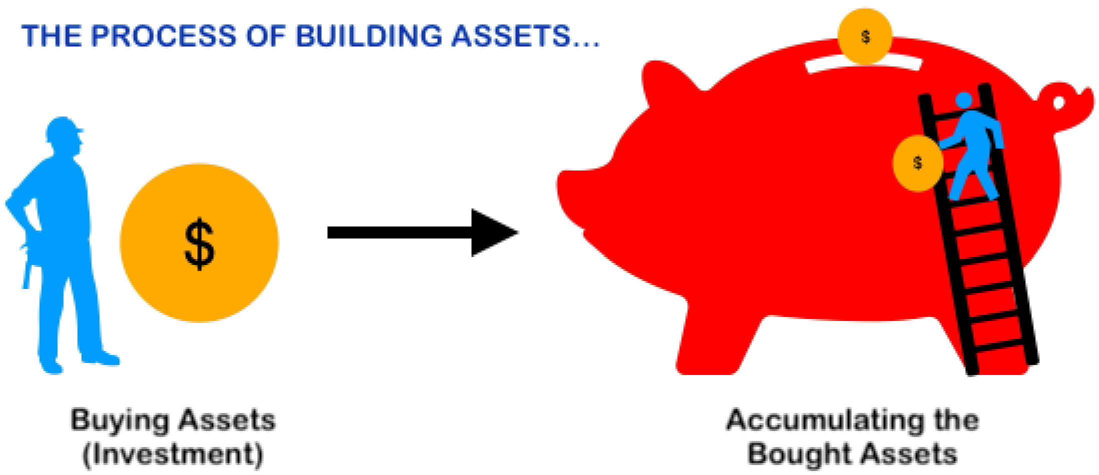
How to Build Assets? What is the Process of Asset Creation?

introduction: There are easy ways to build assets with little money. But less people in this world can build assets. Why, what is the problem? The problem is that, people do not know the *process and importance of asset building*. Hence it gets ignored. [*Also check this free online Net Worth Calculator.*]
What one must do? It is not a rocket science. If one can understand the '*process of asset building*', the rest will be simple. What is the process of asset building? [*Also read about the process of investing successfully.*]
'Invest' money to 'accumulate assets'.
Though the statement looks simplistic, but to better understand it we must know the relation between 'investment' and 'asst accumulation'.

If one can establish this relation in the head, balance process becomes much easier.

PROCESS OF ASSET ACCUMULATION



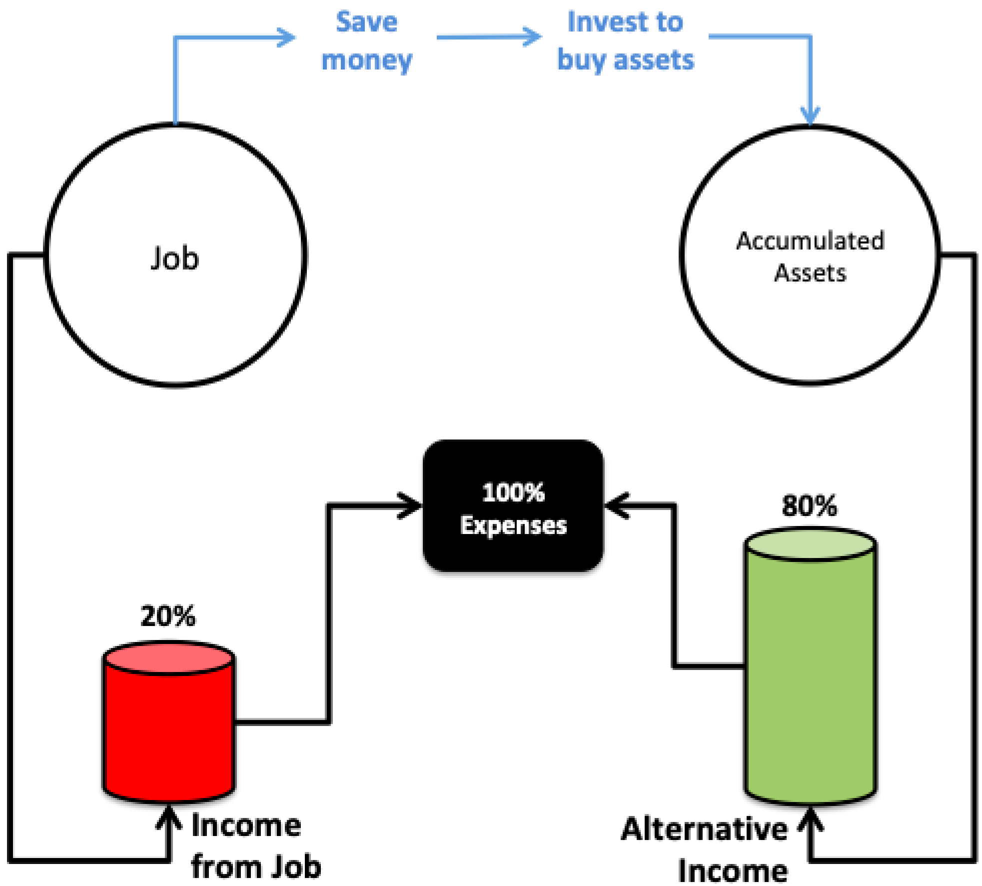
- **Investment**: This is a process of buying assets. The purchased assets has capacity to generate returns over time. Read more about Warren Buffett's 3 rules of investing.
- **Asset Accumulation**: When assets are gradually acquired over time, and held for long term, *assets start to accumulate*. To make an investment process successful, one must buy assets with intention of accumulation. Read more about advantages of long term investment.
- **Asset Building**: It is the "*process of gradual purchase of assets, with the purpose of its accumulation*".

The important keyword of us is "accumulation". Buying assets without the intention of its accumulation, is almost a meaningless activity. Focus must be on buying assets and its accumulation.

Now that you know the process of asset building, let's ask a more basic question. Why to build assets?

WHY TO BUILD ASSETS?

Do it for financial independence. What is the necessity? Let's dig deeper.



Higher will be the alternative income, more stable will be the financial independence.

Do you love doing your job? I know not many will raise hands to this question. But if we do not love our jobs, why we continue to linger on to it? Because there is no choice.

To continue earning money, doing job is a **compromise** that we have chosen voluntarily. But today a time has come, when we are totally dependent on our job for money.

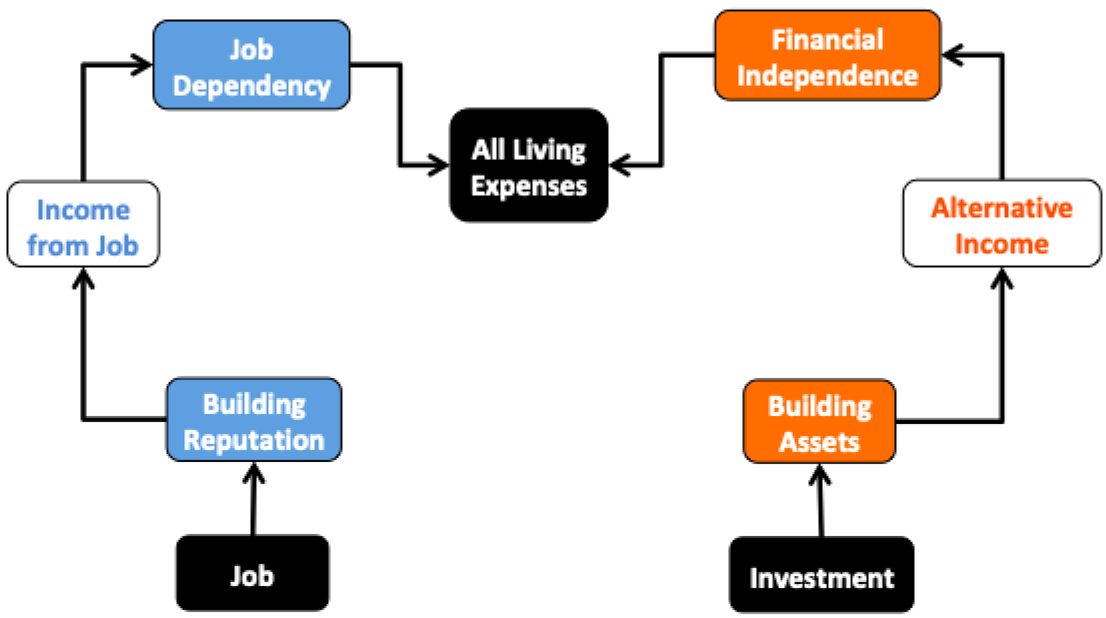
There is a way to remove this dependency. Yes, there is a way. Become financially independent. How to do it? Follow this approach:

- **First**, realize that you are financially dependent on your job. Most of the people who are in job does not realize that there is a thing called financial independence. Know more about financial independence.
- **Second**, start reducing your financial dependency step-by-step. What it means by reducing financial dependency? Generating an alternative source of income. Alternative source of income will come from where? From assets that one accumulates. Read more about investing for monthly income.

The bigger will be the asset base, larger will be **alternative income**. Larger alternative income means, less dependency on *income from job*. So, build assets to liberate yourself from the clutches of your job. Make this as your ‘priority number one’. It is a goal worth following.

WHY 'ALTERNATIVE INCOME' IS PREFERRED OVER 'INCOME FROM JOB'?

We have more control over our alternative income. But the same cannot be said about the income from job.



Alternative income generation should always get priority over 'income from job', why? Because of the roots from which they originate. To understand this, we will have to look more deeper within ourselves…

Why we need money? Mainly to support our standard of living and managing other living expenses. For a human being these expenses are basic and uncompromisable.

How we ensure that these expenses are met? For most people, one must work hard (like in job) to generate an income. This income in turn helps us to meet our expenses.

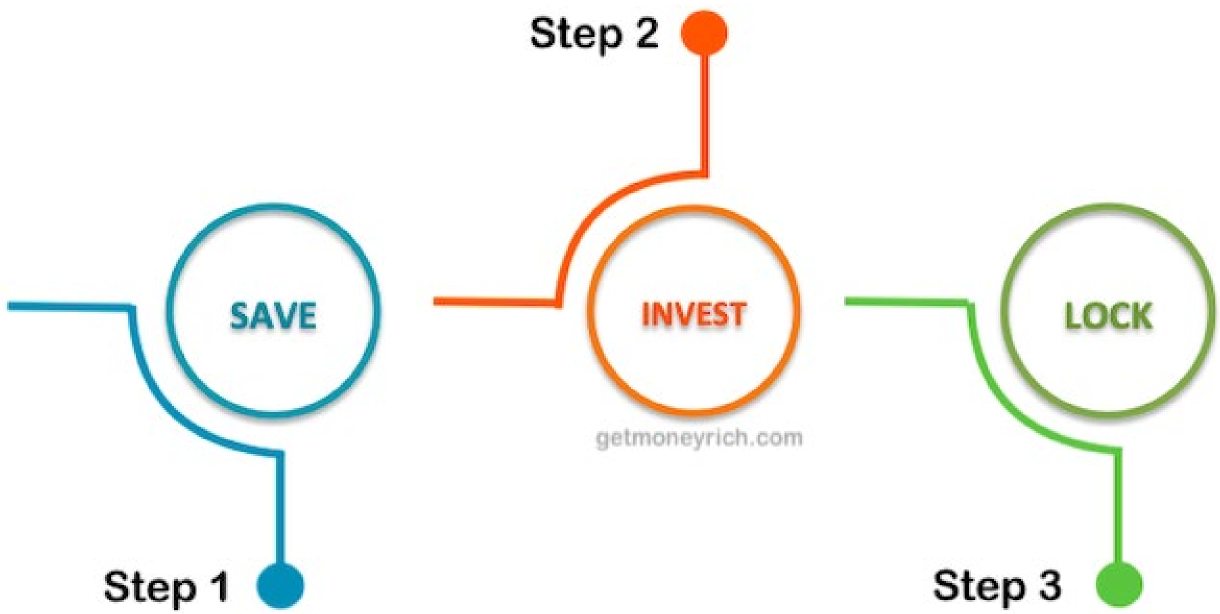
But the problem is, our expense grows with time. Hence our income must also grow. So here comes the distinction between 'income from job' and 'alternative income'. How the income will grow in these two cases?

- **Income growth in job**: This income comes from doing a job and building a reputation for self in the company. It is the reputation that triggers 'income growth' for a salaried person. But reputation building in only partly in our control. Outside entities has a bigger say in reputation growth over time. Which means? We have less control on income growth in job. Read more about building millions in first job.
- **Alternative income growth**: This is dependent more on a 'mathematical formula'. Hence it is more certain. Alternative income comes from accumulated assets. The bigger will be the asset base, higher will be the passive income. The rate of income growth here is more dependent on your '*skill*' than on other factors. Which means? We have more control on growth of alternative income. Read more about building alternative income while in job.

As we have more control over growth of alternative income, hence it becomes our preferred income stream.

In the initial years, the quantum of 'alternative income' will be low (compared to job). But do not let it dishearten you. Keep on investing and buying more assets, alternative will grow.

HOW A COMMON MAN CAN BUILD ASSETS?



For people who are already affluent, their way to asset building is different. How a common man can start building assets? These are the three steps:

1. **Save**: Saving money is more important than investing itself. The easiest way to save money is to put aside part of income. Reducing needless spending will also increase free cash in hand. Even richest men in the world must save money to stay rich. As a rule of thumb, if one saves 25% of total income, it is called a decent saving. Give standing instruction to salary account to divert 25% money to saving account. This should happen on the first day every month.

2. **Invest**: Why to invest? Why not keep building savings, and then use savings to directly buy “assets”? This will be nice but keeping money as savings is not advisable. Why? Because of two reasons, (a) savings gets spent too easily, and (b) invested money multiplies faster. Where common men can invest savings? Mutual funds, stocks, real estate, gold etc.
3. **Lock Funds**: This is the most essential step. Generally, we stop at step two. But we must take this extra step. In this step we are converting ‘all assets’ into ‘income generating assets. How we can do it? My best avenues are (a) dividend paying stocks, (b) rental properties, and (c) REITs.

The whole asset building process can be realized by following the above three steps. There is nothing new that I have told, but what is worth remembering here is the step number three.

Let’s discuss slightly in more details about how we can successfully implement the above 3 steps:

1. SAVE MONEY

It is important to save money in a right way. The target should be to save sufficient money which can later be diverted to buy investments. How one can save money? In the following ways:

- **1.1 Build Emergency Fund**: Nothing eats our assets faster than emergency. When emergency strikes, money gushes down the drain. Example: medical emergency. Hence it is advisable to keep a sufficient back-up, to handle emergencies. Emergency fund must be composed of at least 2 things: (a) insurance and (b) cash. Read more about where to keep emergency fund.

- **1.2 Put Funds in Recurring Deposit**: In this step, the priority is to save money. Do not think about returns here. Recurring deposits has few clear advantages: (a) saving is automatic, (b) money is safe, and (c) Money remains in front of our eyes (bank). Read more about recurring deposits here.

Please note that in step 1.1 we are ensuring that we are well prepared to meet emergencies of life. When it comes, we can find refuge into our savings.

In step 1.2, what we are saving will be used further for investments.

2. INVEST MONEY

The savings accumulated in above step 1.2 must be invested wisely. But the problem that common people face is lack of investment know-how. So, in case like this, where one can invest money?

- **2.1 Hybrid Funds**: SIP in hybrid funds is a useful tool for investment. It has multiple benefits. It can give exposure to equity and debt from a single window. Think of your SIP like this, '*I will continue investing in this fund through SIP's till eternity*'. Yes, this should be the mindset. Keep purchasing units of mutual fund month after month, without break. This money will be eventually used to *lock funds*. Read more about types of mutual funds.
- **2.2 Index ETFs**: Exchange Traded fund (ETF) is another excellent investment product. ETF's carries with it the advantages of both stocks and mutual funds. ETF's offer great investment diversification within equity portfolio. Every time there is 3% or more dip in index, try to grab a handful of ETF units. Read more about ETFs.

- **2.3 Gold**: Gold is a decent long term investment vehicle. When I say long term, I mean a minimum holding time of 10-12 years. Price appreciation of gold is not as predictable as equity. But in time-bands of 10 years, gold price appreciates decently. Example: in last 60 years, gold price increases every 10 years is shown in below table. In long term it beats inflation. Read more about gold investment.

SL	**Year Band of 10 Years**	**CAGR %**
1	1964-1973	15.98%
2	1973-1982	19.44%
3	1982-1991	7.74%
4	1991-2000	2.41%
5	2000-2009	12.67%
6	2009-2018	8.44%

- **2.4. Buy Land**: Land is an asset which is becoming more and more scarce. Consider the case of cities like London, New York City, Los Angeles, Paris, Tokyo, Mumbai etc. Probably, a piece of land in these cities are the rarest of rare items. One great idea of investing in land is, keep buying land ‘just on outskirts’ of important cities.

In this step what we are doing is to give a faster multiplying power to our savings. The investment discussed above are ones which can generate good returns over time, with less risk. But please note that the investment horizon should be more than 5+ years.

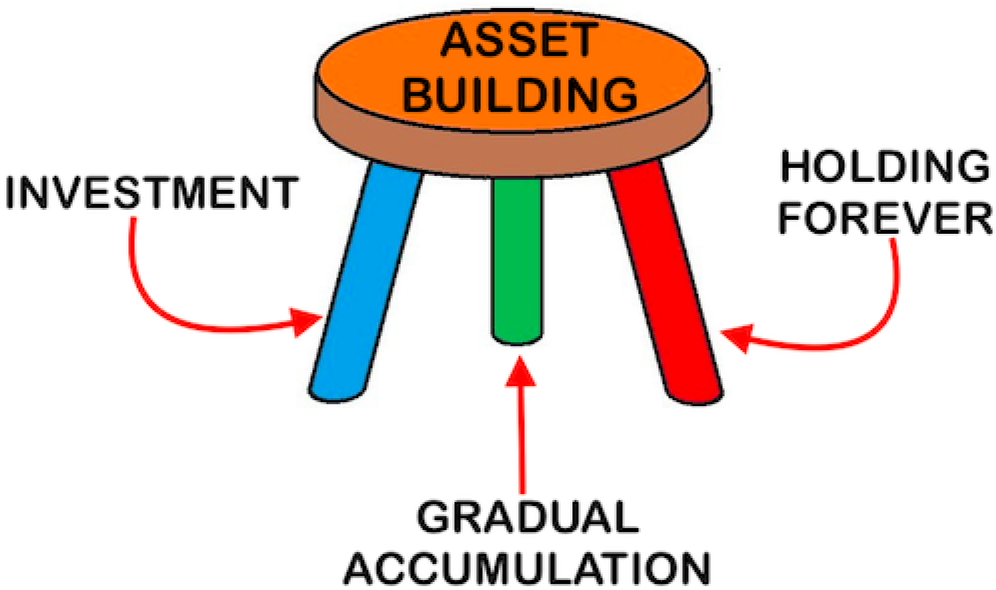
3. LOCK FUNDS

The money locked in RD, SIP, land etc. is all done with one objective. At some point of time, it should be redeemed to 'buy an asset'. Which asset? Income generating assets. See the following:

- **3.1 Dividend paying stocks**: Dividend paying stocks are fundamentally strong stocks which also pays regular dividends to its shareholders. It is important to buy these stocks at right price, else its yield will be too low. Hence, waiting for the right time to grab best dividend paying stocks is essential. Read more about dividend paying stocks here.
- **3.2 Rental Property**: For me this is the best income generating asset. Why? Because it is one asset which generates the best passive income. The rental yield from a real estate property also increases at rate of inflation. Read more about how buying your first home is a great investment.
- **3.3 REITs**: This is a new income generating investment vehicle launched in India in Mar'19. In America and Europe REITs is one of the most preferred investment vehicles for income investors. Read more about REIT India here.

One must equally distribute one's investment among the above three options. These are great investment vehicles for income generation.

REMEMBER THIS INFOGRAPHICS…



Throwing money here-and-there in the name of investment is not enough. Investment is only one leg of the *asset building process*. There are two more legs (see the above infographics).
Jointly, all 3 legs in tandem can build asset over time.

Try to take a print-out of the below simple-looking photo and paste it on your worktable. I personally believe that this simplistic picturization of 'asset building' has powers to change lives of people.

FINAL WORDS…

Is there anything which is more important than 'building assets'? Yes, there are two:

- Becoming debt free.
- Building an emergency fund.

I personally feel that, unless one has achieved the above two goals, venturing into asset building will not be effective.

So before venturing into ‘asset building’, make sure that you are debt free, and has a big enough emergency fund protecting your back.