

Managing your Money – 50 tips on Financial planning for the dentists – Part I**Dr Rohit Shah¹**

Reader, Department of Periodontology, TPCT's Terna Dental College and Hospital, Navi Mumbai, Maharashtra, India

Dental professionals often lack financial literacy and end up underinvesting in the right financial products and overinvesting in the wrong but well marketed products. This two part article is an attempt to guide the dental practitioners especially clinicians to improve their financial habits and give tips on investments to enable them to preserve and build their hard earned money.

- 1) Plan your finances well. Never depend on a single income. Your investments should earn you passive income.
- 2) Every month, Pay yourself first and use that money for investment, spend what is left after saving.
- 3) Rich people invest while middle class save money. Save for a rainy day and invest for short term and long term goals.
- 4) Never mix-up insurance with investment. You will neither get both adequately.
- 5) He who doesn't understand money, pays for it.
- 6) Get a good financial doctor/ expert advice.
- 7) Don't be too defensive in your early years. The power of compounding is the eighth wonder of the world. Start your systematic investment plans as soon as you start earning.
- 8) Stop running after money and money will come to you. Desire and determination is the key to creating wealth.

9) Your income should usually be divided under the following headings -

Insurance - 5-10%, Investments - 30%, Expenditure - 60%

10) Equity Linked Savings Scheme in combination with term insurance can give better returns and protection than unit linked insurance plans.

11) Don't introduce too many mutual fund (MF) schemes in your portfolio from the start. Having 5-6 different MF schemes should be good enough.

12) Don't stay away from equity markets just because your friend lost money. Markets are supreme and always reward investors who have virtues such as patience and consistency in investing regularly in quality businesses for a long time.

13) Go for consistency of fund over a long duration rather than short term performance. Check for 3 and 5 year returns before investing.

14) Monitor your portfolio performance every 6-8 months. In case the fund underperforms consistently for few quarters, don't hesitate to switch to a better fund.

15) Choose equity linked savings scheme (ELSS) funds as a tax saving instrument under Section 80C - Great way to save tax and build wealth over the long term too.

16) Volatility is investor's best friend in the long run. Investments made at worst times when market sentiments are at an all time low usually yield best results in the long term.

17) Don't get carried away. Don't mix your emotions with your stocks and finances.

18) Stay away from impulsive buying. Invest in your career graph - Keep learning and keep enhancing your financial skill-set.

19) Be consistent and patient with your investments. It requires time, discipline and effort to build up wealth and a big corpus fund.

20) Systematic Investment Plans (SIP) in consistent equity mutual funds and buying and

holding on to quality stocks for years together will always remain a preferred bet. Hence remember Buying consistently and holding on to quality stocks maybe boring but is very effective.

21) Large caps can also underperform. Hence diversification is the key.

22) Markets are supreme and always factor in future growth early. Markets are supreme wherein even a newbie can create enormous wealth and an expert with years of experience can lose big time.

Markets always try to factor in future growth or deterioration in growth early and stock prices may reflect accordingly.

23) Don't copy anyone's investment strategy. Build your own and keep reviewing it.

24) Observe things around you to be a good stock picker. Check big consumer successes around you and invest in those companies. Best investment idea will be very much around you. You just need to observe keenly things around you.

25) Don't time the market in relation to SIPs also. By their very nature they average out the cost of purchases in the long term. Hence there is no ideal time to invest in an SIP.

26) Stocks work but not in a short time - Be patient, and keep your focus on a company's fundamental performance. In time, the market will recognise and properly value the cash flows and earnings that the businesses produce.

27) Behave like a owner - when you buy a stock you buy a share in the company's business. This means reading and analysing financial statements on a regular basis, weighing the competitive strengths of businesses, making predictions about future trends, as well as having conviction and not acting impulsively.

28) Don't be stubborn. However, if you find yourself constantly discounting bad news or downplaying the importance of deteriorating financials, read the writing on the wall and initiate corrective measures.

29) Pay wisely for quality stocks. Finding great companies is only half the equation in picking stocks; figuring out an appropriate price to pay is just as important to your investment success. Profit is made when you buy at an attractive/ low price.

30) Mutual funds (MFs) help investors diversify unsystematic risks by investing in a diversified portfolio of stocks across different sectors. Diversification reduces risk of investing.

31) Work with small amount of money when you start investing. Mutual funds work on the basis of pooling of money, mutual fund investors can have the beneficial ownership of a diversified portfolio of stocks with a much smaller capital outlay.

32) Mutual funds are managed by professional fund managers who are supposedly having sufficient expertise and experience in picking the right stocks to get the best risk adjusted returns. Mutual funds buy and sell securities in large volumes, transaction costs on a per unit basis is much lower than what retail investors may incur if they buy or sell shares through stock brokers.

33) MFs have a wide variety to suit every investment need. Apart from equity funds, there are also balanced funds, monthly income plans, income funds and liquid funds to suit different investment requirements. Investors can opt for different investment modes like lump sum (or one time), systematic investment plans, systematic transfer plans (from other mutual fund schemes), systematic withdrawal plans, switches from one scheme to another etc.

34) You can invest in growth option of mutual funds if you want to take advantage of compounded returns over a long investment period. You can invest in dividend option if you want regular income from your investment. Systematic investment plans (SIPs) in mutual funds help investors to maintain a disciplined approach to savings and investment.

35) This year you may need to shift some money from equities to fixed income and gold, depending on your needs and risk taking capacity. Reduce exposure in equities to predecided levels. Be prepared for a correction especially in the mid and small cap space. Invest majority of your money preferably in large cap stocks/ funds, which could better weather the storm and the expected downturn.

36) Debt mutual funds - Investors should avoid putting more than 10 per cent of their debt fund portfolio in them due to their higher risks. Currently, about 60 to 70 per cent of your debt fund portfolio should be in shorter-duration funds.

37) Fixed income instruments - Fixed Return rates from these options and small savings schemes may not reduce this year. Investors could also diversify into a basket of fixed-income products like Short-term debt funds, small savings schemes and tax-free bonds. Bank FDs, now do not offer good value/ return post tax and inflation.

38) Gold - Maintain an average 8 to 12 per cent allocation to gold. When equity markets come under pressure, gold could do better. Gold thrives when the world faces uncertainty especially an economic one. Invest via sovereign gold bonds rather than physical gold.

39) Life Insurance - If you have taken a new loan, increase your life cover accordingly, while if you have repaid one, reduce it proportionately. Check the cost of your cover to see if you can take advantage of falling premium rates. If you hold unit linked insurance plans, evaluate their performance against their benchmarks and rebalance from equity to debt depending on your needs and goals.

40) Health insurance - Health care inflation tends to be high at 12 to 15 per cent annually. If your coverage is not sufficient, increase it. With advancing age, family floater plans and exponentially increasing medical expenses, evaluate the need to buy a top-up cover.

41) Make a monthly budget and Stick to it. Setup goals. Develop your spending plans and plan your routine expenses first.

42) Always review your assets and specially your liabilities with your family too. Keep them updated about incomes and expenditures, accounts, investments and nominations.

43) Be more tolerant towards calculated risk. Avoid loading up on negative/ liability loans like for buying electronics or foreign holidays. Go for loans for creating an asset like house or quality education.

44) Budgeting - Chart out your income (money in) and expenditure (fixed and variable expenses - money out) and list your optional discretionary expenses (which you will now partly consume for fun and partly invest wisely or both). Increase savings by cutting down extensively on variable expenditure, and put it in the good old piggy bank or your bank savings account.

45) Have a passive income from rentals, dividends and investments while having an emergency fund (should be equivalent to at least expenses for 6 months).

46) Keep both debit card (for routine cashless, daily and small transactions) and a credit card (for larger purchases planned or for emergencies. Particularly important for building a good credit history and credit score for lower interest rates on future loans). Credit card is handy for making large planned purchases, and to spread payments over a few months. Chances are that you may overspend and create a huge outstanding bill. Always pay off credit card bills as soon as possible to avoid exorbitant Interests. They are unsecured hence charged higher interest rates.

47) Use tools like mint to track your accounts, cards, balances, spending habits and statistics.

48) Reward cards - may come with additional/ higher fees, give u points/ cash back when you spend using the card and can redeem the card for incentives and gifts. Balance transfer cards - consolidate balance of multiple cards into one and are thus charged lower interest rates. Business cards issued by banks – could offer additional perks like expense reports, additional cards for employees, higher credit limits for entrepreneurs and executives. Student cards issued by banks – are usually scaled back in terms of perks and features but still handy for students.

49) Pay of your credit card bills as soon as possible to avoid exorbitantly higher interest costs. Never use the pay minimum balance only option as you may land up in a debt trap soon.

50) Credit report shows your borrowing and credit history, number of past enquiries by banks, past and present loan activity, defaults, late payments, lawsuits on property. Based on these parameters you are allotted a credit score. Anything above 750 is good, above 800 is

excellent and below 600 is a red flag. More the loan enquiries, more your score will drop. Higher the score, lower the risk enabling you to get a lower interest rate and better loan terms. All rectifications and corrections to be done in our credit reports is our responsibility and not CIBIL's.