

Managing your Money—50 tips on Financial planning for the dentists—Part II

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- 1) Pay all your bills and loan EMI's on time to get a good CIBIL score. Use the Electronic Clearing Scheme facility of your bank account to ensure you don't miss any electric and telephone bills.
- 2) Always keep your credit card balances to lowest levels. No minimum balance payment scheme to be taken. Never max out your credit limit as it demonstrates you to be a compulsive debt seeker thereby reducing your CIBIL score.
- 3) Longer the positive credit repayment history, more the chances of a higher CIBIL score. Keep credit cards to a minimum of one or two. More than two cards affects your score negatively.
- 4) Using your savings, current account, debit and credit card the right way helps to build a good credit history. Keep all your payments on time to avoid a bad score.
- 5) While taking a home loan always check for manageable down payments, principal and interest components along with the rate of interest. There are fixed interest and variable interest rate loans. Preferably the downpayment of the loan should be done using your own funds and not borrowed funds.
- 6) Amortization loans wherein the EMI's of the loans are scheduled and fixed every month for a planned period of time. During the beginning of loan tenure most of the EMI component goes towards paying interest costs. Negative amortization schedule allows you to defer interest payment at the beginning of the loan for a fixed period of time say 2 years, (repaying only principal amount as EMI, no interest paid in first 2 years). Post the 2 years, EMI will increase to include interest costs also. Hence its perceived to be risky as borrowers may not be able to pay the increased EMI after 2 years. Also the first two years interest payment is added to the

principal amount, thereby increasing loan tenure.

7) Collateral is pledged as security and is lost if you default on your loan. Eg – Car/ Gold or house is the collateral/ pledged security which can be forfeited if you are unable to repay your loan. Hence such secured loans are available with a reduced rate of interest. If possible, always offer a collateral as it reduces the interest rate. Unsecured loans like personal loans charge a much higher interest rate.

8) When you apply for a home loan, potential creditors like banks or housing finance companies will first check your credit report, credit score and repayment capacity. Then they will evaluate the property, its title clearance and estimate the value of the house based on its physical condition and ready reckoner of the area. Nowadays appraisers play safe and underestimate the value of your house, thus reducing your loan amount. Then they offer fixed rate or variable rate home loans. Fixed rate loans always come with a higher interest rate because the interest rate risk is borne by the bank. However, remember that even fixed rate home loans are now periodically every 5 years reviewed and reset to the latest interest rate by the bank. (Eg - variable loans are now offered at 8.35% and fixed at 10%). Variable rate loans are unpredictable loans and the interest rate risk is borne by the consumer, hence available at a cheaper rate. Banks prefer these type of loans over fixed interest rate loans.

9) If your loan tenure is going to be for an extended period of time then better go for the maximum tenure fixed rate loans. If interest rates fall substantially the loan can always be refinanced with another bank offering a lesser fixed interest rate.

10) When refinancing, always check for loans which come with zero prepayment penalties. Also check for banks offering zero processing charges on new loans.

11) Always take mortgage insurance. Reduces your own and banker's risk too. Mortgage insurance premium can be paid as a one-time payment or through monthly premiums.

12) When buying a vehicle, try to keep EMI's to a minimum by maximizing the down payment,

since cars are considered a liability (non productive loan). You could also look to take a car on lease for example 5 years. After 5 years the vehicle could be purchased at considerably reduced costs.

13) Debt consolidation loan are available wherein you could consolidate all your personal loan outstanding's/ dues in one single loan. It remains a good option to replace your higher interest rate loans like credit card interest with a lower rate.

14) A Standard line of credit facility of the bank grants you a block of money in your account. You need to pay interest only on the actual amount of money which is used and for the period of time used. The devil with loans is always in the fine print. Always read and check for hidden charges in the fine print of all loan documents.

15) Savings and investment are two different things - When our primary goal is safety of money, to protect it from any loss with minimal to zero returns after inflation, it is called savings like money kept in Fixed Deposits, lockers, money market schemes, Government bonds. When investing, we end up taking more risk comparatively and hence more likelihood of more return/ loss compared to savings. Examples of investing include stocks, real estate, fine art, silver, gold. (Prices are determined by market demand and supply). Do not mistake saving options for investment.

16) Always check for risk reward ratio while investing in various assets. The reward should be equivalent to the risk - higher the risk, higher the reward.

17) The rate of return could be nominal or real - nominal rate of return is what is visible eg- 6.25% on Bank Fixed Deposits. The real rate of return is return on investment after accounting for inflation - eg – 0.25% on the same FD after accounting for inflation. Hence diversify your investments to hedge your risk and to maximise your return on investments.

18) Investing is putting your money to work to make more money (passive income like rental income). In your youth equity based riskier investments with higher reward chances should be

pursued. As u grow older, capital preservation becomes the key and you need to invest in safer instruments.

19) Bonds can be pursued as investment vehicles for a duration of 30 days to 10 year investments which can give money back at maturity including a predecided interest amount. They carry an element of risk and may become junk bonds if the company you invest in goes bankrupt. There are taxable and tax free bonds. Tax free bonds have a lower interest rate and have a lock-in period too. Hence choose accordingly.

20) Real estate is a very illiquid asset to sell, has potential for capital appreciation but can fetch a good rental income. Hence decide according to your investment objectives.

21) Silver and gold rates are highly sensitive to the ups and downs of the economy and business cycles, rate of inflation and uncertainties surrounding the world economy. However recommended for all asset allocations in the amount based on individual risk profiles.

22) Fine art, stamp collections and classic cars are alternate investment vehicles. However, recommended as investment vehicles only for experts of these fields. There is a huge chance to be cheated by fakes and lose all of your investment money. It's usually the purview of the rich who have more money than they can count.

23) Compounding is when your investment earnings are reinvested in the corpus. Hence we need to add our earnings to the original principal amount and continually reinvest the same. Compound interest implies the interest you earn is added to your principal amount. Your money just doesn't grow, it grows at an increased rate with the power of compounding.

24) Always have a sound budgeting plan and then stick to it...

25) Stock market investing may become like gambling (Gambling - game of pure chance and no skill involved), if not done in a systematic way. If done in a proper way it really is intelligent speculation (trying to move the odds in your favour).

26) Stock market investing especially in direct equity requires a lot of homework and research. Never act on impulses and hot tips from neighbours and friends. Find out all about the company that your going to invest in by buying their shares. Check the price chart and the movement of the price chart of that company on the stock market over the last five years which should give you a fair idea of the company. Also you could check out experts/ analysts opinion and rating of the company that you are interested in.

27) Stocks are tiny shares of ownership of a company. Investing in stocks entitles you to dividends, opportunity to attend shareholder meetings and participate in the voting process of the company. Total returns on stocks is dividends in addition to the price appreciation of the stock.

28) Exchange traded funds (ETF) lets you trade on an entire sector. With an ETF, you eliminate company specific risks as it diversifies across companies of the same sector. Hence risk reward ratio can be more favourable with an ETF and is a good investment option.

29) Alternatively, market based ETFs let's you eliminate company specific risk and also sector specific risk because it diversifies risk across sectors, hence an attractive investment option.

30) Preferably open atleast a couple of stock trading demat accounts with instant and convenient services and lower transaction costs. One account shall be for trading/ investing for short term needs, goals and maybe for risky and impulsive investing. Keep money which you can even afford to lose in this account. The other demat account shall be for your long term investing needs and to help build your future goals. Keep money for atleast 8-10 years for investing in this account.

31) Important tip - Always before taking the stock market plunge, play a simulated stock market trading game (available on a lot of online websites) and do simulated trading with dummy paper money. It let's you do trading with real time stocks and funds without actually using real money. So you get an idea of stock market investing without actually investing any real money.

32) Market versus limit orders - Market order is when you buy the stock immediately at the quoted price. It guarantees buying of the stock. But it may entail a higher/lower price in purchasing if you happen to buy when there is a big momentum swing of the stock on that day. Alternatively, Limit orders let's you decide a predecided price at which you would want to buy a particular stock. If and when the stock touches that price point the buy order and transaction gets executed. However it doesn't guarantee buying of the stock till it reaches your limit order price.

33) Stop loss allows you to put a sell order. So if your stock falls below the stop loss price, the stock is automatically sold thus limiting your losses. Hence always put stop loss for all your direct equity investments. As a rule, never try to lose more than 10% in a stock.

34) Trailing stop loss allows you to never turn a winner into a loser. Trailing stop loss automatically increases your stop loss price if the stock price increases. Hence prefer to apply trailing stop loss to your direct stock equities.

Eg - Stock of ABC company is purchased for Rs. 100/- stop loss is set at Rs. 90/-. So if price of stock falls to 90 and below it is automatically sold at 90/- thus limiting your loss at 10% only. However if stock market price increases to 120/-, then trailing stop loss becomes Rs. 110/-. So from 120/- if it falls to 110 and below, stock is automatically sold at 110/- thus ensuring your winner stock still made a profit of 10% and it didn't let the stock become a loser.

35) Tax is the revenue a government needs to fund the services that it provides to it's citizens. Also to redistribute the excess wealth of the rich in providing services to the poor. Income tax is progressive and increases as the income of an individual increases. Property tax is levied to fund the infrastructure that the government provides to your property. Always choose investments with a lower tax burden, claim deductions available and invest in pension funds come under tax saving. Property tax is deductible on income tax, hence claim deduction.

36) Income tax is determined by 4 things - amount of income you earn, expenses that you can legally deduct from income, tax exemptions that you are allowed and the taxable slab and tax rate applicable to you. Taxable income is income minus officially allowed expenditure,

exemptions and deductions. Income includes the wages and salary you earn, profits that you make on your investments, dividends from stocks and bonds, interests from FDs, capital gains on property and rental and hobby income. If not declared, it is tax evasion punishable under law.

37) Hence, know all deductions applicable under law and which can be claimed by u. The biggest deduction of Rupees 2 lakhs is the interest amount on a home loan. Be an expert at knowing the deductions available and claim them fully. Take help of an accountant and always file the taxes on time to escape government radar.

38) Always go for an adequate increasing healthcare insurance policy. Get a pension fund which gives out a lumpsum amount and regular monthly payouts at maturity.

39) Insurance – Insurance is risk pooling between the insured. Pooling the risk by taking insurance and paying regular premiums. Insurance underwriters will group you according to risk category and accordingly decide your premium charges. You can insure almost everything imaginable. It's basically a tool to replace what is lost financially. Can't be used to make profit out of insurance policies. Always have an emergency savings reserve and be always adequately insured in terms of term life insurance.

40) Always go for the policy offering you the longest coverage (eg- renewal for 30 years or more, as taking a new policy in the older age will prove to be very costly). Shop around for the best terms, inclusions and premiums.

41) Car insurance is a simple liability insurance for both property damage and personal injury caused by the vehicle. Recommended to buy additional collision insurance and comprehensive coverage for theft, fire, vandalism and emergency road coverage.

42) Deductible is the amount you pay when you make an insurance claim (your share in the repayment of damages. Eg – Deductible decided is 10%, implying that insurance Company will pay 90% and your deductible is 10%. So u pay 10% of the claim amount. The higher the deductible, the lower the premium rate and lower will be the premium amount. Hence, if possible

and affording, go for a higher deductible.

43) Car Insurance premiums depends on your age, age and condition of the car, your driving history, the car you drive, color of the car, gender, marital status and employment status and may be negotiable too.

44) Health Insurance – With newer healthcare technologies and prescription drugs, health care has become predictable but very costly. Deductible is the amount of the money you pay, your contribution. Higher the deductible, lower the premium amount. Go for an increasing health insurance cover with increasing age.

45) Co-pay versus Co-insurance - Co-pay specifies a fixed amount of money paid by insurance company for a particular medical treatment. No surprises. You will exactly know the amount you will get. Co-insurance is based on a percentage of the cost of the actual healthcare service. No cap in co-insurance as with co-pay. Hence check the insurance policy for the above options before buying.

46) Covered benefits – The healthcare policy should cover hospitalization, emergency room visits but may not cover elective surgery and prescriptions. Hence go for a policy which may cover OPD too. Also check for the term till pre-existing disease may not be covered, say for example 3 years. Go for a policy offering minimum gap for covering pre-existing diseases.

47) Be aware of the liability you could face in your business and try to limit and prevent it to keep personal financial costs down. Buy Adequate relevant liability insurance like professional indemnity. Establish a culture of safety in your organization. You could also be liable if you fail to meet the customer expectations of your product or service.

48) Always have the necessary legal/ consent forms presigned from your patients. Know the licences your business may need and take them.

49) Know the rules regarding employees when you hire them. Make a regular corporation or a

limited liability corporation as suggested by your accountant. Build up a strong credit history and show adequate profits to enable you to get the loan you may require to grow your business.

50) Advantage of having a clinic/ business/ hospital is that you can claim all your official expenditure in running the business as deductible expenses and subtract that from the professional receipts (income) to arrive at the profits which shall be taxed. Deductible expenses include a car, petrol expenses, rent receipts, salaries and wages, material costs, laboratory charges, occasional working staff and client lunches and on purchase of a workplace.