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Simplify your financial life

Avoid manifold investments and managers, and deploy the money in simple tools, says Uma Shashikant

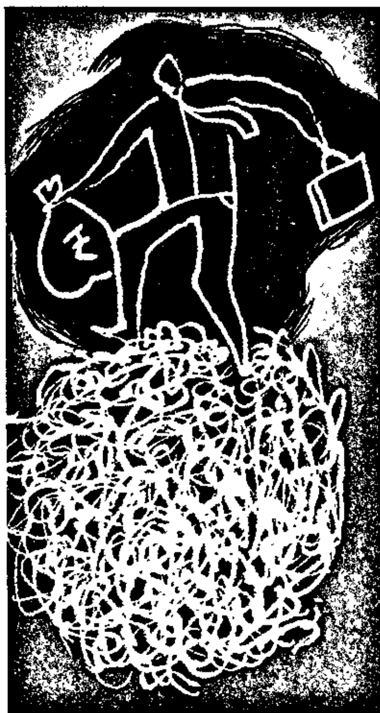
Simplicity is an understated virtue. Managing money needs a good dose of simplification. Most of us think that finance is complex, while some are intimidated by the number of choices and decisions. Routine management of personal finance can be rescued from the perils of indecision. Let me propose eight pointers to help those who want to make financial decisions with limited effort.

First, recognise the bank account as the primary book of account in personal finance. Streamline income into one, at the most two, bank accounts. This helps in explaining all income sources to the taxman, understanding how it has grown over time, and deciding how to fund expenses and investments. The case for multiple bank accounts has weakened considerably after PAN has become the identifier in financial transactions. Given the benefits of NEFT, resist your employer's demand to open an account with its bank when you change jobs.

Second, set up your routine payments through your bank account. It is easier to pay bills, utilities, EMIs, taxes and insurance by giving standing instructions to your bank. You can take charge of your finances only if you consolidate the charges on your income in one place. If you have to juggle too much, you may have stretched yourself in terms of EMIs or insurance. There is a lot you can do with tools that help you set up spending limits for various heads, alert you when you cross the limit, and automate your monthly budgeting exercise.

Third, reduce cash in your life. When you transact with your debit or credit card, your expenses are documented for you. If you want to take charge of your finances, you have to make three realistic estimations-the adequacy of your income, the limit to your expenses, and the consistency of your savings. Your ability to take charge will be seriously limited if your data is incorrect or incomplete. The cash only shows up as withdrawal and affects your accounting efforts.

Fourth, reduce the number of advisers and intermediaries with whom you deal. If your stocks are bought by a broker, your investments done by a financial adviser, insurance by an agent, loans are with your bank, and taxes with your accountant, you are dealing with too many people. If, to this list, you add the 30 stocks you hold through four trading and demat accounts, 10 fund houses you have invested in through multiple folios, and the bonds and saving certificates you have, you lead a complicated financial life with limited control. It is better to seek financial advisers, who will consolidate and help outsource the functions they cannot perform, than have multiple entities managing your money.



Fifth, reduce the number and type of products in your portfolio. Holding too many variants of funds, insurance, stocks and bonds does not help. It seriously undermines the ability of your holdings to impact your wealth since your portfolio is too fragmented. If you hold more than 30 items-across stocks, bonds, deposits, funds, saving schemes-in your portfolio, you have too much. Choose a few reputed firms with good track records, and they are most likely to have all that you need. You don't need a new tax-saving fund every year, nor do you require four variants of Ulips or infrastructure funds.

Sixth, consider the merits of passive investing, that is, choosing products that don't require constant monitoring. Pick diversified large-cap stocks, index funds, bonds of large AAA issuers, government saving schemes or deposits of well-known banks. These investment choices may not have the excitement of a multi-bagger, may score low on fad quotient, may not have novelty value, but will save you the heart-burn of wrong decisions. You will also save your wealth from neglect and inaction when you fail to sell them after the 'exciting' investment choices are past their peak. Choosing simple and time-tested products saves you the bother of monitoring and grappling with decision-making dilemmas.

Seventh, avoid dealing with investment cash flow when you don't need it. If you have a regular income and are building a portfolio to generate long-term wealth, pick growth, cumulative, reinvestment or accumulation options. You will save yourself the trouble of monitoring the flow into your account and making another decision to re-invest them. If you buy a tax-saving fund, there is no need to redeem when the lock-in period is over; the money can stay invested. So can the deposits which get renewed on maturity, and interest reinvested on payment. Many of us intend to review and reconsider our investments periodically, but fail to do so. It is a good idea to keep the money deployed, not idle.

Eighth, align your investments to your saving habits. If you spend recklessly and regret not saving, you can start an auto debit facility from your bank account, which directs money to investments before it is available to spend. If you have a surplus before the next salary comes in, deploy the balance at the end of the month. You need not have an SIP, but a simple electronic transfer into your investment folio is adequate.

Take time to form simple rules on dealing with your money. You may free a lot of mind space while making financial decisions and rescue your wealth from procrastination.

—The author is Managing Director, Centre for Investment Education and Learning, and can be reached at uma.shashikant@ciel.co.in

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