Financial Tips for Doctors

The five most important factors for obtaining financial security are thrift, compound interest, patience, discipline and investing in what you know.

The five most important factors that destroy wealth are greed, debt, fees, trusting everyone and not making your own decisions.

Financial health is a 3-step process: Earn money, save money and invest money. The goal should not just be to be rich but to have financial security. Physicians are notorious for being poor negotiators. Here are some financial tips for doctors.

EARN MONEY

- Keep a budget.
- Make a will.
- Keep a personal financial statement and update it yearly.
- A physician's most valuable asset is not a home, car or other piece of personal property but his or her capacity to work and produce income.
- Earn ethically.

SAVE MONEY

- More money is lost in the hospital doctor's lounge or other similar settings where physicians congregate and talk than anywhere else. Arrogance, ego and greed overwhelm sanity.
- Always say first before buying anything "This is too expensive. I cannot afford this." Do not buy things you do not need.
- Aim to save 25%-50% of after-tax income.
- Pay your bills in full and on time.
- The most expensive part of retirement for all of us will be medical bills. Have sufficient savings such that you can live off of 5% of your total assets per year. Do not purchase an annuity.
- Get medical insurance.
- The most expensive part of a vacation is the income lost from not working.
- Avoid gambling: The odds against winning are too great and it can be addictive and destroy one's life.
- Avoid owning a restaurant or any storefront business or investing in art or another collectible.
- Avoid tax shelters, direct foreign investments, hedge funds, opportunities where all the potential investors are physicians and limited partnerships where the general partner has not invested any money.
- Up to a limit of Rs. 1.5 lakh if one invests in provident fund, public provident fund, LIC premium, pension plans, equity-linked savings scheme (ELSS), mutual funds, infrastructure bonds, national saving certificates, senior citizens saving schemes, 5 years post office time deposit, one can claim exemptions under Income Tax.
- The minor children should be given gift from their parents from time to time, even by others on their birthdays. The amount so gifted should be invested in tax-free deposit schemes.
- The capital gain arising on sale of properties, held for more than 3 years could be treated in following three ways:
  - Pay Capital Gain Tax @ 20%
  - Invest in Govt. of India Capital Gain Bonds within 6 months of sale or purchase
  - Construct another property.

INVEST MONEY

- The money invested should grow at least equal to or higher than inflation rate (normal is between 5-6%).
- Possible investments to beat the inflation rate are fixed deposits, fixed maturity plan (FMP), balance funds, equity mutual funds, real estate investments, gold, silver and other commodities and structured products.
- Best investors are the best savers. For the long-term, doctors should plan and anticipate a minimum of 10% annual return on noncash investments.
- Asset allocation and diversification - A reasonable asset allocation would be 65% stocks, 10% cash and 25% fixed income.
- Compound interest is the most valuable investment tool. Even seemingly small amounts of money have amazing potential.

- Avoid long shots. They rarely pay. There is no reason to "risk" any amount of money. Invest in what you know and like. Knowledge equals money. Great investment ideas frequently come from daily life.
- Make your own investment decisions. You may seek the advice of others, but you must ultimately make your own investment decisions. Never invest in anything just because someone else does.
- Be conservative when estimating the value of assets.
- Purchase a home that is within your budget at the earliest possible time. If you have not saved a 20% down payment, you cannot afford a home. Take a 10-year (or at most 15-year) mortgage with no prepayment penalties, and have your home paid for by age 45. Pay cash for remodelling or additions.
- Encourage your children to pay for as much of their educational expenses as possible. Take complete advantage of all financial aid and of tax options to fund your children's education.
- The average person is almost 5 times more likely to become disabled as to die prematurely. Thus, disability insurance is the most important type of insurance for a physician.
- Purchase term rather than whole life insurance. No life insurance should be required after age 60. Have a long-term care insurance policy.
- Debt is compound interest in reverse, working to the detriment of the borrower. Debt is seductive and can ruin your life. The longer the repayment period, the greater the burden of debt. Use unanticipated financial windfalls to pay off debt; there are few better investments. Do not lease a car. Never purchase stock on margin.
- Fees are either money in your pocket or money in someone else's pocket. Even small fees can represent large amounts of money over time. Do not invest in any mutual fund that charges a "load." Core investment positions for all physician investors should include index mutual funds and no-load actively managed funds with a long-term record of superior performance. Full-service brokers rarely justify their higher fees. If you make your own investment decisions, execute your trades as cheaply as possible. Physicians are preferred customers. Use this advantage to minimize fees and obtain perks.
- Deal with bankers on your terms, not theirs. Every word in a loan document is important. Read it closely. Do not sign a "callable" loan (a loan that must be repaid upon the lender's demand). Loaning money to a family member only to "help" them is actually doing them and you a terrible disservice.
- Only trust people you know well, who have earned your trust and respect.
- Identifying investment opportunities - Real opportunities occur about once a year. Keep your eyes open.
- Money is made when an asset is purchased. It is impossible to make money when overpaying for an asset. Never buy just because the price is down. Try to buy assets for less than they are worth.
- Take profits "too early." An asset must be sold to lock in a profit. When you are congratulating yourself on your investment genius, that's the time to sell.
- There are no one-decision investments. Do not fall in love with an investment.
- Aggressively sell nonperforming assets.
- Donate at least 3-5% of your income to charity each year.
- Distribute the funds in different type of schemes.
    - Some part should be invested in schemes with fixed return like Bank FDs.
    - You must avail the PPF account to full 1.5 lakh since the Interest received is fully exempt from Income Tax. Moreover, this account can never be attached for recovery by any authority.
    - Some part should be invested in equity shares, and the shares should be held for a minimum of 1 year. The profit earned after holding shares for 1 year is fully exempt.

Make a Will

It is necessary to make a Will in advance for the security of your family. The same should be registered at the same place where properties are registered. A stamp paper (Rs. 100/-) may be required for registration. A Will should be registered in the presence of two witnesses, one of whom preferably should be a doctor as most disputes on properties later on are to prove whether the person at the time of writing the Will was of sound mind. It is better to video record the Will, for a 100% security, so that if there is a dispute, it can be proved that the deceased was a person of sound mind.

IJCP SUTRA 620: Be more physically active—adults should do at least 150 minutes a week of moderate-intensity activity, or 75 minutes a week of vigorous-intensity activity.