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Procrastination is key to financial disaster: Raag Vamdatt

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In an interview with Pooja Chopra Goel of Myiris.com, Raag Vamdatt, a financial advisor & blogger, helps us understand exactly what a financial planner does and learn how to benefit from his or her services.

What led you to choose financial planning as a career? How has your journey been so far?

The journey has been awesome, to say the least. It gives me immense satisfaction to know that I have been able to help people take smart financial decisions! But you would be surprised to know that financial planning came to me as an accident, not by design. I am an MBA in Finance, and I have worked in large IT companies in the role of a business analyst.

During that time, I saw that young people, mostly with a technical background, earn quite well, and save well. But they did not invest well. Their "investments" were mostly in February and March to save tax. And they were based mostly on the last minute sales pitches by insurance agents. I saw that if these savings were channeled into proper avenues and invested well, these people could easily achieve all their goals and create wealth.

And this observation prompted a thought - why not start a website, and write about personal finance matters in an easy-to-understand language, so that people from all over India can benefit? I had been informally advising my family and friends for a very long time, so this seemed very logical. That's how www.raagvamdatt.com was born in November 2007. And the response I got was phenomenal - loads of positive emails, thousands of queries which I personally answered (for free), and more than 13,000 registered members today!

On the way, I launched paid financial planning service (at www.raagvamdatt.com/myfinancialplan) so that I could focus more on people who are really serious about securing a healthy financial future. Again, the response has been excellent. I have clients from all over India, and many NRI clients as well. This has been quite encouraging, and I would be launching many more services and products in the near future.

What can you tell us about dealing with debt other than the obvious - reduce credit card spending, etc.?

The most important advice regarding debt is to not get into it - unless you are taking a home loan or mortgage. Take loans only for assets that appreciate, and avoid loans for stuff like cars and consumer goods whose value drops the moment you step out of the show room.

If you are in debt, the only way out is to take a hard look at your spending pattern. Cut down unnecessary expenses, and save up to repay the debt as soon as you can. Yes, you can indulge once in a while, but cut down all frills till you repay your debt. There is no short cut. Trust me, there are many "essential" things that we can do away with - at least temporarily!

What is the one financial mistake nearly everyone makes?

I would say there are two grave mistakes people make about their finances. The first is that they procrastinate. People postpone taking financial decisions. Procrastination is key to financial disaster. Many people have very good intentions of buying life insurance, or starting a systematic investment plan (SIP) in a MF scheme - but they don't want to do it today, its for tomorrow. Ultimately, they end up taking hasty decisions just to save income tax.

The second mistake people often make is to seek "free" advice, and shy away from paid advice from an independent financial advisor. They don't realize that what seems "free" can cost them dearly in the form of reduced returns if their insurance or mutual fund agent is more interested in his own commission than the growth of their money!

What is one misconception about financial advisors you would want to refute?

As I said above, people think "free" advice is better, and there isn't enough value in paid service. Unfortunately, it takes years to realize the mistake - by which time it is too late. People should use logic, and look at the incentive structures for each. An agent gets commissions, so his "advice" might be to earn the most commissions. On the other hand, an independent financial advisor charges a fee, and sees to it that the client achieves the best possible results - this leads to word of mouth publicity, which leads to more clients!

How would you suggest a common investor ensure that their accounts are protected and not invested in dubious instruments?

Of course, the best route is to take the advice of an independent financial advisor, who is well conversant with the regulations and the product offerings in the market. But even if someone is not willing to pay for advice, the least they can do is to stop investing based on "tips" from TV channels and news papers, and ads that over-hype products. Such investments are good only for the insurance / MF companies, and the brokerage firms!

What three books related to personal finance would you recommend every person read and why?

I wish I could recommend something! I have seen lots of books on income tax, but most deal with legality of income

INTERVIEWS

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Dipen Shah, Senior Vice President (PCG Research), Kotak Securities, gave his perspective on the market.

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In an interview with Pooja Chopra Goel of Myiris.com, Raag Vamdatt, a financial advisor & blogger, helps us understand exactly what a financial planner does and learn how to benefit from his or her services.

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tax and are aimed at students. Then, there are some books on investing in stocks. But I am yet to see a book in India that caters to all aspects of personal finance - income tax, investments (stocks, MFs, ULIPs), insurance (life and non-life), loans, bullion, etc.

Do you think enough is being done to address the broader issue of financial literacy?

Not really. People do invest, but a large proportion of them invest just to save tax. How many people take well thought-out decisions about investments? Why such a meager proportion of our population invests in equities when it has been proven time and again that stocks give the best returns in the long term? As you can see, there is a lot of education remaining! Fortunately, we now have many blogs, websites and magazines catering specifically to the personal finance market - so hopefully, the situation would change sooner than later.

What is your take on current market situation? What are the key factors that will drive the stock markets in 2011? What is your advice to retail investors now?

Absolutely no advice. As I said, people should stay away from "tips", and that includes tips from me if I give out any! Also, I firmly believe that absolutely no one can predict short term market movements - yes, 1 year is "short term" for equity investing according to me, irrespective of what the income tax act says. Having said that, I do see the Indian markets giving very handsome returns in the long run. We are at a fortunate time in history when India is just starting on the growth curve - and we are lucky to get a chance to ride that curve! I strongly believe that over the next 15-20 years, Indian stock markets would generate returns in the range of 18-20% CAGR, and have been actively advising investment in equities for long term goals.

Is there anything else you would like to share with our readers?

The most important advice would be to take finances seriously, and start acting today! And if you don't take your shopkeeper's advice for your health issues, why invest based on what he says? Something to think about!

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