SIPs for professionals

Professionals often have busy schedules and uneven incomes, yet SIPs can help them achieve their financial goals

In the previous issue of this magazine, we discussed SIPs for the salaried. For salary-earners, financial planning is quite straightforward. You receive a certain, predictable income every month and hence you can conveniently decide what your financial plan should look like. However, professionals – such as doctors, engineers, architects, designers, consultants and so on – have their unique financial challenges, which require a tailor-made solution.

Professionals tend to have a more demanding work life. While the salaried have their work hours defined, professionals often don't enjoy this certainty. This often causes their work consuming a major part of their routines, leaving little time for financial planning. Hence, professionals should first focus on identifying their financial goals and the amounts needed. Financial goals could be both short-term and long-term, such as buying a car or a house, vacation, children's education and marriage, retirement, etc. Estimate what you would like to spend on them if they were due today. Then increase those amounts by the rate of inflation. This will give you future estimates. Alternatively, seek the guidance of a financial-planning expert. Once you have ascertained the goal amounts, you can start to invest towards them.

For your long-term goals, i.e., those that are away by more than five years, investing in equity funds through SIPs is highly effective. Equity is the only asset class that reliably beats inflation over the long term and hence is ideal for long-term wealth creation. However, it is also highly volatile. SIPs help you average out your investments amidst this volatility. They also help you be disciplined. However, at this stage, for professionals, the next hurdle comes in: uneven income flows.

Given the nature of their work, professionals often have uneven incomes. Think of a doctor. Some day, he sees more patients, while some days are dry. Some days, he visits hospitals and conducts operations, while other days, there aren't any hospital visits. These uneven income flows are further affected by fixed expenses that many professionals must incur. For instance, the very same doctor has his own clinic staff, to whom he must pay monthly. There are other costs as well, such as office rent, travel expenses, equipment purchase and so on. All these make professionals' monthly income highly fluctuating. How can they do SIPs then?

There is a way out. First observe your net income streams for the last few months. Based on them, determine an amount that you can manage to save every month. Create SIPs for this amount. Keep any extra investable surplus separate. Use it to regularise your SIPs. For instance, if you have SIPs of Rs 10,000 and in some month you have Rs 2,000 extra, keep this Rs 2,000 separate. Next month, if your investable surplus dips to Rs 9,000, take Rs 1,000 from your previous months' surplus. If the surplus increases in quantum, you can also channel it into your equity funds over time. If you receive a windfall, again invest it in your equity funds in a staggered way. Don't invest your surplus in one go as you may catch a market peak.

Some professionals may wonder why they need the SIP, when they can manually invest every month. This brings us back to where we started. Because of their busy schedules, professionals may miss investing in a systematic way. Uneven income flows may also down-prioritise investing. Hence, by opting for SIPs, one can be more disciplined and achieve one's financial goals effectively. ☑