Top 10 Things Orthopods Need to Know before Investing in Mutual Funds

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Abstract

Investing in mutual funds may be intimidating for orthopedic surgeons, who are used to the complexity of surgery but are not usually familiar with financial markets. The Top 10 Things an Orthopaedic Surgeon Should Know Before Investing in Mutual Funds is a practical guide for surgeons to navigate the complex world of mutual funds efficiently. It covers important topics including identifying financial objectives, comprehending several types of funds (equity, debt, and hybrid), and determining risk tolerance at different phases of one's career. The essay also describes the principle of compounding, defines financial jargon such as CAGR and XIRR, and distinguishes between direct and regular mutual fund programs. It also looks at theme and sectoral funds, emphasizing the need for diversity in risk management.

Keywords: Orthopedic investments, financial planning, mutual funds, power of compounding, thematic mutual funds, tax on mutual funds.

Introduction

As an orthopaedic surgeon, you are an expert at fixing fractured bones, realigning joints, and ensuring your patients can walk tall again. However, investing in mutual funds might appear as tricky as executing a hip replacement while blindfolded! You may have mastered the anatomy of the human body, but navigating the financial world might feel like attempting a rare and intricate fracture.

Hence, if mutual funds make you want to take your scalpel and head out, do not worry – you are not alone! Investing in mutual funds needs knowledge, strategy, patience, and preparation for surgery. Consider this a crash course in financial orthopaedics, where we will align your investment portfolio and help it recover into a robust and wealth-generating asset. Let's look at the top ten things you should know before we start planning your financial future together!

Define Your Financial Goals

Some investors question the point of long-term investing if they may not enjoy the returns. Before investing in mutual funds, you should define your financial goals to ensure that your investments align with your life plans. Knowing your goals, whether they want to save for retirement, support your child's education, or establish an emergency fund, will help you choose the best mutual fund plans. Some investors wonder why they should invest long-term if they may not enjoy it in their lifetime. However, it is more than just acquiring riches; it is also about meeting specified milestones, such as purchasing a home, a vehicle, or organizing a child's wedding, all within a set timetable.

Just like you set small steps for complex surgery, setting specific goals in terms of money required, time frame, and reason for funds allows you to assess the EMI to be invested, choose appropriate funds, and develop a systematic investing strategy (SIP) that serves these objectives.

Know the Types of Mutual Funds

There are several types of mutual funds designed to meet different investment goals. Understanding these types can help surgeons make informed decisions based on their risk tolerance, income, and financial goals:

i. Equity funds

a. Large-cap funds: Invest in established companies with stable returns

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b. Mid-cap and small-cap funds: Invest in growing companies with higher risk but potential for greater returns
c. Multi-cap funds: Diversify across companies of different sizes
d. Sectoral/thematic funds: Focus on specific industries like healthcare or technology.
ii. Debt funds
a. Government bonds: Low-risk investments that provide stable returns
b. Corporate bonds: Offer higher returns but with slightly increased risk
c. Liquid funds: Suitable for short-term investments and parking surplus funds
d. Gilt funds: Invest in government securities sensitive to interest rate fluctuations.
iii. Hybrid funds – Mix of equity and debt funds
a. Aggressive hybrid funds: Higher equity allocation with some debt exposure
b. Conservative hybrid funds: Focus primarily on debt with some equity for stability.
iv. Index funds – Replicate the performance of market indices such as Nifty 50 or S&P 500, offering passive management at lower costs
v. International funds – Invest in global markets to diversify beyond the Indian economy, reducing domestic market risks.

Evaluate Risk Tolerance

Investment plans should adapt to the various stages of a surgeon's career, taking into account their age and salary level.
Early career surgeons (age 25–35) – Focus on equities funds for long-term growth and compounding returns. Starting SIPs at an early age helps to instill disciplined saving habits. A proposed allocation is 80% stock and 20% debt, leveraging younger professionals' higher risk tolerance.
Mid-career surgeons (age 35–50) – At this point, balancing expansion and capital protection becomes critical. A combination of equity and debt funds, including hybrid funds, can provide moderate growth while limiting risk. The best allocation may be 60% equities and 40% debt.
Late career surgeons (ages 50 and Up) – The emphasis turns to stability and income creation. Surgeons should choose debt and conservative hybrid funds, with 70% loan and 30% equity. Monthly income plans are advised for ensuring consistent income during retirement.

Understanding the Power of Compounding

One of the most compelling reasons to invest in mutual funds is their power of compounding, also touted as the world's eighth wonder. Compounding is how your investment receives returns, generating further returns. This is incredibly potent in the long run, as growth accelerates with time.
Example: Investing ₹10 lakhs in a mutual fund with a 12% CAGR will grow roughly ₹96.46 lakhs over 20 years. Investing early is crucial for reaping compounding advantages over time.
Understand the Mutual fund Jargon – Return Metrics: Understanding CAGR, XIRR, and Absolute Returns
Just like we use abbreviations such as Open Reduction and Internal Fixation and Proximal Femoral Nail in Orthopedics, finance professionals have their own jargon. Here is a quick breakdown:
I. CAGR (Compound Annual Growth Rate): It shows an investment's average annual growth rate over a period, assuming compounding. It is calculated as:
where n is the number of years.

$$CAGR=\left(\frac{Ending\,Value}{Beginning\,Value}\right)^{\frac{1}{n}}-1$$

II. XIRR (Extended Internal Rate of Return):
Suitable for investments made at irregular periods, such as SIPs. XIRR considers cash flow timing, resulting in more accurate returns for periodic investments. For example, if you invest ₹10,000/month in a mutual fund for 3 years, the XIRR calculates your annualized return, considering each payment's investment dates.
For example, If you invested ₹1 lakh in a mutual fund and it rose to ₹1.25 lakhs in 3 years, your absolute return would be 25%.
III. Absolute returns: This measures an investment's total gain or loss over a specific period without considering time.

$$Absolute\,Return=\frac{Ending\,Value-Beginning\,Value}{Beginning\,Value}\times 100$$

Direct versus Regular Mutual Funds

Mutual funds can be acquired through direct or regular plans, just like direct and referred patients, respectively.
A. Direct plans are purchased directly from the Asset Management Company, with no middlemen. Because brokers are not compensated with commission fees, expenditure ratios are reduced. Direct plans often yield better returns over time, making them excellent for financially competent individuals who like to handle their assets themselves.
B. Regular plans are acquired through brokers or financial consultants, who offer personalized advice and assist clients in selecting appropriate funds. However, using intermediaries raises the expenditure ratio due to the additional commission payments. Regular plans are suitable for those who want professional advice and do not have the time or skills to handle their assets individually.

Thematic Mutual Funds – Specialized Mutual Funds – The New Kid in the Block.

Theme-based mutual funds, or thematic funds, invest in firms in a particular industry or follow a macroeconomic trend, such as technology, health care, or renewable energy. This approach

capitalizes on prospective high-growth regions fuelled by rising trends or legislative reforms.

Advantages: They prospect enormous profits if the chosen sector outperforms the market. Investors with skills or a deep understanding of a specific industry can use this to make educated judgments and maximize profits. Example: The data center sector has shown very good growth as more data is produced globally due to internet usage.

Risks: These funds might be more volatile since they target a specific market sector, leaving them vulnerable to industry-specific developments. Downturns in the target sector can significantly impair returns; thus, diversity within the portfolio is crucial to limit risks. Example: Mr. Trump's return as president of the USA has cast a serious shadow on the growth of the clean energy sector.

Diversification is the Key – Do not Put all Eggs in One Basket

Diversification is an essential approach for managing risk in investing. Spreading assets across asset classes, sectors, and locations helps lessen market volatility's impact.

a. Asset allocation divides investments across stocks, debt, and hybrid funds. This strategy balances growth potential and risk while responding to market conditions and investor objectives

b. Geographic diversification decreases reliance on a single market by investing in global funds. This approach protects the portfolio from home market downturns while capturing growth possibilities in overseas markets

c. Sector diversification, unlike in theme funds, helps to avoid overexposure to one industry. Investors can reduce the risk of sector-specific downturns by spreading assets across sectors such as technology, health care, and finance sectors.

How to Invest Money – SIP or lump sum?

Investing through SIPs or lump sums has distinct advantages.

a. SIPs are great for long-term investors who want to grow their money consistently. Even in volatile markets, investing a fixed amount every month allows you to take advantage of rupee cost averaging and compounding. Automating SIPs through your bank reduces emotional decisions during downturns, assuring continued investment when it counts the most. As a Hindi saying goes, boond boond se sagar banta hai (drop by drop an ocean is formed)

b. On the other hand, lump sum investing is advantageous when you have a large sum of money available and may take advantage of market declines to potentially earn better short-term profits and increase the corpus amount.

Regardless of the technique, you must examine and rebalance your portfolio regularly to ensure that it aligns with your financial objectives and changing market circumstances. This proactive management contributes to long-term return optimization and risk mitigation.

Tax Implications

As the saying goes, "tax and death can never be avoided." Understanding these guidelines allows you to maximize earnings while complying with tax legislation. This information is essential for making educated investing decisions.

Debt funds tax – If you sell your debt fund units within 3 years, the tax will be based on your income tax bracket. Long-term Capital Gains (LTCG) for debt funds held for at least 3 years, the tax rate is now a fixed 12.5%, excluding indexation advantages. This means that the whole gain from selling a debt fund after 3 years will be taxed at 12.5%.

Equity mutual funds – Short-term capital gains (STCG): Units held for <1 year are taxed at 20%. LTCG: Units held for more than a year are termed LTCG and are taxed at 12.5% on gains more than Rs 1.25 lakh/year.

Hybrid mutual funds: The equity component is taxed identically to equity funds, while the debt component is taxed at the relevant income tax rate.

Conclusion

Mutual funds are a reliable and accessible investment choice for orthopedic surgeons seeking passive income. Using compounding, understanding return indicators such as CAGR and XIRR, and diversifying among fund types, surgeons may attain financial independence while concentrating on their demanding jobs.

The key to success is to start early, invest consistently, and examine your portfolio regularly to maximize rewards while minimizing risk. Doing so may ensure a financially secure future, allowing you to focus on what you do best: Providing excellent patient care.

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