

How to Beat Inflation with Smart Investments by Orthopods

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Introduction

What is inflation-orthopedic perspective

In orthopedic surgery, inflation is characterized as the gradual increase in the cost of surgical materials and medical services. This drop in buying power implies that the same amount of money may buy fewer medical products and services. For example, if inflation raises the cost of essential materials and services, a conventional knee replacement operation may become more expensive. Inflation-adjusted insurance reimbursements to doctors have also fallen, implying that orthopedic surgeons may be paid less in actual terms for the same surgeries over time.

How inflation affects us

Inflation has a considerable impact on orthopedic physicians' personal fortunes. It can reduce buying power, raise the cost of medical equipment and services, and lower the true worth of savings and investments. This can lead to greater operational expenses and less profitability for surgeons in private practice. Inflation can also impact debt payments, since many doctors with large debts may face increasing interest rates on variable-rate loans. Furthermore, if

salaries and other revenues do not keep up with inflation, orthopedic surgeons' time-adjusted income declines, limiting their capacity to save and invest for future aspirations.

Understanding Inflation

Understanding factors of inflation for India

Supply and demand forces combine to generate inflation in India. On the supply side, changes in agricultural output caused by irregular monsoons have a considerable impact on food costs, which account for a large portion of the Consumer Price Index (CPI). For example, unseasonal rains in late 2023 caused a jump in vegetable prices, resulting in a 7.5% CPI inflation rate in November 2023.

Furthermore, global issues such as crude oil price swings influence transportation and production costs. In 2022, the Russia-Ukraine conflict prompted crude oil prices to skyrocket, resulting in increased petrol costs in India and inflation of more than 6%.

On the demand side, increasing consumer spending and government stimulus measures, notably during the COVID-19 recovery period, have contributed to inflation. The Indian

government's numerous relief packages and direct cash transfers raised disposable income, driving up demand for goods and services.

Furthermore, structural problems, such as inefficient supply chains and excessive logistics costs, contribute to inflationary pressures. The Reserve Bank of India (RBI) strives to control inflation between 2% and 6%, but chronic supply-side constraints and unpredictable global markets make this a difficult undertaking.

How is inflation calculated

India's inflation rate is calculated by the RBI using the CPI. The formula is: Inflation Rate = $(\text{CPI Current} - \text{CPI Previous}) \times 100$. The current base year is 2012. The main components and their estimated weights are as follows:

- Food and beverages: 45.86%
- Housing: 10.07%
- Clothing and footwear: 6.53%
- Fuel and light: 6.84%
- Miscellaneous (includes services, such as healthcare, education, and transportation): 28.32%.

To contain inflation and stabilize the economy, the RBI sets interest rates and monetary policy based on the CPI inflation rate.

Investment Strategies to Beat Inflation

Inflation silently erodes money power. Inflation has a substantial influence on the value of money since it raises prices

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over time, lowering the buying power of money. Assuming a 5% inflation rate, products and services that cost Rs.100 this year will cost Rs.105 next year. Furthermore, money held in a savings account normally generates just 4% interest, which can result in a loss of buying power if the interest rate is less than the inflation rate. In recent years, inflation rates in India have frequently exceeded 6%, resulting in a gradual loss in the capacity to purchase goods and services and a detrimental impact on long-term financial goals. Furthermore, over the years, this loss of purchasing power on your money is compounded exponentially.

Example

Let's take an example of 1 lakh rupees invested for a 30 years horizon in banks and in equity stocks.

• Banks savings (4% interest rate):

- Initial investment: Rs.1,00,000
- After 30 years at 4% interest:

$$\circ \text{Future Value} = 1,00,000 \times (1 + 0.04)^{30} = \text{Rs. } 3,24,339$$

- Equity investment (15% Return – these returns may vary on a yearly basis, but on a long-term average come to around 15%):

$$\circ \text{Initial investment: Rs. } 1,00,000$$

$$\circ \text{After 30 years at 15% return:}$$

$$\circ \text{Future value} = 1,00,000 \times (1 + 0.15)^{30} = \text{Rs. } 66,21,596$$

- Adjusting for 6% Inflation:

$$\circ \text{Real value after 30 years (using bank savings):}$$

$$\circ \text{Adjusted value} = 3,24,339 \div (1.06)^{30} = 50,438$$

$$\circ \text{Real value after 30 years (using equity):}$$

$$\circ \text{Adjusted value} = 66,21,596 \div (1.06)^{30} = \text{Rs. } 10,30,801.$$

Direct equity

Individual doctors setup demat accounts and buy equities based on their own

research. The ideal approach is to invest in high-quality firms with honest management and consistent price growth, such as Asian Paints, Pidilite, and Reliance (please bear in mind that this is not a stock suggestion). The disadvantage is that if an investor books losses during a market downturn, they may lose a large sum of money. World events such as wars, natural catastrophes, and stock market rumors can all generate price volatility. This might produce panic and uncertainty in the minds of investors, resulting in substantial losses.

Mutual funds

Mutual funds simplify investing through integrating the investments of many people to form a diverse portfolio. Direct mutual funds are less expensive than ordinary funds, with frequently lower expense ratios. Index funds, such as the Nifty 50, offer even lower expense ratios, often ranging from 0.1% to 0.3%, and efficiently follow indexes. Most actively managed mutual funds fail to outperform

Table 1: Types of investments to beat inflation

Investment type	Risk profile	Tax implications	Average rate of return per year (%)
Direct Equity	Very high	LTCG over ₹1 lakh taxed at 10% without indexation; STCG taxed at 15%	15–18
Mutual funds (equity-oriented)	High	Equity mutual funds: LTCG over ₹1 lakh taxed at 10%; STCG taxed at 15%.	12–15
		Debt mutual funds: LTCG taxed at 20% with indexation (holding period >3 years); STCG taxed as per individual's tax slab	
Real estate	Moderate to high	LTCG is taxed at 20% with indexation (holding period > 2 years); STCG is taxed as per individual's tax slab. Rental income added to total income and taxed as per income tax slab	10–12
Gold	Moderate	LTCG is taxed at 20% with indexation (holding period > 3 years); STCG is taxed as per individual's tax slab.	6–8
		No tax on returns from Sovereign Gold Bonds if held till maturity	
PPF	Low	Interest earned is tax-free.	7–8
		Contributions up to ₹1.5 lakh per year eligible for tax deduction under Section 80C. The maturity amount is tax-free	

PPF: Public provident fund

the Nifty 50 index. Thus, Nifty index funds, which closely mirror index performance, frequently prove to be a better investing option for many individuals. However, mutual funds face the danger of significant losses in market collapses. Nevertheless, a long-term investment horizon of around 7–10 years yields high returns.

Real estate

Real estate is frequently seen as a good inflation hedge due to rising property values and rentals. However, real estate investments need significant resources and carry hazards such as market volatility and property upkeep fees. Real estate investments are classified into three types: Residential, commercial, and real estate investment trusts (REITs). Residential investments include homes and apartments, whereas commercial investments include office buildings, retail spaces, and industrial sites. REITs provide liquidity and diversity without owning real property, but they are susceptible to market hazards.

Commodities

Investing in gold, silver, and other commodities such as gold and silver are classic inflation hedges that hold their value during inflationary periods. Gold is chosen for its safety and liquidity, but commodities are volatile and do not provide income in the same way that dividends or rents do. Commodities normally do well during inflation as prices rise, offering a hedge against currency depreciation, but they can be impacted by global supply and demand forces.

Sovereign Gold Bonds (SGBs) are a secure and income-generating alternative to purchasing actual gold. They provide an annual interest rate of 2.5%, payable semi-annually, which increases the investment value. The interest earned is taxable, while capital gains on redemption are tax-free. SGBs have an 8-year lock-in term, with the opportunity to depart after the 5th year. Investing Rs. 1 lakh in SGBs over the past 8 years yields a return of around 128%, culminating in a final value of Rs. 2.28 lakhs, surpassing conventional gold at around 100%.

Bonds

Treasury Inflation-Protected Securities (TIPS) are government-backed investments that safeguard investors against inflation. They adjust their principal value with inflation and decrease with deflation, providing a safe, government-backed alternative with lesser yields than regular bonds. TIPS alter their principal value, offering a buffer against inflation but often with lower beginning interest rates.

In a 10-year timeframe, a Rs. 1 lakh investment in TIPS would increase to around Rs. 1,81,940, whereas the same money in a bank FD at 6% interest would rise to roughly Rs. 1,79,085. TIPS generate a somewhat higher return, due to the inflation protection component, which enhances total yields.

Practical Guidelines for Investors

1. An actionable approach for doctor investors would be to invest in mutual funds using platforms such as Kuvera and Coin, which provide direct investing in mutual funds. This helps to lower the

expenditure ratio

2. Invest around 10–20% of your monthly income on a monthly basis (Systematic investment plans) rather than just accumulating in your bank

3. Prefer index mutual funds, such as the Nifty index funds

4. Make recurring investing in high-quality stocks with a strong reputation. This research must be conducted by the investor himself or through portfolio management services

5. Continue to purchase SGBs rather than physical gold wherever feasible

6. Commercial real estate should be preferred over residential real estate since it generates higher rents and appreciates more quickly

7. Do not keep a lot of cash, as it erodes its value. Instead, try to invest in real estate

8. Pay taxes regularly and try to use all the sections of tax deductions with the help of a good chartered accountant.

(These guidelines are suggestions and recommendations and authors are not liable for any losses incurred by following these tips)

Conclusion

In India, orthopedic doctors may fight inflation by properly distributing assets across asset classes. These include equities, mutual funds, stocks, and debt instruments, such as SGBs, real estate, and REITs, as well as inflation-indexed bonds. By combining these assets with a balanced portfolio, doctors may establish a solid financial foundation while navigating inflationary challenges, assuring their financial future.

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