Resolution for 2011: Get rich

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Achieve this goal by borrowing, investing and spending smartly.

Let me hazard a guess. Your list of New Year resolutions may include certain do's for your physical health (weight loss and other things) but none for your financial health. Don't worry. This is not about the merits of financial prudence and abstinence. Rather, this is about just simple tips, whereby you can end 2011 a bit richer than what what you are at the end of 2010. These pertain to spending, insuring, investing and borrowing wisely, It is said that the longest journey begins with a single step. Well, here are a few steps you may like to take…

REIN IN SPENDING

Take care of your credit card and it will take care of you. Our elders advised us not to use credit cards. All, I am saying: use it smartly. First, integrate your card usage with your daily purchases, be it at petrol pumps, supermarkets and other places. Do not reserve it only for big-ticket purchases. Every swipe earns you reward points (usually one point for every Rs 100 spent). These can then be swapped for pretty useful items in due course. Some banks have a time limit within which the points should be redeemed. Ensure your points do not lapse.

Also, do not get taken in by the added glamour of 'signature cards' or 'platinum plus cards'. These come with hefty annual fees attached. Haggle with the bank to offer you a 'free for life' card. If that is not possible, check if you can convert your existing one to a free card by paying a one-time fee.

Banks often advertise that you can enjoy a 50-day credit period. Beware, this is 50 days from the beginning of your billing cycle. Hence, try to 'front-load' your spending such that you spend more in the first 10 days rather than the last. This will enable you to enjoy a longer credit period.

Also, remember that the free credit period ceases once you undertake part-payment of a card bill. For instance, if your current bill is Rs 1,000 and you only pay Rs 100 and carry forward the rest, all future spending made by you will immediately start attracting hefty interest. Hence, try to pay your entire bill at one go. Revolving credit is one of the surest ways to end up poorer. Additionally, never fall for 'zero EMI' schemes, as the processing charges therein are nothing but interest in disguise.

If you like online shopping, sign on to 'aggregator discount sites' such as www.fashionandyou.com or www.brandmile.com. These offer hefty discounts on many known and upcoming brands and can help you save quite a packet over time.

INSURE ADEQUATELY

Purchase insurance online and enjoy discounts of over 30 per cent on the premia, as compared to purchasing through an agent.

Do not purchase life insurance if you are single and have no dependents. However, do not miss out on accident, health and property insurance.

If you have taken a home loan, taking a level term cover to protect your family may be preferable to opting for a reducing balance mortgage redemption cover. Calculate accurately before taking a decision.

While purchasing health insurance, give more importance to referrals from acquaintances, rather than opt for the one charging the lowest premium. Choose a company which settles claims in-house and does not rely on thirdparty administrators (TPAs).

Visit insurance comparison websites to get a better grip on the prevailing rates and other terms. Also, based on your judgement, you may opt for a higher 'co-pay' amount. This will help to reduce your premium. However, do not be wildly optimistic while making this judgement.

INVESTMENT PLANNING
If you are opening a new broking account, look at the online option first, as brokerage charges are usually lower as compared to the offline option. Also, if you are an active trader operating from home, choose an unlimited use internet plan, as it will be more cost-effective in the long run.

As a rule, never keep more money than required for emergency purposes in bank savings accounts, as you earn next to nothing in these. However, while doing so, ensure you maintain the required average quarterly balance in your account. This will help you avoid hefty non-maintenance charges. Also, as far as possible, try to transact online or through the bank's ATM. Banks offer many of these services either free or at heavily discounted fees, as compared to conducting them at the branch. Opting for online statements may also entitle you to some reward points on your debit card.

While investing in a second home, enter into back-to-back agreements with a tenant if possible. This will ensure the rental you earn meets the whole/part of your EMI.

Never invest more than the amount absolutely necessary for tax saving in equity-linked savings schemes (ELSS). There are several diversified funds as good as these, without the three-year lock-in period.

Stay clear of 'structured products' unless you are absolutely clear about the costs involved and the payoff structures. Opt for low-cost products such as index funds or exchange traded funds (ETFs). Even saving 100 basis points of cost per year will increase your wealth by a large amount over time.

MINIMISE BORROWING
Put up as high a down payment as possible while purchasing a house or car. This will not only help you save on interest but also enhance your credibility and help you bargain for other freebies.

Take a housing loan with daily or monthly reducing balance, as compared to a quarterly or annual one. Also, if you have surplus funds, you could repay your housing loan to the extent possible.

Procure a copy of your credit history from Credit Information Bureau (India) (CIBIL) or any other credit rating agency, before embarking on the borrowing process. This will help you know where you stand and also bring any mistakes to your notice well in advance.

Visit loan comparison websites to get a better grip on the prevailing rates and other terms.

And, finally, keep an eye on your financial ratios. There are key financial ratios which you must always track to get a bird's-eye view of your situation. For instance, your savings ratio will broadly indicate whether you are saving enough to meet your future goals. Similarly the investment/savings ratio and your asset allocation percentages will reveal if you are channelling your savings in the right direction. The EMI/take-home income will flash red in case your debt-servicing exceeds a comfortable level (say 45 per cent).

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