'Trading, like drinking, can destroy you beyond a point'

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DNA Investor

Q&A: Sanjay Matai, Author and Financial Advisor

You may be forgiven if you think he is some kind of a spiritual guru or swami. Author and financial advisor Sanjay Matai says things like 'money can be made by doing the little things right every day'. He evangelises unglamorous ways of making money. He believes in simplifying life by being happy with a basic phone model and by throwing away credit cards. In an interview with Sachin P Mampatta, he explains how simple things, and not the ten-baggers, hold the key to making money.

What would you advise people struggling with credit card addiction?

You would be a sant (saint) or a mahatma (sage) if you could control splurging. If you can't keep tabs on your spending, the best option is to set your credit card limits to much lower levels than what you might otherwise be eligible to, based on your income level. This will ensure controlled spending and avoid high interest costs, as you would be in a position to pay your bills before the due dates.

The credit card has been responsible for many financial disasters. It encourages splurging, as you don't have to bother about actual availability of funds in your bank account. The interest that you pay on credit cards is exorbitant; ranging anywhere between 30-50% per annum, which is definitely not good for your financial health.

Young and in love, but fiscally incompatible, can money really wreck a relationship?

Yes, money can and often does create a strain in relationships. Money is not merely a piece of paper; it is a tool that helps us achieve our aspirations, which are a reflection of our feelings and sentiments. Sometimes, one partner is a compulsive spender and the other a habitual saver. Or the husband wants the iPad, but the wife desires diamond jewellery. Such daily disagreements are bound to hurt feelings and create friction.

How wealthy you are is not important. What is important is how you both manage the resources you have, and how you both enjoy spending it together. What is also important is how you both enhance your wealth to fulfil bigger dreams. And for all this, communication and building financial compatibility is a must. A financially happy and secure future is a team effort — definitely not a one-man (or one-woman) show.

How is managing money related to managing emotions, and does the fact that so few are good at the latter also mean they can't manage the former?

We don't need money just for the sake of building our bank balances. Money is merely a means to an end, which are our needs, desires and aspirations. For example, we don't take risk with equity (here we are ruled by the emotion of fear); we fall prey to schemes promising unrealistic returns (greed); we desire the new car our neighbour has (envy); so on and so forth. Thus the underlying cause of most of our monetary actions and decisions is nothing but emotions.

The problem, however, is not emotions per se. It becomes an issue when it assumes unreasonable proportions. The solution lies in working on the emotions — money matters will automatically be taken care of.

What role could automation play in managing investments?

Huge amounts of money lie idle in savings accounts. People are charged for late payments as they either forget or don't get time to pay bills. If you struggle 10-12 hours every day on earning money, can't you spend just a few minutes managing it suitably? In today's world of automation, this is simply inexcusable. You can invest in Systematic Investment Plans (SIPs) in mutual funds; buy shares or make fixed deposits (FDs) at the click of a mouse; set up Electronic Clearing Services (ECS) payment for most of your bills. Technology is not just for surfing the internet, chatting or downloading songs or movies. It has many practical uses too.

You advocate allocating 3-5% of one's money to trading and the rest to mutual funds. Would this really satiate the trading instinct in the average investor?

We all know that drinking within limits is not harmful. But beyond a point, it destroys you financially, physically and socially. Similarly, trading, too, should be restricted. Else, it will destroy you in a similar manner. The fact, therefore, is that you have to limit trading. You could either do it voluntarily, or make sure that not too much money remains in your account to tempt you to trade.

You mention the need for limiting downsides on investments and having the courage to book losses. What steps could investors take to cultivate such resolve?

Simple — give standing instructions to your broker to sell as soon as any share falls by 10-15%. This way, you won't let the dud stocks spoil your portfolio. Yes, it may result in some blue chips too being sold off. But you can always buy them back if you think they are worth it. It will force you to do some serious research. You won't reinvest in a stock where you have lost money, unless you are totally convinced about its future potential.

What is the biggest mistake people make when it comes to tax planning?

The biggest mistake people make is to look at tax planning in isolation. They do not align it with their financial needs and desires. As a result of this short-term focus, they usually end up buying inefficient products. This, more often than not, results in poor returns. In fact, many times, they are unable to continue investments in products like insurance (that require paying premiums for at least 10-15 years) and have to close their policies suffering a big financial loss. Secondly, don't wait till February or March to save for tax purposes. It should begin from April itself.

What is your reason to get up in the morning?

To work towards making people financially literate. It is not easy to earn money. Therefore, to see it go waste due to wrong financial decisions hurts a lot. My motto in life is: "You give a man a fish and you feed him for a day; teach him fishing and you feed him forever."