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PunjiTimes

INVEST IN INVESTING

DIY redefined
Doing Investments Yourself

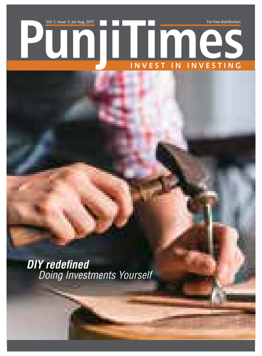
From the Editor's Desk

In a world where financial independence has become synonymous with freedom and security, the importance of fincancial planning cannot be stressed upon enough. Money serves many purposes in our lives and so one must not only keep it safe, but also invest it in a manner so that it grows adequately with time. Why is growth important? Because inflation keeps eroding the purchasing power of your money. So the amount of money you saved today will be worth lesser in the years to come due to inflation. Investing your money can help overcome this value erosion and secure your savings against inflation. Making good investment decisions, thus, becomes important.

Awareness leads to informed choices. Although external counsel can be very useful, it should not become an excuse for not educating ourselves. This issue aims to educate the readers on several essential topics such as - how to plan your own finances, the tax implications of investing in mutual funds, the investment alternative to buying a fixed asset (such as property), protecting the financial interests of your family and more. We hope you find this issue informative, refreshing and useful.

Best

Tushar Goyal
Editor-in-Chief



Punji (*noun / hindi*) - **Capital** *meaning, wealth in the form of money or other assets owned by a person or organization or available for a purpose such as starting a company or investing.*

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July - August, 2017

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Become
Your own financial advisor in 5 easy steps

In a quest to make our money grow and give us satisfactory returns in the future, we look for the best advisors and planners. Although external counsel can prove to be helpful, it is equally important that one understands how financial planning works. Managing your own money ceases to be an uphill task once you have this understanding in place. Thereon, all you need is an end goal in mind, the right amount of motivation and a list of five simple steps to help you along the way:

1 LIST DOWN YOUR FINANCIAL GOALS

Create a list of your long-term goals that would require a significant financial outlay, such as marriage, buying a house, education, retirement etc. A good question to ask would be "Why do I need money?". It is important to think about your expected milestones in life and when you plan on fulfilling them. Without actionable goals, and a plan to achieve them, it is unlikely you will end up where you see yourself, either in the short or in the long run. Once you have your list of goals ready, it is a lot easier to plan, and pick the right investments.

2 DETERMINE THE OUTLAY

Decide how much funds you would require and the timelines surrounding them. A good question to ask would be "How much money do I need? And when?". For instance, say you need INR 1 crore in 2025 for your child's higher education, INR 50 lac in 2030 for his/her marriage and a corpus of INR 5 crore in 2045 for your retirement. Once you have attached a monetary figure to your goals, you have a tangible plan to work towards.

3 ONE SIP FOR EACH GOAL

Plan an SIP for each goal. Determine the nature and periodicity of SIP(s) required to accumulate the funds, assuming an average rate of return. You can make use of online SIP calculators to perform this calculation. As a thumb rule, one can assume average annual returns of around 15% for equity funds and about 9% for debt funds. An average return of 12% is a realistic expectation in the long term, considering a balanced investment portfolio.

The golden rule to remember is - **One SIP for One Goal**. Say, you want to save for the three major goals in the future - education, marriage and retirement. Invest in separate SIPs working towards each of those goals, since the time horizon and fund requirement are different for each goal. Assuming you can save INR 1 lac every month, you would invest more towards education since it would be the most immediate of your needs and less towards retirement, which has a longer time horizon. The power of compounding would help you accumulate sizable funds even with small investments over a longer period of time.

4 IDENTIFY A SUITABLE SIP

The next step is to execute your strategy. To do this you need to choose an SIP that is aligned with your goals. Take into consideration your risk tolerance, time horizon and overall diversification. Spot SIPs that match these parameters and then compare them based on research parameters such as investment strategy, large/small cap, returns, debt-equity mix, track record, fund size, etc.

5 COMPLETE DOCUMENTATION FORMALITIES

An important part of any investment you make is closing it right with suitable documents and paperwork such as KYC. Once this is taken care of, you are ready to start investing! ■

Buying Property

An alternative strategy

Who doesn't dream of owning a home of their own? Buying property is one of the most important decisions we make in our life. It is a major purchase, and must be backed with thorough research and understanding of the factors, costs and benefits involved.

Investing in property has become increasingly important with the times, especially considering the great residential value it has and the security cover it provides to one's family. Apart from the proverbial roof over one's head that a house provides, it is also important for the security of one's family. In the case of the death of the a bread-earner, having a house of one's own provides security to the surviving members of the family, preferably if there are no outstanding loans against it. Thus, everyone is advised to invest in at least one property for self use.

Most people seriously start considering a real estate purchase on entering their 30s, once they are married and settled down with kids. Due to the fact that property prices are constantly on the rise, it gets tempting to buy property sooner than later, but financing the project is where most buyers face difficulties. If you invest in property at an early age, a substantial portion of your salary is eaten up by monthly repayments of the loan. So how do you make the buy vs. rent decision sensibly? While traditional views hold extreme sides, an alternative is fast emerging for the savvy buyer.

If you possess enough cash in the bank then buying a house may seem like a good idea. However, for someone relying heavily on a loan, buying property could be seen as a burden in the future years. Let's have a look at how much truth this view holds.

Say, you wish to buy a flat that has a market price of INR 2.0 crore. Assuming no down payment, if you take a loan, you pay a monthly EMI of about INR 1.8 lac for the next 15 years. Thus, you end up paying a total of INR 3.3 crore with interest.

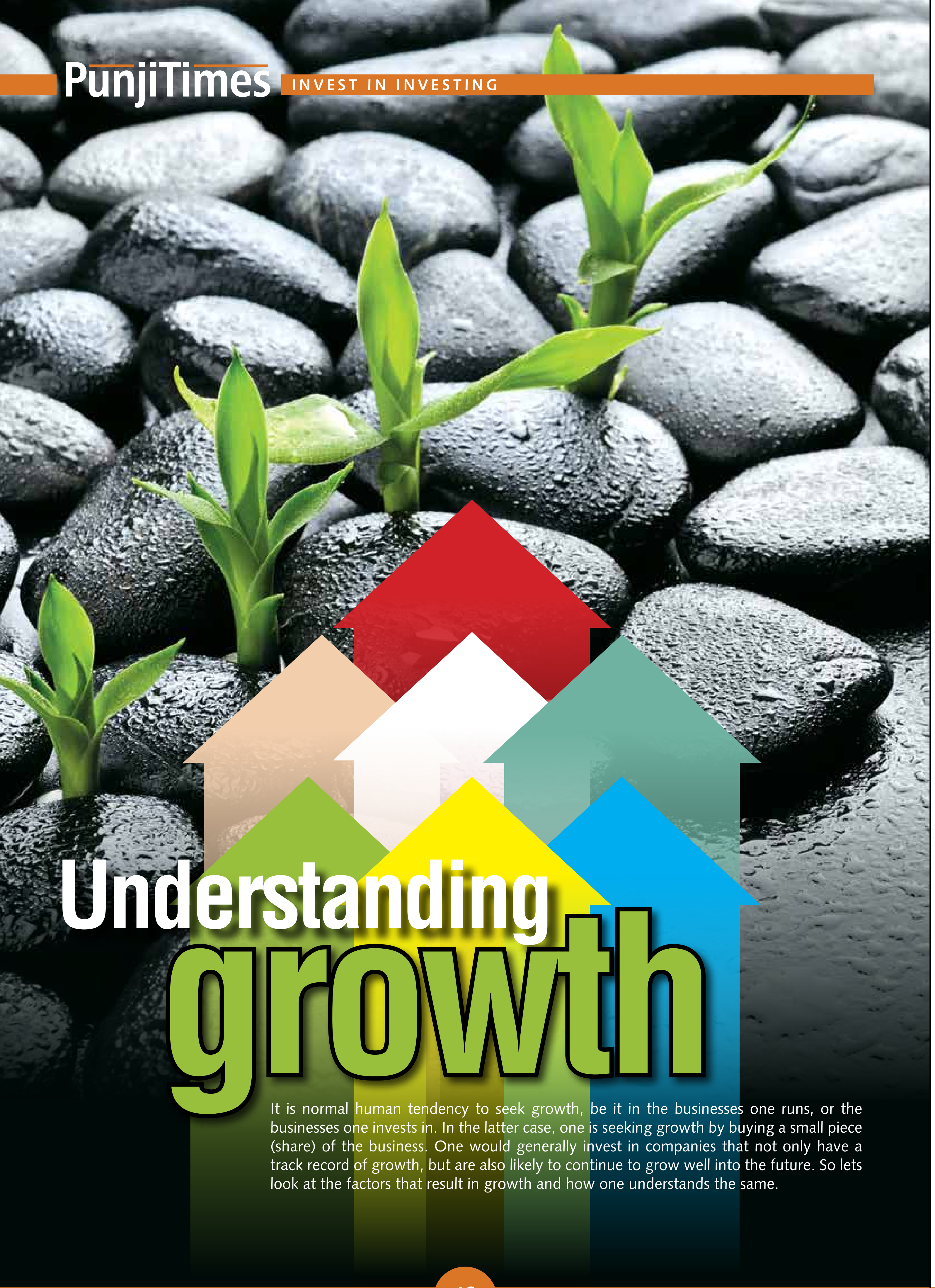
THE INVESTMENT APPROACH

If you are in your 30s, you have a considerable mile to go in terms of your career. Your income is expected to grow manifold, while the price of the kind of property you want to buy will increase at a slower rate. A flat that costs INR 4 crore may be unaffordable for you now. After 15 years, the same flat might cost INR 6.5-7 crore but your income would have tripled or even quadrupled in those 15 years. So here's an alternative you could consider before making a decision.

Here's a thought. Continue staying in a rented place. This way, you save the EMI you would have been paying against the housing loan. Even if you wish to relocate to a better place, make sure you continue to save INR 1 lac every month consistently. Now, invest this INR 1 lac in an investment plan for the same period of 15 years. Note that saving INR 1 lac will not remain a huge amount as your salary will progressively increases over the years. At an assumed annual return of 15%, you would have saved INR 1.8 crore which would have further multiplied to INR 6.75 crore at the end of 15 years!

Now you can not only buy a better flat than the one you were going to buy, but also you have freed yourself from the burden of EMIs that too without compromising on your standard of living.

Buying a house is an important decision because property purchased is likely stay with you for generations. Hence, the decision warrants careful research and consideration, whether you mortgage your house or go the long-term investment way. Make an informed decision when investing in property and live happily ever after ■



Understanding growth

It is normal human tendency to seek growth, be it in the businesses one runs, or the businesses one invests in. In the latter case, one is seeking growth by buying a small piece (share) of the business. One would generally invest in companies that not only have a track record of growth, but are also likely to continue to grow well into the future. So lets look at the factors that result in growth and how one understands the same.

GROWTH BY VOLUMES:

This is easiest type of growth from an understanding point of view where a business/company sells more number of units of its product/service to same or increasing number of customers. This growth could be due to expansion of the market with deeper penetration of the products/services. It could also be due to market share gains vis-à-vis competition if the volume growth of a company is more than the overall market growth. Volume growth is always the most desired form of growth since:

- It improves the overall cost structure since fixed costs are spread over a larger volume
- Size of the business and future growth is likely to be more sustainable as it is often with deeper market penetration

GROWTH BY PRICE INCREASE

Companies that have strong franchise (brand) values or those in commodity type of businesses achieve growth with higher prices per unit of their product. Hence their revenues and profit growth during an upturn of the cycle is faster than the volume growth. Companies with strong franchise (brand) values, often are able to exploit this type of growth very well as they can pass on the inflation in raw materials and other costs in form of higher selling prices, and thus maintain their profit margins. However, for companies in commodity businesses this plays out both ways as during a down cycle, revenues fall at a higher rate than the volumes since per unit selling price is lower. In a scenario of increasing raw materials and other costs, their ability and leverage to increase their selling prices is limited unless it is an industry wide phenomenon and all companies are able to pass on higher costs in form of higher selling prices.

GROWTH BY BETTER REVENUES/PRODUCT MIX

Companies that are in multiple products/product-variants with different selling prices, growth in higher priced products relative to other products, results in total sales/ revenue growing at a faster pace than total volume growth. Often this scenario, also results in profit margins expanding due to more profitable products growing faster than other products. This is a very desirable form of growth as it makes the sales and profit mix richer.

GROWTH BY NEW PRODUCTS/SERVICES

Growth by new products/services is a natural extension to satisfying the needs of the existing customers/markets where the brand value, relationship with customers, distribution network, internal capabilities etc. could be leveraged to expand the product/ service offerings in order to have sales and profit growth. Growth could also be by expanding into unrelated products/services (diversification). The merits depend upon case to case as there are good and bad experiences under both circumstances.

GROWTH BY MOVING UP THE VALUE CHAIN

A variation of growth of new products/services is moving up the value chain by forward integration. This involves offering goods/services that offer better value in terms of product/service attributes, price, profitability, etc. E.g. a textile company selling fabrics forward integrates to manufacture garments also is a case of moving up the value chain.

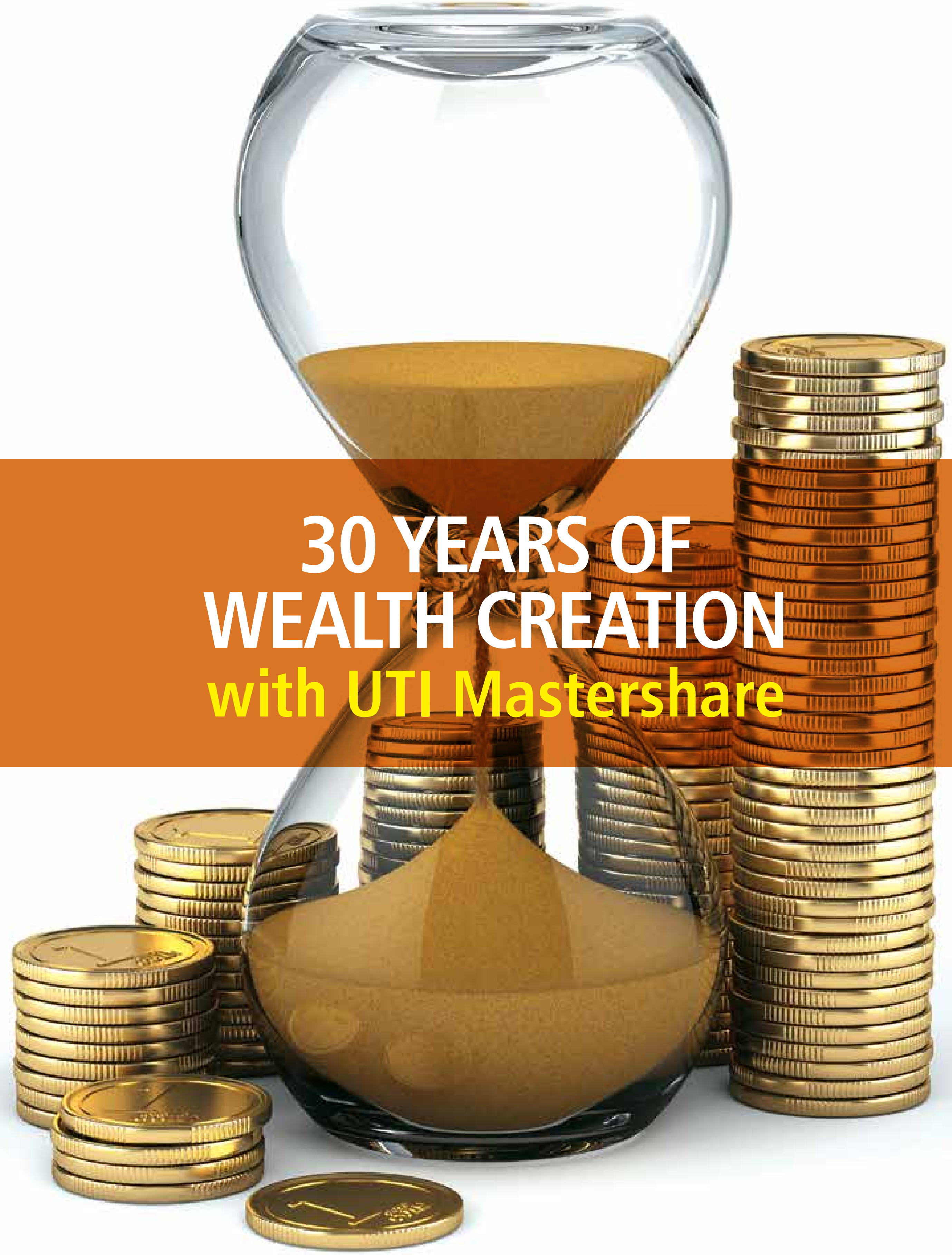
GROWTH BY CURRENCIES MOVEMENTS

Companies that do business in the international arena often have an advantage of achieving growth due to movements across currencies. If the sales are in an international currency that is stronger than the local currency, the weakness (depreciation) of the local currency results in additional sales/profits simply due to changes in currency rates. In the Indian context, in the last 25 years, exporters have had this huge benefit as the Indian Rupee, was generally weak against the US Dollar/Euro/UK Pound and the extent of weakness gave them a certain cushion on sales/revenues and profits. This is the least desirable type of growth. If the company does not have a strong competitive advantage but is merely dependent on a weak currency, and the tide turns the other way, such businesses suffer a double whammy of lower sales/revenues and profits but also challenges/dwindling volumes in their business.

As an investor, it is important to understand the above factors since it affects the sustainability of growth of the companies you invest in ■

Vivek Mavani

Vivek Mavani is a SEBI Registered Investment Advisor based in Mumbai.



30 YEARS OF WEALTH CREATION with UTI Mastershare

Rs.10 lakhs invested at inception is Rs.6.98 crores today

UTI Mastershare Unit Scheme is India's first equity oriented fund launched in October 1986 and it has completed 30 years of Wealth Creation. The scheme has an excellent track record of 30 years of uninterrupted dividend distribution across all market cycles- be it bearish or bullish. Even during the extended bearish phase of 2000-2004 when most of the funds skipped dividends, the scheme paid dividend due to its prudent investment policy. The scheme has also rewarded investors with bonus and rights on many occasions.

UTI Mastershare is an open-ended equity oriented scheme having a corpus of Rs.3601 crore (as on October 31, 2016) and 5.15 lakh investor accounts (as October 31, 2016). It aims at securing capital appreciation / or income distribution over a long term, by investing in equity shares and equity related instruments and fully convertible bonds/debentures of companies. The scheme follows a disciplined approach to invest and has maintained stream of annual dividend by booking annual profits. Mastershare has distributed Cumulative Gross Dividend at 1230% since its inception.

Predominantly large-cap focused fund, UTI Mastershare invests in companies with large market capitalization whose earnings growth potential is better. Often, these large cap companies generate strong and sustainable cash flows, have cost advantage due to size and enjoy leading position in the market. The scheme maintains a well-diversified portfolio and avoids sector as well as stock concentration at all points of time. This has helped the Fund in generating steady returns and has helped the fund to weather the market phases effectively in the past. The scheme's top holding consist of well known and researched companies like HDFC Bank, Infosys, Axis Bank, Reliance Industries, Ultra Tech Cement, Maruti Suzuki India, Asian Paints, Mahindra & Mahindra, Indus Ind Bank and L&T which account for 39.36% of the portfolio. Scheme has a disciplined investment criterion in sector/stock allocation and number of stocks.

The Mastershare scheme has been a steady performer with lower volatility. It has generated a return (CAGR) of 15.21% against benchmark return of 13.80% since inception (as on 31.10.16). To highlight the growth of the fund, an investment of Rs. 10 lakhs in September 1986 in the scheme is worth Rs.6.98 crores today (considering all the rights, bonuses and dividends) against Rs.1.58 crores in PPF, Rs.1.54 crores in Gold, Rs.32.4 lakhs in Savings bank, Rs.1.74 crores in Bank Fixed Deposit and Rs. 4.88 crores in Sensex. The scheme also has an efficient expense structure on account of a large corpus and a lower portfolio turnover ratio which in turn provides scope for superior risk adjusted returns.

This scheme is suitable for those equity investors who are looking to build core equity portfolio with relatively stable and sustainable performance and also for those who prefer regular dividend with capital appreciation. UTI Mastershare may be considered as a part of one's Core Portfolio, given its investment philosophy ■

Contributed by **UTI Mutual Fund**

CAVEAT CREDITOR

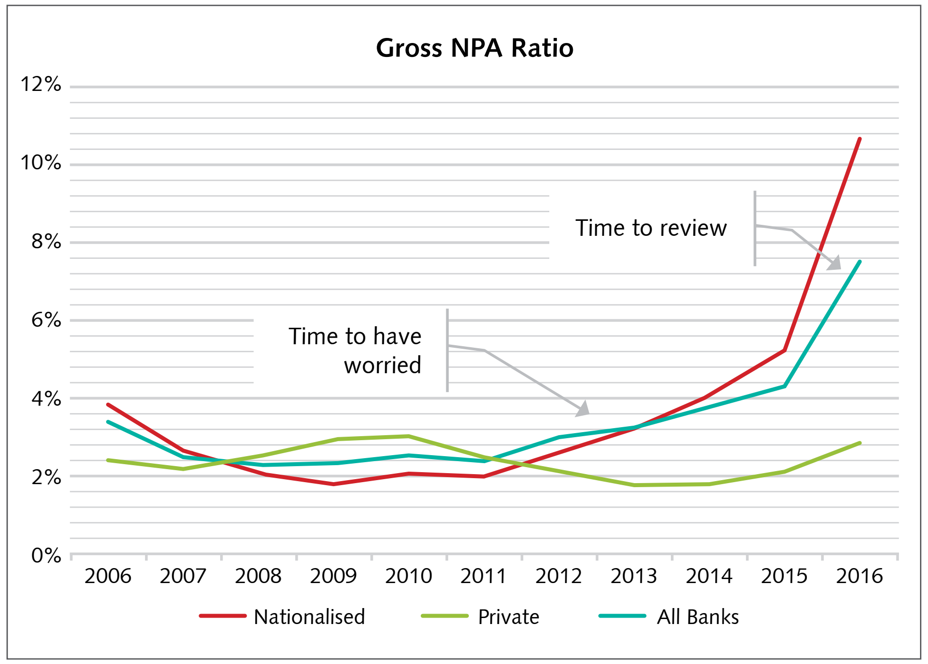
Let the lender beware

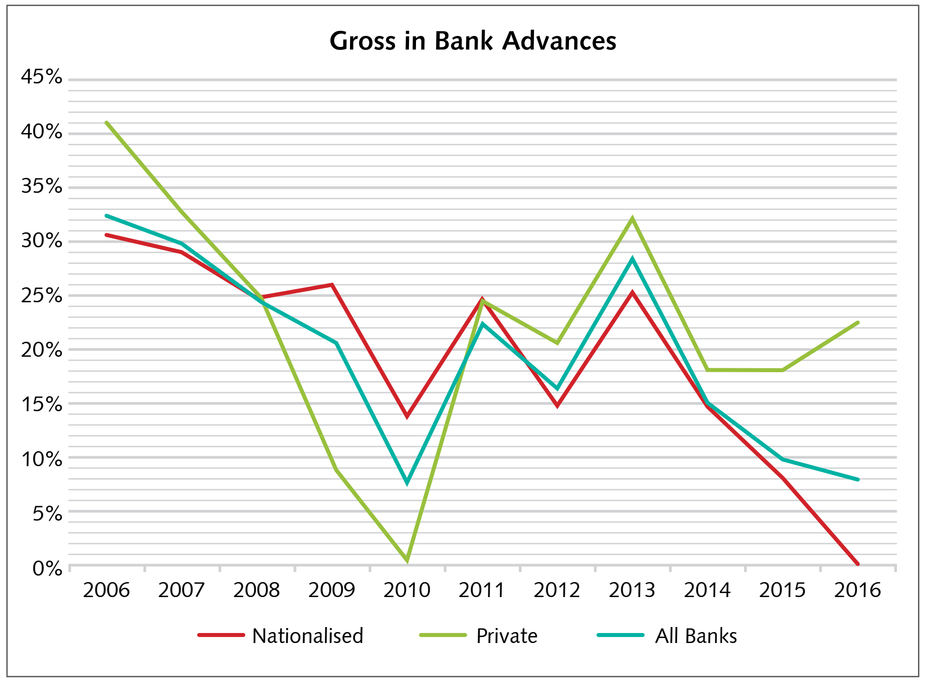
Investing in lower-rated, higher-yielding bonds appears to be an easy way to enhance yields without taking much risk. However the relentless rise in non-performing loans at banks and a series of credit events in mutual funds have raised some concerns about the risk-reward trade-off in lower rated debt.

Background

RBI data indicate the scale of the problem. The banking system is groaning under 7.5% gross NPA levels. The pain is not evenly distributed with nationalized banks seeing nearly 11% of their advances turning non-performing while private banks have performed relatively better having just under 3% NPA ratio. The aggregates are skewed towards PSU banks as nationalized banks account for nearly half of bank loans, and along with the SBI group account for over 70% of the total size of the system. Note that the RBI data above only goes to FY16. The situation has only worsened in the last year.

The NPA overhang has limited the ability of banks to grow. Provisions have reduced profits and in many cases led to net losses. Capital requirements have meant that banks have been unable to make new loans. Here again we see a divergence between nationalized and private banks; and the private sector has kept its growth rate thanks to better profitability. An interesting divergence can be seen in the relative performance during the 2008-10 and the current periods. In the previous downturn, all banks faced a slowdown thanks to weaker macro. This time slow growth is clearly thanks to differences in NPA performance.





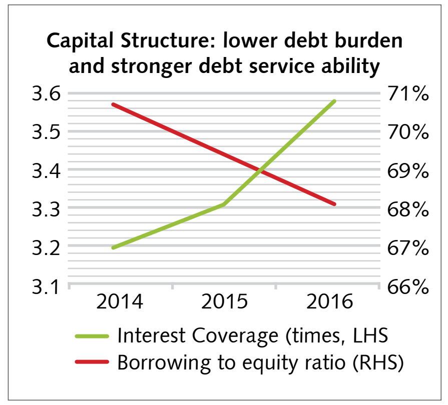
The macro picture of credit

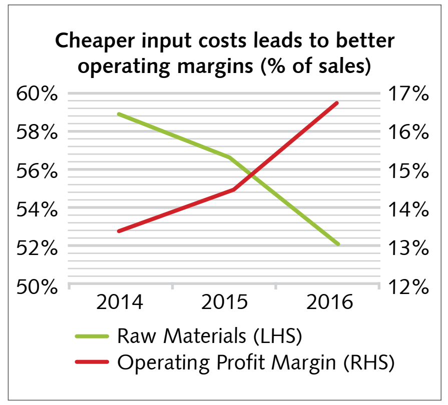
As we did four years ago, we will look at the data to guide us. Once again we turn to RBI which publishes the aggregate corporate financial performance numbers. The RBI study covers close to 20,000 non-government, non-financial public companies over the past three years. This study paints a picture in stark contrast to the well-publicized NPA story as explained below.

The first observation we make is that the aggregate operating performance across companies has improved substantially over the last three years. Remember that oil and other commodity prices fell substantially during 2014/15. Overall raw materials costs fell relative to sales and was a major contributor to operating profit margin improvement.

The second big trend of the past couple of years has been the large fall in interest rates, which has reduced the debt service burden of companies. What we see is a double impact: fall in rates and a general deleveraging. Thus the amount of debt (relative to equity) has come down and the interest rate on debt has reduced. These two factors mean that the interest coverage ratio (earnings before interest and taxes divided by interest costs) has improved markedly in the last two years.

The improvement in operating and financial performance has resulted in an increase of nearly 50% in net profit margin over the three years.





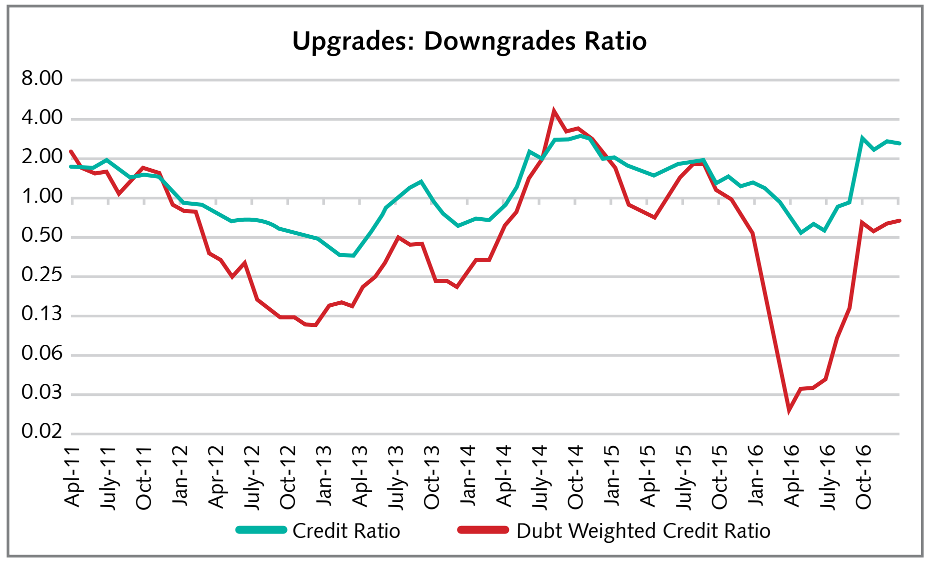
To summarize, the aggregates from the RBI study suggest the following all of which are supportive of an improvement in the credit cycle:

- Costs under control
- Operating performance improved
- Reduction in debt leverage
- Improved debt service ability
- Big jump in net profit margin

How does the micro picture look?

The aggregate data support the view that the credit environment has improved. And yet we see the NPA levels rise. How do we square these views? For one, these gains are not evenly distributed. The fall in raw materials has resulted in better margins, but what if you are the producer of these raw materials? Steel companies have suffered, while auto companies have benefited – for example. Further a presence of some large indebted companies can skew the data.

Unfortunately in this cycle companies with the most stress have been the large indebted companies in sectors like commodities, infrastructure & power, etc. Thus the apparent credit quality has worsened even as underlying profit performance has improved. This can be seen in credit rating agency data released by SEBI earlier this month. The chart shows the credit ratio (the number of upgrades to downgrades) and the debt weighted credit ratio (the value of upgraded debt to downgrades). In this chart, values above 1 indicate improvement in credit quality, while values below 1 indicate worsening of quality. The chart shows the rolling six month trend.



We see two cycles of credit in this chart. The first was between 2012-13 when the early signs of credit worsening started. During this phase, we see both the number of downgrades and value of downgrades outpacing upgrades. A second leg down was in 2015-16, when the value of downgrades has outpaced upgrades, but where we see an improvement in the number of upgrades relative to downgrades.

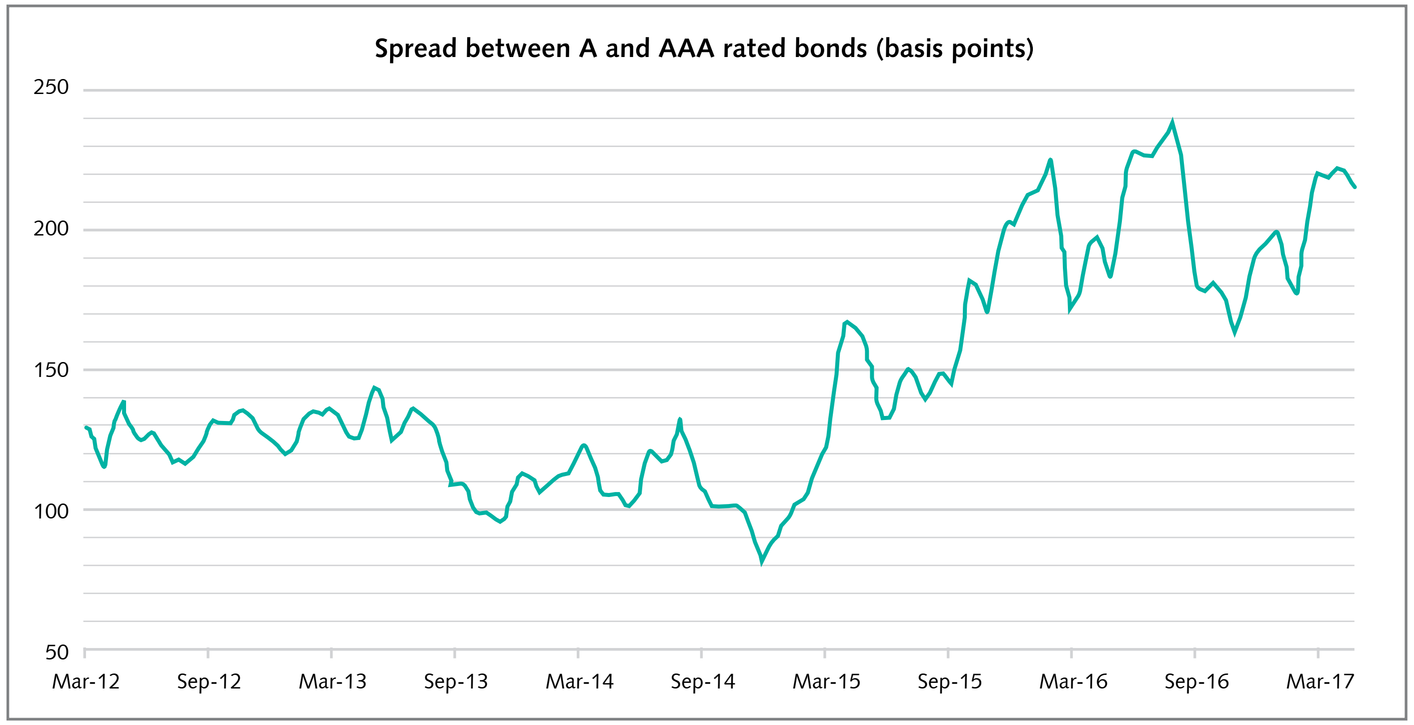
This divergence is important. What it says is that while many more companies are getting upgraded, many heavily indebted or leveraged companies continue to be downgraded.

As an investor (or a fund manager) we are not bound to invest in the highly leveraged and indebted companies. In fact, the higher pace of upgrades suggests that the universe of investible companies is potentially expanding.

What about the market?

In fact as an investor today, the spread that we get from investing in lower rated bonds has expanded relative to AAA bonds. The spread is the extra yield that we get for the higher credit risk.

The chart below shows the spread of A-rated over AAA-rated bonds over the past five years. Bizarrely, during the period from 2012 to 2014 when credit quality was under stress across the board, the spread narrowed. That is, the compensation for higher risk was low at a time that risk was increasing. In more recent times, the spread has widened and today is close to the highest levels for over five years. As an investor this means that we are getting compensated more for taking the same level of risk (i.e. for same credit rating).



This is even more interesting because, as compared to the 2012 period, now the weakness in credits appear to be concentrated and not across-the-board. That is to say the spread is wider even though the overall credit environment appears to have improved. From a low of about 80 bps, spreads are now over 200 bps for A-rated debt.

Investment Implications

To summarize, even as backward looking data (bank NPA numbers) seem to suggest that credit issues continue to be a problem for the financial system, the three alternate sets of data paint a very interesting picture about investing in lower rated debt.

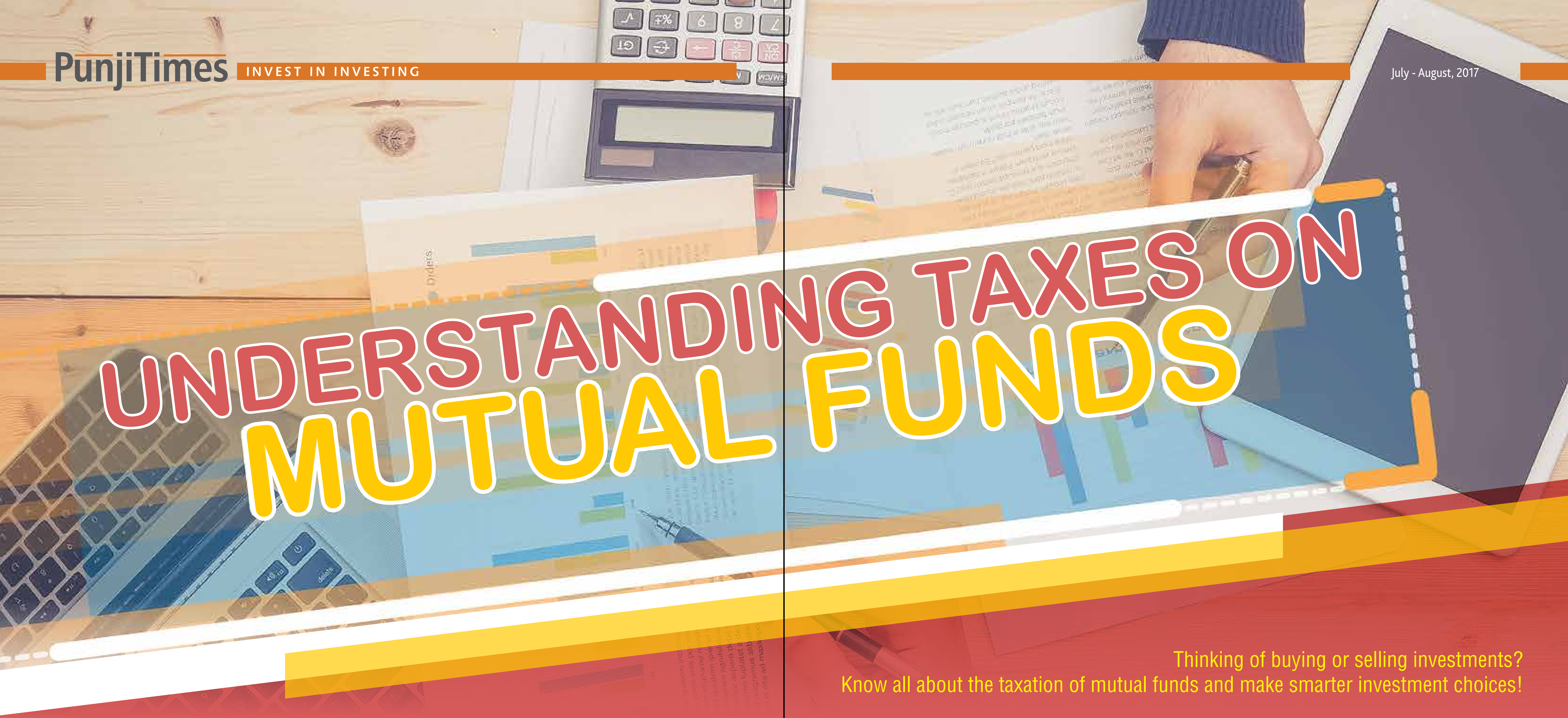
The RBI study on corporates shows that the profitability of the corporate sector has improved over the past two years. This has been on account of both better operating performance and a reduction in leverage.

Ratings data confirms the improvement in credit quality in the last two years. However, heavily indebted / highly leveraged companies appear to be still in a downgrade cycle. The fact that many more companies are being upgraded suggests a widening in the investible corporate space.

Finally, the market pricing of credits has improved. Compared to the previous cycle, yield spreads are wider.

As investors, this presents an investment opportunity where the macro and rating developments are improving while yield spreads are relatively wide. Thus, we have been increasing our allocation to below-AAA bonds. The ratings and micro level analysis still urges caution. The investment process needs to be strong with well-developed risk management. That will have to be the subject of another note, though ■

Contributed by **Axis Mutual Fund**



UNDERSTANDING TAXES ON MUTUAL FUNDS

Thinking of buying or selling investments?
Know all about the taxation of mutual funds and make smarter investment choices!

Selling your investments is as important an investment decision as is buying investments. Many times, people invest their money in investment avenues that provide returns of around 15 per cent. However, when they sell their investments, they realize that the post-tax return is not higher than 10 per cent, which leads to dissatisfaction. Therefore it is imperative to understand how taxation of mutual funds works in order to make the right selling decision.

The tax treatment of mutual funds depends on whether they are equity funds or debt funds. A mutual fund is considered an equity fund for tax purposes if 65 per cent or more of its investible funds are invested in equity, else it is considered to be a debt fund. In case of sale of a mutual fund, income tax is applicable in the form of capital gains upon the investor.

For equity fund, a period of holding of one year or more is considered long term for tax purpose. Long-term capital gains on sale of equity mutual funds are exempt from tax while short-term gains are taxed at 15 per cent. This tax treatment is in line with the tax treatment applicable to sale shares and stocks on the stock market.

For debt mutual funds, a period of holding of three years or more is considered long term for tax purpose. Long-term capital gains on sale of debt mutual funds are taxed at 20 per cent while short-term gains are added to the income and taxed as per the individual's income tax slab. Although both short-term and long-term capital gains are taxed, the benefit of indexation is available for long term capital gains on debt funds, thereby considerably reducing the effective tax rate. Indexation is a tool to find the inflation adjusted purchase price of a long-term asset today. Simply put, long-term capital gains are calculated after inflating the purchase price of the asset as per the given price index; this can considerably reduce the effective tax rate to far below 20 per cent.

Further, if you opt for a growth option in mutual funds, there is deferment of tax in case the entire holding is not liquidated. Since the initial fund invested cannot be differentiated from the reinvested income, income is calculated on pro rate basis for every unit. Let us understand this with the help of an illustration.

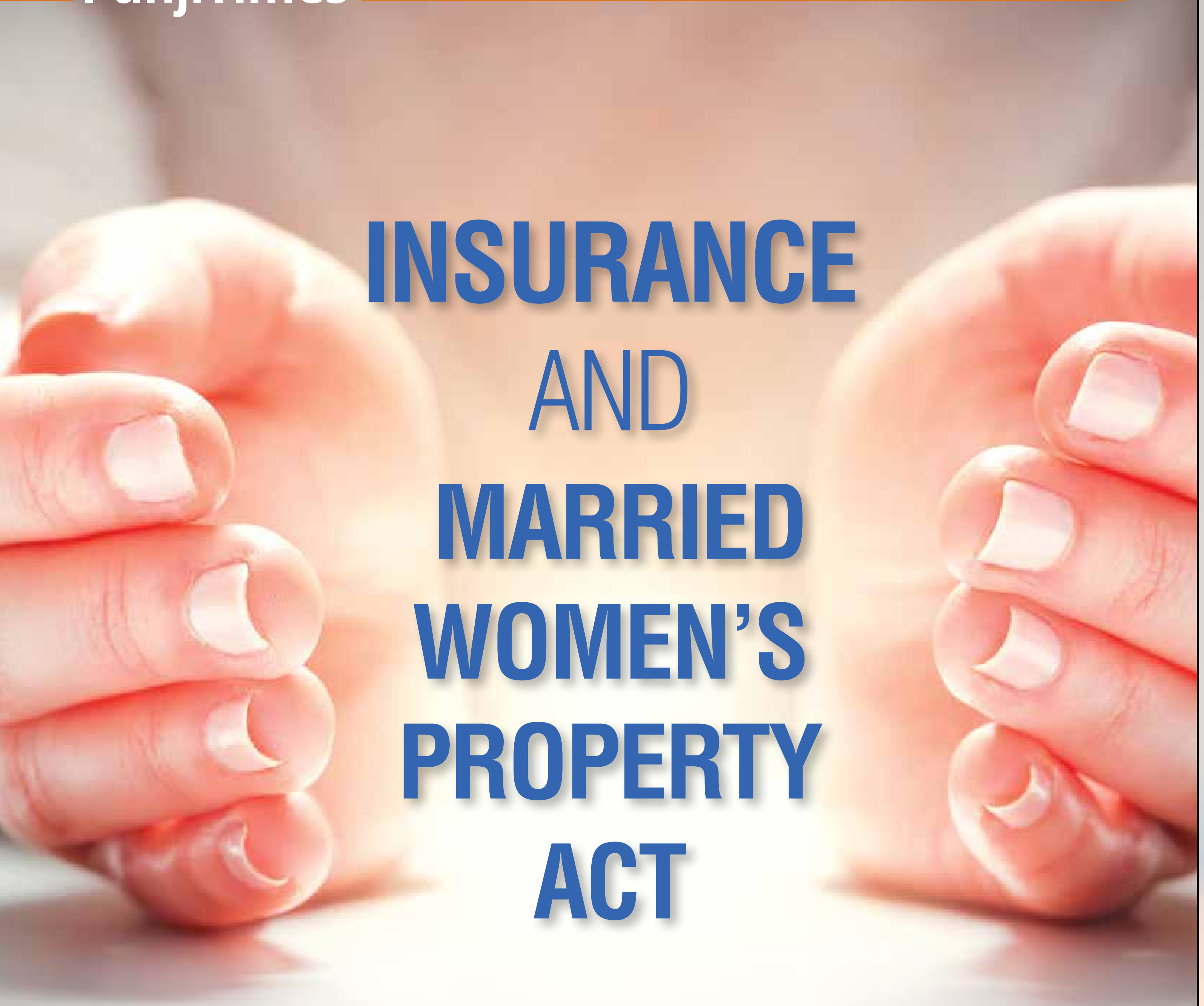
SCENARIO 1:
An individual invests Rs.1 crore into a bank fixed deposit

Let us assume the rate of return to be 10 per cent per annum. At the end of year one, he earns Rs. 10 lacs in the form of interest. Entire Rs. 10 lacs is taxable at 33 per cent. Further, actual cash received by the individual shall be Rs. 9 lacs after tax withholding of 10 per cent.

SCENARIO 2:
An individual invests Rs.1 crore into a mutual fund growth option

Let us assume the same rate of return i.e. 10 per cent per annum. At the end of year one, he earns Rs. 10 lacs in the form of capital appreciation, thus his total holding is now Rs. 1 crore 10 lacs. Suppose he sells units worth Rs. 10 lacs at the end of the year to realize the earnings, the entire sum of Rs. 10 lacs will not be considered his income. The income is calculated on every unit pro rata to the initial capital invested, which in this case amounts to Rs. 90,909 [Rs. 10 lacs × (10 lacs / Rs. 1.10 crore)] only. Thus, tax incidence is only ~Rs. 30,000 (as compared to ~Rs. 3.3 lacs in the above scenario). Further there is no tax withholding in this case.

Tax can turn out to be a huge cost, so one must keep it mind while making a decision to buy or sell any investment. As a thumb rule, it is highly advisable to hold equity funds for more than one year and debt funds for more than three years to earn tax exemption/ indexation benefit. Thus, as a prudent investor, you should always commit your funds keeping in mind the time horizon of your investment. ■



INSURANCE AND MARRIED WOMEN'S PROPERTY ACT

LIFE INSURANCE

We buy Life insurance cover to protect ourselves and our family members in case of any unfortunate event. We are also aware that an individual needs to buy adequate term plan if his family members are dependent on him / her.

Let's consider a scenario – Harish is a businessman and borrows some capital to expand his business. He has taken a Term Insurance Policy with his spouse as nominee. After his sudden demise, his creditors approached the court and asserted their right to get paid out of the proceeds of the Term Insurance policy.

In this example, though Harish has taken a term insurance policy, his family has not benefited from it. The claim proceeds (death benefits) are given to his creditors.

In today's world, 'buying on credit' has become a common thing. Whether employed or self-employed, most of us buy on credit (home loan, personal loan, consumer loan etc.,). Along with this disputes in joint family after bread winner is an other problem .

In this kind of scenario, how to make sure that only your dependents receive the insurance policy claim proceeds.

MARRIED WOMEN'S PROPERTY ACT 1874 (MWP ACT)

MWP Act was created to protect the properties owned by women from relatives, creditors and even from their own husbands. The Act has been created to protect women's rights, even after marriage. MWP act is applicable for all married women of all religions. 'Section 6' of the MWP Act covers Life Insurance plans.

If you take an insurance policy under MWP Act, your life insurance policy is treated as a 'Trust' and you can be assured that the policy money will be given to your nominee(s) only. The claim proceeds are free from creditors, court and tax attachments.

Any married man can take a life insurance policy under MWP Act. This includes divorced persons and widowers. The policy can be taken only on one's own name (the life assured has to be the proposer himself). Any type of plan (money-back / Term plan / Endowment etc.) can be endorsed to be covered under MWP Act. Even a married woman can buy MWP policy on her name with her children as beneficiaries.

Getting an Insurance Policy assigned under MWP Act is easy and inexpensive. At the time of applying a proposal (buying a policy), a separate MWPA form has to be filled by the proposer for it to be covered under MWP Act. You need to provide details of the beneficiaries, the share of the benefits that are to be accrued to them and the trustees. Providing the trustee(s) names is not mandatory. However, existing life insurance policies cannot be assigned under MWP Act.

The beneficiaries of such a policy can be:

1. The wife alone
2. The child/ children alone (both natural and adopted)
3. Wife and Children together or any of them

Each policy under MWP Act is considered as a separate trust automatically (there is no need to create a trust). At the time of the proposal, you have to mention the names of the beneficiaries. You may also mention the names of trustees (not mandatory). The Beneficiary and the Trustee can be the same person, however, you (the proposer) can neither be the beneficiary nor the Trustee. You have the option to change the trustees at any point in time. However, the beneficiaries of the plan once declared cannot be changed. In case of a death claim, the insurance policy proceeds are given to the trust and cannot be claimed by the creditors.

Policies assigned under the MWP Act can be surrendered like other insurance policies upon the request of the policyholder, co-signed by the Trustee (if appointed) and the beneficiary. Surrender proceeds will be paid to the Trustee/Beneficiary.

Due to lack of awareness, very few policies are being taken under MWP Act. Life insurance is a tool to protect the dependent family members. If this purpose is to be achieved in its fullness, then having the life insurance plan covered under MWP Act is the easiest and the best way. So, the next time when you are buying a life insurance policy, suggest you to assign it under MWP Act. But, do not misuse the MWP Act with an intention to defraud your creditors ■

Contributed by
Aviva Life Insurance

Expert Speak

Knowing your investment behaviour

> "It is important for investors to understand their appetite for risk, because the mis-assessment of risk capacity can lead to a wrong strategy and a very different financial and emotional outcome"

Dear Friends,

In equity investing, we can frequently categorise investors into two categories. The longtermers and the Pole-vaulters. Don't make a value judgement. I am only classifying the investment behaviour.

For the purpose of wealth creation, the Longtermers do their investing (preferably through a mutual fund) and then withdraw from the outcome for the longest period of time. Such investors are tend to be indifferent to their investment and then after a long period of 10-15 years, they resize their investment amount. Within that period, their investment would have grown to a sizeable proportion. Usually much higher than anticipated.

The pole-vaulters on the other hand want to have an active play. For such investors, it is advised that they have a long term approach and follow the asset allocation strategy. This may be based on their view of the market; and on their perspective on the equities as an asset class as a whole.

Ideally, such an investor who is hard-pressed for time and information, is betteroff by investing through equity mutual funds. Depending on the risk profile, either systematic transfer or systematic investment plan should be made for investment in equity mutual funds. Since there are multiple equity mutual funds, advice from a good mutual fund distributor will come handy .

There are three kinds of pole-vaulters here. Investors who have an underweight view on equities; investors who maintain a neutral view on equities; and investors who are overweight on equities. For these different class of investors, there are different investing strategies based on the nature and valuation of the market that is available.

For investors who are underweight on equities(IUWE), their investment strategy can be based on the valuations available in the market. If the market is trading well below the fair value zone, then such investors can look at investing lumpsum capital amount in the equities market. On the other hand, if the market is in the fair value zone, such investors can look to allocate into equities through SIP/STP medium. Finally, if the market is in the above fair value zone, then IUWEs can allocate out of equities by means of SWP; or can book profits.

Investors who are equal weight on equities (IEWE), too can look at investing lumpsum into equities market when it is trading below fairvalue zone. On the other hand, if the market is in the fairvalue zone, then such investors can allocate by means of SIP/STP. Finally, if the markets are above the fairvalue zone, then such investors can look at partially booking the profits at highs.

Investors who are overweight on equities can adopt a different strategy based on their assessment. If the market is below fairvalue, then such investors can look at obtaining a leveraged position in the market; or can look at increasing their allocation further. On the other hand, if the market is at the fair value, then such investors can allocate through SIP over a course of time. Finally, when the market reaches above the fairvalue zone, then such investors can either book profits, or can choose to hold their position.

I cannot emphasise enough on how important it is for investors to understand their appetite for risk, because the mis-assessment of risk capacity can lead to a wrong strategy and a very different financial and emotional outcome. So please do your own due diligence first. Ideally, be a long term investor through a mutual fund.

Thanks & Regards, ■

Nilesh Shah, Managing Director, Kotak Mutual Fund

FAQs

HOW SHOULD I CHOOSE A MUTUAL FUND SCHEME?

There are many different types of mutual find schemes in the market and the best scheme for each individual depends on their profile and risk appetite. There are several other parameters you must look at for choosing a suitable scheme.

INVESTMENT OBJECTIVE

Investors often choose mutual funds with an objective to:

- Generate an additional source of income
- Finance future needs
- Reduce tax liability
- Increase savings
- Protect savings from inflation

The first step is to determine your investment objective and evaluate risk appetite. The time period to realize the objective may vary from a few months to years. Typically, investors with long-term objectives look at equity funds while those with short-term goals look at money market and debt funds. The objective will give you an idea of your risk appetite and will play an important role in choosing a scheme.

PERFORMANCE RANKING

A fund's relative, not just standalone, performance should be looked at for making a purchase decision. A good strategy is to look at the quartile ranking to see how the fund performed quarter-on-quarter among its peer group. If you find your scheme dropping below the 3rd quartile consecutively, it may be time to exit it.

RATIO ANALYSIS

Look at risk and return ratios like standard deviation, Sharpe ratio etc. along with the Alpha of the fund. Alpha tells you the 'extra' the fund manager has generated for a portfolio compared to the benchmark. Alpha serves as the performance ranking of the fund manager and should be checked for consistency.

TOTAL EXPENSE RATIO

Expense ratio is an important parameter to consider when selecting a scheme. Since all fund management and distribution expenses are borne by the scheme, a high expense ratio affects the fund's returns.

FUND MANAGER TENURE AND EXPERIENCE

The fund manager has an important role to play in the fund's performance since he serves as the ultimate decision maker. Know your fund manager, his experience and track record. You should also look at the performance of other funds which he is managing.

SCHEME ASSET SIZE

The ideal asset size is different for debt and equity schemes. In equity, it can lie in hundreds of crores while in debt it should be in thousands of crores, the investment value per investor being higher in debt funds. 90% of total assets under management (AUM) of the mutual fund industry are invested in debt funds, so your selected scheme assets should have a considerable AUM ■

MUTUALFUNDS
Sahi Hai
Ab market ke utar-chadhav
ka darr kaisa?
A mutual fund that can keep you smiling through market ups and downs.
• Invests in both equity and debt
• Aims to provide monthly tax-free dividends#
• Provides tax-free returns##
ICICI PRUDENTIAL MUTUAL FUND
TARAKKI KAREIN!
To invest, please consult your Financial Advisor
Visit www.iciciprumf.com
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Balanced Advantage Fund
An Open Ended Equity Fund
#Distribution of dividends is subject to approval from Trustees and availability of distributable surplus.
##As per prevailing tax laws for FY17, returns earned after one year are tax-free.
ICICI Prudential Balanced Advantage Fund is suitable for investors who are seeking*:
• Long term wealth creation solution
• An equity fund that aims for growth by investing in equity and derivatives
* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.
LOW
HIGH
RISKOMETER
Investors understand that their principal will be at moderately high risk
Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

ARE YOU ON
THE SAME PAGE
AS YOUR KIDS ABOUT
THEIR FUTURE?
#DoYourHomework
Your kids may be cooking up a different dream than what you had in mind. With innumerable career options, kids today can choose to become whatever they want to, while you do your homework and be financially prepared for their future.
To know more, connect with your Financial Advisor or visit www.DoYourHomework.in
AXIS MUTUAL FUND
Mutual Fund investments are subject to market risks, read all scheme related documents carefully. An investor education initiative by Axis Mutual Fund. Statutory Details: Axis Mutual Fund has been established as a Trust under the Indian Trusts Act, 1882, sponsored by Axis Bank Ltd. (liability restricted to ₹1 lakh). Trustee: Axis Mutual Fund Trustee Ltd. Investment Manager: Axis Asset Management Co. Ltd. (the AMC). Risk Factors: Axis Bank Ltd. is not liable or responsible for any loss or shortfall resulting from the operation of the scheme.

Every individual is unique and so are his or her investment needs. Investment planning must always be aligned with one's goals. Hence, our approach is to help you chalk out an investment strategy that is best fit for 'you'.

We see ourselves as educators rather than advisors. Our endeavor is to build awareness about the various kinds of investment products in the market. After all, an informed decision is always a better decision.

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