



FINCUN : THE FINANCIAL PLANNERS

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Investing & MF - Basics

Version 1.0



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Finding Opportunities

Creating VALUE



Contents

Investment

- Why Invest
- Some Key Concepts
 - Inflation / Interest / Power of Compounding / Liquidity etc
- Asset Allocation Model
 - Risk vs Reward
- Different Investment Options



Mutual Fund

- Concept
- Why Mutual Fund
- Different Types of Funds
- Systematic Investment
- Tax Benefits
- Transaction Cost
- Hygiene Factors



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Why Investment?

Goals of Life

- ✓ Own House
- ✓ Children's Education
- ✓ Daughter's Marriage
- ✓ Peaceful Retirement
- ✓ Legacy for next generation

How to achieve?

- ✓ Save part of the earnings
- ✓ Make the earnings sweat to expedite reaching the goal

Investments are required because

- Savings alone will not be enough to meet the goals
- Costs of inflation



	Investment Amount	Nominal Value after 10 years	Real Value after 10 years
Cash stored at house	Rs. 100	Rs 100	Rs. 61.4 (at 5% inflation)
Invested (6% return)	Rs. 100	Rs 179	Rs. 110 (at 5% inflation)



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Inflation/Interest

Inflation



- Rate at which the value of currency decreases.
- Money can't buy the same amount of goods in the future.
- At 5% inflation, 1kg sugar that costs 40 rupees now will cost 65 rupees after 10 years.

Interest



- Rate charged by the lender to the borrower of money.
- Rate at which value of money invested increases.
- At 8% interest, 10,000 rupees invested today will value 22,000 rupees after 10 years



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Inflation/Interest Illustration

	Present Value	After 10 years (without investing – kept idle in a locker)	Value after 10 years (with investing at 8%)
Price of 1kg sugar with inflation 5%	Rs. 40	Rs. 65	Rs. 65
Value of Rs. 1000	Rs. 1000	Rs. 1000	Rs. 2160
Quantity of sugar that can be bought	$1000/40 = 25$ kgs	$1000/65 = 15.4$ kgs	$2160/65 = 33.2$ kgs



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Power of Compounding

- Compound interest is the interest on the Principal along with accumulated interest.
- Money invested gives more money as it gets compounded
 - Interest on interest

To unleash the power of compounding

- Invest early
- Invest regularly
- Invest for long-term not the short-term



"Compounding interest is the greatest mathematical discovery of all time"

- Albert Einstein



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Illustration

- Ramu and Krishna save Rs. 20000 at the end of each year.
- Ramu invested in a financial instrument that gives 10% returns and Krishna didn't want to take any risk and so he saved his money in savings bank that gives 3.5% returns.

	Money with Ramu	Money with Krishna
After 10 years	Rs. 3,18,800	Rs. 2,34,620

- After 10 years Krishna realizes the power of investment and starts to invest instead of saving.

	Money with Ramu	Money with Krishna
After 20 years	Rs. 11,45,500	Rs. 9,27,320
Total Money Invested	Rs. 20,000 X 20 = Rs. 4,00,000	Rs. 20,000 X 20 = Rs. 4,00,000
Total Gain	Rs. 7,45,500	Rs. 5,27,000



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Risk vs Reward

- Potential returns increase with an increase in the risk associated.
- Low returns on Savings Accounts as risk is low.
- High returns from Stock Markets as risk is high.
- Risk appetite changes with the age, stage of life and other factors.
- A person who is young and single has more risk appetite.
- A person who has a family and in middle ages has less risk appetite.
- Investment should be made based on the risk appetite of the individual.



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Asset Allocation Model/Portfolio

- In a portfolio, investments are made in two or more assets.
- To achieve a given level of returns with the minimum risk possible.

Factors considered for Asset Allocation



Asset Allocation for different investors

Investor profile	Allocation range		
	Equity (%)	Fixed income (%)	Cash (%)
Capital Preservation	10 - 30	50 - 70	10 - 30
Income	25 - 45	40 - 60	5 - 25
Income & Growth	40 - 60	30 - 50	0 - 20
Growth	50 - 70	25 - 45	0 - 10
Aggressive Growth	65 - 85	10 - 30	0 - 10



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Liquidity



- The ease at which an asset can be sold/exchanged without any significant drop in its price.
- Transaction costs are higher for Low liquid Assets compared to High Liquid Assets.

Liquidity of the Asset	Examples	Transaction Costs/Brokerage
High	Money, Cash in hand etc	Low
Low	Real Estate, Automobiles etc	High



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Costs of Transaction

Investment Avenue	Acquisition Cost	Liquidation Cost
Savings Account	No	No
Gold	No	Yes
ULIPs	Yes (high)	Yes (high)
Mutual Funds	No	Yes (<1 year) No (>1 year)
Equity	Yes	Yes
Real Estate	Yes (very high)	Yes (very high)



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Investment Options Available

Asset Class

Physical	Gold, Real estate, Commodities etc
Financial	FDs, Post Office savings, insurance/provident/pension funds, Equity, Mutual Funds etc

Risk Level

Low	Savings Account, F.Ds, PPFs, Post Office Schemes etc
Medium	Company Deposits, Mutual Funds, ULIPs, Gold, Properties etc
High	Stock Market Trading, Forex Trading etc

Liquidity

Low	Real Estate, Agricultural Land, Automobiles etc
Medium	Fixed Deposits, Gold etc
High	Money, Cash, Stocks, Mutual Funds



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Superiority of Equity Returns

Advantages associated with Equity Investment

Capital Appreciation

Dividend Earnings

Risk dilution through Diversification

Liquidity

Tax Efficient (Dividend and Long-term Capital gains exempted)

Over a longer term, equity markets are one of the best avenues for investment as returns are high



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Illustration

Investment Avenue	Average growth rate	Amount Invested 10 years ago	Value of the Investment now
Savings Account	3.5%	Rs. 10,000	Rs. 14,106
Fixed Deposits	6.25%	Rs. 10,000	Rs. 18,335
Mutual Funds	12%*	Rs. 10,000	Rs. 31,060
Stock Markets	15%*	Rs. 10,000	Rs. 40,455

* Based on last 10 years average; carries capital risk



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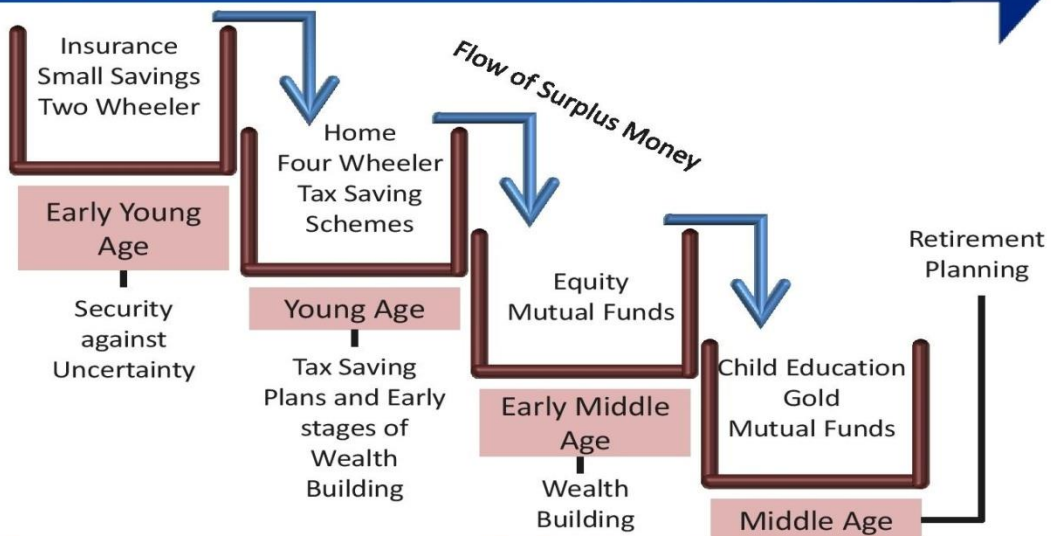
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Stage of Life - Investment



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Risk of Individual Investing



Robust Analysis not done



Individual Investors have the Inability to Diversify



Subject to misunderstanding risk and other costs related to the investment



Knowledge of the updates and need to be alert all the time



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Pitfalls to be avoided



Borrowing for Investing

- Interest on borrowed money should be paid back even during economic downturns when returns are low.



Easy tips on investing

- Even experts can't time the markets properly. So such easy tips should be avoided by individuals.



Averaging of Assets

- Buying of assets when their value is continuously falling should be avoided.



Not clearly Understand the Investments

- One should clearly understand where their money is going. Investments should be made considering personal preferences.



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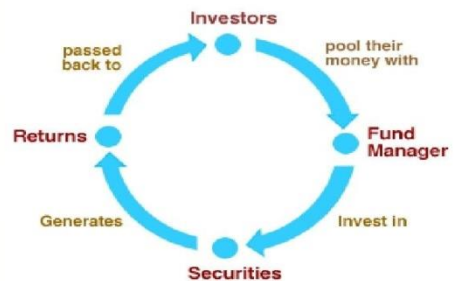
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What is a Mutual Fund?

Mechanism for pooling together savings of large number of investors

- For Collective Investment
- With the objective of Capital Appreciation
- While ensuring Liquidity



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Why Mutual Fund?

Professional Management

Easy Liquidity

Reduction / Diversification of Risk

Return Potential

Well Regulated - Investor Protection

Low Operating Costs

Tax Benefit



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Different types of Schemes

Investment Objective

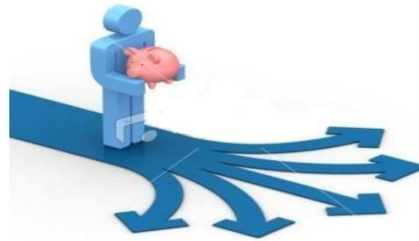
- Income Schemes
- Growth Schemes
- Balanced Schemes
- Tax Saving Schemes
- Sector Funds
- Index Funds
- Gilt Funds
- Money Market Funds

Operational

- Open Ended Schemes
- Closed Ended Schemes
- Interval Schemes

Classification by Geography

- Domestic Schemes
- Off shore Schemes



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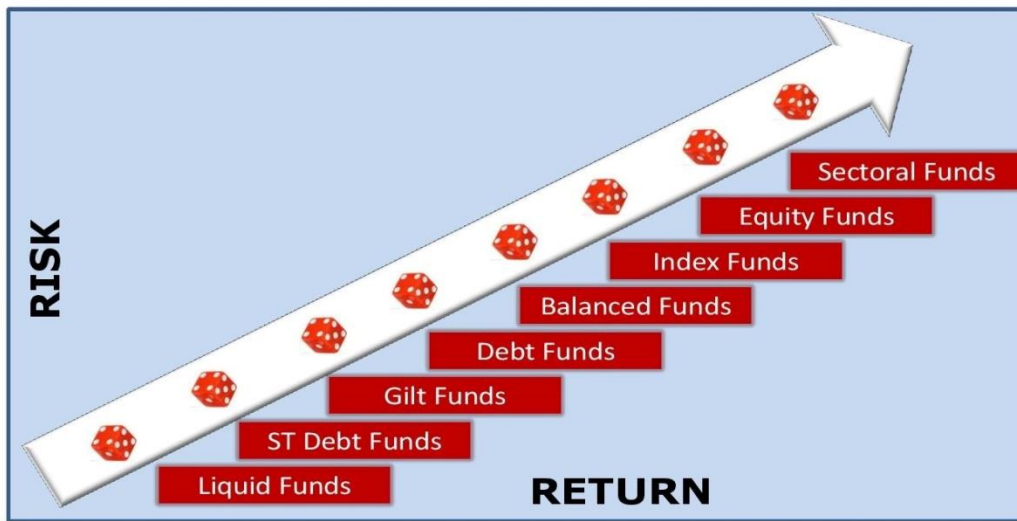
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MF – Risk vs Reward



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Systematic Investments



- Method of investing at regular intervals over a defined time frame.
- Investor is able to get more number of units in the falling market and fewer unit when the price is high.
- Helps the investor to smoothen out the market fluctuations and the investment will be at a low cost over a period.
- Reduces the risk associated with timing the market.



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Tax Benefits

- Income distributed by the scheme not taxable in the hands of the investor
- MF units exempted from Wealth Tax and Gift Tax

Capital Gains

Equity Schemes

Held for more than 12 months – nil
Held for less than 12 months – 15%

Debt Schemes

Held for more than 12 months – 20%
Held for less than 12 months – 30%



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Transaction Costs

Cost of acquisition	<ul style="list-style-type: none">• Nil
Cost of holding	<ul style="list-style-type: none">• Nil
Cost of exit	<ul style="list-style-type: none">• Nil (for > 1 year in case of equity and debt schemes)• 1% (for <1 year holding)
Implicit Cost	<ul style="list-style-type: none">• Financial Advisor needs to be paid by the investor• Fair fee is required for quality advice



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Hygiene Factors

- Mode of Holding:
 - Can be individual / joint / either or
 - Preferable to have either or
- Need to have nominee (especially where the holding is individual)
- Updating contact details as and when a change occurs
 - Address / bank details / mobile number / e-mail id
 - Helps in eliminating fraudulent practices
- Monitoring investment at regular intervals
 - Goal vs Actual
 - Performance vis a vis bench mark



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Mutual Fund – Execution 1

How do I make investment in MF?

- Decide which scheme to invest in
 - Consult a Financial advisor to choose a scheme which is in line with your financial goal, risk appetite & time horizon
 - Some schemes (like ELSS) have lock in period; also check exit load conditions
 - PAN No & Bank details are a must to invest in MF
 - In case of Micro SIP, PAN requirement is waived
- Submit the application along with cheque at the nearest CAMS office or the AMC office
- Investment can be made online using CAMS Online or the web services of the AMC
- Sample application form & guide for filling up available in the kit
- On units allotment, you will receive a statement of accounts showing units allotted, value and your personal details



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Mutual Fund – Execution 2

How do I redeem my investments?

- Decide which investment to redeem. Take the help of Financial Advisor if you have units in several schemes on the appropriateness of the timing and tax impact
- In case of schemes with lock in period, check whether the lock in period is over
- Submit the paper request at the nearest CAMS office or AMC office
 - If there is a change in bank details, please take care to mention the same in the request.
- You will receive the proceeds directly in your bank account or by cheque.
- Statement of Accounts reflecting the units redeemed and revised holding will be issued
- Sample transaction slip available in the kit for reference



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Mutual Fund – Execution 3

Can I move my investment from one scheme to another?

- Yes, if both the schemes are from the same Fund House. In MF parlance, this is called switch;
- Transaction slip (sample available in the kit) needs to be filled up and submitted at the nearest CAMS / AMC office
- Txn Slip should contain the source scheme, target scheme and value proposed to be transferred
- If the source scheme has lock in conditions, they should be satisfied



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Other Investments

New Pension System

- To provide adequate old age income.
- Reasonable market based returns over the long term.
- Extending old age security coverage to all citizens.
- Regulated by Government of India's PFRDA.

Insurance Schemes

- To provide a cover against the uncertainties of life.
- Reasonable market based returns over the long term .
- Regulated by Government of India's IRDA.



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Selecting a Financial Advisor

Understanding your needs – First understand what you want out of a Financial Advisor. Different investors have different preferences – Risk Tolerance, Time Horizon, Return Expectations etc



Talk to others – one of the best ways to find potential planners is by asking others. Referrals are recommended.



Have a meeting – Its required to understand what is on offer and what you want.



Compensation – Understand the charges that you have to pay. Quality advice cannot be free.



Become comfortable – It may require you to meet your advisor more often regarding various investments.



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5 Questions to be asked to a FA



- **Experience?** It is important to understand the experience and expertise of the Financial Advisor.



- **Services?** Kind of services and financial products available with him.



- **Style?** Kind of approach the Advisor takes towards Individual Financial Planning.



- **Compensation?** The charges associated with the Advice/Financial Help.



- **Costs/Risks/Options/Benchmarks?** It is essential to know all the costs and risks associated with the investment. Also understand how to evaluate vis-a-vis bench marks – Sensex, FD rate etc.



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