NATIONAL INSTITUTE OF SECURITIES MARKETS
An Educational Initiative of SEBI

INVESTOR EDUCATION update

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Officers of State Bank of India undergoing training on Mutual Funds at NISM Patalganga Campus

MESSAGE FROM DIRECTOR

National Institute of Securities Markets has been playing a pivotal role in professionalizing the securities market through delivery of various capacity building programs. Through its six schools of eminence, NISM tries to provide support to the various constituents of the financial market.

NISM has created a world class infrastructure at Patalganga a few kilometres away from Navi Mumbai to cater to the requirements of financial markets in general and securities market in particular. I am happy to note that we are doing various programs catering to the needs of different stakeholders and market intermediaries.

The securities market has come of age in India and we need to take the message of participating in the stock market by all. To achieve this, investor education plays a dominant role. NISM is keenly involved in evolving various programs to disseminate the benefits of investment in mutual funds for long term wealth creation in every corner of India.

Dr. M Thenmozhi
Director

Editorial

Primary market reforms in Indian securities market have made rapid changes making resource mobilization by companies easier and effective. In June 2018, Securities and Exchange Board of India decided to amend the norms governing initial public offers, takeovers and buyback. Entities going for IPOs can announce the price band two days before commencement of the offer instead of the current five days. On disclosures, in the case of public and right issues, financial disclosures have to be made only for three years, instead of the requirement of five years at present. On governance, the shareholding pattern in market infrastructure institutions like stock exchanges, depository institutions, clearing corporations etc. is altered. Eligible domestic and foreign entities are permitted to hold upto 15 per cent shareholding in case of depository, clearing corporation and stock exchanges. Managing Directors at these institutions can have only upto two terms of five years each or upto 65 years of age whichever is earlier. In the case of public interest directors, the tenure can be a maximum of three terms of three years each of upto 75 years of age whichever is earlier.

The IPO market is getting deepened and widened with companies from various sectors accessing the securities market and existing companies expanding their equity base. According to a recent EY India IPO Readiness Report, globally, India recorded highest IPO activity in terms of number of deals accounting 16 per cent of the total issues in the first half of 2018. In terms of proceeds, India accounted 5 per cent of global proceeds. The current year is going to witness a good jump in various parameters of IPO market.

Prof K Sukumaran
Dean

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NISM Investor Education Programs

NISM INVESTOR EDUCATION SESSIONS

NISM has been reaching to the public through its investor education programs. It conducts investor education sessions at various B Schools, professional colleges, and other institutions, catching the younger generation and imparting them the opportunities available in the financial market in better management of their personal finance. On content wise, the program focusses on key concepts in investment – liquidity, safety and growth; risk reward relationship; power of compounding etc. The education is imparted under three categories as below.

a) **Investor Education at colleges**: Targeting the 'to be employed' category, NISM representatives visit colleges of repute and arranges session to the graduates and post graduate students on effective management of one's personal finance. Various aspects of the products and services available in the financial market for investment are dealt in these sessions.

b) **Investor Education for Educators**: School/College teachers is one category wherein, all teachers in one institution are provided with an investor education session where key information on savings, investment, borrowing, insurance, social security etc. are dealt in detail. The process of investing in mutual funds, the risk – reward relationship, the need for subscribing to Systematic Investment Plans (SIPs) etc. are narrated with examples.

c) **Investor Education for Corporates and Public**: Taking investor education to the premises of institutions is another strategy NISM resorts. NISM liaises with companies and public institutions and investor education sessions are held for its employees. Employees require information inputs on compliance of KYC, interest rate/return, safety of financial products, products on social security etc. Warning on prevalence of ponzi schemes are also made in these sessions. Through case studies and examples, participants are taught on the sound practices in savings and investments.

During the first quarter of 2018-10 NISM has organised four sessions as part of its drive on investor education. Three programs are held in southern region and one in western region.

The details are as follows.

Sl. No.	Name of Institution	No. of Participants
1	Dept of Commerce, Alagappa University	40
2	Dept of Management, T Johns Institute of Management Studies	67
3	Indian Academy School of Management Studies, Bangalore	74
4	S K College of Commerce and Science, Nerul	98
	Total	**279**

Program at Department of Commerce, Alagappa University

Program at Indian Academy of Management Studies, Bangalore

Program at St. John Institute of Management Studies, Bangalore

Program at S K College of Science and Commerce, Nerul

Small investors in funds need access to advice

Mrin Agarwal, Livemint, May 08, 2018

Over the last few months, a common question and concern from participants has been lack of access to a good financial adviser. Most people write in asking us to manage their money or refer a trustworthy financial adviser. A friend's niece wanted to invest Rs. 30,000 per month in systematic investment plans (SIPs). She had some specific requirements and hence needed professional help. She had tried calling various advisory firms and independent advisers but none were interested in taking her as a customer. I also called some advisers but found that most of them had a minimum threshold requirement. Finally, one of my teammates spent time to understand her financial situation and helped her.

The problem is that retail investors have nowhere to go for financial advice. Unlike in the case of insurance, where there is always a relative who cajoles family members to buy policies, mutual fund agents are not easily available. Also, investors do not trust bankers and are not sure about robo advisors. In the absence of having the right person to talk to, they end up investing based on advice from friends or influencers around them like colleagues or by searching the internet.

Here are some of the issues mutual fund investors face.

1) Given that retail investors invest smaller amounts, most advisers are usually not interested in dealing with them regularly. Seldom do agents approach clients with mutual fund products.

2) Customers want to take advice but are not willing to pay the commensurate amount to the adviser for the time spent.

3) Even if retail investors use advisers, they don't ask the right questions. With insurance being the dominant investment in their portfolio, the most common question that I come across is: "If I put X amount, how much will I get after 10 years?"

4) Investors are often confused by fund names. This issue has been addressed with the recent circular on re-categorization.

5) Investors do not like to spend time understanding a product. In almost all sessions, people find goal planning laborious and want a quick fix, i.e. the names of the funds to invest into. The preferred mode of investment is still signing blank forms.

6) As far as robo advisors or online platforms are concerned, retail investors are not comfortable sharing data digitally and want to have someone to talk to. Maybe people don't want to go with online platforms as they won't have a person to blame if their investments go wrong.

7) Opening accounts with industry platforms is equally confusing. I tried helping a friend, who was KYC (know-your-customer) verified, set up an account with an industry platform, but it took long and the procedure was not simple.

It is a catch-22 situation as advisers don't make enough through distribution fees to service smaller clients regularly and investors expect as much service as a high net worth customer would, but don't want to pay the corresponding fees or use online platforms. As a result, retail investors are forced to invest through their bankers, which they don't want to do because they feel banks suggest products where they earn higher fees and also send less experienced relationship managers.

Mutual fund penetration in India is still low compared to the global average. If asset management companies (AMCs) want to get loyal and long-term customers, they would need to put in place some concrete measures to have more advisers. With the markets being buoyant, mutual funds are being looked upon positively, but in extended downtrend periods, advisers will be required to hand-hold customers. While the 'Mutual Fund sahi hai' campaign is a good start, it doesn't help operationally as investors get stuck at the planning and implementation phase.

Here is what can be done to ramp up the adviser network:

1) AMCs need to work towards increasing the number of fee-only financial planners.

2) Instead of promoting features or specific schemes in advertisements, AMCs should highlight the need for financial planning while investing in mutual funds.

3) They should also develop an agent network like the insurance industry. For this, AMCs need to identify advisers who will cater to retail customers and train them. Apart from subject matter knowledge, AMCs can provide on-call assistance to advisers.

4) The Association of Mutual Funds of India can have a list of all financial advisers on their site where investors can get reviews and ratings as well as search for advisers based on PIN code.

Mrin Agarwal is a financial educator, founder director of Finsafe India Pvt. Ltd and co-founder of Womantra

Market related grievances: How filing complaints at scores is now easier

By: Saikat Neogi, Financial Express, New Delhi, April 2, 2018

To check the complaint status, the investor will have to click on View Complaint Status under Investor Corner, then provide the complaint registration number which was allotted at the time of registration of the complaint.

In order to redress grievances of investors promptly, markets regulator Sebi has made some changes in the process of filing complaints in the centralised web-based platform called Scores (Sebi Complaints Redress System). Investors who wish to lodge a complaint on Scores will have to now register themselves. After filing the registration form with details like name, PAN, contact details, email id, Aadhaar number, a unique user id and password will be communicated to the investor through email or SMS.

After that, he will have to select the correct complaint category, entity name, nature of complain and provide complaint details in brief (up to 1000 characters). He can attach a PDF document (up to 2MB of size for each nature of complaint). On successful submission of complaint, system generated unique registration number will be displayed on the screen which the investor must note for future correspondence.

To check the complaint status, the investor will have to click on View Complaint Status under Investor Corner, then provide the complaint registration number which was allotted at the time of registration of the complaint. After that, the investor will have to enter the password and then the status can be be seen. An investor will have a single password for all web complaints.

How Scores works

The complainant can use Scores to submit the grievance directly to companies/ intermediaries and the complaint will be forwarded to the entity for resolution. The markets regulator has mandated that the entity will have to address the grievance within 30 days, failing which the complaint will be registered in Scores. For grievances related to listed companies, Sebi has said that the investor must first address the grievance to the company concerned. In case, the listed company or registered intermediary fails to redress the complaint to the investor's satisfaction, then the investor may file a complaint in Scores.

At present, the limitation period for filing an arbitration reference with stock exchanges is three years. In line with this, an investor can lodge a complaint on Scores within three years from the date of cause of complaint. Complaints against companies which are unlisted or delisted are not dealt through Scores. Similarly, complaints that are sub-judice and those falling under the preview of other regulators are not dealt in Scores platform.

Faster redressal

Sebi takes up complaints related to issue and transfer of securities and non-payment of dividend with listed companies. The platform facilitates an investor to lodge complaint online and view its status. It also takes up complaints against various intermediaries registered with it and related issues.

Complaints received from investors in physical form are also digitised by Sebi and uploaded in Scores. After that, follow-up actions of the complaint are done in electronic form only. In order to enhance investor satisfaction on complaint redressal, the market regulator has already put in place a complaint review facility under Scores wherein an investor if unsatisfied with the redressal may within 15 days from the date of closure of his complaint in Scores can opt for review of the complaint.

While the entity is directly responsible for redressing an investor's complaint, Sebi initiates action against recalcitrant entities on the grounds of their failure to redress large number of investor complaints.

Aadhaar's benefits for financial inclusion

Vinay Singh, Livemint

1 in 3 Indians don't have access to a bank account; 1 in 7 do not have access to credit.

The public interest litigations (PILs) filed before the Supreme Court against compulsory linking of Aadhaar to bank accounts raise issues about the right to privacy, concerns of being treated on par with money launderers, and the right to be not deprived of property as a result of blocking of bank accounts. One of the PILs contends that there are numerous, less disruptive methods of authenticating the identity of account holders. Do these concerns represent all segments of people across the country appropriately? If not, how does one evaluate the impact of a policy which has a varying effect on different segments of society?

Nearly one in three Indians do not have access to a bank account and one in seven do not have access to credit. These ratios would be much poorer for the eastern and north-eastern parts of the country. Financially excluded or barely included, the choices faced by these people should be an important consideration in the current debate on linking Aadhaar to bank accounts.

A large number of people from the lower socio-economic rungs of society have been financially included in the last decade. Guidelines for establishing business correspondents (BCs) were introduced by the Reserve Bank of India in 2006 to ensure availability of banking services at an affordable cost. A company, acting as a business correspondent for a bank, appoints agents to run the brick and mortar customer touch points.

Initially launched with a biometric-based authentication system managed by individual banks, these agents have aggressively shifted to Aadhaar-enabled payment system (AEPS) to provide a network for delivery of banking services in far- flung areas. An agent runs a low-cost operation which opens "small" savings accounts, provides deposit and withdrawal services and offers products like micro insurance and Atal Pension Yojana. Central and state government direct benefit transfers are also routed through these accounts. Instead of filling up forms and using wet signatures, the customer transacts with the help of an identity card having the details of her bank account and uses a fingerprint reader for authentication.

According to the RBI Annual Report, 646,000 agents carried out 1,159 million transactions worth Rs. 2.65 trillion in FY 2016-17. Availability of small savings accounts in far-flung areas has enabled a large number of poor Indians to experience formal banking systems for the first time in their lives. A robust biometric-based authentication system which provides secure access to their bank account has contributed greatly to the effort.

Is biometric authentication necessary to provide banking services to these customers? Authentication can also be signature-based, smart card based, PIN based or a combination of any two. For this particular segment, any authentication system other than biometric would be inferior and impractical due to low literacy rates and lack of experience in handling smart cards and PIN numbers. There is anecdotal evidence of individual PIN numbers being common knowledge in villages.

A centralized database and authentication system, like Aadhaar, is better than a distributed system where each bank builds and maintains the biometric database of its own customers. Collecting the biometric information of a customer is a long and expensive process. The high entry costs associated with a distributed system make moving one's account between banks a cumbersome process.

A Centralized system, like AEPS, makes it easy for a new financial services provider to plug in and launch its services.

A widespread network of agents associated with different banks, operating on AEPS, would expand the choice set for the customer, increase competition and improve customer service. Flexibility in using the branch, agent or biometric ATM to access bank account would put such a customer on an equal footing with the customers who access the existing network of ATMs using a card and PIN for authentication. The choice of authentication system would no longer define the extent of access to the banking network.

Should it be mandatory to link Aadhaar to bank accounts? A mandatory linkage would build economies of scale and improve the network of AEPS enabled point of sale devices and biometric ATMs. This would benefit not only the users of small accounts but also the richer classes with multiple PINs for credit and debit cards.

In case Aadhaar linking is made optional, what should be the default option? In the famous case of the 401(k) pension scheme in the US, Nobel laureate Richard Thaler convinced lawmakers to pass a law encouraging employers to enrol workers automatically in the pension scheme but offer the right to opt out to anyone who did not want to participate. This small change in the presentation of choices "nudged" the participation rates to more than double. To build economies of scale, reduce costs and put all customers on an equal footing in terms of access to the banking network, a default option of consent for linking Aadhaar to the bank account should be preferred.

For customers using AEPS to receive government benefit transfers, remittances and transact their business, the question is stark–would they continue to have restricted access to the banking system or can they look forward to be treated on par with others? It would be unfair if the final policy takes into account the concerns of the vocal and media-savvy segment of society, while overriding the aspirations of the silent masses for equal access to opportunities.

Vinay Singh is pursuing a fellowship in economics from Management Development Institute.

Why asset allocation of your portfolio is critical in achieving your financial goals

By Uma Shashikant, The Economic Time Wealth April 30-May 6, 2018

Why do we invest? We invest because we want our money to be available for a future use. We invest because we do not have an immediate use for that money. When we decide to call upon it to serve our need, we expect it to be available for use. In financial planning speak, being able to meet our financial goals is the primary objective of investing. How well we have done has to be measured only by that yardstick.

Conversations about investing tend to get waylaid from this principle. It is due to the acute focus of the investment management industry on relative performance. Much of the information and dialogue are about who did better and how. The ability of a product to attract investors is woven around its performance, measured by return. It is well known that top performing funds attract significant amount of new inflows from eager investors.

Mutual funds are run by investment managers and they showcase their performance. They choose a benchmark that represents a passive portfolio. They then measure themselves against this benchmark. If they do better, they generate an alpha, or excess return. They attribute the alpha to their investment management skills. But this is only half the story.

Investors cannot live by relative returns. If the market falls by 10% and a fund by 8%, it technically outperforms the benchmark. The manager is right in claiming that the fund did better, but such performance would not mean much to an investor whose portfolio lost 8% anyway.

Beating the benchmark is necessary but it's not enough for the investor's needs.

Investors cannot seek absolute returns either. Years have been lost in the pursuit of assured returns and it is still a struggle to get investors to see that there is no assurance in the real world. Many investors want to believe that a professional investment manager is one who can promise and deliver a specific rate of return. In the risky real world, that is impossible to deliver.

What happens to the investor's core need of ensuring there is adequate money for financial goals? That objective is not met by investment performance alone. It has three primary components, each requires the investor's active participation, deliberation, and sensible decision making.

Financial goals are met primarily by the contribution the investor makes towards it. If the child's college education is a goal, the parents will have to save with the understanding that a combination of money invested and the growth in value over time, will deliver the goal they seek. How this combination works is a function of how much they can save, for how long and how they invest those savings.

Measuring the return alone will not help this goal. Such an exercise may become needlessly complex when contributions of various amounts are made at different points in time. How much investors will save, and how long they will let it be, is a function of their routine cash flows. Some investors settle for a government scheme like the PPF, arguing that an important goal like education should not be exposed to market risks. Some contribute, and then give up and then closer to the goal return to investing aggressively.

There are no fixed rules, but each choice about amount invested, time it stays invested and the return on investment impact the final value.

A financial planning exercise will help the investor set what the goal amount should be, based on reasonable assumptions about the cost, time and inflation. Then we juggle to invest and target the rate of return. Lower the return, lower the risk, but greater the amount the investor has to contribute. Seeking a higher return means the investment will contribute significantly to the final value, but the risk would be higher.

This is why asset allocation is critical in portfolio construction. A portion of the portfolio chases returns and a portion protects from risk. Investors may not be able to achieve a perfect absolute return each year, but they can operate within a reasonable range. In a bad year when the return is lower, they can enhance their contribution as much as possible, and in a good year when the portfolio does exceedingly well, they can cut back and allow the investment return to roll.

This dynamic management of end results is what investors primarily need, and it is not possible for producers of investment products to calibrate time, contribution and goal value for every investor and also manage to deliver returns that beat the benchmark.

While mutual funds offer premixed products that hold equity and debt, or various assets in various combinations, they will still not be able to curate the investment experience for the actual contributions of the investor. That responsibility is that of the investor. Should they choose to work with a financial adviser, such professionals can help them manage their goals efficiently. The ideal adviser will focus on investors, their goals and investment strategy. They will navigate the investor through uncertain times and market behaviour and help them to stay the course. Markets for investment products are unfortunately dominated by producers who showcase performance and sellers who position such products. Financial advisory as a critical professional service needs much more advocacy, support and incentives.

Investor participation in mutual funds and such financial products is low, because they hear and read primarily about product performance, tax concessions, rates of return. Their association is limited to transactions, and instances of disappointment are adequate to set them back. The focus on investment performance and rates of return is unlikely hold consistent investor interest as it does not align with their fundamental need for a fulfilling experience with investments. We have only come half the distance.

(The author is Chairperson, Centre for Investment Education and Learning)

Mutual Fund Awareness Programs

During the months of April and May 2018, NISM has organized two programs under Mutual Funds and Wealth Management, wherein officers of State Bank of India are trained in various aspects of mutual funds operation. It is expected that these officers would contribute in penetrating mutual fund investment in their respective places. The programs are organized in association with SBI Mutual Fund. The first program was held during April 23-25, 2018 and the second program during May 10-12, 2018. The program started with an overview of Stock Market Basics and Investor Sentiments. The sessions on Mutual Funds – An Overview, Equity Mutual Fund, Debt Mutual Funds, Balanced Funds etc. were handled by experts. The various schemes of SBI Mutual Fund were dealt in details by experts. The first program was attended by 47 Officers and the second program by 45 officers.

workshop on mutual funds and wealth management (April 2018)

workshop on mutual funds and wealth management (May 2018)

Want to take a loan? Here are three most important rules to keep in mind

By: Saikat Neogi, Financial Express, April 9, 2018

At a time when corporate loan growth has slowed down, retail loans have reached a new high, at 25% of overall loans in February, as per RBI data. The bulk of the growth in volumes is happening in small-ticket loans like credit cards or unsecured loans. A report by Kotak Institutional Equities says that retail loans are likely to grow at 16% CAGR over FY2018-22 and their contribution to overall loans to increase to 28% from 18% in FY14. It expects most private banks and State Bank of India to gain share in this leg of the cycle. The granular data on loans show improving share of private banks as compared to public banks and unsecured loans like credit cards and personal loans as compared to secured loans like home. The report underlines that banks have altered their strategy to grow their share of retail loans for two main reasons. One, the corporate loan-book slowdown is still not complete while recovery is likely to be anaemic, and two, retail loans went through a cyclical slowdown post FY07. "Over the past few years, retail consumer balance sheets have been far stronger than corporate balance sheets, which resulted in negligible impairments over the past few years. This has instilled confidence in banks to shift focus to retail," it says. While banks are on an overdrive to lend to you, here are three rules of borrowing that potential customers must keep in mind to avoid any fundamental mistake.

Borrow as much as you can repay

Always make sure that your loan-to-income ratio is within acceptable limits. Spending too much on EMI can derail your important financial goals. Typically, your housing loan EMI should be less than 40% of your income, car loan less than 15% and personal loan not over 10%.

Also, keep in mind that the overall EMI payout of all loans put together should not exceed 50% of your monthly income. Never miss or delay an EMI as it will impact your credit profile and hinder your chances of taking a loan for other needs later in life.

Shorter the tenure, less the interest paid

If you keep the tenure of the loan short, your interest payout will be less. Typically, for a home loan, the tenure is for 25 years. Do not stretch it to 25 years. For a car loan, it should not be more than five years. Younger borrowers tend to go for a longer tenure, to ease out the EMI burden initially. It is wise to partly prepay the outstanding principal whenever you have some spare money which will reduce the tenure and subsequently the interest payout in the long run.

Substitute costly loans by pledging investments

If one has too many unsecured loans, then it makes sense to repay them by taking loan against pledging investments like mutual funds and life insurance to banks. The interest rates on loans against these products are much lower than for personal loans. Banks offer loans on the value of units held in the folio of an investor's mutual fund account after seeking a lien on the units in the name of the bank. Once the loan is repaid, the bank will lift the lien and the investor gets the rightful ownership of his mutual fund units. For equity-based mutual funds, one can get as much as 50% of Net Asset Value (NAV) as loan amount. In life insurance, banks give loan against traditional life insurance, including endowment and money back features and even linked policies. However, banks do not give loan against term plans. The loan has to be repaid during the term of the policy.

Investment tips: How individuals can buy public issue of bonds

By: Joydeep Sen, Financial express, April 30, 2018

The bond market in India is essentially wholesale, where you need a certain minimum amount to participate.

The bond market in India is essentially wholesale, where you need a certain minimum amount to participate. There may be exceptions like tax-free PSU bonds listed at the capital market segment of stock exchanges, i.e., NSE and BSE, where it is possible to trade in retail lots. Net-net, for retail investors, participation in the bond market is limited.

Primary issuances

Primary issuances of bonds happen mostly through private placements, which again is out of bounds for retail investors, due to reasons mentioned above. The avenue for your participation is either through mutual funds, or public issue of bonds.

In public issue of bonds, since by definition it is meant for the public and not only for large wholesale investors, the minimum investment amount is kept at a suitably low level. As long as the bonds are listed at the exchange, it is possible to sell in a secondary market transaction, should you need to sell before maturity. However, remember, the problem of limited liquidity in secondary market for bonds, particularly ones rated less than AAA, will be there. For a listed bond, you would find buyers, but you may have to take a price sacrifice to do so.

Advantages of primary issues for retail

There is a threshold limit for HNIs in some primary public issuances, which typically is Rs. 10 lakh. The significance is that the retail component, i.e., amount less than the HNI threshold may carry a higher coupon rate. Even if the coupon rate is uniform without any bifurcation between HNI and retail, the application amount is suitable for retail investors. Even if the coupon rate is same in both the categories, you stand a higher chance of allotment in the retail category, if the issue is going into over subscription. Large institutional investors are likely to get proportional allotment in case of oversubscription.

Standard return: In a primary issue, the coupon rate is defined. In a secondary market deal, your return (the YTM) is a function of demand-supply, i.e., if there are fewer sellers at that point of time, you may have to settle for a lower yield. This is the effect of the lack of liquidity in the secondary market.

Notice period for planning: Arguably, secondary deals being available at any point of time, you can match it with your cash flow. However, in primary issues also, you get an intimation period where you get the information on the quality of the issue (credit rating), the returns (coupon rate / YTM) and the opening date. Hence you can plan accordingly.

Multiple tenures: In most public issues, the issuer offers bonds of various tenures like 3 years, 5 years, 7 years, etc. You can pick the tenure that suits you or spread across various maturities as per your cash flow requirements.

Conclusion

The best scenario, for your participation in public issue of bonds, is if you can match the tenure of the bond (3 years / 5 years) with your cash flow requirements. If you can hold till maturity, you will be bypassing the problem of lack of liquidity in the secondary market by buying it from the issuer (primary) and selling it to the issuer (redemption on maturity).

The quality of the issue is an important criterion. You may not have the wherewithal to judge the fundamental quality independently, hence you have to go by the credit rating. AAA is obviously the best rating and AA is high investment grade. For issues with less than AA rating, you have to be careful. If you are not comfortable with the goodwill of the issuer group, you should avoid it.

By Joydeep Sen
The writer is founder, wiseinvestor.in

How do students play the stock market?

Gurumurthy K.T, The Hindu Business Line, 8th April 2018

Students who couldn't resist the call of the stock market tell us why they took the plunge and how they go about trading

Headlines about the stock markets hitting all-time highs and share prices giving multi-fold returns are catching the eye everyday. Indeed, they are tempting even those who stay away from the market to try their hand at investing to get good returns.

Students are no exception. We spoke to a few students who play the markets to find out what pulled them into it and how they juggle markets and academics.

The trigger

What has attracted these students to step into stock markets? The reasons differ. Some get influenced by their parents who invest in markets and some by friends. Dinesh Kumaran, an engineering student from Chennai, says "my father, a bank manager, is an active trader. With his guidance I started investing in the markets." Students like Abarajithan and Dhanuprakash got inspired by their friends who invest in stocks. Abarajithan is an engineering student from Udumalaipet and Dhanuprakash, a swing trader from Tirupur. But the case is a little different with Viveknath Sivaraj, a management student from Tiruchi. "My professors discuss regularly, in class, share price movements and the profits they make. This attracted me towards the stock markets and I started watching the price movements regularly," says Viveknath.

Information source

In the digital world, the internet is the basic source for students seeking information for both learning and investing. A common source preferred as a starting point to learn is YouTube. "It is a good place to learn the basics of stock markets and investing," says Abarajithan. For getting news and other information about companies, invariably everyone uses moneycontrol.com. Dinesh taps the Bombay Stock Exchange and National Stock Exchange mobile applications. "I use the BSE mobile app actively for regular news and information about companies. It is handy for me use it on-the-go."

Talking to these students reveals that they are stuck with few sources either for obtaining information or for learning. We do not deny that the sources they are using currently like Moneycontrol.com, youtube etc are good. But there are more options available for them to explore. For a beginner, Investopedia (www.investopedia.com) is a very good place to start. You even get one financial term explained everyday if you subscribe to their "Term of the day" service. Though the examples in this website pertain to US markets, for understanding the basics this is a good source to look up.

When it comes to domestic markets, reading leading business newspapers is a must. Apart from that, Yahoo finance (www.in.finance.yahoo.com), Google finance (www.finance.google.com) are good sources for getting news and other company related information.

If you want to see the historical price charts and do your own analysis, then investing.com and TradingView (in.tradingview.com) are good choices.

To gain theoretical knowledge on company valuations, etc., one can follow Ashwath Damodaran, Professor of Finance at the Stern School of Business at New York University. His webpage http://pages.stern.nyu.edu/~adamodar/ has links to all his videos.

Certification courses are also offered by the BSE, NSE and NiSM (National Institute of Securities Markets). The study materials of these courses are also a good source to understand the basics of the financial market.

Source of money

How do these youngsters who are students and not salary earners generate the capital to invest or trade? Vivek and Dhanuprakash get money from their parents whenever they want to buy stocks. Abarajithan also depends on his parents but with a difference. "I save the pocket money my parents give me for my expenses. I use this to buy shares," says Abarajithan.

But Dinesh follows another strategy. He earns while studying and routes the earned money into the stock market. "I am a web developer and I earn from the clicks that I get for the websites I develop. I invest my earnings in the stock market."

The strategy

How do they choose the stock of their choice? Dhanuprakash picks stocks based on the price movement. "I pick stocks with volatile price movement. I buy and hold them for a few days and exit the trade if I get about 5 per cent return," says Dhanuprakash. Vivek picks stocks from the recommendations given by his broker. "I do my own study and analysis on the stocks recommended by my broker and invest in it if I am convinced,"says Vivek.

This stock picking strategy followed by Vivek, that is, doing his own analysis instead of blindly following the broker's recommendations, is good. Newcomers into the market should adopt this strategy because sometimes brokers are prone to recommend shares as per their personal interest.

Do's and Don't's

Stepping into the stock markets at an early age is good. But if you have been pulled into the markets by the profits made by others, then be cautious. Do not get carried away by others' success stories. Avoid stock recommendations that come through mobile phone or other sources claiming that you will get 300-400 per cent return.

Markets do not give you profits all the time. Losses are also possible and if you fail to act at the right time thinking that the market will recover you could go terribly wrong at times. Ignoring the trades or investments that led to losses can wipe out the entire money you have earned from and invested in the markets.

So, following the concept of stop-loss is a must, especially for traders. Cutting short the losses should be the first priority for traders. Dhanuprakash has a profit target of 5 per cent with a stop-loss of 4 per cent for the positions he takes. While keeping the stop-loss is good and a must for trading, his risk-reward ratio is not preferable. In his case, any profit made in one trade will be wiped out by a loss in another. So, it is advisable to keep the risk-reward ratio as 1:2. That is, if you are aiming for a 5 per cent return, then your loss limit should not be more than 2.5 per cent. Also, whenever the trades go in your favour, develop the habit of locking some profits by revising the stop-loss.

For students, the capital employed for investing or trading is very small since they take money from their parents. A small capital will exert a psychological attraction towards stocks that are priced lower. Avoid getting into very low-priced stocks and penny stocks because you may not be able to sell later due to poor liquidity. For students this is just a learning stage. With the little capital you have, even if you are able to buy shares in small quantities, be it even less than 10, buy them and learn from the investment

FINANCIAL EDUCATION TRAINING PROGRAM (FETP) FOR TEACHERS

National Centre for Financial Education (NCFE), the initiative of all financial sector regulators has oganized financial education training for teachers of schools. Three such trainings were conducted during the period April-June 2018, as per details shown below.

Sl. No.	Name of School	Dates
1	Cambridge School, Nanded	April 27-28, 2018
2	AVB Matriculation Higher Secondary School, Coimbatore	May 25-26, 2018
3	Prasan Vidya Mandir, Chennai	June 01-02, 2018

Cambridge School, Nanded

Certificate Distribution at Cambridge School, Nanded

AVB Matriculation Higher Secondary School, Coimbatore

Prasan Vidya Mandir, Chennai

Mutual Funds: Know how to build a diversified MF portfolio

By Manish Kothari, Financial Express, May 1, 2018

For instance, growth investing looks for companies having high potential for growth as compared to others, without being overly concerned regarding its current market price of the stock. Mutual funds have been rising in popularity as the preferred choice for investors to meet their future goals. However, to make the most of the benefits of mutual funds, an efficient and well-diversified portfolio is needed. Here is a guide on how to build a diversified mutual fund portfolio.

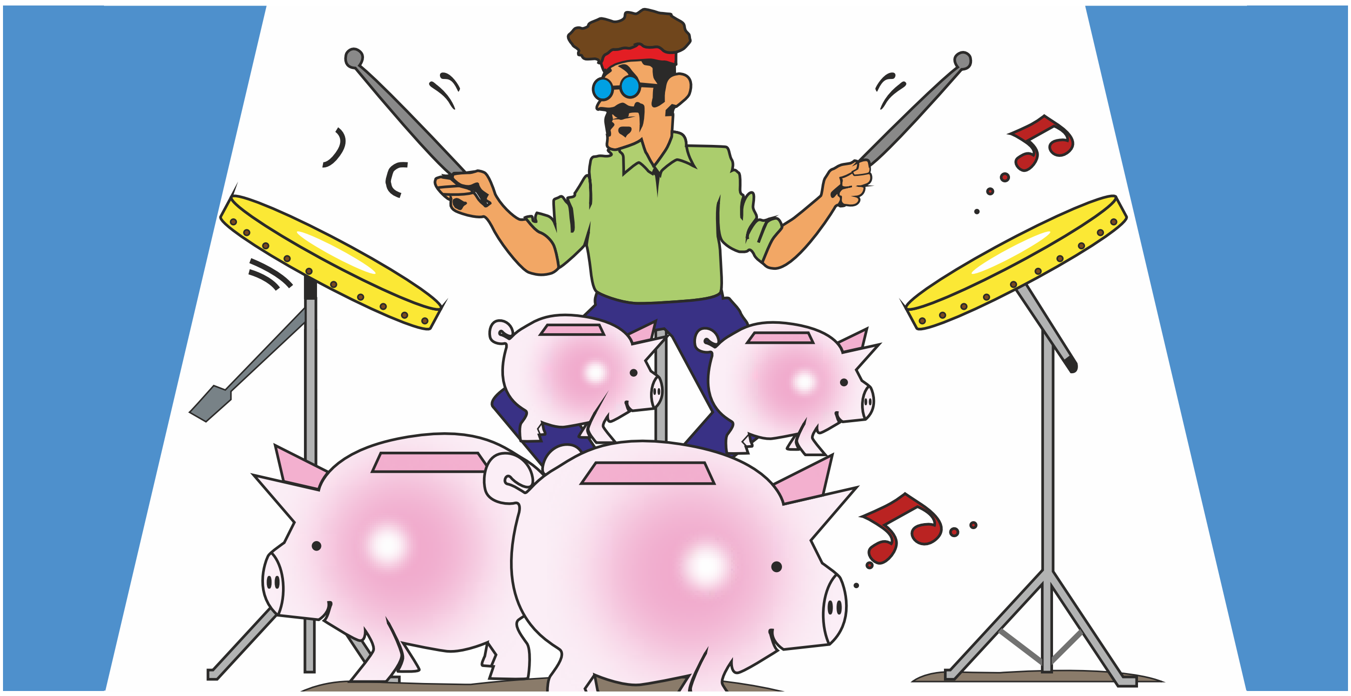
Diversification within asset class

Also known as horizontal diversification, it involves diversification of mutual funds within the asset class of equity, fixed income (debt), gold, metals/real assets, real estate, etc. This helps in spreading the risk and your money amongst various types of securities included in a particular asset class.

For instance, if you are holding equity funds, you may diversify it through investment in a combination of mid-cap and large cap funds. Diversification within an asset class reduces the risk associated while holding a single type of security and helps to absorb the fluctuations in case any particular type of security isn't performing well.

Diversification across asset class

Also known as vertical diversification, this involves diversification across different asset classes. If you are holding equity funds then you should also invest in fixed income securities (debt) for diversification across asset class, and vice versa if you currently hold fixed income asset class including debt funds, PPF, EPF, etc. The major benefit of diversifying across asset classes is that if one asset class performs poorly, the other asset class can provide cushion to absorb that loss.



For example, if you invested ₹ 2 lakh in equity funds and the stock market suddenly undergoes a sharp correction, you may have to incur severe losses. However, if you have diversified your portfolio by investing in other asset classes such as bonds, the overall impact of loss on the portfolio would reduce. Various asset classes such as equity, debt, gold, metals, real estate, etc., involve a negative correlation amongst themselves, implying that when the price of one goes up, the other goes down. Example of negative correlation amongst asset classes includes equity with gold, equity with debt, etc. Using negatively correlated investments in portfolio helps in reducing the overall volatility and diversifies the risk factor of portfolio.

Geographical diversification

Another way of diversifying your portfolio is through geographical diversification, which involves diversification of portfolio across different geographic regions or different countries. Most investors opt for this type of diversification to reduce overall risk and improve returns on their portfolio since this diversification involves investment in different financial markets in the world which aren't closely correlated and therefore, changes in one's prices won't necessarily reflect on other market.

Fund manager diversification

Since different fund houses have different fund managers managing the investor's money, it is quite possible for a fund manager to make mistakes or perhaps his management style doesn't suit the investor's interests. In such cases, rather than changing your fund house frequently in order to find one right fund manager, it's advisable to diversify portfolio by investing in multiple fund houses.

Investment style diversification

Various investors have different investment styles according to their risk appetite, investment horizon, financial goal, etc. However, an investor can build a diversified portfolio containing different styles of investment, such as growth, dividend or value. Each investment style serves some particular purposes and a portfolio having a set of differently styled investments leads to fulfillment of various goals. For instance, growth investing looks for companies having high potential for growth as compared to others, without being overly concerned regarding its current market price of the stock. Whereas, value investing involves investment in under-valued stocks which have scope for appreciation, such as the stocks of a financially strong company going through a bad business cycle. Therefore, picking multiple investments involving different investment styles diversifies investor's portfolio by providing varying fund management approaches.

Diversify but don't duplicate

While investing in mutual funds, many investors consider duplication as diversification. That's the first mistake which leads to formation of an inappropriate portfolio. Diversification is investing your money in different asset classes or in different types of securities within an asset class to reduce risk. But, duplication is when a portfolio contains similar type of securities which doesn't offer anything different to the investor, doesn't reduce the overall risk and the returns also continue to remain average.

Stock Markets: Here are 6 steps to analyse industry before investing

By: P Saravanan, Financial Express, May 8, 2018

Investment science literature documents very well the need for industry analysis while making investment decisions. Basically, it involves reviewing information on current economic market conditions with special reference to the industries in which an investor proposes to invest his money. However, not much is discussed in detail about how an investor should go about the industry analysis. Let us try to fill that gap.

Objective of analysis

Industries are classified based on the segment to which they belong such as manufacturing, services, construction, retail, textiles, etc. Another classification is based on the indexes such as BSE Sensex, NSE NIFTY, Down Jones Indexes, FTSE, and the like. As an investor, one should know the objective of analysis.

For instance, your objective is to identify industries which are performing well and which have good prospects. Then, you should choose firms which are listed in India. Further, look for those industries which are growing at a faster rate than that of the overall economy. For instance, the most-talked about industries within information technology are artificial intelligence, virtual reality, and in automobile segment electric cars and self-driving motor vehicles.

Choose the right industry

Each industry has many sub-industries. For instance, automobile is a broad industry within which we have passenger and commercial vehicles. Passenger segment is broadly further classified into two-wheelers and four-wheelers. Within four-wheelers, further classifications are made based on horse power, seating capacity, etc. Hence, it is important to focus on the relevant industry.

Read relevant reports

Having identified your industries according to your objective analysis, the next step is to review the relevant reports. Start reading the reports with sufficient empirical data and decide whether it make sense to dig deeper. Pick up a most recent report and envisage its relevancy in the current market, this is the key point. However, one should not depend on existing reports only as the market always behaves differently, and factors responsible for success change constantly.

Perform a demand-supply analysis

Demand and supply are the primary factors in any market. So, it becomes obvious to look into the demand-supply scenario for the products manufactured by the chosen industry. This could be done by investigating its past trends and forecasting future outlook.

Engage Porter's five forces

This is the vital part in your analysis. In this, as an investor you should study competitive scenario using Porter's Five Forces model. This is a proven and well-established model. Under this model, each industry is analysed using five important parameters such as barriers to entry, supplier power, threat of substitutes, buyer power and the intensity of rivalry in the competitive landscape.

Identify and understand industry dynamics

Under industry dynamics, you need to identify what are the industry drivers and assess the major variables driving the process of entry, innovation, growth, etc. You need to understand these variables along with how co-evolution of technologies and institutions helps the same. To conclude, before investing one should know how to do industry analysis by following the above six simple steps.

The writer is professor and dean, School of Commerce and Management, Central University of Tamil Nadu, Thiruvarur

How SIPs help investors buy low and sell high despite unpredictability of stock market

SIPs neatly solve the two major problems that prevent investors from getting the best possible returns for their money.

By Dhirendra Kumar,

The maths is simple. You invest a fixed amount every month in a mutual fund. This automatically implements the holy grail of investing–buy low, sell high. Here's how it works.

Since SIPs mean investing a fixed sum regularly regardless of the NAV or market level, you end up getting more units when the markets are low. Let's say you are investing Rs 20,000 every month. When the NAV is Rs 20, you will get 1,000 units because 20,000/20 = 1,000. However, if the market dips and the NAV drops to Rs 16, you will get allotted 1,350 units, as 10,000/16 = 625. This is the key. Investors automatically buy more units when the markets are low. This results in a lower average price, which translates to higher returns.

When you want to redeem your investment in the mutual fund, all th e units you own are worth the same. However, your profit margin is higher for units that were bought at a lower price. Effectively, you have paid a lower average price, which translates to higher returns. That automatically enforces the investor's goal of 'buy low, sell high'.

So what's this bit about the psychology? The biggest problem in investing is not in where to invest. Instead, it is to invest at all and keep investing through thick and thin. People invest sporadically, and then stop investing when equity markets fall. This comes naturally to most investors, generally because falling equity prices are presented as a crisis in the mass media. Of course, this makes no sense. As a buyer of anything, you want low prices. So should you as a buyer of equity or equity mutual funds. But for the most part, investors do not.

SIPs neatly solve these two problems that prevent investors from getting the best possible returns for their money. They are actually the best feature in mutual fund investing and yet are not actual funds themselves. SIPs are the schedule on which you invest.

Investing in stock market? Know the difference among volatility, risk and uncertainty

By: Brijesh Damodaran, Financial Express, June 12, 2018 3:49 AM

If you need the money in less than two years, the said investments should be in liquid funds, which will ensure that the capital is not eroded. Unlike the last two years, the markets are not really on a roll this year. Crude oil prices are inching up, there's a looming US-China trade war and the US Fed is reducing its balance sheet. On the domestic front, Reserve Bank of India hiked the interest rate, elections will take place in three key states which could determine the current policies or realignment of policies as also the coming together of political parties.

So, there's a lot of uncontrollable factors on the plate of investors. Investors who had invested in 2016 and 2017 have noticed their portfolio value reaching dizzying heights and a drawdown from the peaks. But still, if the schemes and stock were chosen right, the portfolio still could be in green, in majority of the cases. This will not be the case with those who invested towards the end of 2017 or in 2018. The drawdown must be making the investor nervous. And continuously monitoring the markets is not going to help the situation.

Dealing with volatility, uncertainty and risk

First and foremost, all three are different. But most investors consider these to be the same. And that is where the pitfall begins. That's why it becomes paramount that as you start investing you have a plan, a time horizon with liquidity and cash flow needs in place.

If you need the money in less than two years, the said investments should be in liquid funds, which will ensure that the capital is not eroded. Only that much money which is not required for over four years should be in equity. Remember, in the long term, the markets are a weighing machine. You will love the weight. In the short-run, the market is a voting machine. In 2018, BSE Sensex moved south in February and March only to move north by more than 6% in April and ending in green in May. Is this risk or uncertainty? Risk is when you invest in high beta or high PE or penny stocks during these times. Uncertainty is when you cannot predict the stance of RBI in determining the interest rates. One should not confuse between these two terms.

Keep patience, rest will follow

As Munger says, the most important thing in investing is patience. And that is one quality which is today extinct and only the rare few have. As an investor , this is one quality which sits on the top of the checklist an investor needs to have.

Getting to know oneself as an investor is very important. In this journey, the emotional quotient of self is the key factor . And not the intelligent quotient. If you like to analyse too much, and cannot execute the final decision, then you are a classic case of 'analysis-paralysis', in motion. Take the decision and live through it.

It is rightly said that in the investing journey there be periods of high returns, no returns, low returns and negative returns. As an investor, one has to go through all such periods to get long-term returns. No investor has been spared of it. Ask Buffett, Pabrai and a whole lot of marquee investors. As an investor get to know yourself better. Having a checklist and process in place is the beginning of the investment journey. Does stock price dictate your holding period? If so, you are not an investor, but a trader in the garb of an investor.

The writer is managing partner, BellWether Advisors LLP

Stock Markets tips: Find out if you should invest in a growth stock

P Saravanan, Financial Express, May 21, 2018

The classic confusion in the minds of shareholders is whether growth companies are good investments. The answer is 'yes and no'. Because, shares of growth companies are not always necessarily good investments. Recognition of this difference is absolutely essential for successful investing.

What is a growth company?

Growth companies are those companies that consistently experience above-average increase in sales and earnings. This definition has some limitations because many firms could qualify due to certain accounting procedures, mergers or other external events. So, literature provides another explanation for a growth company. Growth companies are firms with the ability and the opportunities to make investments that yield rates of return greater than the firm's required rate of return. In addition, a growth company that has above-average investment opportunities should, and typically, retain a large portion of its earnings to fund these superior investment projects and generally it pays less dividend.

What is a growth stock?

A growth stock is a stock with a higher rate of return than other stocks in the market with similar risk characteristics. The stock achieves this superior risk-adjusted rate of return because at some point in time, the market undervalued it compared to other stocks. Although the stock market adjusts stock prices relatively quickly and accurately to reflect new information, available information is not always perfect or complete. Therefore, imperfect or incomplete information may cause a given stock to be undervalued or overvalued at a point in time.

Factors to be considered while identifying growth stocks:

Potential growth: As growth companies provide superior returns, it is essential to assess whether the potential growth in terms of revenue, profit margin, etc., are sustainable in the long run. If either the current market price is more than its intrinsic value, or its growth has slowed down, it is better to avoid those shares.

R&D expenses: To sustain in the market for a long time, companies need to either improvise their existing products and services or introduce new products and services. Though this is essential for all companies, for certain specific industries such as pharmaceutical, auto, etc., it is mandatory. While assessing the future growth of a company, investors need to pay attention to the R&D expenses of the company during the last couple of years and its correlation with the revenue. Managing the challenges: Investors need to assess how companies respond and manage the challenges and how fast they respond and react. The changes could be either internal or external. For instance, how well a company handle a situation when the relevant laws were amended by the authorities.

Focus more on qualitative aspects: Sometimes financial analysis can miss out on identifying growth stocks. So, focus on qualitative aspects such as the promoters' group, their interest in the business, board of directors and their expertise, representation of professional non-promoters in the board, employee friendliness, etc. which will help in identifying a growth stock. To conclude, investing in a growth stock has high upside potential and vice versa. As an investor, if you invest in growth stock you should consistently monitor the same for any hidden weakness that could possibly lead to slow momentum.

To sustain in the market for a long time, companies need to either improvise their existing products and services or introduce new products and services.

The writer is professor of finance & accounting, IIM Tiruchirappalli

Long-term investing in equity is the surest way to healthy wealth creation

Gautam Sinha Roy, Business Standard, May 19, 2018 .

Come May, and tens of thousands of serious investors descend on the sleepy town of Omaha, in middle America. The purpose: listen to the distilled thoughts of Warren Buffett and Charlie Munger. The occasion: Berkshire Hathaway's annual general meeting (AGM). This year, I, once again, joined hordes of investors to learn and re-learn lessons from the greatest investing minds of our times.

Stocks vs other assets

While much changes in the nature of individual stocks and their underlying businesses, there are certain investment principles that remain timeless. As he has done time and again, Buffett began his address to the 2018 AGM once again highlighting the merits of long-term investing in a steadily appreciating, productive asset class like stocks, vis-à-vis frequent trading, or investing in an unproductive asset like gold.

He highlighted that over the long term, stocks can create 100 times as much value as gold. Over the long term stocks are the least risky asset class, when compared to, say, debt, that at best preserves the purchasing power of your initial capital. He added that stocks should be the asset class of choice for all investors. Take a few long-term calls on individual businesses based on their long-term potential and ride those investments to their full potential.

Buffett said that you just had to make one smart investment decision based on a call on how American business would have done over your life and $10,000 in a US stocks index fund (invested in 1942) would have compounded to $51 million now, versus only $400,000 in gold.

Valuations do matter

While stocks are timeless investments, when buying assets, fund managers and investors will do well to remember that valuations matter a lot. Berkshire shied away from fresh acquisitions in 2017 largely because assets were overpriced. This over-valuation was driven by the cheap cost of debt which has fuelled leveraged buy-outs. Low interest rates unfairly benefit "people like us in this room" (basically rich asset owners), said Buffett, by artificially inflating asset prices. However, he added, we won't always be in a market that will have low interest rates and high private market valuations. Hence fund managers should keep some gunpowder dry and ready for the eventual opening up of market opportunities.

When what you really want to buy as your first preference is off-the-shelf (due to over-valuation in the current context), what do you do? You go for "lower but acceptable returns", said Buffett. As prices of asset-light businesses have risen to crazy heights, one should be happy to buy asset-heavy businesses that are available at reasonable valuations. These businesses will compound free cash flow at a lower pace, but offer a higher margin of safety.

Vanishing moats

Another issue that Buffett addressed this year was whether moats have become less relevant in businesses. For decades, Coke, Gillette, and American Express have been cited as examples of companies whose moats were so deep and invincible that their dominance would continue in the foreseeable future. But now all three are under attack. And as Charlie Munger, vice chairman of Berkshire Hathaway, said: "If you think you know what the state of the payments system will be 10 years out, you are living in a state of delusion." In other words, only those who can adapt will survive. While moats of current businesses are definitely at risk, that does not imply the end of moats.

While newspapers have got disrupted, a few like the New York Times and Washington Post have adapted well to the digital era. Moats are still relevant in terms of brands that command pricing power. So a fund manager or investor now has to be more mindful of shifting moats and take portfolio decisions accordingly.

To tech or not to

Buffet has been renowned for his negative stance on tech investing historically, citing the frequent disruptions in technology and the sector's unpredictability. However, tech is accounting for an increasingly larger share of the world economy and constitutes a bulk of the top global companies now. So, did he get it wrong? One insight that came across clearly was that one shouldn't think purely of businesses as tech or non-tech. What is more important is whether the fund manager or investor can understand the business, whether it has durable competitive advantages, and whether the price is favourable. That's the reason they now own Apple. And simply because Buffett can't understand it should not be an excuse for others to not try. The younger generations especially have a much higher level of familiarity with technology. Amazon's juggernaut act came in for special appreciation by Buffett and he said that it was a stock that should have been spotted at an early stage.

The problem children

Every once in a while, a stock in your portfolio will go through problems due to errors by the management. What should you do then? While mistakes are not completely preventable, the important thing to monitor is how the management handles them. The ability to identify root causes and correct them is the hallmark of great management. And when they do that, it is a great opportunity for the astute investor. Examples of Geico and Amex are often cited in this context.

The fattened balance sheet

Another question Buffett addressed was whether companies with high cash in their balance sheets should pay high dividends. Buffett believes that share buyback is a more efficient way to return free capital to shareholders, compared to paying dividend. But the buyback shouldn't short-change existing shareholders. Hence, corporates should only buy back below the intrinsic value. This is an important rule of thumb that fund managers and investors should apply when evaluating buybacks.

Cryptic currencies

Anytime you buy a non-productive asset, said Buffett, you are basically hoping that someone else will buy it from you in the future at an even more inflated price. These asset classes also lend themselves to manipulative practices by conmen who wish to take advantage of others' greed.

And this brings me to my favourite quote of the day from Munger: “I like them (cryptocurrencies) lot less than you do.” The message: Stay clear of unproductive or purely speculative asset classes.

Key takeaways

- Invest in equities for long-term wealth creation
- When valuations are high, keep your powder dry until the market presents you with opportunities
- While moats remain relevant to businesses, their durability is shrinking and fund managers need to be more vigilant
- How the management of a business undertakes course correction tells you a lot about its quality
- When you invest in crypto currencies, you hope that a bigger fool will come along and buy them from you at a higher price

Top 4 reasons to continue with your SIP in a volatile market

Financial Express, May 25, 2018

After much analysis and debate, you have taken the plunge and invested in the equity fund thasan (SIP), a step by step way towards generating wealth, you hear that equities are in a free fall, or are too risky or are too overvalued.

Here are four reasons why you should invest in equities for the long-term and continue with your SIP.

Reduces the average cost

In SIP one starts investing a fixed amount regularly. Therefore, one ends up buying more number of units when the markets are down and NAV is low and less number of units when the markets are up and the NAV is high. This is called rupee-cost averaging.

Generally, those who are not well versed with the swings of the market would stay away from buying when the markets are down. They mostly tend to invest when the markets are rising.

Starting an SIP tends to bring discipline to our portfolio as SIP investors buy even when the markets are low, which actually is the best time to buy. As an investor you don't need to time the market. Always remember markets will fluctuate but your financial goals won't!

Invest regularly for power of compounding

Compounding is the ability of an asset to generate earnings, which are then reinvested in order to generate their own earnings.

The interest you will earn from your invested amount will be re-invested, and thus increase your principle amount. Starting an SIP will help you harness the power of compounding as you invest a set amount every day/ week/ month irrespective of the wild swings of the market.

Market timing gets irrelevant

One of the biggest difficulties in equity investing is to determine when to invest? Apart from the other big question, where to invest? While investing in a mutual fund solves the issue of where to invest, SIP helps us to overcome the problem of when to invest. SIP involves disciplined investing irrespective of the state of the market.

When the markets are high, it may not be prudent to commit large sums at one go, thus balancing your portfolio. This makes timing the market less relevant, therefore reducing your worries about the state of your investments in volatile markets.

Does not strain daily finances

Mutual funds allow us to invest very small amounts (starting from Rs 100) in SIP, as against larger one-time investment required, if we were to buy directly from the market. This makes investing easier as it does not strain our finances. In fact, SIP becomes one of the ideal investment options for a small-time investor, who would otherwise not be able to enjoy the benefits of investing in the equity market. Deep-pocketed investors who wish to accumulate their savings prudently might opt for a larger SIP amount.

It makes perfect sense for you to invest in equity mutual funds for the long term, to help you achieve your financial goals. The fund that you chose to invest has to have values that reflect your own. If you do your homework and chose a fund whose investment philosophy resonates with you, then we recommend that you continue the SIP. There will be times when your fund doesn't do well. However, persist with your equity investment and keep the long-term goal in mind. Do not be swayed by short-term views and opinions which keep changing with the hour.

Are you buying a health insurance? Must check these 5 points

Saikat Neogi, Financial Express, New Delhi, April 4, 2018

You can buy a health insurance policy up to the age of 65 years. Once the proposal is accepted, there is no exit age provided the policy is continuously renewed

Insurance companies insist on a health check-up if the applicant is above 45 years of age, or if the sum insured is of higher amount.

With increasing health costs, the most effective way to secure your and your family is to buy a personal health insurance policy. While most salaried individuals may have a group insurance cover, it is always advisable to buy a personal cover which can be renewed every year. Also, under Section 80D of Income Tax Act, 1961, a taxpayer gets deduction of up to Rs 25,000 for heath insurance of self, spouse and dependent children.

At present, all health insurance policies provide for entry age of up to 65 years and do not have any exit age once the proposal is accepted, provided the policy is continuously renewed without any breaks. A policy can be either individual or floater, and one can increase the sum insured at the time of renewal.

Moreover, at some point of time if a single health cover plan is not enough to deal with the needs of an entire family as many insurers put a cap on the sum insured, one should look at a top-up plan as it gives additional cover over and above the normal coverage, and is helpful if the normal cover is exhausted.

Buying a health cover can be tricky as there are multiple products in the market. Therefore, one must look at the product information on the company's website, which will include a description of the product, clauses, exclusions, network hospitals and premiums. Here are five things that one should look at before buying a health insurance policy.

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Pre-insurance health check-up

Insurance companies insist on a health check-up if the applicant is above 45 years of age, or if the sum insured is of higher amount. The tests are conducted in hospital empaneled with the insurer and as per the regulator's rule, the insurer will bear at least half the cost of the medical check-up.

Treatment-wise limit for claim

One must look at the treatment-wise limit for amounts one can claim under a health insurance policy. If the claim amount exceeds the amount set by the insurer, one has to pay the balance despite having a higher overall sum insured. Many insurers provide daily cash benefit for each day of hospitalisation.

One must also note the terms and conditions of pre- and post-hospitalisation offerings, no-claim bonus and waiting period for specified ailments, which vary from company to company.

Cumulative bonus and premium

While buying a health insurance policy, one must ensure that the cumulative bonus is stated explicitly in the prospectus and even in the policy document. Also, look at the product information on the company's website, which will include a description of the product, clauses and premium rates inclusive and exclusive of the service tax payable. If the policyholder has made a claim in the policy year, the insurer cannot load any charges on an individual insurance policy at the time of renewal.

Pre-existing diseases

At the time of signing the insurance proposal, one has to disclose any pre-existing ailments and based on that the insurer decides whether to provide you insurance and the premium for it. Never hide or provide incomplete information in this disclosure as it may result in rejection of claims later. Many insurance companies do not give a cover if an individual has or even in the past had a pre-existing illness with major consequences. If they still do, the insurer will load the premium to cover additional costs that may arise due to one's existing medical condition.

Waiting period and exclusions

Every insurer will have a waiting period for pre-existing diseases, which ranges from two to four years. Check the waiting period before you sign on the dotted line because if you have a pre-existing medical condition you cannot depend on health insurance policy in case there is any medical emergency due to the existing illness. It is always better to buy a health insurance policy at a young age when the chances of falling ill and pre-existing ailments are minimal. In individual health policies you can port your policy from one insurer to other, along with your waiting period already covered.

Succession planning: Why you need to appoint a nominee for your assets

A nominee is a trustee and not the owner of the assets. He is legally bound to transfer the assets to the legal heirs.

Your estate is the sum of everything you own–your home and other real estate, current and savings accounts, investments, life insurance, car, furniture, personal possessions and so on. Estate planning fulfills your wishes by making a detailed plan of the division of your estate in advance (who, what, when, how and how much), amongst the ones you want to give after your demise. Most Indian families don't believe in estate planning. A few people also believe that filling up a nomination form is enough. However, that is not true. A nominee acts like a trustee. The insurance, mutual fund or your shares will be passed on to the nominee who can further help in the process of handing it over to your legal heirs. Otherwise, the legal heirs will have to go through a cumbersome process of producing all kinds of certificates such as death certificate, proof of relation, etc.

Generally, people have a notion that the spouse is the automatic nominee and hence all assets will flow to him or her. Unfortunately, this is not true. Though all assets will be transferred to your spouse, as per Hindu Succession Act–your siblings, parents and children can claim their share of assets from your pool of assets. According to law, a nominee is a trustee, not the owner of the assets and will be legally bound to transfer it to the legal heirs.

Importance of will

For most investments, a legal heir is entitled to the deceased's assets. A legal heir will be the one who is mentioned in the will. However, if a will is not made, then the legal heirs are decided according to the succession laws, where the structure is predefined on who gets how much. The succession laws are quite complicated and no one would want their families to go through lawyers and courts for the assets of their beloved deceased family members.

Nominee can also be one of the legal heirs. Nominee can be changed at anytime by informing the company concerned. If the nominee is a minor, appoint an adult as an appointee giving his full name, age, address and relationship to the nominee. An investor has the option to register more than one nominee and specify the percentage of amount for each nominee. However, if the percentage is not specified, equal shares will go to each nominee.

General rules of nomination

Nomination in life insurance: Nomination is a right conferred on the holder of a life insurance policy on his own life to appoint a person/s to receive policy moneys in the event of a claim on the insured's death. The nominee does not get any other benefit except to receive the policy moneys on the death of the policy holder. Insurance (Amendment) Act 2015 has created a 'beneficial nominee' category which includes only close relatives of policyholders. Now if policyholder nominates his father, mother, spouse or children in an insurance policy, they become beneficial owners of claim proceeds.

Nomination in EPF: In Employees' Provident Fund, the nominee is the person who will inherit the fund and not the legal heir. As per rules, in EPF account one has to appoint his family member as nominee.

Nomination in shares: Under the provisions of the Companies Act and the Depositories Act, the role of a nominee was different. Reading of Section 109(A) of the Companies Act and 9.11 of the Depositories Act makes it abundantly clear that the intent of the nomination is to vest the property in the shares, which includes the ownership rights there under, in the nominee upon nomination validly made as per the procedure prescribed. It means that if you have not written a will, anyone who has been nominated by you for your shares will be the ultimate owner of those stocks. The succession laws on inheritance will not be applicable but, in case, you have made a will, that will be the source of truth.

Nomination in mutual funds: Here nominee is a trustee. While filling in the application form, there is a provision to fill in the nomination details. You can also change nomination later by filling up a form which is available on the mutual fund company website. Nomination in mutual funds is at folio level and all units in the folio will be transferred to the nominee(s). If an investor makes a further investment in the same folio, the nomination is applicable to the new units also.

By Nitesh Buddhadev

The writer is founder and CEO, Nimit Wealth Management. Source: Tax Guru

What you must know about NBFC deposits

They usually offer higher interest rates than banks, but have strings attached

It is common practice to invest in fixed deposits of non-banking finance companies (NBFCs), which more often than not offer interest rates higher than banks. But in the process of fishing for better rates, investors are sometimes caught unawares about the antecedents of NBFCs and are left in the lurch if things go wrong. Here's a low-down on what you must understand before choosing an NBFC deposit, and what recourse you have in case of grievances.

Checklist

Usually, bank deposits are considered the safest. Even if something goes wrong with the bank, deposits of up to ₹1 lakh (principal plus interest) are covered by deposit insurance. Deposits with other entities, including NBFCs, don't have a insurance backing. Moreover, while all banks can raise deposits, only NBFCs registered with the RBI and authorized to accept public deposits can do so.

Even then, the deposits remain unsecured as the RBI doesn't guarantee repayment. NBFCs have to mandatorily have an investment grade credit rating to accept deposits.

Besides, there are also a set of rules laid out by the RBI as to the interest rates and tenure of the deposits. The maximum rate of interest an NBFC can offer is 12.5 per cent and it is to be paid or compounded at not shorter than monthly rests. NBFCs are allowed to accept/renew public deposits for a minimum of 12 months and a maximum of 60 months. They cannot offer gifts/incentives or any other additional benefit to the depositors.

Ombudsman

Until recently, if an NBFC defaulted in the repayment of a deposit, the depositor could only approach the Company Law Tribunal or a consumer forum or file a civil suit to recover the deposits. To make things more customer-friendly, the RBI, in February this year, appointed an ombudsman for grievance redresssal. The scheme has initially been introduced in New Delhi, Mumbai, Chennai and Kolkata, where the ombudsman will operate from the regional offices of the RBI.

Currently, NBFCs registered with the RBI and permitted to accept deposits fall under the ambit of the ombudsman scheme.

Complaints such as non-payment or inordinate delay in payment of interest or repayment of deposits can be escalated to the ombudsman. Complaints related to loans obtained from NBFCs can also be raised.

Any person who has a grievance can himself, or through an authorised representative (other than an advocate), make a complaint to the ombudsman.

The complaint should contain details such as the name and address of the complainant as well as the NBFC, the facts giving rise to the complaint, the nature and extent of the loss caused to the complainant and the relief sought.

The ombudsman can resolve the complaint through conciliation or by passing an award.

However, the award will be valid only when the investor/ complainant furnishes a letter of acceptance of the award in full and final settlement of her claim, to the NBFC as well as the ombudsman concerned, within a period of 30 days from the date of receipt of copy of the award.

Besides, it is worth noting that the ombudsman does not have the power to pass an award directing payment of an amount which is more than the actual loss suffered by the complainant or ₹10 lakh, whichever is lower. Compensation awarded for harassment, mental anguish, expenses and loss of time cannot exceed ₹1 lakh.

Finally, remember that deposits with corporates and housing finance companies have separate regulators at the Ministry of Corporate Affairs and National Housing Bank respectively. Only NBFC deposits come under the purview of the RBI.

Three small steps towards building a retirement corpus

Amar Pandit, Financial Express, May 14, 2018

Retirement is a time that everyone dreams of when they will relax and be comfortable. Retirement is a time that everyone dreams of when they will relax and be comfortable. Free of the strain of a busy work life and responsibilities towards children, they believe it will be a time when they can finally do all that they always wanted to do but never had the time for. However, turning this dream into reality is easier said than done; it takes a lot of planning. With no income flowing in from a salary or business, it will be your savings that will be the primary source of funds. It is only proper then that adequate time and thought is put into ensuring that your savings are sufficient to sustain you through retirement and old age.

Today there is a marked increase in the awareness of the need to prepare financially for retirement compared to a decade back. Yet, people aren't doing much to address the need. Why is this so? In our experience there are two stark reasons why folks find it challenging to build a solid retirement corpus:

Investments not linked to goals

Most people who invest, even the regular and disciplined ones, tend to invest a random amount left after monthly spends. This investment is not linked to any goal, including retirement. While you may be cognizant of the need to fund your retirement, chances are you've not given thought about whether your present level of savings is sufficient. Nor attempted to create a plan on how investments should be strategised to reach the goal in time.

Retirement takes a backseat

In the absence of a plan or strategy, goals are addressed as they come. Hence the responsibilities of providing for a house, children's education and their marriage take priority through a good part of the working years. By the time the reality of retirement dawns you have only a decade at best to invest.

Here are the important steps to follow for a systematic approach to planning for your retirement.

Work out the amount: Ask yourself at what age you would like to retire. Next think about the lifestyle you desire post retirement. A good number to start with is your current expenses, excluding those that will be absent in retirement; like children's expenses, EMIs, etc. Make the goal as specific as you can. For instance, “I want to retire on January 1, 2048 and will require a monthly income of Rs 40,000 (in today's terms)”.

After this comes the critical part of accounting for inflation. In 30 years' time the monthly expense of Rs 40,000 translates to Rs 3.20 lakh a month, with an inflation rate of 7% p.a. So, by the time you retire at the age 60, you'd need Rs 7 crore to provide for your spouse and yourself till 85 years of age.

Create an investment strategy: Building a corpus of Rs 7 crore by the time of retirement can seem like a monumental task. However, as retirement is 30 years away, with the power of compounding this goal can be easily achieved with modest, regular investments. This goal, along with the rest of the goals of providing for a house, children's education, etc! Mutual funds are a very good investment option to accumulate wealth towards your retirement goal, alongside the traditional avenues of PPF, EPF and FDs.

Stay the course: Once investments are allocated to the retirement goal, resist the urge to dip into it for another goal. There'll be plenty of temptations along the way; that unplanned holiday, a car upgrade or the home revamp. Remember that retirement is a goal which cannot be funded by loans; you must diligently provide for it out of your savings while you are earning.

Post retirement, you can start systematic withdrawals from your mutual fund investment accounts. This is among the more convenient and tax efficient ways to provide regular income in retirement. Thus, by planning for retirement early on and creating a strategy, you should be able to create the desired retirement corpus without hassles. The crucial challenge to be tackled is the lack of a planned approach.

By: Amar Pandit

The author is CFA and founder of HappynessFactory.in

Good news for senior citizens: Here's how PMVVY can ensure fixed income in old age

Senior citizens can now invest up to Rs 15 lakh in the pension scheme to get Rs 10,000 a month for 10 years and protect against any fall in the interest rate

The SCSS account can be opened in any authorised bank or post office branch.

Senior citizens can now invest up to Rs 15 lakh in Pradhan Mantri Vaya Vandana Yojana (PMVVY) offered by Life Insurance Corporation of India and get a fixed monthly payout of up to ₹10,000 for 10 years.

The cabinet has now approved to double the investment limit from ₹7.5 lakh to ₹15 lakh under PMVVY, a pension scheme with 8% assured returns. The decision, which follows a Budget announcement on February 1, will help senior citizens to park their retirement corpus in the assured return scheme. With this, PMVVY is now on par with Senior Citizen Savings Scheme (SCSS) of banks and post offices where the investment limit is ₹15 lakh. The time limit for subscription under PMVVY scheme has been extended from May 4, 2018 to March 31, 2020. The scheme, launched in May last year has benefited 2.2 lakh senior citizens.

Fixed payouts

In this pension scheme operated by LIC for citizens aged 60 years and above, if an individual invests ₹15 lakh, he will get a monthly pension of Rs 10,000 for 10 years. If one invests ₹ 7.5 lakh, the monthly pension will be ₹5,000 for 10 years. Income from annuities of pension plans such as PMVVY are taxable. On death of the pensioner during the policy term of 10 years, the purchase price will be paid to the beneficiary.

The subscriber has an option to opt for pension on a monthly or quarterly or half yearly and annual basis. The differential return, i.e., the difference between the return generated by LIC and the assured return of 8% per annum would be borne by Centre as subsidy on an annual basis.

The scheme allows for premature exit for the treatment of any critical, terminal illness of the pensioner or spouse. On such premature exit, 98% of the purchase price will be refunded. One can avail loan up to 75% of purchase price after three years of the policy. The interest for the loan will be recovered from the pension installments.

Returns from SCSS

The SCSS account can be opened in any authorised bank or post office branch. At present (April-June 2018 quarter), 5-year SCSS offers interest rate of 8.3%. An individual of 60 years or more can open the account and deposit up to Rs 15 lakh.

An individual above 55 years but below 60 years who has retired on superannuation or under VRS can also open account subject to the condition that the account is opened within one month of receipt of retirement benefits and amount should not exceed the amount of retirement benefits.

Investment under this scheme qualifies for the benefit of Section 80C of the Income Tax Act, 1961. Nomination facility is available at the time of opening and also after opening of account. Any number of accounts can be opened subject to maximum investment limit by adding balance in all accounts. Joint account can be opened with spouse only and first depositor in the joint account is the investor. After maturity, the account can be extended for further three years within one year of the maturity by giving application in prescribed format.

Annuity products from life insurers

An annuity is a guaranteed amount paid to a subscriber for lifetime for a lumpsum investment. There is an option to extend the pension to the spouse and even return the corpus to the child, but this lowers effective returns. Typically, annuity products offer interest rates of 6-7%, which is taxable. As a result, annuity products do not account for a high proportion of the insurance business.

In case of bank deposits, for instance, SBI is offering 7.25% to senior citizens if they invest for five to 10 years. So, it makes sense for senior citizens to park a part of their retirement corpus in PMVVY.

Avoiding TDS with 15G and 15H

Anand Kalyanaraman, Business Line 7th May 2018

Some things, you must not delay. A visit to the dentist, for instance. Also, submitting Form 15G or 15H if you are eligible to. Being timely on these fronts can avoid those timeless dreads – toothaches and TDS (tax deducted at source).

It's just about a month into the new financial year – the best time to complete and submit the paperwork on Forms 15G or 15H. Do this and get incomes such as interest on deposits fully, without cuts. Else, the payer, on behalf of the taxman, could keep aside a portion of your income as taxes and give you only the balance.

This TDS pay-as-you-go mechanism is based on the principle that the taxman has the first claim on the money. For instance, if you earn more than ₹10,000 a year as interest on your bank fixed or recurring deposits (₹50,000 in case of senior citizens), the bank will cut 10 per cent of the interest as tax and pay you only the rest.

Now, what if your overall income is low and you estimate that you will not have any tax liability at the end of the year? In this scenario, if the bank has deducted tax at source, you will have to claim this TDS amount as refund at the time of filing your tax return after the end of the fiscal year. This means your money being blocked for several months, and you having to apply to the taxman to get it back.

To avoid this bummer of a situation, the taxman thankfully offers a get-around – in the form of Forms 15G and 15H. Submit one of these to the bank, and get your income in full, no tax deducted.

Eligibility

First, there are different forms for the young and the elderly. So, if you are under 60 and want to be out of the TDS net, you have to submit Form 15G.

This form can be submitted by individuals and also Hindu Undivided Families (HUF). If you are aged 60 or more, you need to give Form 15H; only individuals can submit this form. Forms 15G and 15H can be submitted only by those resident in India. So, non-resident Indians (NRIs) cannot submit these forms.

To be eligible to give Form 15G, you need to fulfil two conditions. One, your estimated total income (taxable income after considering deductions) should not be above the tax exemption limit (₹2.5 lakh currently). This essentially means that your estimated tax liability for the year should be nil. Next, your aggregate interest income should not be above the tax exemption limit (₹2.5 lakh currently).

Say, you expect to get ₹2.75 lakh as interest and ₹1.25 lakh as other income over the year; that's ₹4 lakh in total. If you invest ₹1.5 lakh in tax-saving Section 80C instruments, your taxable income will be ₹2.5 lakh, the tax exemption limit. So, you fulfil the first condition. But despite this, you are not eligible to submit Form 15G. That's because you don't fulfil the second condition – as your interest income (₹2.75 lakh) is higher than the tax exemption limit.

The taxman is more lenient with senior citizens though. You need to fulfil just one condition to be eligible to submit Form 15H. So, only the taxable income should not exceed the tax exemption limit. If so, you can submit Form 15H, even if your interest income exceeds the tax exemption limit (currently ₹3 lakh for those betwezen 60 and 80 years of age, and ₹5 lakh for those over 80).

To whom, when and how?

Not just to banks, forms 15G or 15H can also be submitted to some other income payers such as companies issuing bonds, employee provident fund organisation (EPFO), tenants (non-individuals) who pay rent, and insurance companies that pay commission.

Banks determine whether TDS is applicable based on estimated interest income across all branches. To avoid TDS on bank fixed or recurring deposits, Form 15G or 15H has to be given to every bank branch where the annual interest income from such deposits is expected to exceed ₹10,000 (₹50,000 in case of senior citizens).

Companies issuing bonds are supposed to deduct tax at source at 10 per cent if the annual interest payment exceeds ₹5,000. If you withdraw your EPF balance before five years of continuous service and the withdrawal amount is ₹50,000 or more, the EPFO has to deduct tax at 10 per cent. Non-individual tenants are supposed to deduct tax at 10 per cent if the annual rent exceeds ₹1,80,000 a year.

Submitting Form 15G or 15H, if eligible, to such payers can help you avoid the TDS. Make sure to mention the PAN along with the form 15G or 15H. Else, the form will be invalid and the payer will deduct tax at 20 per cent or a higher rate.

Earlier, these forms had to be submitted in paper form. But since a few years, online submission of the forms to tax deductors is also allowed. While the forms can be given any time in the financial year, it is best to do so early before the first tax deduction happens. That's because once the tax is deducted, the payer cannot reverse the entry. So, you will have no other option but to claim it as refund in your tax return.

You need to submit fresh forms each year as they are valid only for a year.

Principals' Conclave organised by National Centre for Financial Education (NCFE) in Chennai during 14-15 June 2018

Principals' Conclave - Glimpse

Shri D P Singh, Executive Director, SBI Mutual Fund addressing the participants of the Program on Mutual Funds conducted for SBI Officers, jointly by NISM and SBI Mutual Fund

Dr M Thenmozhi, Director, NISM, addressing the participants of the Program on Mutual Funds for SBI Officers

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