NiSM NATIONAL INSTITUTE OF SECURITIES MARKETS
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INVESTOR EDUCATION update

Volume 4, Jan - March 2018

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Editorial

The Union Budget 2018 has made some far reaching changes affecting the securities market in India. The long term capital gains tax (LTCGT) on gains from investment in stocks has been reintroduced. All listed shares held for more than one year will be subject to capital gains tax of 10 per cent w.e.f. 1st April 2018. In order to soften the impact, government has exempted any gains made till January 31, 2018 from the provisions. Currently the short term capital gains from stock market is taxed at 15 per cent. The impact of this measure on investors is not going to be harder from the long term perspective as investment in equities has delivered around 15 per cent CAGR during the last 38 years. Discounting the LTCGT @ 10 per cent, the return on this investment class post tax comes to 13.5 per cent. To protect the interest of retail investors, government has made it a point to impose LTCGT of 10 percent on gains exceeding Rs 1 lakh arising from sale of listed stocks or units of equity oriented mutual funds.

The budget has also introduced a tax at the rate of 10 per cent on distributed income by equity oriented mutual funds. This measure is to provide a level playing field across growth oriented funds and dividend distributing funds.

The investor participation in mutual funds through SIPs has witnessed a positive trend. Since stock market is going through ups and downs, it is advisable investors to choose a time frame of 5-10 years in meeting their long term goals.

From a mere 25 lakhs SIP accounts in Mach 2014 with monthly mobilization of Rs 1206 crores and an average ticket size of Rs 2322/--, the industry now has 2.05 cores SIP accounts with monthly mobilization of Rs 6425 crores and average ticket size of Rs 3130/-. This growth momentum is to be continued.

Prof K Sukumaran
Dean

NISM Investor Education Programs

During the period January to March 2018, NISM has organised 17 programs under Investor Education, as per details furnished below.

Sl. No.	Date	Institution	No of Participants	Profile of Participants
1	Jan 02, 2018	Institute of Co-operative Management, Dehradun	35	Jr Commissioned Officers, Govt of India
2	Jan 08, 2018	GLA University, Mathura	120	MBA students
3	Jan 18, 2018	Vignan Institute of Information Technology, Visakhapatanam	82	MBA students
4	Jan 25, 2018	E K Nayanar Memorial Govt College, Elerithattu, Kasaragod	142	Economics Graduates & Post Graduates
5	Jan 27, 2018	SES College, Srikantapuram	74	Economics Graduates
6	Jan 31, 2018	State Bank Learning Centre, Cochin	50	Officers of SBI
7	Feb 07, 2018	Calcutta Business School, Kolkata	36	MBA students
8	Feb 07, 2018	Netaji Nagar Day College, Kolkata	60	Graduate and PG Students of Commerce
9	Feb 19, 2018	Prestige Institute of Management & Research, Indore	82	MBA students
10	Feb 20, 2018	Intl Institute of Professional Studies, Devi Ahilya University, Indore	74	MBA students
11	Feb 22, 2018	Narsee Monjee Institute of Management Science, Indore	68	MBA students
12	Feb 26, 2018	Sri Pushpam College, Poondi, Tanjore	52	Faculty Members
13	Feb 27, 2018	Sri Manakula Vinayagar Engineering College, Madagadipet, Pondicherry	210	MBA Students
14	Feb 28, 2018	School of Management, Pondicherry University	88	MBA Students
15	Mar 12, 2018	Dept of Management, Pune University	115	MBA Students
16	Mar 13, 2018	Pune Institute of Business Management, Pune	110	MBA Students
17	Mar 28, 2018	Universal School of Business, Karjat	60	MBA Students
		Total	**1440**	

ICM, Dehradun

GLA University, Mathura

SES College, Kannur

State Bank of India Learning

Prestige institute of Management and research, Indore

Netaji Nagar day College, Kolkata

Narsee Monjee Institute of Management, Indore

School of Management, Pondicherry University

Shri Pushpam College, Poondi, Tanjore

International Institute of Professional Studies, Indore

Shri Manakula Vinayakar Engineering College, Pondicherry

Calcutta Business School, Kolkata

Universal Business School, Karjat

How to do financial planning? Here are top 6 money habits for healthy finances

By: Naveen Kukreja | Published: January 19, 2018 2:18 AM , Financial Express 19th January 2018

Financial planning is the process of allocating your monetary resources for achieving various life goals. Creating a strong financial plan is about understanding your current financial health and taking necessary actions to reach where you want to be in the future. Here are six money habits that will lead you to a stronger and healthier financial life.

Prepare a financial plan

Financial planning is the process of allocating your monetary resources for achieving various life goals. These goals can be your child's higher education or marriage, post-retirement expenditures, down payment money required for buying a house or a car, etc. Start by calculating your financial net worth and list down the monetary value of each of those goals, after factoring their time horizons and inflation. Use SIP calculators to find out the monthly contribution required and explore the possibility of reducing your expenditures, in case of a shortfall. While allocating your contribution to various financial goals, do not neglect your emergency fund or your post-retirement corpus.

Set your asset allocation strategy

Next is to implement your financial plan by distributing your investments across various asset classes, such as debt and equity, according to your risk appetite and the time horizon of your financial goals. Investment for goals maturing after five years should be invested in equity mutual funds as equities outperform other asset classes over the long term. Similarly, investment for goals maturing within three years and 3-5 years should be invested in short term and hybrid funds respectively, as equity funds can be very volatile over the short- and medium term.

Get adequate insurance cover

Most of us confuse insurance as an investment instrument. As a result, we end up investing in unit-linked insurance plans, endowment policies, money back plans, etc., which have high expense ratios while providing very little cover.

Instead of buying such life policies, stick to term plans for your life cover. These policies can easily provide a life cover of 15 times of your annual income at a fraction of the premium charged by other life policy types. Also buy health and personal accident policies to protect yourself from high medical costs and loss of income due to disability.

Automate your bill payments

Not all of us are good with remembering multiple payment dates and managing paperwork. While missing utility bill payments will cost you in terms of late payment fees, missing EMI and credit card bill dates will cost your credit score and future loan eligibility. Hence, set standing instructions in your bank account or credit card to automatically deduct your insurance premiums, EMIs, utility bills, credit card bills, etc., on preset dates.

Use credit cards for daily expenses

Making payments through credit cards is equivalent to taking loans. Thus, credit card transactions are reported to the credit bureaus and timely repayment increases your credit score too. Hence, use credit cards to make payments and ensure their bill repayment by the due date to build or improve your credit score. However, make sure to contain your credit card bills within 30% of your total credit limit as doing otherwise will pull down your credit score.

Reduce your debt burden

Falling interest rates and improved access to retail credit entices many to avail loans for consumption. As a result, increasing number of people are saddled with multiple EMIs at various rates, leaving little scope for any investment. The best way to come out of such a situation is to avail a bigger loan at lower rate, longer tenure and other favourable terms and use its proceeds to prepay the costlier ones. This process is also known as debt consolidation. Top-up home loan and home loan balance transfer are the best debt consolidation options for existing home loan borrowers while others can consider loan against property, loan against securities and personal loan balance transfer depending on their loan eligibility.

The writer is CEO & co-founder, Paisabazaar.com

Smart investing: Why asset allocation holds the key to wealth creation

By: Brijesh Damodaran | Published: January 24, 2018 3:57 AM , Financial Express 24th January 2018

It was only a month ago that bitcoin was the most spoken word in the investment world. After rising 10 times in less than 45 days, the value of the cryptocurrency has now fallen over 40% from the highs, With this downslide, investors' euphoria has also ebbed. Meanwhile, the 30-share BSE Sensex has gained more than 1000 points in the last four trading sessions to cross the 36,000-mark. Globally, crude prices are reaching new heights which is pushing up prices of diesel and petrol to a multi-year high in the country. Banks have raised MCLR rates, which will mean that your home loan rates, if linked to MCLR, will also rise. The Federal Reserve of the US is also contemplating to raise the rates which could mean a flight of foreign capital. The Budget is due on February 1 and there is talk of taxing capital gains in equity above one year. Setting investing milestones Investing is a journey and not a destination. Milestones are met and new milestones are set. It's a continuous process. So for those who had been investing in the period 2006 to 2008 and those who have started investing post 2014, the investing journey has been different. Smart gains followed by deep corrections followed by sharp gains, consolidation, correction and again gains. The returns from the asset classes also varied. Gold was the sheen in the period 2003 to 2011. Real estate was the go-to investment till about 2013. Debt funds was another steady asset class.

And in the past 18 months, the TINA (There Is No Alternative) factor has propelled equity asset class into a different stratosphere. As an investor, the only framework is asset allocation. In times of uncertainty, confusion, and looming election year, it is recommended that you have a customised IPS (Investment Policy Statement) in place, which will ensure that you are in command.

And if you are too lazy to initiate an IPS, follow the three bucket strategy, which basically looks at cash-flow, liquidity during the time horizon. The bucket approach to investments In the first bucket, your liquidity, emergency funds and cash flow needs for up to five years are considered. Here you would not allocate the corpus to any asset class which has volatility and /or can erode your capital.

The second bucket could be of 5-10 years and serve the purpose of wealth creation and milestones and has allocation to equity asset class and/or real estate. The returns here can be volatile or steady. In the third bucket, you can have investment, the corpus of which is required only after 10 years. In this case, extreme volatility can be endured. Hypothetically, if the equity markets in India correct by up to 30% and your investments are down by 40% and then over the next 10 years, you can see the portfolio grow by more than 5 times (if as an investor, you held on to your investments, post the 2008-09 market crash, the equity portfolio would have delivered an annualised return in two digits.)

In fact, over the last 16 years, the Sensex has moved from 3300 levels to over 35000 levels or over 10 times and individual stocks have grown multiple folds. Despite many events, the equity markets grew. Demonetisation was supposed to be negative to the markets in the end of 2016. But the Sensex delivered a return of over 27% last year. So, to conclude, follow asset allocation and understand your need for cash flow and liquidity needs. Investing with a time horizon after taking into account the cash flow and liquidity needs along with asset allocation holds the key for wealth creation in the long-run.

The writer is managing partner, BellWether Advisors LLP

Give wings to your financial net worth

By: Sunita Abraham, Livemint, 30th January 2018

Your net worth says how well you have used your income to build assets and reduce liabilities. The strategy to build your net worth should focus on minimizing expenditures, creating an investible surplus to build and grow assets and paying down liabilities. Here are some measures that you can take to keep your net worth on an upward trajectory.

Guard against the unexpected

A dip in net worth may be due to a financial emergency that needed you to sell investments, break deposits or otherwise use up your assets. If the investments were sold or redeemed at a loss, then the impact was greater because more investments had to be liquidated to fund the emergency. Or, you may have decided to go with debt to tackle the emergency. This too increases liability and thus reduces the net worth.

Give the protection of an emergency fund to your net worth. With an emergency fund, neither would there a need to sell investments at a loss or even sell them, nor would there be any need to take on debt in an emergency. Use insurance to protect your resources. Take adequate health, personal accident, motor and other insurances, which are relevant to your needs.

Try to live in your own house

Protecting your net worth can be a compelling reason buy a home instead of living in a rented house. Rent is an expense without anything to show on the asset side of a balance sheet. An outflow due equated monthly instalments (EMIs), on the other hand, lets you create an appreciating asset, namely your home. Initially, the liabilities do go up and net worth dips when a large loan is taken. But as the value of your house goes up and the loan is repaid, the equation shifts in favour of assets and the net worth goes up again.

Focus on debt

The longer you stretch a repayment, the more interest you pay. Just as compounding lets you earn returns on investments, it works also against you when you have to pay interest on debt. The strategy should be to pay off debt as quickly as possible. Budget, save, increase your income, cut back expenses and do what it takes to find the extra money to pay off the debt. It is not enough to pay EMIs on time. Start paying down the principal too. This will reduce the interest you pay. The money saved can instead go toward building your assets and net worth.

Add to your assets

Look for any source of funds that can help you build assets or pay off liabilities. If your employer matches your contribution to your retirement plan, then make sure you contribute the maximum possible. Your assets and net worth will go up. Similarly, make sure that you take advantage of all the tax benefits that are available for investments made, expenses incurred, and others. Learn the discipline to invest the money saved on taxes to build your assets. Check if your insurance is the most efficient in terms of cost of cover. Challenge all the costs, fees and expenses you incur in your financial transactions and see where you can save some money. All of these, however small, add up and overtime become a significant addition to your asset base.

Make your money work hard

Don't leave your savings idle in low-earning products like savings bank accounts. Invest in products that are appropriate for your goals and investment horizon and let your money compound and grow. Remember, your debt is compounding interest on the liabilities side, so when you don't use your money efficiently you are letting the liabilities get an upper hand and pull down your net worth. Set automatic investments in place that will periodically move accumulated savings into investments of your choice.

Diversify to protect net worth

Don't let a positive and growing net worth lull you into thinking all is well. It is important to look into the components that contribute to the net worth. There may be hidden risks that need to be addressed. A common risk is when a very large part of the net worth comes from one asset or asset class. Typically, this is likely to be your house and this happens in the early stages of your career when all your savings go to fund this large purchase.But it is important to build other types of assets in parallel, by allocating investible surpluses to them too so that your net worth is not affected by a fall in that one asset. The same risk applies to net worth where the contribution is primarily from one asset class, say equity or real estate. Diversify your assets based on an asset allocation that is suitable to your goals' need for growth, income or liquidity. This also protects your portfolio from sinking with the fortunes of any one asset class.

Invest in yourself

If your income is not growing then your ability to improve your assets and reduce liabilities slows down and your net worth stagnates. Your ability to expand this income is limited unless you are ready to invest in yourself. This may be in the form of upgrading your skills and education, getting yourself a coach and nurturing your mind and body. It will make sure that your most important asset, namely you, are ready to take on the challenges of expanding your income. Along with expanding income, you have to consistently increase the savings rate also. You will then see the benefits of the expanding income accruing to you as your net worth goes up.

Tracking the net worth tells you if you are on the path to getting to your goal. But more than the number itself, the trend in net worth can help you identify gaps in your financial strategy that you need to correct to get your net worth back on rails.

Principals' Conclave on Financial Education as a Life Skill.

NCFE organized third "Principals' Conclave on Financial Education as a Life Skill" during February 09-10 at Hotel Hindustan International, Bhubaneswar. The aim of Principal's Conclave was to discuss the importance and need for inclusion of financial education in school curriculum. The Conclave arranged a panel discussion on Issues and Challenges in Financial Education wherein representatives of school principals, teachers, senior policy makers, industry experts participated.

Around 80 Principals from different schools across the country participated in the Principals' Conclave.

Shri G.P. Garg, Registrar, NISM and Head, NCFE explained about National Centre for Financial Education's (NCFE's) strategies, activities, efforts and experiences and he also made presentation on core concepts of financial literacy and financial planning. Industry Experts Ms. Mrin Agarwal took session on personal finance. The program ended with Valediction and Certificate Distribution attended by Shri Sandip Ghose, Director, NISM.

The participants of the Conclave appreciated the need for inclusion of financial education topics in school curriculum at an early stage.

Money Smart School Felicitation Programs

1. ASN Senior Secondary School, Delhi- Money Smart School Felicitation Program was organized at ASN Senior Secondary School, Delhi on February 6, 2018. Shri Girraj Prasad Garg, Registrar, NISM and Head NCFE presented Money Smart School certificate to the Principal Ms. Sonia Luthra. Students who completed the course were also certified.

2. National Victor Public School, Delhi- Money Smart School felicitation program was conducted at National Victor Public School, Delhi on February 5, 2018. The program started with group dance performance on Saraswati Vandana by students of the school. Some of the students performed skit on Financial literacy. Shri Girraj Prasad Garg, Registrar, NISM and Head NCFE presented Certificate to the Principal Ms. Parul Tyagi.

3. Indirapuram Public School, Ghaziabad- NCFE conducted Money Smart School felicitation program at Indirapuram Public School, Ghaziabad on February 5, 2018. Shri Girraj Prasad Garg, Registrar, NISM and Head, NCFE interacted with students on various aspects of financial literacy.

   All the students who participated in the MSSP were given certificates and the school was awarded with Money Smart School Certificate. Principal Ms. Renu Sharma was presented the Money Smart School certificate by NCFE.

4. SLS DAV Public School, Delhi- Money Smart School Felicitation Program at SLS DAV Public School, Delhi was organized on February 6, 2018. Shri Girraj Prasad Garg, Registrar, NISM and Head NCFE presented Money Smart School certificate to the Principal Ms. Vandana Kapoor. Students who completed the course were also certified.

5. Rotary Sanskardham Academy, Goregaon- NCFE conducted Money Smart School Felicitation Program at Rotary Sanskardham Academy, Goregaon on 16.01.2018. Shri Girraj Prasad Garg, Registrar, NISM and Head NCFE presented Money Smart School certificate to the Principal Ms. Lata Nayak. The students all were differently abled (Hearing and Speech impaired) and certificates were distributed to them all.

ASN School, Delhi

National Victor School, Delhi

Indirapuram Public School

SLS Day Public School

Rotary Sanskardham Academy, Goregaon

Financial Education Training Program at Kamla Nehru Public School, Phagwara

FETP is an initiative of the NCFE for providing unbiased personal financial education to people and organizations for improving financial literacy in the country. The program, based on two pillars - education and awareness, aims to establish a sustainable financial literacy campaign that can empower people's lives.

FETP - Kamala Neharu Public School, Punjab

NCFE conducted Financial Education Training Program at Kamla Nehru Public School Phagwara, Punjab during January 10-11, 2018. Around 80 teachers participated in the program and all of them were certified as "Money Smart Teacher"

Over the two days, eight sessions were conducted covering topics such as banking, investments, insurance, pension, financial planning, financial inclusion schemes, grievance redressal process, etc. Interaction of participants not only with the trainers but among themselves was the highlight of the program.

Kiosk Inauguration

Kiosk Inauguration, Shimla

Kiosk Inauguration, RBI Kurda

Kiosk Inauguration, RBI Bangalore

Managing investments to get a fixed income

By Sunita Abraham, Livemint, 22nd February 2018

If you are investing to provide for a secure source of income, you will need to keep some things in mind while investing as well as redeeming your assets

The need for income from the portfolio is not restricted to retirement years. You may need income from your investments to meet goals such as children's education, repaying a loan, or reinvesting to balance your portfolio's asset allocation. Interest-bearing investment products such as deposits with banks, companies, bonds and debentures, income schemes sponsored by the government, and debt schemes of the mutual fund are the go-to products when income is required from an investment portfolio. You need a strategy to benefit from these investments. Here are some pointers to keep in mind.

Go long-term

One way to earn higher income from debt investments is to lock into longer-term bonds that offer a higher interest, so that your returns continues even if the interest rates fall. Make sure you have adequately provided for near-term liquidity needs and emergencies before you tie-up funds in these. The principal of a fixed-tenure bond is not paid back before maturity by the issuer and if you sell it in the secondary market before maturity, there is a possibility of capital loss. As far as possible, match the tenure of the investment to the period for which you need the income. For example, 10-year bonds could be of interest to those looking to fund their children's education over that period, provided they don't want to take the risk of equity.

Look Lower

Some investors may be willing to trade-off credit quality for higher interest rates. An investment in A-rated or equivalent bonds and deposits promises a higher interest compared to an AAA-rated product, to compensate for its higher risk. There are also bonds issued by public sector undertakings (PSUs), which do not have the highest credit ratings but still have a low probability of default given the government's backing. These are some of the bonds that you could consider to earn higher returns.

For private-sector issuers, investors should assess factors such as the sustainability of earnings, debt-coverage ratio (which measures the ability to meet debt obligations), and the quality of management. Remember, ratings can change over the tenure of the bond, to reflect changes in the issuer's ability and willingness to honour the commitments. Keep an eye on factors that may foretell such a change in the issuer's situation. These could be: a slowing down of revenues and profitability, change in management, or increase in debt. If the level of risk goes beyond what you are willing to bear, then it could warrant a change in investments.

Stagger and Ladder

When you buy a bond, you are tied to the interest rate for its duration. However, unless you have additional investible funds, you will not be able to participate in any subsequent bond issues to take advantage of rise in interest rates. There is also the risk that the value of your existing debt portfolio will fall when interest rates in the markets rise. However, this will not matter to you if you hold the bond till maturity.

Another risk in a bond portfolio is that you may have to reinvest the maturity proceeds of a bond at lower prevailing rates. Though it is not possible to time your investments to lock-in at the peak interest rates, one way to mitigate these risks is to build a staggered or laddered portfolio of debt product. The investible corpus can be diversified into bonds of different tenures. The short-term products would mature early and free up capital for you to reinvest if rates have gone up. If interest rates fall and you have to reinvest at a lower rate, the impact on your portfolio is lower since only a small portion gets reinvested at the lower rate. The more rungs in the ladder, the greater flexibility to exploit future interest rate movements. But this also needs a greater commitment of funds to populate the ladder.

Look beyond debt products

Dividend from equity investments and rental income also constitute periodic income from investments. While dividends do not assure a return, they can give inflation-protected income that correlates to a company's earnings.

When the objective is a regular income, choose stocks that not only have good earnings but also pay regular dividend. Mature companies with steady earnings and low growth potential are candidates to be evaluated. These companies generate cash flows but do not have opportunities to invest for growth. Dividend yields go down when prices rise and vice versa. Use this as an indicator to accumulate shares over a period of time when dividend yields go up. Rentals are another source of inflation-protected income. However, purchasing real estate requires a large fund commitment and any income earned could go towards repaying the mortgage. But once the mortgage is paid, income earned is available for other uses.

Realize appreciation of assets

Capital appreciation in assets like equity and gold can be used periodically to generate income. Set target levels for appreciation in the value of each asset class, say 15%, and sell investments when the targets are reached to realise only the profit. This conservative equity strategy helps generate income from assets like equity and gold, and is also a way to keep profits being washed away if prices decline.

The strategies adopted to generate income will vary with the age and stage of investors. A younger investor may take on credit risk to get more income from debt, while a retired one may be unwilling to tie up funds in long-term bonds to maturity. Similarly, the extent of equity used to generate income from dividends and capital appreciation will typically decline as investor ages. Taking on credit risk may be more risky when economic conditions are deteriorating. Investing in long-term bonds in a period of rising inflation and interest rates may mean that your portfolio is tied up in lower coupon bonds and losing value as interest rates in the economy rise. Inflation-adjusted income from sources such as dividend and realization of appreciation in value may become preferred options when inflation is high. Rebalance your income-portfolio strategy to reflect current economic conditions and personal preferences. Tax paid and costs incurred will reduce the income in hand. They need to be considered while evaluating the various sources of income available to investors.

Equity markets in 2018: There are certain risks which investors must consider

By **Hemendra Kothari, Financial Express** January 9, 2018

The year 2018 will mark the fourth year of the Modi government and the penultimate year before the general elections scheduled for April-May 2019. At the moment, the big question is: Will the government stick to the path of economic reforms before 2019? I certainly hope that the path of economic reforms should continue. It would be safe to bet on reforms, and this can be based on a number of factors including potential of easier implementation of reforms since 19 out of 29 states in India are now under BJP/NDA rule. Several reforms, including improvements to the Direct Tax Code, e-way bill, real-estate sector, banking sector among others are on the anvil. The reforms agenda has also been recognised globally–India has jumped 30 spots in the World Bank's Ease of Doing Business ranking. Stellar foreign inflows this year, both FDI ($54.7bn till Oct-end) and FPI ($8.5 billion till Nov-end), on the back of reforms are another factor.

The reforms over the past couple of years could broadly be broken into three main categories: a) crackdown on black money b) financial inclusion through Aadhaar and Jan Dhan bank accounts and c) direct benefit transfer (DBT) of subsidies. These are critical, long-term structural reforms, the benefits of which will be realised over the next few years, albeit causing near term pain to growth and earnings.

However, this did not stop Indian equities from rallying sharply in 2017–up ~36% in dollar terms or ~28% in rupee terms. The obvious question has been on high valuations and their sustainability. This run up has been a part of the broader EM rally and India is not an outlier. Markets are certainly at a high, but valuations are not. An earnings catch-up could certainly help sustain these valuations. Corporate earnings are expected to see a broad based recovery in FY19 and FY20. Along with the positive base effect, a mix of global cyclicals (metals), autos, oil marketing companies and banks may be the key drivers for this.

After hitting a low of 5.7% in Q1 FY18, GDP growth recovered to 6.3% in Q2 FY18, and the upward trend is expected to continue. With demonetisation behind us, implementation of the 7th Pay Commission recommendations along with the higher government spending on the rural segment could help support demand. This should benefit consumer facing companies like staples, durables and other under-penetrated sub-sectors which will also benefit from some major initiatives. "Housing for All" should give a fillip to the construction industry. "Power for All" can, hopefully, see some focus on solar energy. I also hope to see some benefits coming into farm related activities.

On the flows front, domestic flows (led by mutual funds) are expected to continue to outpace foreign flows for the fourth year in a row in 2018, as India is finally witnessing a shift from physical to financial savings which looks more structural. Emerging markets (EMs) have seen equity inflows of ~$70 billion in 2017 so far, after four years of net outflows from EMs. Global portfolio managers are underweight EM equities, leaving more room for additional buying in EMs and India.

Broadly, there are four key themes that could drive growth in 2018 and beyond:

- Increase in per-capita GDP boosting the India consumption story, and a consequent shift from unorganised to organised sectors,
- Penetration of financial services (retail and corporate credit, insurance, asset managers),
- The next investment cycle led by government capex on oil & gas, defence, roads, Railways, urban infra, etc,
- Export opportunities in segments vacated by China, such as textiles and specialty chemicals.

The past year was a very healthy year for equity markets across the board. Going into 2018, market returns are more likely to be linked to earnings growth, given that valuations are already above average. As seen over the last year, bottom-up stock picking has created considerable alpha, and investors therefore may need to identify the right combination of stocks and sectors that can outperform the broader market.

How to pick stock market winners: Here is what investors must do.

By: Saikat Neogi, Financial Express, January 15, 2018

As the Sensex scales new heights and returns from debt products stagnate, retail investors are increasingly looking at investing in equities. In fact, in 2017, the Sensex and Nifty gained 28% and 29%, respectively, largely driven by liquidity. Even the broader markets showed smart returns as the Nifty Midcap surged 45%. But before investing in stocks directly, investors must understand the various determinants of portfolio performance, look at the fundamentals of the company and select good companies to invest.

Look at fundamentals

Before investing in stocks directly, look at the fundamentals of the company. As a long-term investor, do not let drops in markets dampen your spirits as the Indian markets are likely to deliver higher than expected returns. Before deciding on a company to invest, look at cash flows, earnings, corporate governance, debt-to-equity ratio and returns. The primary valuation matrix that every investor must look at is the price-to-earnings (P/E) ratio. It is computed by dividing the market price with the company's earning per share. Stocks with low PE ratio are known to have cheaper current price and expected to generate higher return in subsequent periods. Selling your stock when it is low, as done by most retail investors, will not help as one will lose the invested money. The near-term volatility should not be a major concern unless the fundamentals of a particular stock or a sector doesn't look encouraging. Instead, consider buying more stocks when the prices are low to bring down your overall average price for the shares. Investing in stock market should be seen as long-term as the purpose of investing in stocks is to build wealth.

Market cycles

All asset classes, including stocks, have unique cycles. Look at the cycles carefully as in some years, small and value stocks may outperform the market. Investors should understand that their portfolio will not identically track the market every single year. Recently, mid-cap stocks outperformed large-cap peers. While the mid-caps success story has been a good one, large-caps are likely to offer better consolidated returns over a long term.

At the time of the Budget on February 1, the government will announce various policies in niche sectors. Tune a part of your equity investment in companies which may gain. However, by no means does this imply that you overlook the fundamentals of a company. Invest in a company which has the potential to bring about a positive turnaround using the favorable government policy.

Timing the markets

Leave that for speculators and day traders. When a retail investor times the market, he usually misses out on the rally or enters the market at the wrong time – either when the valuations have peaked or when the markets are on the verge of declining. Typically, retail investors begin investing in stocks out of fear they might miss out on another year of growth. Instead of timing the market, set a default option, every month or quarter as per your own investment policy. Always remember that catching the tops and bottoms is a myth and in doing so, more people have lost far more money than people who have made money. Retail investors who invest money systematically in stocks and hold on to them patiently have been seen generating outstanding returns. Have patience and follow a disciplined investment approach besides keeping a long-term broad picture in mind. If you want to invest in equities in a volatile market, ensure that you have surplus funds. High risk, high gain concept may not work always.

Safe with mutual funds

At the end, if you think direct investing in stocks is not your cup of tea, then invest in equities through mutual funds at least till the turbulent times are over. With mutual funds, you can invest through systematic investment plans by investing small sums of money every month over a period of time. They are like a recurring deposit which enables an investor to buy units on a given date each month. One of the biggest advantage of an SIP for a retail investor is that one does not have to time the market and worry about the volatility. As an SIP is meant to tide over volatility in the markets, the longer the investment horizon the better it is. If you start out young, equity funds should constitute around 80% of your portfolio as this asset class has been found to be the best bet for growing money over the long term.

Equity investments: How to create wealth without stock picking, timing and luck

By Mayanka Joshipura, Financial Express, January 26, 2018 12:47 AM

When it comes to equity investing, the golden rule is that time spent in the markets is far more important than timing the markets.

Lucky, Unlucky, and Discipline completed their MBA degree in 1990 from a reputed business school. Their professor of wealth management course once said, “Equity is a growth capital and not a risk capital for those who invest small sums for a long period of time to build a corpus for very important goals such as retirement.” He added, “Stock picking and timing are the most overrated skills and you can create wealth by following a disciplined approach for a long period of time without having them.” He also underlined, “If you can persist with it, you will be able to beat at least 75% of professional money managers and most other asset classes.”

Learning into practice

Each one of them got a good job and they decided to put classroom learning into practice by investing `10,000 every year for the next 35 years towards building their retirement corpus. All three were convinced about investing in a passive ETF tracking Sensex to mimic market returns without relying on stock picking skills. Before start investing, Lucky went to seek the blessings of her astrologer guru 'Predictor', and shared with him, her plan to invest in equities. Her guru looked at her horoscope and said, “My child, your horoscope is so promising, that whenever you invest into equity during the year; it would be the lowest level for Sensex for that year.” Buoyed by the prediction of her astrologer guru, she started investing without worrying about market levels. Unlucky also decided to seek blessings from his astrologer guru, 'Foresight', and shared with him, his plan to invest in equities. His guru looked at his horoscope and said, “Son, going by your horoscope, you should stay miles away from equity investing. In fact, it is so bad that whenever you invest, it would be the highest level of Sensex for that year.” Disappointed by the prediction, for a moment, he thought not to invest in equity. But finally, he decided to follow his professor's advice and started investing. He tried his personal best to choose a day in the year that did not turn out to be the worst.But, Discipline decided to invest without consulting anyone, and he chose, January 1, as the date for his annual equity investments in Sensex ETF.

Reaping the harvest

Twenty-seven years later, the trio met on the final weekend of 2017 and reviewed their equity investments. Of course, Lucky earned the highest CAGR of 17.2% and Unlucky earned the lowest CAGR of 12.75% in line with their astrologer gurus' predictions. However, our Discipline earned CAGR of 15.78%. All three were happy as they all were sitting on the high tax-free returns that outperformed all other asset classes and enjoyed 1.5% more in form of dividend yields. Yet, on a relative basis, Lucky was disappointed. She said, “Despite investing at the lowest level every year, I could earn only 1.42% higher than Discipline. Just 1.42% of my luck! This is unfair. Unlucky looked disappointed but for a different reason. He said, “Instead of working hard, to avoid my curse of investing at the worst market levels every year, if I had invested like Discipline, I would have earned better returns.” Discipline said, “I am happy that without any stock picking, timing skills and luck on my side; I could earn returns that could be the envy of most investors.” I am sure you as an investor know that it is not possible to replicate Lucky or Unlucky in real life. The only thing you can do is to replicate what Discipline did to create wealth for yourself. The message from this story is clear: “When it comes to equity investing, time in the markets is far more important than timing the markets.”

The writer is professor & chairperson (Finance), School of Business Management, NMIMS, Mumbai

Mutual fund investment gets more popular; here is what is set to get a boost

By-Jimmy Patel, Financial Express, January 8, 2018

In October 2017, Securities & Exchange Board of India (Sebi) issued new reforms on categorisation of mutual fund schemes and narrowed down on just five main categories (equity, debt, hybrid, solution-oriented and other schemes) to curb the unnecessary cluster within fund houses. This is a big shakeup for the industry in which they have to categorise their existing schemes according to the new categorisation, appeal to Sebi (if required) and painstakingly e-mail investors about the same. This will surely help investors who are confused with the multiple schemes and probably help put a leash on mis-selling as schemes will have common parameters through means of categorisation.

Close-ended schemes

With the start of the new year, there will be many "me too" funds launched. The Sebi order applies only to open-ended schemes which means that there is a high chance of multiple schemes in the close-ended category springing up in the new year. Close-ended schemes have a lock-in of usually three or five years where investors who bought during the new fund offer, can redeem only once the product matures or on the stock exchange where they are listed. A fair bit of mis-selling may happen if the commissions are high. Investors who buy close-ended schemes may realise that liquidity is poor in case they need to go for redemption in a hurry. If an investor needs more money, his only option is to sell on the stock exchange which can be at a discount to the NAV (as is as present).

From a retail participation point of view, with the decline in interest rates, both in terms of savings account rate of interest and as the fixed deposit rate of interest, investors have little choice but to reallocate their wealth to other asset classes such as equity to improve their returns over the long term. That is also one of the reason why MF industry is looking forward to getting a nod from the government for pension funds.

I believe, investments in equity market through mutual funds over a long period as suited for a pension plan (depending on the age profile of the investor), could allow investors to make the most of the rising market.

Retail participation

Retail participation will continue to improve in the Indian markets. Ideally speaking, investors need better awareness with regards to inflation and how much it eats into their chunk of savings. With most of their savings stashed away in popular asset classes such as gold and real estate, investors' are slowly turning towards mutual funds as we see a huge number of folios and domestic retail inflows into financial markets. A clear shift has been noticed in the savings patterns of Indians, as the following data suggest, over the past few months. According to AMFI, total inflows into mutual funds across equity, balanced and equity ELSS categories from January to November 2017 was `1,77,223 crore. Close to 50% of these inflows have been parked in debt to balanced funds, and the rest went into equity-oriented schemes.

Asset allocation may become popular in the near future. Everyone has dreams and desires but not all plan their investments according to their goals. Most people just invest in an unplanned manner. Goal based investing adds direction to an investment. Having a purpose behind every rupee that you invest is known as goal based investing. In the coming year I foresee more of such funds introduced by fund houses. For investors, goal based investing offers a structured, well thought out process for investing, where they know the purpose behind the hard-earned money that is being invested. Mutual funds may start playing an advisory role to tap these investors looking for goal-based investing.

The writer is MD & CEO, Quantum AMC

Equity mutual funds: How to make the right choice in new LTCG tax regime introduced in Budget 2018

Mayank Joshipura, Financial Express, 6th February 2018

Budget 2018: The finance minister has re-introduced long term capital gains (LTCG) tax for equity and equity-oriented mutual funds in the Budget . The proposed tax rate is 10% without any benefit of indexation. But, he provided some relief by exempting LTCG of up to Rs 1 lakh in a financial year. He, in a way, has also exempted gains made till January 31, 2018 for the investments made before July 31, 2017. But, we have gone back to an era of LTCG tax prevailing before 2004, and security transaction tax (STT) remains.

In addition, to maintain parity between growth and dividend plans of equity mutual funds, the dividend distribution tax (DDT) of 10% has been introduced. In the current regime, you are indifferent between growth and dividend plan from a tax perspective for a holding period of more than one year. But, now you should be careful while choosing between growth and dividend plan. Let us understand it by using the following example.

Let us look at two scenarios. First, you invest Rs 10 lakh in an equity fund in the present regime; second, you invest Rs 10 lakh in the same fund in the new regime.

Growth vs. dividend plan in present regime

Case 1: Dividend plan

After one year, equity fund earns 10% and the NAV goes up to Rs 110. Since you have opted for dividend plan, your fund decides to transfer the 10% gains in form of dividends. It announces and pays the dividend of Rs 10 and you receive Rs 1 lakh in form of dividend. The NAV of the fund drops to Rs 100, and your portfolio value remains at Rs 10 lakh. You earn 10% on your investments.

Case 2: Growth plan

After one year, the NAV of the fund moves to Rs 110 and your investment is worth Rs 11 lakh. If you want, you can sell units worth Rs 1 lakh and create your own dividend. LTCG is exempted and there is no tax liability for you. You earn 10% on your investments.So you are indifferent between growth and dividend plan in present regime.

Case 1: Dividend plan

After one year, equity fund earns 10% and the NAV goes up to Rs 110. Since you have opted for dividend plan, your fund decides to transfer the 10% gains in form of dividends. But wait a minute, now your fund cannot transfer the entire gains to you. It has to pay 10% in form of DDT (adding surcharge + cess will increase it, we ignore it for ease of understanding) and thus your fund can pay the dividend of only Rs 9 per unit. But your NAV will come down to Rs 100 and you have earned 9% and not 10%. Where does that 1% go? Of course, to the government's kitty.

Case 2: Growth plan

After one year, again the NAV goes up to Rs 110. Since you have opted for the growth plan, the value of your investments will grow to Rs 11 lakh. If you want, you can decide to sell units worth Rs 1 lakh and create your own dividend. The LTCG, in this case, is equal to the exempted limit of Rs 1 lakh under proposed regime and you don't have to pay any tax. The key takeaway here is that if you are planning to invest in equity mutual fund, better opt for a growth plan over dividend plan. And keep on booking long term gains up to Rs 1 lakh every year and treat is as substitute of dividend or reinvest, if you want.

Mayank Joshipura
The writer is professor & chairperson (Finance), School of Business Management, NMIMS, Mumbai

Are MFs a woman's best friend?

Dhuraivel Gunasekaran, The Hindu Business Line, 26th February 2018

ELSS, balanced funds, equity funds, SIPs, et al – today's women professionals tell us how they go about MF investing

One's mother is probably the best finance minister in the world, deftly managing her household in an organised manner while keeping the family's finances in control. But smart mother or no, many women, in the past, took a backseat when it came to investment decisions – handing over that responsibility to the men in their families.

That's no longer so. Today's women run their homes – and their finances too. They take decisions regarding money matters on their own, smartly and confidently.

Many women are taking the mutual fund route to achieve their financial goals. Various types of mutual funds investing in different asset classes such as equity, debt, gold, InvITs and international equities cater to a variety of investors with different financial needs, risk taking capacity and time horizons.

Women with high risk appetite and having long-term goals could consider equity oriented funds. Balanced funds and debt funds are suitable for investors with low to medium risk appetite. Liquid funds are alternatives to bank fixed deposits, to park short-term money or emergency funds.

Starting young

Ambrin Ahmed, 27, a single woman working as manager in a financial firm in Kolkata, believes that financial independence gives her the freedom to decide, the power to voice her opinion and a sense of pride in supporting her family. She began investing in mutual funds as soon as she got her first job.

''Being a part of the financial market, I believe that among various asset classes, equity mutual funds are the best to create wealth. I have been investing in mutual funds over the last five years, in different schemes through the SIP route,'' she says.Ambrin has done very well to start investing at an early age.

The power of compounding should help her accumulate a large corpus over the long run and secure her financial future.

Fortifying family finances

Some married working women are investing in mutual funds to strengthen their family's finances and help meet goals such as buying a house, and planning for the higher education and wedding of their children.

Mumbai-based office-goer Sushma Girish Sarode, 32, is clear about her financial goals. "My investment in mutual funds should fetch good returns as I am a long-term investor. This will help reduce my husband's financial burden during preclosure of our housing loan. My primary goal is to accumulate wealth for my daughter's education," she says .

Sushma says that her mutual fund investments include equity linked savings schemes (ELSS) that helpreduce her tax burden. The investment in ELSS mutual funds qualifies for tax deduction up to ₹ 1.5 lakh in a financial year under Section 80C of the Income Tax Act.

Looking before leaping

Santhiya Gajendraprabu, 24, a recently married home-maker residing in Namakkal, is a good example of how young investors are doing their homework while selecting financial products.

Her curiousity piqued by the disclaimer accompanying mutual fund ads, "Mutual fund investments are subject to market risk. Please read the offer document carefully before investing," Santhiya decided to understand the risks involved in mutual funds before starting her investing journey. She says, "I am now pursuing my AMFI advisor exam."

Santhiya adds, "I have started systematic investment plans (SIPs) in two funds; one is a large-cap and the other is an equity oriented balanced fund. I have opted for the direct plans in both the schemes."

Santhiya is right to choose from large-cap and balanced funds and going for SIPs. One, the market, after scaling up sharply, is now volatile. Large-cap and balanced funds offer better cushion. Next, Santhiya, being new to equity investing, is playing it relatively safe. Also, SIPs are a disciplined way of investing in mutual funds, enabling investors to make regular and equal payments (minimum of ₹ 500) for long periods to accumulate wealth over the long run.

Direct plans bypass the requirement of an intermediary like a distributor, so the commission paid to them is excluded from the expenses charged to investors. Thanks to this saving, direct plans lead to higher returns over the long term compared to regular plans. But direct plans may not be for everyone; they suit only those who understand fund investing and have the capability to pick the right funds on their own.

Retirement planning

Mutual funds also serve as a good retirement planning tool. S Shanmuga Priya, 30, a Group-2 senior government officer living in Thanjavur with her husband and two children, says "I understood the importance of investing once I became financially independent. My long-term goal is to accumulate wealth for retirement as there is no appropriate pension scheme currently for government employees. Over the short term, my goal is to accumulate money to pre-close our home loan."

Shanmuga Priya has a high risk appetite and invests in a big way in mid- and small-cap funds. She could consider going for less volatile large-cap funds to provide long-term stability to her portfolio.

Sharing knowledge

Sivasankari, 40, a home-maker hailing from the down-south district of Tuticorin, manages a well-diversified portfolio similar to a portfolio manager. Her portfolio comprising stocks and mutual funds includes equity funds, hybrid funds and gold ETFs.

Sivasankari shares her wide knowledge about the market, to educate other women about the importance of investing. She says, "The Indian mentality is to get interest from the principal amount and then transfer the principal to sons or daughters. Many people mainly prefer bank fixed deposits which yield relatively lower returns compared to mutual funds."

She has invested a certain portion in hybrid funds paying monthly dividend to meet her regular expenses. But she realises that this strategy will not be optimal, going forward, given the 10 per cent dividend distribution tax on equity oriented mutual funds introduced in this Budget.

Sivasankari is thinking long-term and says, "My goal is to accumulate a retirement corpus that will generate a monthly income equivalent to the inflation-adjusted monthly salary my husband currently draws."

SIPs: A way to keep emotions away

Shyamali Basu, Financial Chronicle 11th March 2018

In the world of investments, there is a well-researched theory of how human emotions play strongly at the wrong time. We all know that the markets are cyclical in nature. When the markets are cheap, typically there is a whole lot of negative news. Forecasts of the economy and the stock earnings are estimated to be on their downward slope. No one wants to invest in the stock markets when people anticipate negative news.

Driven by emotions, investors tend to extrapolate the good and bad markets. No condition prevails in perpetuity. Individual investors in the past have exhibited investment behaviour driven a lot primarily by two emotions, greed and fear. The equity market rally witnessed during 2004 to early 2008 is a case in point. What appeared a healthy stock market run up during the initial years turned out to be a highly irrational one with market valuations (measured in terms of P/E ratios) hitting sky high levels in January 2008. Ironically, that exactly was the time individual investor's invested maximum amount of money. FY08 saw net inflows into equity mutual funds to the extent of over Rs 52,000 crore, which was nearly double of the earlier year. However, post the market fall the inflows dried up significantly, there were actually net outflows from equity mutual funds. In the next three years, after the sub-prime, the cumulative flow was negative Rs 6,000 crore. The pessimism and optimism of the scale was not warranted.

Peter Lynch managed Fidelity Megellan Fund for a long period from 1977 to 1990 and delivered an annual average return of 29 per cent. He quotes that an average investor got only 7 per cent in this period. Invariably there is a difference between the scheme returns and investors folio returns. This occurs largely because of the investor taking calls to time the market depending on what he /she reads across various sources.

Sir Isaac Newton is considered one of the most intelligent persons ever born. But how many of us know that Newton lost his life's savings while investing. After Newton's financial collapse, he reportedly said, "I can calculate the movement of stars but not the madness of men."

Benjamin Graham, the author of Intelligent Investor, writes, 'this kind of intelligence (investing) has nothing to do with the IQ or SAT scores.This kind of intelligence ....is a trait more of character than of the brain.'

Time and again it is established that patience has more value than intelligence when it comes to investing.

It is for these reasons that equity investors find it difficult to make money from equity. Is there a way to insulate ourselves from these dominant emotions, which over-power us at the wrong time? Even as the problem sounds like a huge one, the answer to this question is a surprisingly simple and a highly effective one. Systematic Investment Plan (SIP) is an automated process of investment which gets triggered at a pre-defined frequency and regularly, making investment insulated from emotion-driven errors.

Our mind adjusts to the debits from the bank...have heard many investors say that when it comes to writing a cheque for any investment there are multiple thoughts that plague them, where as if there is a direct debit from their bank account, they somehow do not get perturbed. The same principle is responsible for the irrational spends we make on plastic money rather than on physical money. An SIP is a simple tool that helps bring in the discipline required to tide over emotions.

Equity markets reward long-term investors. Since SIPs work on the principle of incremental investments at different points in time / index level, investors tend to stay invested and not time the market to exit impulsively. They should be made aware that SIPs work best for longer duration for effective compounding to work in their favour.

Most difficult things in life can be achieved through discipline. Building wealth is no different. Start an SIP today.

(The author is Senior Vice President, HDFC AMC. opinions are of the author and not of HDFC AMC. This write-up is not an investment advice)

Mutual Funds: Looking for regular cash flow? Go for SWP

Brijesh Damodaran, Financial Express, 21st February 2018

An investor can park his cash flow needs into a liquid fund and then execute a systematic withdrawal plan. This way the possibility of the capital being eroded due to volatility in the equity markets is reduced while ensuring that the cash flow needs are met

Investing in mutual fund schemes over the last 24 months has gained momentum.

The last few months, especially since December last year, has been a roller coaster ride for investors in the equity markets. After seeing a 5.6 % (1908 point) rise in the BSE Sensex in January 2018, there has been a 5.4% (1955 point) fall in the benchmark barometer till February 20.

Close to a 4000-point movement over a period of less than two months can be a disturbing sign for a new investor, who has not observed and witnessed volatility in his investing journey. And what about those investors who have a secular cash flow from the equity markets by way of dividend through the balanced funds over the past many months?

Investing in mutual funds

Investing in mutual fund schemes over the last 24 months has gained momentum. One of the reasons is the drive towards financial investments and the lack of opportunities in other asset classes such as gold and real estate.The initial investors in the mutual find space took baby steps by investing lumpsum amounts of varying investment amounts, right from Rs 1000. Also, to attract disciplined and regular investing, Systematic Investment Plans (SIPs) were promoted.

This ensured cash inflow into the mutual fund schemes of various types like debt, equity and hybrid. One of the schemes within the hybrid category is the balanced fund category.

Dividend schemes for regular cash flow

Again in the last 24 months, the monthly dividend distribution scheme has attracted a lot of investors, especially those seeking monthly fixed returns or secular cashflow. But the point to be noted is that majority of the balanced funds have a hybrid asset allocation-with over 65% invested in equity and the rest in debt instruments. This, at times of market downturn, can result in the NAV of the scheme going down, which can lead to lower declaration of dividend and also cessation of dividend for a certain time period, till distributable reserves are in place, as per the Sebi guidelines.

Now with tax on dividend distribution @ 10%, as also tax on long term capital gains @ 10% in the equity scheme, the gains and the cash inflow in terms of dividend are no longer tax exempt. The dividend distribution in mutual fund schemes, especially the balanced fund schemes, had given the investors a false sense of complacency of guaranteed monthly dividends. However, if as an investor you do need a regular cash flow, it can be carried out through Systematic Withdrawal Plan (SWP).

Systematic Withdrawal Plan

In a SWP, on a specific date, a pre-determined amount is credited into the bank account of the investor, after redeeming the units of the mutual fund scheme. In fact, SWP is typically useful in the distribution phase of the investor. And it has not found traction in the investors mindset, as it has not been promoted, as a cash flow and/or distribution tool. In a dividend distribution, when the dividend is distributed NAV of the scheme falls. In a SWP, the number of units in the scheme of the investor is reduced.

As an overall investment strategy, an investor can park his cash flow needs into a liquid fund and then execute an SWP through the said scheme. This will ensure that the possibility of the capital being eroded by the volatility of the equity markets is reduced. And also ensure that the cash flow needs are met. This will also reduce the impact of volatility in the cash flow needs in the overall investment portfolio of the investor.

If the redemption is from a debt scheme and before three years, short term capital gain is applicable on the gain of the scheme. If the redemption is from equity schemes before one year, short-term capital gain tax is applicable and if redeemed after one year then long term capital gain tax is applicable. There are fixed instruments like tax-free bonds and fixed deposits. But typically, this has interest distribution at half-yearly intervals or more often at annual intervals. In a SWP, the distribution frequency can be set by the investor and this has an advantage over other fixed instruments.

The writer is managing partner,
BellWether Advisors LLP

Tax-saving investments on financial needs, goals – All you want to know

By: Neha Malhotra, Financial Express, January 5, 2018

At the end of every financial year, many taxpayers make investments to minimise taxes, without adequate knowledge of the various available options. A rush job often leads to mistakes and they end up investing in those schemes which don't serve their financial needs. Make the Rs 1.5-lakh limit count With three months left to the end of the financial year, it is advisable to start thinking of investment alternatives that not only help you save tax but also increase your wealth. Deduction can be claimed up to Rs 1.5 lakh under Sections 80C and if you are in the 30% tax bracket, you can save up to Rs 45,450 by investing in the following approved tax-saving instruments.

Contribution towards Employee's Provident Fund @12% of your salary is deductible under Section 80C and the interest earned thereon is tax-free. Contribution towards Public Provident Fund up to Rs 1.5 lakh is deductible under section 80C and the interest is tax free. You can invest in 5-year National Savings Certificate to claim deduction under section 80C, but the interest earned is taxable. You can also invest in five-year bank and post-office fixed deposits for claiming tax deduction, but the interest earned is taxable. An individual's contribution towards National Pension System (NPS) is tax deductible under section 80CCD up to Rs 1.5 lakh capped at 10% of the salary in case of a salaried individual and at 10% of the gross total income in case of non-salaried. Additional deduction of Rs 50,000 over and above Rs 1.5 lakh is available to an individual assessee for contribution made to NPS.

Investments in Sukanya Samriddhi Scheme is eligible for deduction under Section 80C and payments to the beneficiaries including interest payment on deposit are also exempt from taxation.

Investment in a life insurance scheme (unit-linked, traditional endowment or term plan) with sum assured at least 10 times the annual premium is eligible for tax deduction within the Rs 1.5-lakh limit. Investment in equity mutual fund schemes with a lock-in of three years is tax deductible up to Rs 1.5 lakh. One can continue to remain invested even after the lock-in period. Capital gains and dividends are not taxed.

Beyond 80C investments

The principal component of a home loan repayment is tax deductible up to Rs 1.5 lakh. Tuition fee for educational institutes in India for full-time education of two persons is also eligible for deduction. Further, contrary to popular belief, Section 80C is not the only section that salaried people can exploit to save maximum tax. General expenditure such as house rent, medical expenses for the family or spending on your children's school fees have tax exemptions. You have to understand the nature of each tax break; and depending on the shortfall, the remaining amount should be invested in tax-saving instruments.

You can claim deduction up to Rs 30,000 on interest paid on a loan taken for renovation of an existing property. You can claim deduction of up to Rs 5,000 on expenses incurred on health check-ups, subject to the overall limit in Section 80D, under which deduction for medical insurance is available from Rs. 25,000 to Rs 55,000 subject to prescribed conditions.

The writer is executive director, Nangia & Co LLP. Inputs from Vasudha Arora

Union Budget Proposes LTCG For Equities: What It Means For You

By Parag Mathur- General Counsel & Head of Compliance, BankBazaar | February 1, 2018

The Union Budget has introduced a 10% LTCG tax on gains made above Rs. 1 Lakh. Here's what that means.

In line with expectations, the government has reintroduced the Long Term Capital Gains (LTCG) on equity investments. Capital Gains are the profit an investor generates on selling capital assets for a price higher than their purchase price. They are classified as Short-Term Capital Gains and Long-Term Capital Gains.

In India, the LTCG on stocks and equity Mutual Funds were tax-free for the last 14 years. But the short-term gains are taxed at 15 percent. The government has now introduced a 10% LTCG tax on gains made above Rs. 1 Lakh.

While introducing the tax, Finance Minister Arun Jaitley said, "With the reforms introduced by the Government and incentives given so far, the equity market has become buoyant. The total amount of exempted capital gains from listed shares and units is around Rs. 3,67,000 crores as per returns filed for A.Y.17-18. A major part of this gain has accrued to corporates and LLPs. This has also created a bias against manufacturing, leading to more business surpluses being invested in financial assets. The return on investment in equity is already quite attractive even without the tax exemption. There is, therefore, a strong case for bringing long-term capital gains from listed equities in the tax net."

Equity investments: New LTCG tax reality – Book profits regularly at Rs 1 lakh

By Sanjiv Bajaj, Financial Express, February 7, 2018

Budget 2018: The restoration of long-term capital gains (LTCG) tax on equity income in Budget 2018 is a huge change. This would have a huge impact on the ease of investing in stocks and equity-oriented mutual funds. People were investing in equity because of the robust returns delivered by the markets since the Modi government came to power in 2014. As there was no LTCG tax on holding the investment over a year, everything was very simple and this was bringing more and more retail investors into the market resulting in strong domestic flows into the market and bringing stability and growth to the same.

Managing your gains

From February 1 onwards, selling stocks or equity mutual funds that you have held for the long-term will mean paying taxes on gains accrued since the market closing on January 31. If in a year, you realise more than Rs 1 lakh of such gains, then 10% plus cess of that has to be paid as tax. So far, so good. You might not like this tax or you may console yourself that it's at least a lot less than the 30% income tax slab you are on. If that's what you think, you may be getting ahead of yourself. Now, this is where the challenge comes in. A simple investment so far has now become much more complex as you will now have to manage your returns, too.

Suppose your gain for a year is Rs 90,000 and you book the same, there's no tax. But if you wait another few months and it becomes Rs 1,05,000 then you will have to pay Rs 10,500 as a tax. So now as an investor, you and your financial advisor will have to be much sharper at following returns and flagging such situations. Also, you will now need to consolidate your portfolio, if you are making many investments then it would become that much or more difficult to calculate your tax liabilities. Here are some some important points investors will have to keep in mind when investing in this new reality.

Consolidate, book profits

First and foremost, consolidate your portfolio and do not buy and sell frequently. Choose a few good stocks that will stand the test of time. Invest in mutual funds instead of buying and selling equity directly. A mutual fund investor can get the same returns but doesn't need to buy and sell individual stocks and thus has a much smaller number of transactions. You are not affected by the trading being done by the fund manager on your behalf in the fund as long as your holding period is over a year. Again, rather than having 20 to 30 funds in your portfolio restrict them to not more than 10 and consolidate your holdings.

Know how Arun Jaitley's Budget 2018 will impact your tax liability with this Income Tax Calculator

Book profits regularly and this would take some understanding and work. Since Rs 1 lakh of gains are tax-free, at the end of every year, you could sell investments that would generate that much returns and immediately buy them again. Although the saving is Rs 10,000, as mentioned this would compound and can make a lot of difference if you do it over years with the power of compounding. Use a good wealth manager or a firm as those with a robust technology platform will be able to give you the capital gains and loss statement. Making a mistake here can cost you big. Also, with a consolidated portfolio, the most important thing is you need help in fund picking and if the wealth management company has a good research team they can help you pick the winners which would give you more than the returns you require to compensate for charges you are paying to them over going direct, which are 0.5-0.6% of the portfolio. There may be other side effects of this tax, which would only come out as the fine print is read and further details come out. So, it is important to be cautious and keep an eye on more information.

The author is Vice-chairman & managing director, Bajaj Capital

Here is all you need to know about the LTCG and how it will impact your investments in equities.

When Is The Tax Payable?

Since it is a Direct Tax proposal, it will be applicable for the Assessment Year FY19-20 (Financial Year FY18-19). In other words, the LTCG over Rs. 1 Lakh made for the year FY18-19 will be liable to tax at 10%.

Does it mean that there is no LTCG for Assessment Year FY18-19 (Financial Year FY17-18)?

One needs to understand the exact proposal in the fine print. However, it appears that any LTCG will not be applicable for FY18-19 on plain read. This question frankly needs a greater degree of expert study.

What is the relevance of the cut-off date of January 31, 2018?

The FM has proposed grandfathering of LTCG up to January 31, 2018. Any incremental LTCG after that will be counted as LTCG for the new tax. Grandfathering is defined as "exempting (someone or something) from a new law or regulation."

What happens to my tax liability if I sell stocks starting today held for more than a year?

As for LTCG made in Financial Year 17-18 (i.e sale up to March 31, 2018), it appears there is no tax. However, any sale made after April 1, 2018, will be liable to the new LTCG tax. One needs to segregate this LTCG into two parts:

Part 1: LTCG made up to January 31, 2018. This will be the highest price of the stock on January 31, 2018, minus the cost of acquiring stock;

Part 2: LTCG made after January 31, 2018. This will be sale price minus the highest price of the stock on January 31, 2018.

While Part 1 will be exempt, Part 2 that will be assessed as LTCG (it can also be a capital loss) for tax, which will be computed at the rate of 10% (+ cess of 3%) only if exceeds Rs. 1 Lakh

What should be the strategy now on equity investments?

Any equity investor wishing to reduce the LTCG tax liability can sell stocks starting today till March 31, 2018, and incur zero tax provided the holding period is more than a year. However, one can continue to buy equity shares without any hesitation. Any future sales after March 31, 2018, have to be judiciously chosen to minimise the tax liability. Assuming equity investments yield a return of 15% every year, an investment of Rs 6.66 lakh each year will rise to Rs 7.66 lakh in a year and gains booked thereof will be tax-free. Even if the gains exceed 15% to, say, 25%, the LTCG tax will be Rs. 6,667 only.

Does this make equity investment unattractive?

Short answer: No. It doesn't. The tax is not retrospective. The Indian markets continue to have great long-term prospects with projected economic growth pegged at 7-8% per annum. If you're an investor looking for long-term returns, you should not pull out and remain invested. If you're a Mutual Fund investor, you're still using the best savings instrument there is and will continue to earn long-term returns better than most asset classes. The introduction of the LTCG should not change your long-term outlook.

The writer is General Counsel & Head of Compliance, BankBazaar

Transmission of mutual funds on death

Nalinakanthi V, Business Line 26th March 2018

The units are transferred to the surviving unit holder, nominee or legal heir

We strive hard to save money for securing the financial future of our families. We also plan finances and investments to take care of the family needs in our absence. It is equally important that the legal heirs inherit the assets without hassle.

In the case of mutual fund investments, the units held by the deceased holder are transferred to the surviving unit holder or nominee or the legal heir; this process is known as transmission. In case of multiple unit holders, in the event of death of the first unit holder, the units are transferred to the surviving unit holders. If there is a sole unit holder, the mutual fund units are transferred to the registered nominee. In case of a single unit holder, where the nominee has not been registered, the legal heir will have to claim the units by producing necessary documents and proving heirship.

Role of nominee

Fund houses typically ask for nominee registration at the time of investment. A nominee is an individual, pre-decided by the unit holder, in whose name the units will be transferred upon death of the unit holder. The nominee can either be the legal heir who will inherit the investment on death of the unit holder or a caretaker of the assets until it is claimed by the unit holder's legal heir/s or transferred to them according to a predetermined will.

For instance, if the legal heir is a minor, the nominee will be responsible for the investment till the legal heir completes 18 years of age, post which it will be transferred. Registration of nominee can be done either at the time of investment or subsequently.

Individuals can register up to three nominees for a folio; this is useful when the nominees are also legal heirs. One can specify the quantum of share for each nominee. In case there is no mention of the proportion, all the nominees will receive an equal share.

Documentation

The documents needed for transmission varies under different situations.

Let us first take the case of a single unit holder. In case the deceased unit holder has registered his nominee, the transmission of units to registered nominee is relatively simple.

The nominee, who is the claimant seeking transmission of the units, has to submit a letter to the asset management company (AMC) or registrar and transfer agents (RTAs).

Along with the letter, he has to submit the original death certificate or notarised or attested photo copy of the same.

Also, the nominee's bank account details attested by the bank manager or a cancelled cheque or bank statement or pass book bearing the account holder's details need to be submitted.

But what if the deceased unit holder was the sole investor and the nominee was not registered? In addition to the documents mentioned above, the claimant (legal heir/s) will also have to furnish the indemnity bonds and individual affidavits.

If the amount of investment is below a certain threshold level, documents evidencing the relationship of the claimant with the deceased unit holder need to be provided. If the investment exceeds the threshold, the claimant has to submit any of the following documents - notarised copy of the probated will or legal heir certificate/succession certificate/claimant's certificate issued by a competent court or letter of administration in case there is no will.

The threshold limit could vary across fund houses. For instance, while HDFC Mutual Fund has 5 lakh as the threshold limit, it is 2 lakh for SBI Mutual Fund and UTI Mutual Fund.

If the units have been held by two or more individuals jointly, the surviving unit holders have to give a letter requesting transmission of units along with either original or notarised/attested copy of death certificate of the deceased unit holder.

This needs to be submitted along with bank account details of the second unit holder (who will now be the new first unit holder) along with an attestation by the bank branch or cancelled cheque or bank statement or pass book bearing the account details.

The writer is co-founder, Rana Investment Advisors

All you wanted to know about indexation

K VENKATASUBRAMANIAN , Business Line 20th March 2018

Stock market investors want it, but the finance minister isn't keen to grant it. No, we aren't referring to the part of a book that lists out the chapters with their relevant page numbers. Under the Indian Income Tax Act, indexation is a legitimate method to inflate your cost of purchase of real estate, debt funds, certain unlisted bonds and gold, so you pay lower taxes on gains when you sell these assets. While imposing long-term capital gains tax on equity investments in the recent Budget, the FM did not add on indexation benefits.

What is it?

We all know that a rupee today is worth more than what it would be worth a few years down the line. In other words, inflation eats into the value of the rupee and shrinks its purchasing power. Thus, when you make any long-term investment, your primary purpose is to earn a return over and above the inflation rate. This is why Indian tax laws allow the indexation benefit when you make gains from selling capital assets. Basically, your cost of buying the asset is adjusted for inflation when computing the gains.

Every year, the Central Board of Direct Taxes brings out the cost of inflation index (CII) applicable for the financial year. Based on the CII in the year of your sale, and that of your purchase, an indexation multiple is calculated for adjusting your purchase price. So, if the CII in the year of your purchase is 100 and that during your sale is 264, you can multiply your cost price by 2.64. You can then calculate your gains based on the indexed price of acquisition and pay tax.

If you bought debt funds for 1 lakh and sold them for 3 lakh, from the above example, your cost of acquisition would be 2.64 lakh. The effective gains would only be 36,000 (and not 2 lakh), on which you need to pay tax. The base year for the CII is 2001. All gains made before April 1, 2001 are calculated based on the fair market value as on this date. Remember, indexation is applicable only on long-term capital gains made on certain investments. 'Long term' varies for different asset types. It is 2 years for house/property and 3 years for debt mutual funds.

Why is it important?

In a capital-starved economy like India, it is important to induce people to save and invest. Indexation shields savers from bearing a heavy burden of taxes when they invest in any asset for the long-term. Indexation also drives home the point that it is 'real returns' from any investment that really matter. Let us assume that you make a 10 per cent annual return on an investment. If the inflation rate during your holding period is 6 per cent, your 'real returns' would only be 4 per cent, which effectively means that you would be earning a lot less than what's on paper. It is only logical, therefore, that as an investor you be allowed to adjust your acquisition cost to inflation. During periods of high inflation and low capital appreciation, the indexation rule even allows you to book a capital loss, if your real returns are negative.

Why should I care?

As an investor, you need to compare different instruments on a post-tax return basis. So, when comparing instruments without indexation (bank deposits or equity mutual funds) with instruments with indexation (gold or debt mutual funds), you have to adjust your computations accordingly. On decisions to sell your ancestral property, family gold or debt or global mutual fund units you must remember that long-term capital gains are calculated after factoring in indexation.

The bottomline

You must pay taxes on gains made, but the portion eaten away by inflation must be shielded.

Signing of MOU with Financial Service Commission, Mauritius. Shri Sandip Ghose, Director, NISM, Shri G P Garg, Registrar and Mr Sarvesh Sreegolam, Chief Executive of FSC Mauritius. seen in the picture

Prof K Sukumaran, Dean, NISM delivering the KN Raj Memorial Talk at E K Nayanar Memorial Government College, Kasaragod on 25th January 2018

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National Institute of Securities Markets

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NISM Bhavan, Plot No. 82, Sector-17, Vashi, Navi Mumbai - 400 703.
Phone: 022 66735100-02 | Fax: 022 66735110

www.nism.ac.in