NATIONAL INSTITUTE OF SECURITIES MARKETS
An Educational Initiative of SEBI

INVESTOR EDUCATION update

Volume 7, Oct. - Dec. 2018

Shri S K Mohanty, Whole Time Member, SEBI delivering the inaugural address at the launch of the Faculty Development Program for the teaching staff of University of Madras at Chennai.

MESSAGE FROM DIRECTOR

The securities market, as an important segment of the financial market has matured in India with number of intermediaries actively participating and playing their role effectively. Securities and Exchange Board of India (SEBI) through its regulatory, developmental and protective role creates a conducive environment for the growth and development of securities market. Professionalizing securities market is a challenge and to meet this, National Institute of Securities Markets (NISM) has been engaged in various activities to build capacity in the sector.

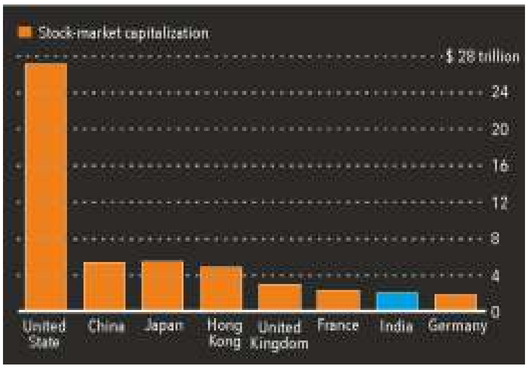
Through its tailor made courses, rich inputs have been given to the students to acquire the right knowledge and skills, as a result the demands of various stakeholders in securities market are met. Various certificate courses launched online enable the market participants to sharpen and improve their learnings adhering to the highest quality standards in the industry. NISM reaches to the public through its investor education initiatives that make people understand the significance of risk and rewards in making investment decisions. The School for Regulatory Studies and Supervision provides management development programs to officers serving in civil service, SEBI, RBI, stock exchanges, market intermediaries etc. The world class infrastructure created at our Patalganga campus can be utilized by all the stakeholders, making professionalization of securities market industry a reality.

Dr. M Thenmozhi
Director

Editorial

The year 2018 has bid farewell to all of us, keeping the performance of the securities market in India quite encouraging as compared to international developments. As per the recent data compiled by Bloomberg, India claimed as the seventh largest country in the world in terms of market capitalization, overtaking Germany. India is now home to the world's seventh biggest stock market. In 2018, with market capitalization at $2.29 trillion, it has overtaken Canada and Germany.

The securities market performance in any country is evaluated in terms of companies raising finance from the primary market and the investors gaining from their investment portfolio. In 2018, the funds mobilized from the capital market fell 60 per cent on year to year basis. As per PRIME data base, companies raised Rs 63,144 crores only through various equity market routes in 2018. This comprises of Rs 33,244 crores mobilized through IPOs, Rs 16,077 crores through Qualified Institutional Placement (QIP), Rs 10,678 crores through Offer for Sale (OFS), and Rs 3,145 crores through Infrastructure Investment Trusts (InvITs).



The investor sentiments also remained buoyant in 2018 as retail investors placed their faith in mutual funds and Systematic Investment Plans (SIPs). The individual investors' share in assets under management of mutual funds increased from 48.8 per cent in November 2017 to 54 per cent in Nov 2018.

Prof K Sukumaran
Dean

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SEBI FINANCIAL EDUCATION RESOURCE PERSONS REFRESHER WORKSHOPS

During the quarter October – December 2018, NISM has organized seven refresher workshops of two days each for the existing SEBI Financial Education Resource Persons. These were held in the cities Hyderabad, Bangalore, Nagpur, Jammu, Kolkata, Varanasi and Pune. Three hundred resource persons were retrained. The details are as under.

Sl. No.	Venue	Dates	No. of Resource Persons attended
1.	Hyderabad	13-14 October 2018	51
2.	Bangalore	27-28 October 2018	54
3.	Nagpur	03-04 November 2018	36
4.	Jammu	24-25 November 2018	19
5.	Kolkata	08-09 December 2018	48
6.	Varanasi	15-16 December 2018	47
7.	Pune	22-23 December 2018	45
Total			**1701**

SEBI financial education resource persons refresher workshop , Kolkata


SEBI financial education resource persons refresher workshop , Hyderabad


SEBI financial education resource persons refresher workshop , Bengaluru


SEBI financial education resource persons refresher workshop , Nagpur

SEBI financial education resource persons refresher workshop , Jammu

SEBI financial education resource persons refresher workshop , Varanasi

SEBI financial education resource persons refresher workshop , Pune


NiSM
SEBI Financial Education
Resource Persons Refresher Workshop


NATIONAL INSTITUTE OF
SECURITIES MARKETS
Education

SEBI FINANCIAL EDUCATION RESOURCE PERSONS REFRESHER WORKSHOPS

The National Institute of Securities Markets (NISM) organized a Faculty Development Programme on Securities Markets in association with the Department of Commerce, University of Madras, and Aditya Birla Capital Mutual Fund. The programme was held at the premises of University of Madras, in its Chepauk Campus (Chennai), on 3rd and 4th December 2018. About 150 faculty members and research scholars from various colleges affiliated to the University participated in the programme.

The programme was inaugurated by Shri. S K Mohanty (Whole Time Member, SEBI). Dr. M Thenmozhi (Director, NISM) delivered a special address and Shri. K S Rao (Senior Vice President, Aditya Birla Capital Mutual Fund) delivered a keynote address. The inaugural ceremony was presided over by Dr.R Srinivasan (Registrar, University of Madras).

In his inaugural address, Shri. Mohanty noted that the educational institutions should step forward to interact with the industry, through more such programmes. He appreciated the efforts of NISM and the University in organizing the programme for the benefit of the teachers. Dr. Thenmozhi briefed on the various capacity building activities carried out by NISM and its contribution to the academic world. Shri. K S Rao highlighted the importance of continuing education and knowledge enhancement. Dr. Srinivasan thanked NISM for having chosen to collaborate with the University in its mission of professionalizing the securities markets. Dr. S Gurusamy (Head-Department of Economics, University of Madras), who welcomed the gathering talked on the recent economic policies of the government and how securities markets play a vital role in sustaining economic development. Dr. S Yuvaraj (Assistant Professor, Department of Commerce, University of Madras) delivered the vote of thanks.

The programme featured a rich line-up of technical sessions on various segments of the markets. The technical sessions started off with an overview of securities markets by Ms. Aparna Thyagarajan (Deputy General Manager, SEBI). Shri. Sunil Kadam (Registrar, NISM) created awareness on the various career opportunities posed by the Indian securities markets. He highlighted the pivotal role played by NISM in building careers in the markets. Shri. Srinivasan Sundararaman (External Trainer) introduced the participants to the various asset classes and enlisted the pros and cons of each of them. Shri. K S Rao (Aditya Birla Capital Mutual Fund) sensitized the importance of financial planning and financial independence.

The second day of the programme started with a session on IPO reforms by Shri. V Nagappan (External Trainer). Mr. Nagappan talked on the listing procedures and regulations.

Shri. Rishab Lunia (External Trainer) provided a good understanding of the Fixed Income Securities. Shri. Arulrajhan TR (External Trainer) demystified Derivatives and elaborated on the various trading strategies involved.

Shri. Anand Subramaniam (Vice President – HR, NISM) emphasized the importance of skill development and capacity building in the domain of securities markets. He, along with Mr. Gokulnath Raja (Deputy Manager, NISM), elaborated how NISM's capacity building programmes can be a gateway to careers in securities markets for students and aspirants. Dr. K Jothi Sivagnanam (Head-Department of Commerce, University of Madras) delivered his valedictory remarks. He also conferred Certificates of Participation to the faculty members.

Retail investors skewed towards equity asset; it is time to shift from products to solutions – Interview with Shri D P Singh, Executive Director, SBI Mutual Fund by Livemint

Talking to Mint, D.P. Singh of SBI Mutual Fund said it's time now to move from products to solutions as MF products can cater to different financial goals. Over-dependence of one type of product must end, he added

Mutual fund inflows have grown significantly over the last two years. Would you attribute this to the push towards financialisation of savings or is it more about recognising the potential of MF products across investment needs?

Favourable demographics, rising income levels and a burgeoning affluent middle class have provided a strong customer base for the industry. We have seen investors moving towards evolved financial assets from passive ones. Over the last two years, the industry AUM (assets under management) has grown to 23% of bank deposits from 10%. The government's push towards financialisation of savings through various initiatives as well as Mutual Fund Sahi Hai campaign by Amfi (Association of Mutual Funds of India) has led to this impressive growth. The growth can also be attributed to evolved products, digitalisation and ease of doing transactions.

However, there is a lot of untapped potential across the country as awareness about MF catering to different financial goals is still low.

How secular has this growth been in terms of investors subscribing to a variety of MF schemes? Equity schemes seem to be a favourite with retail investors.

Mfs offer a variety of products across equity and debt asset classes for all types of investors. Generally, institutional and HNI (high net-worth) investors partake in a complete bouquet of products based on their needs.

However, retail investors' portfolios have been skewed towards equity-oriented funds. This can be because of lack of understanding of debt markets and slower push of debt products by distributors as well as AMCs (asset management companies).

In your experience, how diversified are investor portfolios in terms of scheme-wise exposure?

Investor concentration in one asset class and within one scheme is a major issue. Over 80% of our investors have their investments in one of the schemes and over 90% have investments in only one asset class. This would more or less be the industry trend. There is a dire need to offer investors multiple asset classes or products, and educate them to look at MFs as complete solutions to all their needs.

How can advisors and distributors address the issue of retail investor concentration in the equity asset class and within that in a handful of schemes?

Distributors need to look at increasing investors' wallet share. In the current scenario, we see that distributors tend to focus on getting 15-20% of investors' wallet share, but we believe there is a potential to increase it to 50-60%. This will also help them offset the impact of lower brokerage rates in line with the recent Sebi (Securities and Exchange Board of India) guidelines.

We now need to shift focus and highlight the benefits of other categories such as short-term debt for liquidity management and closed-end schemes such as fixed maturity plans (FMPs) for investors looking at avenues to avoid volatility and earn better tax-adjusted returns. These efforts will help us increase the participation of retail investors across asset classes and categories.

If MFs can cater to various financial needs of an individual, why does the focus remain on using them for long-term wealth creation? Does the marketing commentary need to change?

Yes, the communication needs to change as whatever the investment horizon, there is an MF scheme available for you. The long-term communication gets highlighted due to the focus on investing for needs such as retirement, and equity funds give the convenience to invest as per your need. Short- and medium-term needs are also well-served through funds and are the other side of the coin which need to be communicated more often.

What are the top three financial needs that can be catered to by different types of mutual funds?

For short-term requirements, such as saving for a rainy day, investors can look at liquid, ultra-short or money market funds. For medium-term goals, short/medium-term debt and debt hybrid funds can provide investors the opportunity to earn tax-efficient returns.

For long-term goals, they can look at FMPs or long-term debt and equity-oriented funds, depending on their risk appetite.

With a wide range of product offerings and facilities such as SIP and SWP, mutual funds can serve as a go-to solution for all financial needs.

Though SWP and SIP have been talked about repeatedly, one still sees a marketing push for a single product. Why?

Yes, we need to change the approach to have wider participation and that can be possible when we shift from products to solutions. We need to educate investors about SIP and SWP as investment tools to meet their varied financial goals. However, more emphasis needs to be put on highlighting the benefits of SWP as it is still in a very nascent stage. SWP is a tax-efficient mode of getting regular cash flow along with capital appreciation on the balance investments. Product comes as a second layer wherein investors need to choose a suitable one based on their risk appetite and investment horizon for which they opt for SIP or SWP.

Why is the industry slow to talk about risk? We hear disproportionately about returns.

We have always highlighted the risk factors associated with investments in different asset classes and the factors leading to market volatility. While past performance is shown as a reference to investors, it is always accompanied with appropriate disclosures with respect to associated risk and market volatility. In all our communications, our endeavour is to highlight all possible risk associated with investment in the said asset class or scheme.

In his over two-decade stint at SBI Funds Management Pvt. Ltd, executive director and chief marketing officer D.P. Singh has seen the mutual fund industry evolve over the years.

Top tips to help you inculcate a saving habit

If you find saving money virtually impossible, what with the flurry of expenses that announce their arrival at the start of each month, this guide is for you.

By following a few rules, inculcating the habit of saving and reducing expenses gets easier.

If you find saving money virtually impossible, what with the flurry of expenses that announce their arrival at the start of each month, this guide is for you. Saving need not be an impossible task if you have a sound financial plan. By following a few rules, inculcating the habit of saving and reducing expenses gets easier. Here is a set of financial guidelines to live by.

Identify your needs and wants

While you need to buy your parents a gift for their 50th anniversary celebration, you don't need to purchase a new car for them even though you may want to. Distinguish between your needs and wants by segregating them based on the urgency and impact. Ask yourself if you can hold off on your purchase until the next sale. Remember you will always have unlimited wants, but a limited number of needs that can be catered to by your monthly budget.

Do not postpone saving plans

Even though the next month may seem like the ideal time to start a new fixed deposit, recurring deposit or mutual fund investment, don't procrastinate. Combat the urge to spend by setting automatic transfers. Similarly, if you are putting off an investment in mutual funds that can yield high returns because of an insufficient corpus at your disposal, invest in an SIP instead. This way you can invest in instalments instead of a lump sum. Once you have enforced a savings habit, following the pattern religiously each month will only get easier. Additionally, investing part of your savings can help you combat the adverse effect of inflation.

Use financial goals

An essential part of saving and investing successfully is setting financial goals. With a written down plan, you are much more likely to achieve your goals. Well-planned goals are a reminder of your priorities and constantly inspire you to make more prudent choices. With financial goals to pave the way, you can follow an easy path to providing for your needs while also maintaining your financial wellbeing. For example, if you want to buy a car in the next five years, start saving and investing now. Check the prices of current models, account for any rise in price, and forecast the amount you need. Then predict your returns from investments and invest smart to achieve your target.

Don't give in to spending pressure

Sales are often hard to resist and advertising is only getting easier to relate to. With festive offers and holiday schemes, turning down a flat 15% off scheme suddenly seems impossible. Rather than letting FOMO (the fear of missing out) be your beacon, let your goals be your lighthouse. This way, you will think again before you swipe your card or simply ape your peers.

Set limits on fun activities

Even though you must enjoy a part of your earnings, balance your fun activities with savings. Limit your visit to the neighbourhood discotheque or replace the weekend ritual of ordering in and opt for fun but easy recipes that you can cook in your kitchen with your family. Having a budget in place for all your fun activities will help you enjoy and curtail expenses simultaneously.

Reduce your expenses

Take the time to review your expenses once every quarter. In order for this to really work, you need to be ruthless and maintain an account of your expenses. Seeing the amount of money you are spending on frivolous things will deter you from making the same mistakes in the future. You may even come up with better solutions like carpooling with your friends instead of driving yourself to work every day that will help you build your savings!

Importance of asset allocation

Broadly, financial planners recommend multiple asset classes so that if one asset falls, another or few others don't fall as much. In fact, some may just as well go up and that helps your overall portfolio.

Mint saw the returns through broadly four asset classes–equity (through large- and multi-cap funds), debt (through government securities funds), gold (in US prices) and S&P 500 index as a proxy for the US markets. Between 2000 and 2017, equity outperformed all other asset classes nine times, debt markets five times, gold three times and the US markets once. "Typically, on days when markets fall, many investors want to remove all their equity holdings. But when markets are at their peak, investors want to invest everything into equities. Asset allocation tells you ideally how much you should have of what asset class," said Shyam Sunder, managing director, PeakAlpha Investment Services Pvt. Ltd.

Patience pays

SIPs have been getting truckloads of customers into the mutual funds industry. In September 2018, 7,727 crore worth of inflows came into MFs through SIPs, up from 6,644 in January 2018 and 4,095 in January 2017. But what happens if the markets crash after you start your SIP?

WHY IT HELPS TO CONTINUE YOUR SIPs

If markets fall after we start our SIPs, should we stop our SIPs and wait for markets to rebound? No. This table accounts for three time periods in the past 18 years just before markets fell sharply. But if you had continued with your SIPs, you would have made money over the long term.

Period	Total investment (₹)	Diversified equity funds		Small and mid-cap funds	
		Investment Value (`)	Returns (%)	Investment Value (`)	Returns (%)
SIP performance of `10,000 since April 2000					
3 years	3,60,000	3,37,540	-4.13	NA	NA
5 years	6,00,000	14,16,100	35.07	NA	NA
7 years	8,40,000	29,34,086	35.29	NA	NA
10 years	12,00,000	51,04,189	27.28	NA	NA
Since April 2000	22,20,000	1,39,83,807	17.46	NA	NA
SIP performance of ₹10,000 since January 2008					
3 years	3,60,000	3,34,845	27.34	5,66,347	31.60
5 years	6,00,000	8,10,032	11.94	9,03,415	16.36
7 years	8,40,000	15,92,300	17.93	19,73,422	23.97
10 years	12,00,000	26,96,298	15.45	36,98,308	21.31
Since January 2008	22,90,000	26,35,465	12.69	32,09,776	16.08
SIP performance of ₹10,000 since November 2010					
3 years	3,60,000	3,94,423	6.01	4,00,142	6.97
5 years	6,00,000	9,00,561	16.22	10,89,282	24.04
7 years	8,40,000	15,15,703	16.55	18,68,147	22.42
Since November 2010	9,50,000	15,84,981	12.64	17,87,223	15.57

Investment assumed at the start of the month and valuation one month after the last instalment.

Source: Crisil

Evidence shows that even if markets slide after your SIP starts, patience pays and you have a high chance of making money in the long run. If you had started your SIP in April 2000 or January 2008 or November 2010 just before equity markets had started to fall, you'd still have made money (see graph).

Should you invest?

Experts recommend that your investments must always go on, no matter where the markets are. The question is: how much?

Your asset allocation should be the starting point. Broadly, financial planners recommend that you should divide your assets between equities, fixed income, gold and international equities. Real estate is also an asset, though it's best not counted here if you don't already have one. But if you have real estate, then that becomes the fifth asset in your portfolio, till the time you decide to trim it or remove it altogether.

Vinod Jain, principal adviser, Jain Investment Planner Pvt. Ltd, has a slightly different approach. He tracks equity and debt markets with a hawk-eye and determines the most likely equity and debt split his customers should have. Then, depending on their risk profile and how much fall an investor can tolerate, the asset allocation deviates, albeit marginally, from his firm's stated equity and debt split. On Wednesday, when Mint spoke to him, he said that if he'd be investing in the US markets, he'd be putting in much less money there than before, based on his reading of the indicators he typically tracks, to decide on equity investments. When India woke up on Thursday morning, the US markets had already fallen sharply. The S&P 500 ended with a loss of 3.29%, Nasdaq Composite 4.08%, while the Dow Jones shed 2.2%.

But as Jain reiterates, it is important to invest in at least two asset classes, namely equity and debt. “It is simple. Equity and debt markets are negatively co-related. Most of the times, if equities go up, debt markets go down and vice-versa. If you have money invested in both, you are cushioned,” he said.

Last year, when Leo Pereira, 66 walked into Jain's office to invest his retirement corpus, Jain's firm was running an asset allocation of 54% in equity and 46% in debt investments. But since he had not invested in equities much before his retirement, except a single SIP, Jain put 60% of Pereira's corpus in equity and the rest in debt funds. Pereira wanted a post-retirement income of close to ₹50,000 every month. Today, Jain's firm recommends an asset allocation of around 65% in equities and the rest in debt funds because of the correction in equity markets. But he has not yet tinkered with Pereira's asset allocation. “Asset allocation may change frequently because of market conditions, but once an allocation is decided for investors, they should not make changes for at least 3-4 years; otherwise, they'll end up churning the portfolios frequently,” said Jain.

Meanwhile, on Friday, the day after the market turmoil, the S&P BSE Sensex closed 732 points or 2.15% higher. If your asset allocation were in place, your portfolio would not have suffered.

Are you aware of these new PAN rules? All you need to know

The revised rules for application for allotment of PAN comes into force from December 5

The Income Tax Rules, corresponding to Section 139A, did not provide the time line by which such persons may apply for PAN allotment.

Permanent Account Number (PAN) is a unique 10-digit alphanumeric identity allotted to every taxpayer by the income tax (I-T) department. Quoting the PAN is mandatory when filing income tax returns, deduction of tax at source, communicating with the I-T department, etc. It is steadily becoming an indispensable document for sale or purchase of motor vehicles other than two-wheelers, sale or purchase of immovable property for an amount exceeding Rs 10 lakh and sale or purchase of goods/ services of an amount exceeding Rs 2 lakh.

The need of PAN also arises while opening a bank account (other than basic savings bank account), issue of a credit or debit card, opening a demat account; depositing cash in bank or purchasing bank drafts for amounts exceeding Rs 50,000 in a day; paying life insurance premium over Rs 50,000 in a financial year. In fact, PAN is also required to be quoted while making a time deposit. Settling a restaurant/hotel bill over Rs 50,000 also necessitates quoting of PAN. It is required for purchasing foreign currency, units of mutual funds or bonds/debentures of a company, RBI bonds, sale or purchase of unlisted shares for an amount over Rs 1 lakh.

Is PAN mandatory for all?

Obtaining PAN is voluntary. However, application for allotment of PAN is required to be compulsorily made where total income of a person exceeds the maximum amount not chargeable to tax (Rs 2.5 lakh for an individual below 60 years) during any financial year or when the turnover of an entity carrying out business or profession is over Rs 5 lakh in a financial year. Furthermore, PAN is also required by a person who receives an amount on which tax is required to be deducted at source. Vide Finance Act, 2018, Section 139A of the Income-tax Act, 1961 has been amended to provide that obtaining a PAN card shall also be mandatory for every person being a resident, other than an individual, who enters into a financial transaction for over Rs 2.5 lakh and for the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer or any person competent to act on behalf of such person. Therefore, obtaining PAN is mandatory even if the total sales/ turnover/ gross receipts of a resident entity are not or are not likely to exceed Rs 5 lakh in a financial year. Besides, even the principal officers of such entity are required to obtain PAN compulsorily. This inclusion has been made with the intention to bring more people in the tax net, improve tax collection and track financial activity of entities as well as those responsible for running them.

Timeline for PAN

The Income Tax Rules, corresponding to Section 139A, did not provide the time line by which such persons may apply for PAN allotment. Accordingly, CBDT, announced necessary changes to the Rules and the PAN Application Form 49/49A. The revised rules which shall come into force from December 5, 2018, now require such a resident person to apply for allotment of PAN on or before May 31 of the assessment year for which such income is assessable.

Further, in the revised application form the mandatory field seeking the father's name of the applicant has been wiped out. The I-T department will now allow applicants who were raised by single mothers to furnish their mothers' names in the application. The applicant has been given an option to select name of either father or mother, which the applicant may like to be printed on PAN card. The change has been made keeping in view, the interests of those taxpayers who do not wish for their estranged/departed father's name to appear on their PAN cards.

PAN valid in electronic form

I-T Act earlier provided that the PAN shall be issued in the form of a laminated card. Finance Act, 2018 provided that PAN under the new series means a PAN having ten alphanumeric characters. Thus, the importance of having laminated cards has been done away with. Hence, having the number, as issued by the department shall be sufficient for all intents and purposes.

Investment planning: Factors that determine investors' risk appetite

A policy statement helps understand an investor's risk appetite and determine financial goals accordingly

Construction of the policy statement requires two main inputs: Investment objectives and investment constraints.

Portfolio management has become challenging in recent times due to higher volatility in financial markets. The first step in constructing a well-designed investment portfolio is to create a policy statement. It is a roadmap in which investors articulate how much and what kind of risks they are willing to take, why they are investing and what constraints must be considered before investments are made. Since the needs, goals and constraints of investors change over time, it is important to periodically review the policy statement.

There are two key reasons for constructing a policy statement. First, it helps in designing a portfolio which is tailored to suit the personal financial situation of the investor. It achieves this by compelling the investor to articulate realistic investment goals. Second, it can be used to create an objective benchmark against which the performance of the portfolio and the portfolio manager can be evaluated.

Constructing portfolio

Construction of the policy statement requires two main inputs: Investment objectives and investment constraints.

Investment objectives are essentially the goals of the investor expressed in terms of risk and return. If goals are expressed only in terms of return, portfolio managers might resort to high-risk investment strategies and create highly volatile portfolios which may lead to considerable losses. Thus, an analysis of the investor's risk appetite should precede any discussion of return objectives.

An investor's risk appetite determines not only which securities should be included in the portfolio, but also how capital should be allocated across different asset classes like equity and debt. A matrix released by T. Rowe Price, a publicly owned American investment firm with assets under management exceeding $700 billion, recommends different asset allocation strategies across stocks, bonds and cash based on the investor's risk appetite and time horizon. Consider two investors, A and B, both with an investment time horizon of 3-5 years. A has a low risk appetite and B has a high risk appetite. T. Rowe Price matrix recommends that A should invest 100% of the capital in cash and B should invest 20% in cash, 40% in bonds and 40% in stocks.

So, what determines an investor's risk appetite? A common view is that risk appetite depends on the investor's personality and broad psychological makeup. While this is true, it is only a part of the story. Risk appetite also depends on a number of other factors like age, current income and expenses, family situation, insurance coverage, current net worth and future income expectations.

Older investors have fewer years left for generating income and hence usually have lower risk appetite as their priority is to preserve the value of their investments. Many would have also seen volatility in the market and appreciate the impact of risk on portfolio value.

Older investors also have a shorter time horizon and hence the recommended allocation to equity usually reduces as age of the investor increases. The gap between current income and expenses also plays an important role in determining risk appetite. If an investor generates substantial excess income every month, it becomes possible to make investments which are riskier and require a longer time horizon to perform. Similarly, investors who have a high net worth and keep a sufficient cash reserve have a better cushion to protect them against emergencies and can make more aggressive investments.

Income and net worth

Apart from current income and net worth, future income expectations also influence risk appetite. An investor who is confident of generating an adequate and stable income for many years into the future doesn't have to worry about the impact of short-term risk on portfolio value. Finally, an investor's family situation is a critical factor driving risk appetite. Higher the number of dependents, lower is the ability to make risky bets. That being said, investors who purchase life, health and general insurance are able to protect themselves and their loved ones against various contingencies, thus increasing their ability to handle risker portfolios.

Based on these, there are tests to help investors determine their risk appetite. They divide investors into different risk categories like very conservative, conservative, moderate, aggressive and very aggressive. Depending on the results, portfolio managers suggest an initial allocation across asset classes and pick securities which satisfy investor's risk preferences.

FINANCIAL LITERACY CERTIFICATION IN SCHOOLS – POCKET MONEY PROGRAM

During the quarter Oct-Dec 2018, NISM has organized financial literacy certification program in eleven schools situated in Hisar, Varanasi and Goa benefitting 1720 students. The programs have been organized in association with Axis Mutual Fund.

Sl. No.	Name of School	No. of Participants
1	The Ab's Rowland School, Hisar	109
2	Seth M R Jaipuria School, HIsar	201
3	Sos Hermann Gmeiner School, Hisar	220
4	International Hindu School, Varanasi	206
5	Jagatpur Inter College, Varanasi	44
6	Arya Mahila Nagarmal Murarka Model School, Varanasi	218
7	Naraini Challenger Convent school, Varanasi	75
8	Darshan Academy School, Hisar	124
9	I D DAV Public School, Hisar	223
10	New Yeshoda Public School, Hisar	190
11	Sunshine Worldwide School, Goa	110
Total		**1720**


THE STUDENT'S GUIDE TO MONEY

How to hire a mutual fund adviser?

With market volatility on the rise, many investors want professional help in choosing the right product. It may make sense to choose a financial adviser who can help you with asset allocation, invest as per your time horizon and help you choose products. ET gives a lowdown on the checklist when choosing a financial adviser

What is the background of the distributor?

When it comes to investments you need a person you can trust a lot. A lot of this can be known by as asking people around for a right reference. Of the people referred check the qualifications and experience of the adviser. He should have good knowledge of different asset class such as equity, fixed income and gold and worked through multiple cycles. He and his team should be in a position to decipher and understand how these asset classes would be affected by various domestic and international events. The adviser should be able to identify products that will meet your life stage requirements a .. and when they are needed.

How accessible is the adviser?

There is no limit on the number of clients which an adviser can enrol or engage with. It should not be that you engage with one only to realise that he has no time for you after a few months. The adviser or his team should be able to answer your queries in a reasonable period of time and should be accessible by whatever means of communication you choose which could be telephonic, email and meetings.

Time is of essence in the financial world and he should be able to execute your investments in a short turnaround time.

Does your adviser offer products of all fund houses?

A fund house may have that one product in which it does well and you may want that. Hence ensure that your distributor can offer your products from all fund houses and not just 2-5 fund houses.

What is his past track record?

There is no official website which tracks advisers in India. Hence it is important to ask for referrals or know the past background of the adviser. Use social media websites, to understand if anyone has recommended the adviser or his firm. That will give you some idea of his strengths. Check online for referrals, ask your friends or relatives for references, how long the adviser has been in business and his way of operating.

How does the adviser earn his income?

A good adviser needs to be compensated well, if you want his time and attention. Ask your adviser if he uses a distribution model, where he gets commission from the fund house for every investment that you make. Alternatively some advisers charge you a fee for the service, depending on the time they have to spend with you or your personalised requirements. There are many online portals that do help you make a financial plan, by gathering data from you and it could be free, while there are seasoned financial planners who could charge a fee for the same.

SIP is about simplicity

The value of SIPs lies in their simple, low-maintenance nature. Nothing is to be gained by making them complex.

In most products, features' are generally thought to be a good thing. Whether it's cars or mobile phones or vacations or houses, the more the features the better the product is supposed to be. However, when it comes to financial products meant for savers and investors, this passion for features is a problem, since features tend to obscure the inherent attributes of a product. Worse, when the disease of featuritis afflicts financial concepts like mutual fund SIPs (Systematic Investment Plans), whose very reason for existence is to provide simplicity, then the problem becomes very serious.

It's very easy to get involved in over-complex analysis and lose sight of what is actually important. Consider an email I got a few weeks ago from an investor. This person wrote that he had read in an article somewhere that if one increased one's monthly SIP amount by 10 per cent every year, then the final value would increase by 45 per cent.

The investor wanted to know whether this was true and if it was, then should this ten per cent increase be a simple increase or a compounded one. I didn't quite know how to respond.

At one level, it's good to see that a saver is taking his investments seriously and is minutely examining what he is doing, and what effect it is producing. However, at another level there's a problem because there's a touch of ritualism in what is going on here. Someone is applying the maths slavishly, without understanding what is going on. Firstly, settling the answer to this question is a fairly straightforward arithmetic exercise, although the idea dubious even without running any numbers. Secondly, even though it's maths is not quite there, what the original article seems to be trying to convince readers of, is that basically, if you invest more, you will end up with more money. One can hardly argue with that, even if it is not some magical number produced by an investment ritual.

However, the bigger problem is the idea that there is some magic to the very simple concept of investing in a volatile asset by averaging your cost. All that the idea of an SIP is, that you should keep investing a fixed sum regularly in an equity fund, regardless of market conditions. Over a long-term, you end up buying more units when the markets are down, and fewer, when the markets are up. Thus your average purchase price is much likelier to be less than what it would have been otherwise. Therefore, when the time comes to redeem your investments, they are very likely to be worth more than what they would have been. That's all there is. There are no guarantees, and there are certainly no fixed formulae of expected returns. Hypothetically, if the stock markets were to go into a general long-term stagnation or decline, then it won't work out. But in the real world, since you are investing in something that has a high volatility but a general trend upwards, you'll come out well.

However, the value of an SIP is not in the maths, but the psychology. It's the simplest way of investing regularly and getting good returns from equity without having to worry about when to invest and when not to invest and often missing out on the best opportunities.

Of course, mutual fund markers have exploited the attraction that complex, feature-laden investment options have for investors. There are a number of SIP plans to which market-timing has been added as a feature. There are AMCs and advisors who'll raise or lower your SIP amount based on index levels or PEs or such tricks. This is ironic because avoiding market timing is the whole point of doing an SIP.

If there's one investment technique where keeping it simple and avoiding every complexity is of the highest value, it's SIPs. In other words, keep calm and keep investing.

3 Keys: Mutual Funds planning for children'sneeds, house and post-retirement life

For most of us, the three primary milestones in life are arranging a down payment for the home loan, creating a corpus for kids' needs such as education and marriage and lastly, accumulating funds for one's own retirement. Proper assessment of each of these goals after they are identified, estimated for their inflation-adjusted worth and then finding the right asset mix based on one's risk profile marks the steps towards achieving them with ease.

Meeting these goals requires a judicious mix of various asset classes but the reliance on equities should be at the forefront, especially when the goal is at least seven years away. As a retail investor, it's better to stick to equity mutual funds to realise the true potential of equities. Several studies have shown that equity has the potential to generate high inflation-adjusted returns over the long term, among all asset classes. Debt, as an asset class, has its own role to play in helping achieve the goals. Volatility in debt is less, therefore invest in debt mutual funds to meet goals that are between one and three years away or during the de-risking process when a goal nears. For goals that are around five years, balanced funds that have a mix of equity and debt assets come handy. Ideally, to save for any goal make use of the systematic investment planning approach as it helps to keep costs lower and instills discipline in savings.

Now, let us see how each of the above goals can be met through mutual funds.

Owning a home

Owning a home requires a sizeable amount of funds and nearly 20% of the cost of a home is to be arranged as down payment for a home loan. The more the better as it keeps the interest burden in check. If the time horizon is less than three years, the reason to take more risk may not be there as equities need longer time-frame to perform. So, it is better to save through debt funds.

When time horizon is close to five years, balanced funds suit this situation. Balanced or hybrid funds, as the name suggests, allocate assets in their portfolio to both equity and debt, most of them with a bias towards equities. As the goal nears, start shifting to less volatile debt funds. In case there is a gap in funding, opt for loans against existing assets like bank fixed deposits. If shortfall still persists, liquidate investments especially those generating lower than inflation returns and not nearing its maturity.

Meeting needs of children

When it comes to taking the mutual fund route to plan for your kid's future, get a fix on your target amount and then work backward to ascertain how much money you need to put aside every month. If your child needs the funds anytime more than seven years from now, opt for equity funds. Stick to large-cap funds as they invest in well-established, top-rung companies and are, therefore, less volatile. Mid-cap funds can be considered to get the kicker in returns. The idea is to take the equity advantage and yet control the risks you take. Opt for consistently performing equity schemes with an established track record. Put any windfalls like bonuses, arrears into existing investments.

Nearing goal, ensure you gradually shift funds towards debt funds to preserve the accumulated corpus. One can also make use of systematic withdrawal plan (SWP) to shift funds from equity to debt funds on regular intervals.

Retirement years

Once you start accumulating your retirement funds, you want your money to work harder for you. Invest in instruments where the compounding takes place more frequently. Re-adjust your risk profile gradually to increase returns. Asset allocation depends largely on the level of risk you are comfortable with. When you are young, with more disposable income and fewer liabilities, you are more likely to take risks.

Invest around 75% in equities if you are an aggressive investor, if you are the conservative type, a 65% allocation is a good idea. If you are in your thirties, lighten up on your equity funds holding marginally, the aggressive investor from 75% to 65%, and the conservative investor from 65% to 40%. In the forties and beyond, stick to the asset mix going along. The right mix of assets goes a long way in determining how much you end up having at the end of the goal.

INVESTOR EDUCATION PROGRAMS

During the period, NISM has organized ten programs under investor education, of which nine programs were held for the benefit of students in colleges and one program for the benefit of teachers. The details are as under.

Date	Institution	No. Of Participants
October 1, 2018	OISF - Odisha Industrial Security Force, Bhubaneswar	31
October 12, 2018	AJC Bose College of Arts & Commerce, Kolkata	143
October 29, 2018	Kalasalingam University, Dept of Management, Srivilliputhur	120
October 30, 2018	Thiagarajar School of Management, Madurai	110
November 7, 2018	Besant College, Mangalore	95
November 8, 2018	Kannur Govt College, Kerala	160
November 17, 2018	Sunshine Worldwide School, Goa	40
December 7, 2018	Surendranath Law College, Kolkata	120
December 7, 2018	Shri Shikshayatan College, Kolkata	40
December 8, 2018	Maharaja Manindra Chandra College, Kolkata	140
Total		**999**

AJC Bose College, Kolkata

Kalasalingam University

Thiagarajar College of Management

Besant College, Mangalore

Govt College, Kannur

Surendranath Law College, Kolkata

Shikshayatan College, Kolkata

Maharaja Manindra College, Kolkata

Dos and don'ts in a falling market

Play your cards well now to cash in when the markets revive

Indian equity investors have gone through one of the worst weeks in recent memory with the Sensex and the Nifty shedding more than 5 per cent in the past week. For investors who have just joined the stock-market fraternity, this would have come as an unpleasant surprise.

The benchmark indices, the Sensex and the Nifty, had been enjoying an unbridled bull-run since February 2016. The two corrections since then, in the last quarter of 2016 and in February and March 2018, have been relatively shallow, resulting in value erosion of only 10 per cent from the index peaks.

The decline from the Sensex and Nifty's recent peaks is already edging close to 12 per cent. But of greater concern is the fact that the negatives seem to be piled high at this point – sliding rupee, rising crude oil prices, a trade war that is spinning out of control, rising treasury yields in the US and tightening global liquidity.

While things do look bleak at this point, market veterans will tell you that just one small trigger is enough to change the market sentiment. Indian markets have many strong favourable factors at this point.

Domestic liquidity

The focus so far has been on foreign portfolio investors pulling money out of Indian equities. While it is true that they have so far pulled out 17,598 crore from Indian equity markets in 2018 and are contributing to the sell-off, domestic mutual funds have emerged a strong counter-party to absorb the selling in recent years. Mutual funds have net purchased 88,667 crore worth of stocks so far in 2018.

In 2017, domestic MFs net purchased more than twice the amount purchased by FPIs, and in 2016, MFs bought thrice as much as FPIs. With inflows into domestic mutual funds surging since 2014, MFs have now emerged a dominant force that can cushion such declines in our market. The good news is that much of these flows are in the form of SIPs that tend to continue despite market vagaries.

Despite the gloom and doom surrounding the market currently, private consumption – both urban and rural – continues to be upbeat.

Consumption to stay upbeat

With the RBI deciding to adopt a calibrated approach to rate hikes, the consumption apple-cart will not be upset too much in the near term. While stocks in sectors driven by domestic consumption, such as FMCG, consumer durables, media and entertainment, had run up too much in the past two years and become pricey, the recent correction has made value emerge in many of these sectors.

Moreover, earnings of India Inc have been decent in recent quarters. In the June 2018 quarter, listed companies delivered 16.5 per cent revenue growth and 22.3 per cent earnings growth compared with the same quarter the previous year. While it can be argued that the roll-out of GST depressed the earnings in the June 2017 quarter and hence might have inflated the growth, the nominal economic growth of close to 11 per cent bodes well for company earnings in the future, too. There are headwinds in the form of the stressed assets of the banking sector, looming elections and the impact of rising crude prices. But overall, India Inc is not too badly placed to face these.

What should investors do?

That said, it is apparent that Indian markets are now beginning to play catch-up with their global counterparts. In 2018, the Sensex and the Nifty were among the biggest gainers compared with other global indices, despite the worries on the rupee and the external account. Indian markets are now falling in line with others. The decline could, therefore, continue for some more time as the trade war, rising crude prices and higher yields in the US cause foreign fund outflows from Indian markets. So what should you do if the correction continues?

Stick to large-caps

Large-cap stocks typically tend to be the sector leaders in each space and are the first to revive when the trend reverses. On the other hand, smaller stocks that take a deep cut in corrections take many years to revert to their pre-correction prices.

Another reason why large-cap stocks are recommended at this juncture is because mutual funds seem to have a larger holding in the bigger stocks. As of June 2018, the top 20 stocks listed in India – ranked according to their market capitalisation – accounted for 42 per cent of MF assets, and the top 50 stocks accounted for 58 per cent of MF holdings. It's therefore apparent that these are stocks that will be bought first when markets revive.

Do not try to time the market

Trying to time the market is a mug's game, for no one really knows how much is enough as far as market corrections go. The correction in 2008 resulted in the Sensex declining 66 per cent from its peak. Anyone who thought the bottom was hit when the Sensex declined 30 per cent in 2008 would have rued his decision a month later when his investment would have halved. Similarly, someone who waited for a 60 per cent decline in the Sensex in the 2015 correction would have not purchased any stocks then, as the correction halted after a 25 per cent decline from the peak.

It would be best to stick to your systematic investment plans in market declines so that you can make the most of the fall to buy more units. Indian markets are on a multi-year bull-run and your investments will surely pay off over the longer term.

Look for value

Lastly, do not lose focus on the stock fundamentals. Corrections such as these give you the opportunity to buy your favourite stock at a better valuation. Keep a hawk-eye on the stock's PE ratio.

If it falls below its three-year average and if the business prospects are all right, you know that you have nothing to lose over the longer term.

Here is why it's time to take advantage of fall in stock markets

There has been a good correction in stock prices and the same has been continuing. Many stocks which looked highly valued now seem to have come within reach

September turned out to be a volatile month for Indian financial markets including equities. S&P BSE Sensex fell by 6.21%. This was the highest monthly fall in the calendar year so far. Mid-cap and small-cap stocks were hammered down. S&P BSE mid cap index declines 12.44% while BSE small cap index was down 15.95% in September.

IT and FMCG were the two sectors which had positive returns during the month of September. Continuing currency depreciation was a boon for exporters, including IT services firms. Among the sectors that saw maximum loss, real estate, telecom and banks were prominent. Markets were complacent for large parts of the year, as measured by VIX. This rose in the month of September as in early 2 months of 2018.

FIIs sold stocks heavily in the month of September. Their sales were $1.31 billion for the month. So far in the current year, FIIs have offloaded stocks worth $2 billion. Domestic institutions were buyers to the tune of $1.3 billion during the month. Of this, $1.1 billion came from mutual funds while insurers brought in $630 million. In fact, $12.2 billion has been pumped into equities by domestic institutions so far in the current year.

Turbulent financial markets

The state of financial markets in India also was tumultuous during the month of September. It started with the default on interest payments by ILFS to some its creditors. This led to downgrading of its rating by several notches overnight. Many mutual funds were holding ILFS papers in their debt schemes–liquid as well as longer term schemes. They were forced to take a writedown.

Subsequent to this, there was news of a mutual fund selling paper of another NBFC at a very high yield (meaning low price). This set off rumours in debt/equity markets that there could be defaults/ liquidity crunch. Many NBFC stocks saw their stock price crashing.

The contagion spread to stocks of other sectors as well. Many stocks which were quoting at rich valuations witnessed a larger decline. Sebi announced a number of measures in investors' interest, including banning of upfront commission by asset management companies. Regulatory risks came to the fore in the month and spooked investor wealth in those stocks.

Macro-economy front

On the macro-economic front, crude oil price surpassed $80/bl as supply was constrained. Sanctions on Iran led to surge in oil. This doesn't bode well for India given the dependence on oil imports. Inflation was well contained at 3.7% for the month of August. RBI's monetary policy in early part of October has maintained status quo in interest rates. India's macro situation has worsened even as micro (companies' level) continues to improve.

There has been a good correction in stock prices and the same has been continuing for some time. Many stocks which looked highly valued now seem to have come within reach. We are likely to find new stocks for our portfolio and cash level can fall further.

Over the long term, we remain optimistic on Indian equities. India is likely to grow faster than many nations. Investors can expect decent return from equities over a long period in future. Investors should take advantage of recent fall in stock markets and put more money in equities.

Know how you can save tax on capital gains

As per the Income Tax Act, capital gains are taxable.

Capital gain is the profit you make when you sell an asset. This means that when you sell assets

Independent capital gains rules are applicable for each asset class. However, there are numerous sections under which if you reinvest your long-term capital gains you can save on tax

such as stocks, mutual funds, real estate, gold or bonds at a price higher than the purchase price, the profit you make is your capital gain. Capital gain should not be confused with interest or dividend gains from your asset.

Capital gains, dividends, and interest are all treated differently from the point of view of taxation. Your investments, savings and assets may collect interest or periodically generate dividends. But capital gain represents income that you get only when you sell your asset at a price higher than its purchase price.

What assets accrue capital gains?

Assets like land and buildings, or property in any other form, as well as trademarks in your name, machinery you own, jewellery, and stocks are regarded as capital assets that offer capital gains.

However, the following assets are not counted as capital assets and the profit made on selling them does not count as capital gains: any stock or raw material used for official or commercial purposes, personal goods like clothes and furniture, and agricultural land in rural India.

Here, any area that does not fall under a municipality or jurisdiction is referred to as rural India. Classification of capital assets

Assets are classified as per their holding period–short-term capital assets and long-term capital assets. Let's look at short-term capital assets first. Bonds, debt mutual funds, and gold (or equivalent of gold assets such as gold funds) that you hold for 36 months or less are regarded as short-term capital asset. There are two exceptions: For immovable assets such as land, buildings and houses, the holding period is 24 months or less, and for equity investments (shares, equity mutual funds), the holding period is 12 months or less. If the asset is held for longer than the above-mentioned periods, they become long-term capital assets. If you acquire any asset as a gift or inheritance, irrespective of the type of asset, the period for which the previous owner held it is also counted along with the time you held it for when you sell it.

Tax implications

As per the Income Tax Act, capital gains are taxable. However, independent taxation rules are applicable for each asset class. Broadly, in case of long-term capital assets you have to pay 20.6% tax on your net profit, and at 10.3% on gains above Rs 1 lakh if the asset is equity. With short-term capital assets, your profit is added to your total taxable income and taxed as per your slab, except for short-term capital gains on equity, which are taxed at 15.45%.

How to save taxes on capital gains

There is no way in which you can avoid the securities transaction tax on your short-term capital gains. However, there are numerous slabs and sections under which you can save on tax if you reinvest your long-term capital gains.

Section 54: Under this section, you can avoid tax on capital gains from the sale of a house property if you reinvest the money to buy another property. You can claim tax exemptions under this section if you buy the new property one year before the sale or two years after the sale. In case it is under construction, the new property should be ready within three years of the old property's sale.

Section 54EC: You can claim tax exemption by using the amount you gain from selling an asset to buy bonds issued by NHAI and REC.

Section 54F: You can claim total tax exemption by using the money you gain from selling any asset (except a house property) to buy a house property, which needs to be bought one year before the sale or two years after thse sale. For under-construction properties, the new property should be ready within three years of the asset's sale. However, in case you sell your asset and only use a portion of the gains to buy a property, you can claim exemption only on the amount you use for property purchase.

The rest of the amount will be taxable as per the long-term capital gains taxation rule. Capital Gains Deposit Account Scheme: As a bifurcation to Section 54 and 54F, if you do not get a chance to invest in a profitable property immediately and still want to save your long-term gains from being taxed, you can invest your capital gains in CGDAS by approaching any public sector bank. The timeframe for the purchase or construction of the property remains unchanged in this case as well. But you can utilise this account momentarily so that you save your gains from being taxed and have more time to finalise a property for reinvestment.

Are debt MFs sahi for retail investors?

The fund industry has a lot of housekeeping to do before it can market open-end debt funds

Thrilled that equity mutual funds were such a hit with retail investors, the Indian mutual fund industry was planning a big push to take its debt schemes to retail savers next.

But events over the last couple of weeks show just how complicated it would be to get the retail investor, so used to the predictable returns of bank deposits or post office schemes, to understand the strange workings of the Indian debt market.

As Cyclone IL&FS tore a destructive path through the bond markets in recent weeks, mutual funds were the first set of bond market players to feel its effects. As the credit ratings for IL&FS and its group entities fell steeply from investment to junk grade, debt mutual funds that held these bonds took immediate hits to their Net Asset Values (NAVs).

A decision by DSP Mutual Fund, which also had exposure to IL&FS paper, to sell its DHFL bonds at a discount set off an irrational panic about the NBFC sector.

Preliminary reports suggest that this episode added to redemption pressures on debt funds which usually see outflows this month on advance tax pay-outs.

No cause for alarm

Unsettling as all this has been, gloom-and-doom reports about this episode causing a 'collapse' of the mutual fund industry are heavily overdone. Data from Value Research tell us that the aggregate mutual fund exposure to IL&FS debt was about 2,900 crore in end-August. This amounts to just 0.2 per cent of the 14-lakh crore assets managed by debt funds. It is only for the 11 debt schemes that own a significant 5-10 per cent exposure to IL&FS paper that the default will mean a significant setback to returns.

Yes, if the issue snowballs into a refinancing crisis for all NBFCs (which is unlikely), that would be a worry. But calm appears to be returning to the market after the Centre's offer of liquidity support after superseding the IL&FS Board.

Weaknesses exposed

But this episode has served to highlight the many frailties in the workings of the domestic bond market. This is a reminder of the fallibility of rating agencies in assessing the credit-worthiness of borrowers. From a governance perspective, it's a shocker on how big-name firms can hide skeletons in their closets.

It also goes to show how illiquid and shallow the Indian bond market can be, when confronted with even a single event of default. The fact that bond deals happen mostly through the private placements also makes them susceptible to misinformation. This opacity and lack of liquidity in bonds when you most need it doesn't matter to most other players in the Indian market – be it banks, insurance companies or pension funds. They aren't highly accountable to their investors and have their assets securely locked in.

But it does matter to the mutual fund industry, which discloses monthly portfolios and daily NAVs, follows mark-to-market accounting and promises swift redemption at the latest NAV in its open-end schemes.

That's why the fund industry has a lot of housekeeping to do before it can aggressively sell open-end debt funds to naïve bank deposit investors.

More in-house research

Many sordid details of the IL&FS group's financials have tumbled into the public domain after the default. They beg the question: Even if rating agencies messed up by ignoring the group's precarious finances, why didn't debt fund managers take note of them? Did they simply rely on the rating agencies for their credit assessment? Or did the high yields offered by IL&FS prompt them to disregard the risks?

We may never know the truth about IL&FS. But it is important for the mutual fund industry to introspect on these lines and fix the gaps in its credit appraisal processes before it actively promotes debt products to risk-averse retail investors. The fact that the IL&FS bonds figured in many liquid, ultra-short duration and short-duration funds, which are marketed as alternatives to bank deposits, makes it even more critical for MFs to improve their risk management skills.

Better communication

It is true that debt fund managers will sometimes get their calls wrong, just like equity managers do. But when things go wrong, it is important own up to mistakes and reach out to investors to reassure them.

Now, in the case of debt mutual funds, AMCs seem to have no well-thought out communication strategy to reach out to their investors in the event of sudden risks. In the panic following the IL&FS downgrades, some AMCs put out notes to distributors and investors, others gave quotes to the media, or clarified on their social media handles.

Unlike listed companies, most mutual funds in India do not have an 'Investor Relations' section on their home page that immediately directs the user to an important update. Therefore, lay investors looking for information are forced to trawl through tonnes of material before they get to the relevant note. While cryptic communication may be sufficient for corporate treasuries with a good grasp of bond markets, the fund industry will need to be far more proactive and elaborate with its communication to appeal to retail investors.

In fact, it would be beneficial if all AMCs are required to provide material event updates to their unitholders, just like listed companies, on a common platform like the AMFI or BSE websites.

Retail-institutional separation

Thanks to the lack of liquidity for lower-rated bonds, a big challenge that debt fund managers face when confronted with a sudden credit downgrade, is how to meet redemption demands. Selling the bonds that have been hit by downgrades can be nearly impossible. Therefore, they often end up liquidating their better-quality bonds which are easier to sell.

Now, this can create an unjust situation for the patient investors who stay with the fund. As the fund is forced to sell its family silver, it is left holding sub-par paper, rendering it both illiquid and risky for its remaining investors.

The lack of uniform valuation norms for corporate bonds and their sporadic liquidity, are issues that need to be taken up on a war footing if the open-end fund structure is to work smoothly for debt funds. SEBI floated a discussion paper in May on standardising corporate bond valuation and the industry must give it serious consideration.

Given its significant contribution to bond market development today, perhaps the MF industry can lobby the RBI for a special liquidity window for high quality corporate bonds, like the repo window for banks.

But the industry can certainly do its bit to make life easier for retail investors by not mixing and matching both retail and institutional investors in the same debt schemes. As smart institutions investors often get wind of trouble early and rush to redeem, it is retail investors who are left holding the baby.

The best solution to this problem would be for AMCs to create separate products for first-time retail investors testing out debt schemes. If these schemes can be managed with minimal credit and duration risks, and deliver less volatile returns, perhaps the aam aadmi would take less convincing that debt mutual funds are the sahi option.

Here's why switching to a senior citizen savings account makes more sense

If you happen to be over 55 years and are still using your old regular savings account, you may be missing out on special features and benefits that can only be availed with senior citizen savings bank account.

Senior citizens savings account holders can open FDs at preferential rates, usually up to 0.50%.

If you happen to be over 55 years and are still using your old regular savings account, you may be missing out on special features and benefits that can only be availed with senior citizen savings bank account. Here are a few key benefits of switching to a senior citizen savings account:

Higher rate on FDs: The rate of interest offered by a bank is generally the same across all types of savings accounts, including senior citizen savings accounts, where you can avail interest up to 7.25%.

However, senior citizens savings account holders can open fixed deposits at preferential rates, usually up to 0.50% more than what's offered on a regular savings account and this allows them to avail interest as high as 9.5% on FDs. Concession on healthcare costs Most banks offer medical benefits with senior citizen savings accounts, where you can get up to 50% discount on treatments, consultation and healthcare procedures. This facility is chiefly made available to senior citizens by banks, allowing them to avail healthcare services at preferential rates.

Some banks also provide special medical cards or health cards to senior citizen savings account holders. However, make sure to go through the terms and conditions associated with this feature as banks usually have a list of hospitals, clinics, medical stores and healthcare care providers and you would be able to avail discounts only at these pre-approved healthcare institutions.

Free ATM transactions Certain banks allow senior citizens savings account holders to make up to five free transactions from home bank's ATMs and maximum of 10 free transactions at other bank's ATMs.

Also, there are a few banks that do not charge senior citizen account holders for ATM transactions, from home as well as other bank's ATMs. Debit card benefits Many banks offer free debit cards to senior citizen account holders, while others may levy an annual charge on debit card, which could be as high as Rs 2,500, depending on the bank and type of debit card you choose.

Senior citizen account holders can enjoy a higher withdrawal limit of up to Rs 50,000 per day and shopping limit of up to Rs 2.75 lakh. Discount on locker services A senior citizen account holder can avail discounts of up to 50% discount on locker services. Some banks also allow the senior citizen savings account holders to enjoy annual maintenance charge waiver in the first year of first demat account.

No TDS for interest income up to Rs 50,000: Under Section 80TTB, senior citizens do not have to pay TDS, if their interest income is less than Rs 50,000. TDS is deducted on the entire interest income, which includes interest earned on bank deposits (savings or fixed) and interest on post office deposits. This allows senior citizen savings account holders to avail higher tax deduction.

Also, if you do not fall under higher tax slab, but have earned more than Rs 50,000 as interest, you may avoid TDS on interest by submitting Form 15H. Do not blindly switch to savings account of the same bank; instead, shop around for options and choose well. Compare benefits and switch if you find a senior citizens savings account that offers higher benefits than what's being offered by your existing bank account.

MUTUAL FUNDS AWARENESS PROGRAMS

During the quarter Oct-Dec 2018, NISM has organized five programs on Mutual Funds Awareness for the benefit of Officers of State Bank of India. The program covered all aspects of mutual funds operations – equity mutual fund, debt mutual funds, balanced and dynamic funds, tax savings, financial planning, Systematic Investment Plans etc. Total officers trained in mutual funds amount to 208.

Sl. No.	Dates	Participants Profile	No. Of Participants
1.	22-23 Oct 2018	Officers of State Bank of India	42
2.	24-26 Oct 2018	Officers of State Bank of India	43
3.	05-07 Dec 2018	Officers of State Bank of India	48
4.	10-12 Dec 2018	Officers of State Bank of India	43
5.	17-19 Dec 2018	Officers of State Bank of India	32
Total			**208**

Workshop on Mutual Funds and wealth Management, NISM Campus, Patalganga

Workshop on Mutual Funds and wealth Management, NISM Campus, Patalganga

Workshop on Mutual Funds and wealth Management, NISM Campus, Patalganga

Workshop on Mutual Funds and wealth Management, NISM Campus, Patalganga

Workshop on Mutual Funds and wealth Management, NISM Campus, Patalganga


Macro


PULL

Monetise physical assets to raise cash in your old age

If you were not able to build up a good enough pile of accessible investments for retirement years, it can be worrisome. But there are ways to monetise your assets. Here is what planners advise

While having your house is prudent at the time of retirement, what's more critical is having adequate funds that can be accessed systematically throughout your retired life for your expenses. Did you know that at an average rate of 6% inflation eating away your money, just after 12 years of retirement your corpus, if left uninvested, will be worth only half its value, and you may have at least 20-30 years of expenses to cater for after retirement.

If you were not able to build up a good enough pile of accessible investments for retirement years, it can be worrisome.

But there are ways to monetise your assets to generate your retirement expenses. Here is what planners advise.

Plan your large spends

Income during retirement years is limited. If your retirement pot feels spare, manage your spends rationally. Spend less on luxury and plan your big spends well ahead. Keep in mind that getting a medical insurance post retirement can be expensive. Without one, your hospital expenses can skyrocket.

But managing spends is easier said than done. Suresh Sadagopan, founder, Ladder7 Financial Advisories, said, "Adjusting lifestyle expenses is not a comfortable conversation even if people know they don't have sufficient cash to maintain the current lifestyle through their retirement years. Half the problem is solved if people are willing to curtail expenses."

Monetising assets

One way to increase your post-retirement cash flow is by relocating to a smaller town if you live in a large city. The house in the city can be sold, a property in a small town of a similar size will not cost as much, and the difference can be invested for getting regular income. But relocating is not an easy choice. For that you must leave behind a community and conveniences you are used to.

Sadagopan said, "The other option is to unlock the value of the property by selling it and moving to a similar house on rent. This brings in lump sum cash flow which can be used further."

Selling one's primary home is perhaps as difficult as relocation. "It is very hard to convince one to do this. There is denial first and then one tries to sell every other asset before coming to the property," said Amol Joshi, founder, PlanRupee Investment Services.

It is hard to convince one to sell one's primary home. There is denial first and then one tries to sell all other assets before selling the property

Rental yields being low in most Indian cities and towns means that rents for a similar sized house can be very low. One may even choose to rent a smaller house as often a large house is not required post retirement. The last option is going for a reverse mortgage. For that, you must be the home owner and above 60 years of age. It means getting a loan against your house from a bank and getting regular payouts in exchange. The eligibility depends on age, value of the property, interest rates and tenure of payout.

"While this is an option, there are many constraints. For example, a house older than 15 years may not be considered and the value assessed by the bank for a reverse mortgage may be lower than the market value. The advantage is that you can't be evicted from the house," said Sadagopan.

Many people have second homes from which they earn rental income during retirement. Often these are in tier 2 or tier 3 towns or in the outskirts of a city. "Given the rental equation, the income from this second home is usually not sufficient and one can earn more by selling the house and putting it in a fixed deposit. A tax-efficient way to use the money is to put it in debt funds and build a systematic withdrawal plan," said Joshi.

Ideally, you shouldn't have to sell assets built through the years. But if you find yourself in a cash crunch in your retired life, monetising your physical assets is perhaps the best way to continue your lifestyle, provided you can let go of the emotional attachment.

Retire smart: From discipline to your time, seven tips to plan retirement

Remember, planning for your retirement is a continuing process. It needs a lot of introspection, discipline and your time.

Life is somewhat unpredictable and we may encounter unfavourable situations.

For some of us, the idea of retirement does not even emerge in the foreseeable future. But if you want your retirement life to be blissful then you should plan for it well in advance. Here are some factors you must consider.

Medical emergencies

When you are getting old, medical problems also follow. Medical expenses will burn a deep hole in your pocket at this phase. So don't you think it is a careful act when you set aside some money for your retirement?

Longer life expectancy

The life expectancy of humans is not as short as before. This can be attributed to advancements in medical science. If you want to retire at the age of 62, you will have to support for yourself for at least two more decades (owing to longer life expectancy) without any income. So planning for retirement well in advance becomes essential.

Inflation

You have to take into account the impact of inflation on your finances. This will be helpful while computing your retirement savings along with the returns you will get.

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Let time be at your service

Remember that if you spend cautiously, you will be in a position to keep more money for your retirement. When you develop the habit of living within your income, your retirement money will see a rapid rise. So spend less and start saving early in life to make use of the power of compounding.

You can't work always

You would like to think that you can work forever. In fact, for some of us this would be the preoccupation too. However, you can't get exemplary results in your profession as you get old. As you age, you will find some tasks more complicated. Sometimes you may even retire earlier than expected. So don't you think you should have some funds for retirement life?

Your family can also benefit

Your retirement plans will also encompass spending for your family. If you have planned well in advance for your retirement and have set aside some money for this purpose, you can be the happy parent who spends a lot on their children.

You can even be available for big events and have the pleasure of financing vacations for your family. Nowadays, most people live independently without their family. So, there is a need for individuals to maintain a sum that sustains an independent life.

Risk of uncertainties

Life is somewhat unpredictable and we may encounter unfavourable situations. Some situations may result in a financial or emotional setback for us. Maintaining enough money to account for such events will be of great help.

This has an impact on your retirement life too. When you have adequate funds then the setback can be managed better. You can also lead a happy retirement life. The key lies in understanding the risk of uncertainties while still maintaining a positive outlook.

Remember that planning for your retirement is a continuing process. It needs a lot of introspection, discipline and your time. It is better to start it well in advance so that you can benefit from the power of compounding.

National Pension system: Now get tax-free maturity withdrawals; check details here

Remember, planning for your retirement is a continuing process. It needs a lot of introspection, discipline and your time.

The government has made the whole 60% of the NPS accumulated corpus tax free, bringing it at par with PPF and EPF, besides raising its contribution to 14% of basic pay and DA for government employees.

A pure defined contribution pension product, NPS was introduced in 2004 for government employees and, in 2009, it was extended to all private sector employees. (Illustration: Shyam Kumar Prasad)

In order to bring in parity in tax treatment for all retirement products, the government has made maturity withdrawals from National Pension Systems (NPS) tax free.

It has also allowed over 19 lakh central government employees subscribing to NPS since 2004 to select private pension fund managers, increased its contribution for government employees from 10% to 14% of basic pay and DA and has given them freedom to invest up to 50% of their corpus in equities as against 15% now.

A pure defined contribution pension product, NPS was introduced in 2004 for government employees and, in 2009, it was extended to all private sector employees.

Tax-exempt at all stages

At present, in NPS 40% of the total accumulated corpus has to be compulsorily used to buy annuity at retirement and is tax-exempt. Out of 60% of the accumulated corpus withdrawn at the time of retirement, 40% is tax-exempt and balance 20% is taxable. Now, the whole 60% of the accumulated corpus will be tax-free, bringing it on par with PPF and EPF, which are tax-exempt at all the three stages-investment, accumulation and withdrawal. Subscribers of NPS will also continue to get additional tax break of Rs 50,000 under Section 80CCD of the Income Tax Act, which was introduced in 2015 on investments, apart from Rs 1.5 lakh tax exemption under Section 80C. Investments in EPF and PPF also get tax deduction of Rs 1.5 lakh under Section 80C. The new rules will be applicable from the next financial year.

Moreover, contribution by government employees under Tier -II account of NPS will now be covered under Section 80C provided there is a lock-in period of three years. To open a Tier-II account, where one can withdraw money any time, it is mandatory to have a Tier – I account.

More equity inflows

As central government employees account for one-third of the contributions in NPS, stock markets will get steady flow of equity funds. Even state governments may offer the same benefits to their employees, which will increase the quantum of equity inflows many times.

At present, private sector subscribers of NPS can invest up to 75% in equity under the active choice option. It is an option where the subscriber decides his asset mix. It was fixed at 50% since NPS was opened to private sector subscribers in 2009. Higher equity exposure will benefit young investors with a long working life as equity tends to give higher returns over a longer period of investment.

One can even opt for the life cycle fund where the equity exposure come down as one grows older. The pension fund regulator had introduced two more life cycle funds for non-government subscribers apart from the existing moderate life cycle fund (with 50% equity cap) for private sector investors in auto choice. The two were: aggressive life cycle fund (LC 75) with 75% equity cap and the other, conservative life cycle fund) LC 25) with cap on equity at 25%. **Cost effective, easy to operate**

The NPS account has four types of costs: central record-keeping charges, point of presence (PoP) charges, custodian charges, and pension fund management charges. Pension fund management, or fund management charge, is an annual fee paid to the fund managers for managing the subscriber's money.

To invest in PFRDA-regulated NPS, one has to open an account with any one of the points of presence (POPs) and get a Permanent Retirement Account Number (PRAN). One can choose the investment according to one's preference and opt for a pension fund manager. The individual can operate the account from anywhere in the country, even if one changes job or moves to another city.

The subscriber can contribute the amount through cash, local cheque, demand draft or the electronic clearing system at his chosen POP-SP. An individual will have to comply with the Know Your Customer (KYC) norms and, after the account is opened, the central record keeping agency will dispatch the subscriber's unique PRAN Card, which will be the primary means of identifying and operating the account.

Subscribers can choose between NSDL e-governance and Karvy Computershare. A CRA is responsible for record-keeping, administration and customer service functions for all subscribers.

Stock Markets: Investing lessons learnt in 2018

Due weightage must be given to asset allocation and time horizon to tide over volatility in the stock markets.

As we enter 2019, what has been the returns for investors, especially in stock markets in this calendar year? As of December 23, 2018, the YTD returns in the Sensex has been around 4.95%. This is after the Sensex went south in the months of September and October by over 11%.

The Sensex moves on many factors, many of which are related to economic growth projections, regulatory environment, political situation – both national and international, global trade policy and not to forget the perceptions of all the above matters by the investors. And in this year, in particular, we have had both headwinds and tailwinds effecting us and this caused volatility to be main factor in the investment process.

Volatality cannot be predicted

In the beginning of the year, investors were all bullish with the equity asset class scaled new heights. The budget of 2018 was a highly anticipated one, mainly for the reason whether Long Term Capital Gains (LTCG) on equity, will be re-introduced. It did happen and the Sensex after touching a high of 36,443 levels, declined by over 10% by the end of March 2018.

And this was only the beginning. The small cap and the midcap index fell more steeply and there was a feeling of regret and missing out by the investors. The question being asked was – Why did I not sell when the Sensex was climbing? But then, it was 'greed' playing along, and there was a different fear- fear of missing the highs. During the same time, Securities and Exchange Board of India (Sebi) had also come out with the mutual fund schemes recategorisation to standardize the attributes of mutual fund schemes across the categories and make the investment information easier for decision making for the investor.

As a result, the fund managers also had to revisit the portfolios, to be inline with the Sebi mandate. And across the stocks, be it small-cap or mid-cap, had to bear the brunt. And the beneficiary was the large-cap funds. This looks good in hindsight. But, when the exercise was being carried out, in real time, the investors had little clue.

Performance of fixed income

And how did fixed Income instruments perform? The top performing liquid fund schemes , dynamic bond schemes, short term bond schemes in general, the fixed income schemes have delivered returns around 7-7.5%. The gold prices for the year 2018 also moved up by over 7%. This is why it becomes very important that investing needs to be considered as a process and a journey , and not a destination , by itself.

Need to consider that the asset allocation and time horizon is accorded its due weightage in the investing process. If you have invested in the earlier part of the year, with 'returns' as the only criteria, in majority of the cases, as an investor you would have come to grief and the portfolio being in 'red'.

Lets look at the annualised three-year return as of 2018 in excess of 11%. This begets what were the returns for the years – 2017 and 2016 – 8.28% and 8.94%, respectively.

The calendar year returns of 2014 and 2017 were 30% and 28%, respectively. The outlier years. And equity returns are never in a straight line. There will be outlier years and there will be a single digit return years and maybe even negative year of returns. That's what the past data is telling. This too shall pass and what is important is having your investment strategy in place to deal with the volatility. And what better way to learn from the mistakes and apply the learnings in the new year to come.

Best performers of SEBI Financial education resource Persons of Southern region with SEBI and NISM Officials.

Shri Ashwini Bhatia, CEO and Managing Director of SBI Mutual Fund along with participants of Workshop on Mutual Funds.

Shri Nagendraa Parakh, Executive Director, SEBI addressing the participants of the SEBI Financial Education Resource Persons Refresher Workshop held at Nagpur.

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