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March-April, 2020

WE PLAN, YOU PROSPER

Navigating the Uncertain

Investment Opportunities in Today's Environment

FORM-IV

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INVEST IN INVESTING

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From the

Editor's Desk

A shaky stock market, job layoffs and a weakening economy are raising financial fears among many households that only a year ago were flowing with optimism. Even in good times, bad things can happen to cause a personal financial hardship.

Most people either dont know their net worth, or think they know it and are wrong. Your net worth provides a useful benchmark for how well you are doing, in good times and bad.

Keep emergency funds. Tying up all your money in stocks and illiquid investments may force you to sell some of those assets at fire-sale prices during hard times in short, ´locking in losses. Keeping adequate cash resources in money markets, short-term bond funds and certificates of deposit gives you flexibility to see you through a job layoff, down market or other financial crisis.

Minimize debt and establish budget. Even the affluent often does a poor job of minimizing debt and budgeting. You might get away with this in good times, but excessive debt and poor use of your money becomes an albatross when financial times toughen. Reducing high-interest debt, budgeting, strategic tax planning and buying smart (from insurance to autos to groceries) frees up money to bank for those emergencies.

Insure against tough times. You cannot insure against layoffs, but you can insure for another common work disaster: a disability. Yet disability (income-replacement) insurance is one of the most overlooked types of insurance.

Educate yourself financially. Perhaps there is no better way to prepare for hard times than to educate yourself and your spouse about how to wisely manage your money. Its often not so much the financial successes we have than the financial mistakes we avoid that keep us financially healthy in difficult times.

Best,

Team Meri Punji

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The Perfect recipe

A good recipe is created when the unique flavours of different ingredients are combined in the right proportion to create a mouth watering dish. Likewise, a good investment portfolio is created when investment is diversified into various asset classes, each contributing to the portfolio in a unique way. The result is an investment portfolio that is aligned with the investor's goals.

Why do you need to create a portfolio? - Minimise risk? Maximise reward? We're sure you've heard of the phrase "don't put all your eggs in one basket". Well, it holds true when it comes to your investments too. Investing all your money into one asset exposes you to a lot more risk than if you diversify your investment into various asset classes with different risks and rewards. This helps in two most basic ways.

First, if one asset class under performs or fails, the rest of your investment will remain unaffected and secure. That is why when creating a portfolio, it important to have unrelated assets whose performances do not affect one another.

Second, you can take higher risk to earn greater reward with one asset class while being assured of safety of capital in another asset class. This is a classic debt-equity dialogue. Debt provides safety of capital with low assured returns while equity provides higher returns but with greater risks. By creating a portfolio that has both debt and equity you can have the best of both worlds. The equity portion of your portfolio can provide you high returns while the debt portion can provide assured minimum returns and safety of capital. This way you can decide how much risk you want to take.

In light of the above benefits of diversification, mutual funds have become one of the essential ingredients for constructing a balanced investment portfolio, one with promising returns with acceptable level of risk. Considering one's investment objectives, risk appetite, investment horizon etc., Investors can choose from a range of mutual fund schemes and align their investment with their financial goals. Following are some popular categories of mutual funds to choose from, based on maturity period of the investment:

OPEN-ENDED

Under this scheme, investors can buy or sell fund units at any given point in time, without having to wait for a fixed maturity date to liquidate their investment.

Debt/Income – These funds invest a major part of their capital into corporate bonds, government securities, debentures and other debt instruments. These are relatively low-risk investments as compared to equity funds and are ideal for investors looking for a steady stream of income in the medium-to-long term.

Money Market/Liquid: These funds invest in short-term money market instruments and thus provide high liquidity. This is the best category for investors looking to park their surplus funds in highly liquid short-term instruments, which provide reasonable returns. It is ideal for institutional and corporate investors that invest their funds for very short periods, sometimes as short as a day.

Equity/Growth: The most popular category amongst retail investors, equity funds are high-risk investments in the short-term but offer the possibility of capital appreciation over the medium to long term. Their returns are linked to the stock market and are ideal for investors looking at a long-term investment horizon. These include:

- **Index Scheme** where the portfolio replicates the movements of a benchmarked index.
- **Sectoral Scheme** which invest in specific sectors or capital market segments such as small, mid and large caps.
- **Tax Saving schemes** which offer tax savings to the investors in addition to investment.

Balanced: This scheme provides investors with income at regular intervals, by investing in both equity and debt. This category is ideal for cautiously aggressive investors that are looking for both growth in portfolio and a steady income over the medium-to-long-term.

CLOSE-ENDED

These schemes have a pre-determined maturity period, effectively locking investor capital in for a fixed duration. Moreover, investors can only make investments during the initial launch period called the New Fund Offer (NFO) period.

Capital Protection: This scheme aims to safeguard the principal amount while earning reasonable returns by investing in high-quality fixed income instruments with only a marginal exposure to equities.

Fixed Maturity Plans: These are mutual fund schemes with a defined maturity period, comprising of debt instruments maturing in line with the scheme. Earnings are in the form of interest on the portfolio securities. These funds are generally managed passively with no active debt trading of the securities in the portfolio.

INTERVAL

These funds are a combination of open and close-ended schemes that allow investors to trade fund units at fixed intervals.

EXCHANGE TRADED FUNDS (ETFS):

These funds track an index or a basket of commodities/assets very closely but trade like shares of a company on the stock exchange. Backed by the physical commodity, they largely invest in currencies, stocks and precious metals. Unlike other categories of mutual funds, ETFs give investors the flexibility to trade on the stock market throughout the day, without assuming the inherent risk of holding actual stocks.

Thus, when looking to build an investment portfolio, keep your goals, income, risk appetite and time horizon in perspective to pick the right ingredients. A good mix helps in minimizing risk by way of diversification and optimizing return ■

UNDERSTANDING GROWTH

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

GROWTH BY VOLUMES:

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

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

GROWTH BY PRICE INCREASE

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

GROWTH BY BETTER REVENUES/ PRODUCT MIX

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

GROWTH BY NEW PRODUCTS/ SERVICES

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

GROWTH BY MOVING UP THE VALUE CHAIN

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

GROWTH BY CURRENCIES MOVEMENTS

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

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

Vivek Mavani

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

A Mutual Fund for every season

While the advantageousness of mutual funds in meeting both short and long-term financial goals can't be emphasised enough, most investors' understanding of different fund categories remains limited. The term, more often than not, brings to mind equity-focused funds. However, mutual fund investing isn't subject to a single defining category; instead, it weaves several different asset classes together to give rise to an investment class with wide-ranging functions.

Because each investor differs in risk profile, financial needs, income level etc., there is no standard fund offering that suits everyone. Each mutual fund category comes with its own set of benefits, and together they lead the way for building a solid, diversified portfolio that promises to take care of varying financial goals.

Debt Funds

Debt funds are the safest investing bet. They are ideal for achieving short-term goals for which an investor holds capital but there is some time before the actual spending occurs. Instead of keeping it lying idle, the money can be invested in a debt fund without any risk to capital (as opposed to equity).

Conservative investors can also park long-term funds in debt funds when instead of significant capital appreciation, safety of capital is the objective. Debt funds are the most suitable for individuals and institutions with a low-risk appetite or those looking for a safe avenue to park their funds, such as NGOs and RWAs.

Diversified Equity Funds

Diversified equity funds invest in stocks across market capitalisations and sectors, thus ensuring that the portfolio is insulated from the negative performance of a particular sector, increasing the possibility of making a sustainable return. Thus, the biggest advantage of such schemes is that an investor gets a diversified portfolio which significantly lowers capital risk. Since these schemes invest in equity, they can be volatile over the short term.

These funds target medium-to-long-term capital appreciation and are ideal for investors with a moderate-to-high risk profile and an investment horizon of 3-5 years. An expectation of about 15% annual return is reasonable over the long-term.

Apart from diversification, there is also the added advantage of long-term capital gains (over a period of more than 1 year) which are tax-free. The dividends received from diversified equity funds are also tax-free.

Balanced Funds

Balanced funds are hybrid schemes that typically lie on the safe-moderate spectrum of risk. They usually comprise of >65% equity investments, with the remaining going to debt or money-market securities. Because of this mix, fund volatility is limited to a great degree with a potential for long-term wealth creation. Investors thus enjoy returns of both asset classes – equity and debt.

Balanced funds are ideal for medium-to-long-term goals over a period of 3-5 years and provide capital appreciation apart from safety of capital. When the market fluctuates, the portfolio gets rebalanced according to the mandated ratio of debt and equity.

Liquid Funds

Liquid Funds are short-term schemes that can serve as an alternative to a savings bank account, with high safety of capital. They invest primarily in money market instruments with a residual maturity of <91 days such as treasury bills, certificates of deposits, commercial papers, term deposits etc.; the aim being to provide investors with an adequate return without compromising on the liquidity of the investment.

While a liquid fund's primary objective isn't wealth creation, it can be used much like a savings bank account for regular expenses. Liquidity is high, with redemption amount credited to your bank account in just one day.

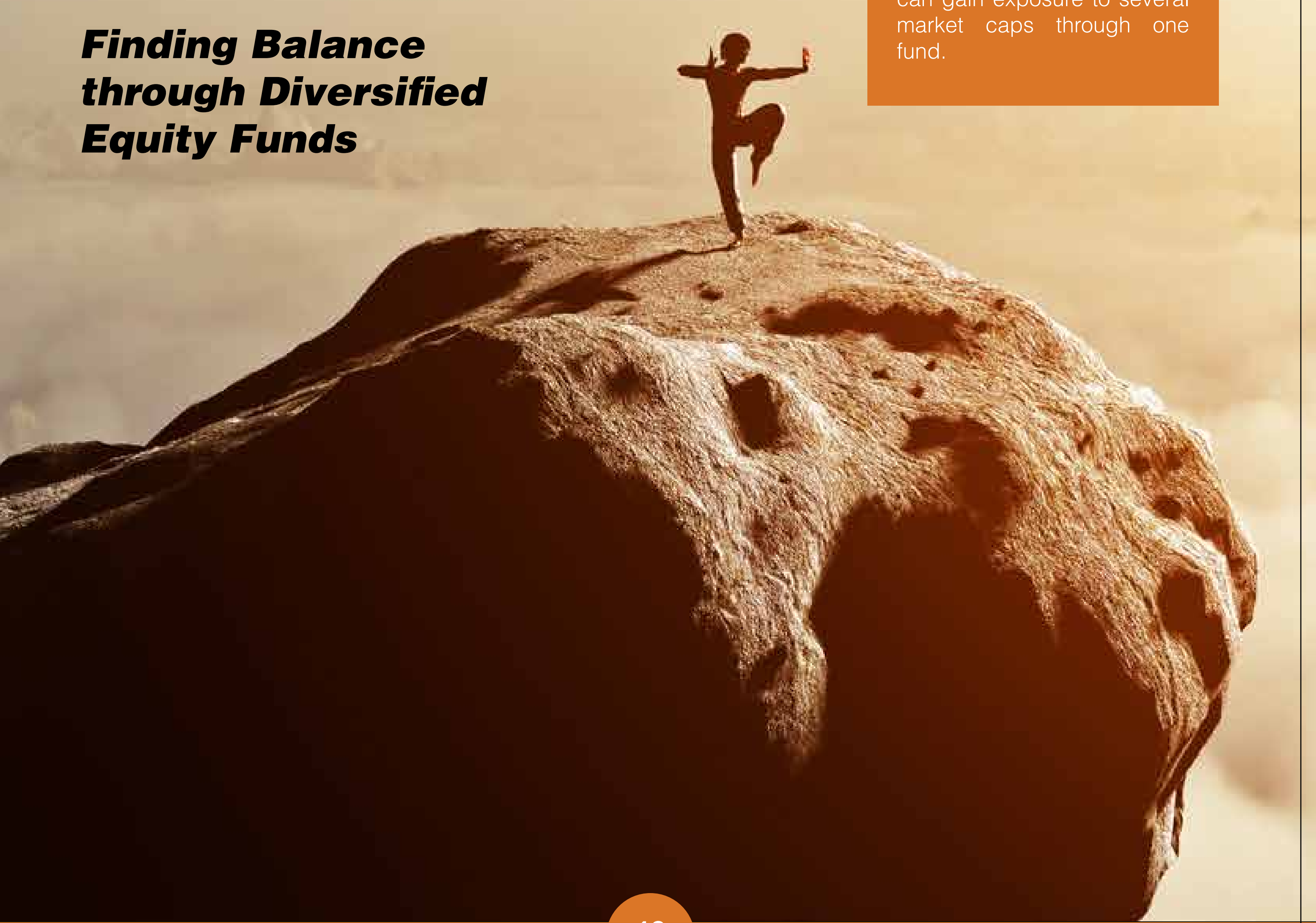
Liquid funds can also be treated as emergency funds. While experts suggest having 6-9 months of expenses as emergency funds, we sometimes hold excess cash in our savings bank account in the wait for a suitable investment opportunity or because we might not know what to do with the surplus. Thus, for investors that aren't sure when they will require the surplus, liquid funds are a better option than your savings bank account in terms of return on investment – they give pre-tax returns of 8 - 9% compared to the 4 - 6% offered by savings bank accounts.

They are also tax-efficient compared to savings bank accounts and make for a good investment option for individuals and corporates alike.

While there are diverse mutual fund categories, investors must build their portfolio based on their individual profiles, requirements, and goals. Mutual fund investments carry market risk, therefore selecting schemes should always be a careful, analytical exercise. To find out more about fund categories and suitability, consult a mutual fund advisor or a financial planner ■

THE MIDDLE WAY

Finding Balance through Diversified Equity Funds



Diversification is imperative for maximising portfolio returns and minimising risk. For investors holding mutual funds, large cap funds are generally considered to be a 'safe' bet while mid and small cap funds are thought of as inherently risky and volatile. However, with diversified equity mutual funds, one can gain exposure to several market caps through one fund.

WHAT ARE DIVERSIFIED EQUITY FUNDS?

Diversified equity funds invest across sectors and market capitalisations, thus ensuring that the negative performance of one sector does not affect the entire portfolio. In this way, diversified funds increase the probability of generating sustainable returns. These funds aim for medium-to-long-term capital appreciation and are suitable for investors with a moderate risk appetite and an investment horizon of 3 - 5 years. They are also known as multi-cap funds, flexi-cap funds or large and mid-cap funds.

Investments made by diversified equity funds are usually vertical in nature, which means a mix of sectors and market caps are evaluated. As opposed to horizontal investments, this ensures a better cover against risk by providing both sectoral and market cap diversification.

While holding too many large-cap funds in your portfolio could stagnate returns, solely investing in mid and small-cap funds could increase portfolio volatility and risk. Diversified equity funds offer a middle path that allows investors to invest in sufficiently diversified holdings by undertaking only moderate risk.

BENEFITS OF INVESTING IN DIVERSIFIED EQUITY FUNDS

Investing in a diversified equity fund holds several benefits:

- **Diversification:** Experts suggest that it is diversification in various asset classes and not individual funds that determines portfolio return. By investing in diversified equity funds, you bypass the need to diversify your portfolio by choosing an already diversified fund that suits your financial objectives and risk appetite. If you are looking for a greater degree of stability in your investments, allocate a larger portion of your investments in diversified funds and the remaining in small and mid-cap funds. However, if aggressive investing with a high risk appetite is your style, mid and small-cap funds would be the ideal avenue for appreciation on long-term investments
- **Stability during market ups and downs:** Because diversified equity funds include stocks of all markets caps, they provide stability in both bull and bear markets. While large-cap stocks tend to veer towards stability in bear markets and moderate appreciation in bull markets, mid and small-cap stocks respond to market stimulations in greater measure - they show higher appreciation in bull markets and depreciation in bear markets. The difference in performance helps balance the fund returns. Additionally, in bear markets, mid and small-cap stocks tend to be volatile even if large-cap stocks depreciate moderately, thus maintaining a balance and allowing investors with varying risk appetites to park their capital in diversified funds
- **Universal appeal:** Diversified funds appeal to all kinds of investors, from risk takers to safe players. Since they also lower the need to diversify, an individual investor managing his own portfolio will find them a convenient option. A diversified fund can provide stability to your portfolio with moderate-to-high returns
- **Tax benefits:** Equity mutual funds enjoy superior tax advantages compared to other asset classes - long-term capital gains (gains on investments held for >12 months) are tax-free while short term capital gains are taxed at just 15%. What's more, the dividends paid out by equity funds are tax-free too

MUTUAL FUND CATEGORY RETURNS ACROSS DIFFERENT PERIODS

Name of the Ctegory	Returns: 1 Year	Returns: 3 Year	Returns: 5 Year	Returns: 10 Year
Large Cap	0.77	2.96	7.92	8.05
Mid and Small Cap	10.5	-0.31	7.625	10.31
Large and Mid Cap	6.57	0.47	7.85	8.71
Diversified Equity Mutual Funds	9.64	4.42	10.59	10.52

Source: Value Research & CRISIL

OPTIMISING YOUR PORTFOLIO RETURNS

Equity is a vast asset class comprising of various categories of investments. A diversified equity fund works the best for investors looking for a simple way to diversify their holdings. This type of equity mutual fund is suitable for beginners and moderate risk-takers, usually generating moderate-to-high returns for investors. It has been historically seen that long-term investments in diversified equity funds have beaten returns on bank fixed deposits, gold, and PPF returns with a decent margin. Thus, invest in diversified equity funds to optimise portfolio returns without spending too much time figuring out the nitty-gritties of diversification ■

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2020 HAVE YOUR CAKE AND EAT IT TOO

SIP allows investors to invest small sums of money consistently over a period of time without affecting their lifestyle or standard of living while creating a sizeable corpus over the long-term.

Imagine your mother's birthday is approaching and you want to surprise her with her favourite chocolate cake. Do you wait till her birthday to place your order? Of course, not, because you understand that the cake needs to get baked, packed and delivered – which takes time.

Even a seemingly simple task such as this requires a bit of planning. So what about the BIG things? Say your child's education, or marriage, or your retirement planning. Surely, some amount of planning must go into those as well and a Systematic Investment Plan (SIP) can prove to be an extremely useful tool in realsing your goals.

WHAT IS A SIP?

SIP is a smart investment tool wherein investors make regular and fixed payments to a mutual fund, on a monthly or quarterly basis. SIPs allow investors to buy mutual fund units on a given date every month or quarter, depending on their preference. The amount invested is at the closing Net Asset Value (NAV) of the date of realisation of the payment which can be via cheque or auto-debit facility.

WHAT ARE THE DIFFERENT TYPES OF SIPS?

The two types of SIPs offered are:

- **Amount-based:** In this type of scheme, a fixed amount is invested in the selected units every cycle. The number of units is calculated using the SIP amount and the current market price of a unit.
- **Quantity-based:** In this category, a fixed quantity of units is purchased every cycle. Hence, the amount invested in the SIP changes every time depending on the current market price of a unit.

WHAT ARE THE UNIQUE ADVANTAGES THAT SIPs OFFER?

The obvious advantage of investing through SIPs is that they help create wealth with small investments over a period of time. However, there is much more that SIPs have to offer:

- **Investment Discipline:** SIPs encourage disciplined and focused approach to investing by allowing investors to regularly contribute small sums of money towards the corpus on a periodic basis. As the saying goes, "don't save what is left after spending, spend what is left after saving."
- **Rupee-Cost Averaging:** When an investment is made at regular intervals, the units accumulate at different purchase prices. Thus, an investor would end up buying more units when the markets are down and fewer units when the markets are up, thus, averaging the cost per unit. Over a long-term investment horizon, rupee-cost averaging can even out perform the market ups and downs, allowing the investor to realize maximum returns on his investment without having to worry about 'timing' the market.
- **Power of Compounding:** The golden rule of saving is to start early on in life. Investing early can earn much higher returns than starting late, even if you set out with a higher corpus towards the later part of your life.
- **SIP is for everyone:** Since SIPs don't demand a large monthly commitment, they can be beneficial even for people with a low savings, thus, being a suitable investment tool for those in the early stages of their career.
- **Convenience:** The process of registering for SIPs has been made very simple and the entire process can be completed online. They can also send a one-time instruction to their banks to auto-debit the fixed sum every month from their account, thereby facilitating automatic deduction of monthly payments without worrying about missing on payments.
- **Flexibility:** SIPs invest in open-ended funds so investors have the flexibility of pulling their funds out at any given time.

BUILDING A CORPUS THROUGH SIP

SIPs are an effective and convenient method of saving and investing. They can be the ideal vehicle for building a sizeable corpus over the long term due to the benefits of compounding and rupee-cost averaging. Moreover, you can have multiple SIPs operating simultaneously, each working towards a different goal. All that is required is a bit of planning and some commitment. Once you have inculcated the required sense of discipline, you can have your cake and eat it too! ■

Secure Your Family's Financial Future with Term Insurance

Modern lifestyles have made us more susceptible to diseases and accidents than ever before. The immense stress that comes with them exposes us to several health risks. It is thus imperative to secure your family's financial future in the event of your death. If you happen to be the sole breadwinner, ensuring cash flow in the family doesn't stop post your death becomes even more important. A term insurance ensures your family's sustenance post death at the same standard of living.

WHAT IS TERM INSURANCE?

Term insurance is a type of insurance that is availed for a fixed term (number of years). During that term, if the assured dies, the nominee gets the sum assured, which is a lump sum. If not, the premium paid is not recoverable. Now, there's a new variant in the market where the family is paid the assured's last-drawn salary till the remaining age of the assured out of 58 years. This is to ensure continuity of cash flows for the family.

Term insurance policies are offered for various terms like 10 years, 20 years, 30 years. Most of these policies have a built-in feature to convert to permanent life insurance policies, irrespective of the health conditions of the policyholder. Unlike other types of life insurance policies, a term insurance policy is less expensive since it does not have any cash value.

WHY DO YOU NEED TERM INSURANCE?

Term insurance is generally overlooked compared to other insurance products due to the mistaken belief that such plans do not offer any additional benefits besides the sum assured on the policyholder's demise. However, there are several advantages of buying a term insurance policy:

- **Financial security for loved ones:** Term insurance plans help build a financial safety net for the policyholder's dependents in the event of their demise. It is a way to ensure your family continues leading a comfortable life in the case of the assured's untimely death. Moreover, outstanding debts can put your family under financial crisis. Term insurance provides a safety shield against such outstanding debts

- **High life cover:** Term insurance provides the highest life cover at a low cost. Since there is investment element involved, you get the highest coverage (death benefit) at an affordable rate of premium

- **Riders:** Term plans can be enhanced through the use of riders that offer extra protection, which are available at a nominal cost. Some riders available under term plans are - accidental death benefit, critical illness, partial or permanent disability, waiver of premium, etc.

- **Flexible payment options:** Term insurance policies offer flexible premium payment options - limited pay, single pay or regular pay. In the case of limited or regular pay - premiums can be paid either monthly, quarterly, half-yearly, or annually

- **Tax benefits:** The premiums paid towards a term plan are eligible for tax benefits under Section 80(C) of the Income Tax Act. The death benefit received by the nominee is also eligible for tax deductions under Section 10(D)

WHAT IS TERM RETURN OF PREMIUM?

Term insurance also comes with an option to have the premium returned if the life insured survives. This is called a Term Return of Premium (TROP) plan, a standard term life insurance plans with a slight variation. On survival, policyholders are returned the total amount of premiums paid by them during the policy tenure, excluding tax. This is especially important during the golden years of earning and is also sometimes used to equalise the inheritance between the legal heirs. Say, a person has one house worth Rs. 4 crores and two children. In his will, he can leave the house to one child and take a term insurance for Rs. 4 crores with the other as a nominee. This way, settling the inheritance becomes easy without the need to dispose of the asset.

PURCHASING A TERM INSURANCE

There are several benefits of a term insurance offers, foremost among them being the financial security of your family. According to experts, a sufficient cover is 10 times your annual income. Please note, an inadequate cover defeats the purpose of being insured. Additionally, it is also important you review your insurance cover and identify areas that can be eliminated, so that you are not over-insured

INVESTING IN A SWP FOR A REGULAR AND FIXED INCOME

When investors seek fixed income, they typically think of mutual fund schemes with dividend payouts. While such schemes serve the purpose, they aren't necessarily the most tax-efficient way to achieve the goal. Because higher taxes translate to higher costs, returns through the mutual fund route may be lower than expected.

THE PROBLEM WITH DIVIDEND SCHEMES

Mutual funds issue dividends to investors as part of the gains realised. Thus, one's fixed income is not guaranteed but is contingent on the realisation of gains, which may not always be the case. For instance, when the market sees a downtrend, the fund could find it difficult to issue dividends. Even when it earns a profit, it may not deem it fit to issue dividends. This means that investors are at the mercy of the fund's judgment. Hence, income in this case may not be 'fixed' at all.

Moreover, such schemes are ultimately a tax-inefficient option. Investors seeking regular income through the dividend option may either be invested in debt or equity funds. Let's look at the tax treatment for each of these. For those invested in debt funds, a dividend distribution tax (DDT) of 28.84 % (25% DDT +12% surcharge+3% cess) is levied on the dividend plan. Although this amount is not taxed in the hands of the investor, it is deducted from the total gains by the fund house before coming to the investor. For example, if the total gains were Rs. 100, an investor would receive only Rs. 71.16 of the dividend declared.

For a long time, dividends from equity fund had been exempt from taxes, thus increasing their attractiveness to investors. However, the recent announcement of a 10% tax on income from equity funds in Union Budget 2018 has taken the sheen off dividend income arising out of equity funds.

A SYSTEMATIC ALTERNATIVE

For those expecting a tax-free regular income, dividends from mutual funds may not be the ideal solution. Such investors can instead benefit from a Systematic Withdrawal Plan (SWP). Here, the investor doesn't receive dividends declared by the mutual fund. Instead, they can withdraw a fixed amount on a regular basis from their investment in a scheme. Let's look at how it scores over a dividend option while offering the same benefits:

Fixed and Customisable

For those in possession of a lump sum amount and seeking a regular fixed income, an SWP proves to be a better option. Say, an investor has a corpus of Rs. 12 lakhs and is seeking a regular income. He invests this amount in an equity fund for 2 years and opts for an SWP where he redeems an amount on the 1st of every month. He will get a fixed amount of Rs. 50,000 every month while the rest of his money continues to grow with the rise in the value of the equities. Hence, an SWP assures a pay-out to investors at fixed time periods of their choice - daily, weekly, monthly, yearly. It is an excellent alternative to dividend schemes since the investor can fix the date and amount of his income rather than relying on the fund house to do so.

No Dividend Distribution Tax

The introduction of a 10% tax on Long-Term Capital Gains (LTCG) on equity funds means that any dividend paid will attract a tax of 10%, irrespective of the amount. However, in the case of SWP, investors can avoid tax if LTCG on amount withdrawn is less than Rs. 1 lakh. Hence, the trick here lies in fixing an SWP amount that only encashes the appreciation accrued to the corpus and does not diminish the corpus itself. For those invested in debt funds, an exit before 3 years leads to a Short-Term Capital Gains (STCG) tax as per the income tax slab of the individual. If invested for more than 1 year, an LTCG tax of 20% is charged which is inclusive of indexation benefits.

An SWP has clear advantages to offer over dividend schemes. Investors are advised to consult their financial advisor to understand the full breadth of the benefits of SWPs and make a suitable investment

TAKING THE SWP ROUTE FOR FIXED INCOME

A quick comparison between dividend schemes and SWP can be made with the help of the below table:

Option	Pay-out	Taxation
Dividends	• Uncertain • Frequency of payments dependent on fund house	• DDT in case of debt funds • 10% tax irrespective of amount in case of equity funds • Additional tax post income of Rs. 10 lakhs
SWP	• Certain and guaranteed • Frequency of payments is customisable	• STCG & LTCG tax applicable in case of debt funds • No LTCG tax if amount withdrawn is below Rs. 1 lakh

RERA A BLESSING FOR THE BUYER

The real estate sector in India (particularly residential) has, for a long time, favoured developers. Despite investing their hard-earned money, buyers in the market have always been at the receiving end, be it in the form of project delays, poor construction or hidden information. In order to create a level playing field in the hitherto unregulated and unorganised sector, the Government of India implemented the Real Estate (Regulation & Development) Act, 2016 also known as RERA.

The Act seeks to protect the interests of home buyers and also spur demand for property, which has witnessed a great slump ever since demonetisation. By putting in place rules and regulations, the Act aims to not only ensure accountability and transparency in real estate transactions in the country but also penalise sellers for any deviation. By setting up a forum to address buyer grievances, it seeks to hold developers responsible for their projects, a welcome move for disgruntled buyers.

Let's look at 10 reasons why RERA is good for buyers.

1 Timely Delivery

Builders need to specify a date of possession in the sale agreement and the rate of interest in case of a default. Also, the buyer can seek withdrawal of booking amount along with the interest. If the buyer decides to go ahead with the project, the developer would be bound to pay interest for every month of the delay till possession by the buyer. In case of a delay, both the buyer and the seller would be charged the same rate of interest which was earlier higher for the buyer.

2 Decreased Booking Amount

Developers can only take up to 10% of total property cost as booking amount. Accepting a higher amount will be seen in violation of RERA and can attract a severe penalty for the developer.

3 Prevents Diversion of Funds

RERA requires the developers to deposit at least 70% of the buyer's money received for a particular project into an escrow account. Withdrawal from this account can only take place on the basis of project completion certified by engineers, architects, and a chartered accountant.

4 Mandatory Registration

RERA has mandated setting up of a regulatory authority in each state and union territory. As per the Act, developers and agents need to register themselves with these State Regulatory Authorities and obtain a registration number. All details regarding project including construction progress, occupation, sales details have to be updated with the RERA state authorities.

5 Broker Registration Mandatory

Brokers too need to be registered under RERA and will be liable for all the deliverables committed by the developer they represent.

6 Pay Only for Carpet Area

The price quoted by the developers will be based only on the carpet area (area within the walls). Unlike earlier, the developers can't charge for the super built-up area (including balcony and common area), which essentially means that buyers get what they pay for. In case of default, the developer is entitled to imprisonment for three years.

7 Approval for Changes

Approval of at least 2/3rd of the buyers is required for the developer to change or modify the building, layout plans, etc.

8 Liability of Structural Defects

The developers are liable for repairing any structural defects (such as cracks, plumbing or electrical issues) that appear in the first five years. These repairs need to take place within 30 days or buyers need to be compensated for the same.

9 Land Title Documents

Written affidavit needs to be provided by the promoter indicating the property is free from encumbrances. Such encumbrances previously prevented delays in case of title transfer.

10 Grievance Redressal

A dissatisfied buyer can file an appeal in the Appellate Tribunal which will be addressed by the State Regulatory Authority within 60 days.

Thus, the Real Estate Act, 2016 creates a level playing field by protecting buyers. In essence, it has brought about a change in the sector for the better. Developers can no longer take advantage of unsuspecting buyers without having to bear consequences. It ensures accountability and transparency to transactions in a sector which for a long time thrived without any. For now, the ball has shifted to the buyers' court ■

Systematic Vs Lump Sum Investment

Make the Right Investment Choice

Even as the concept of Systematic Investment Plans (SIP) gains currency, investors are often confronted with the age old choice between systematic and lump sum investing. A pertinent question remains – which of the two results in higher future returns? That it's fair to compare the approaches is a matter of some debate. While investors will come across literature arguing in favour of one against the other, making the right investment choice ultimately rests on understanding the difference between the two.

A major difference is in the cash flows – an investor with money at hand will be comfortable investing a lump sum amount, whereas in case of an SIP, the investor may not possess a lump sum amount but expects a regular income in the future. For a person with not enough lump sum amount, investing at a go is infeasible. Similarly, for someone with an uncertain future income, SIPs remain out of question.

IS A SYSTEMATIC INVESTMENT PLAN RIGHT FOR YOU?

An SIP offers investors convenience in terms of distributing their investment over several years such that they do not have to part with lump sums to make it work. In fact, investments through this route can be automated such that a fixed sum is debited from the bank account each month.

The SIP route is best suited for young investors, who may want to start as small as Rs. 500 per month, thus allowing them a flavour of investing even at a small scale. It is also suitable for individuals with a regular income and surplus. SIPs offer the flexibility to continue investments even when a month is missed or there is an additional investment because of excess surplus.

SIPs are also useful in determining the exact amount an investor must set aside to achieve long-term financial objectives.

SHOULD YOU OPT FOR LUMP SUM INVESTING?

The lump sum mode allows individuals with a large corpus to invest at a go, ensuring money does not lie idle in a bank account. Thus, lump sum investing is ideal for seasoned investors who have generated large sums which they wish to reinvest at once. Individuals with uncertain income but substantial cash flow may also prefer to invest via lump sum. This allows them to stay invested despite erratic cash flows, aiding them during lean times when they can withdraw from the lump sum using a Systematic Withdrawal Plan. Here, they aren't required to redeem the entire corpus but only a stipulated amount at a time while the rest of it keeps earning returns.

THE HYBRID OPTION

A third, hybrid option is also available wherein investors can opt for a liquid fund with a Systematic Transfer Plan (STP). Say, an investor has a lump sum amount but is not confident about timing the market. They also doesn't want their funds to lie idle in a bank account generating a paltry return. In such a case, they can invest the lump sum in a short-term, liquid fund and do a STP into their desired mutual fund scheme. Here, a fixed amount is transferred from a liquid fund to another fund – equity, balanced fund etc.

By investing in this manner, firstly, the investor doesn't let funds sit idle and earns an interest higher than the bank rate. Secondly, the investor also enjoys the benefits of rupee cost averaging by buying less or more units depending on the price.

MAKE A SMART INVESTMENT DECISION

Investors must ultimately choose a method that works for them based on their income, cash flow and financial goals. Those with a regular income can safely invest in a SIP and those with a lump sum amount but not sure about market timing can opt for the hybrid route.

Moreover, investors don't need to limit themselves to a definitive mode. They can invest in a SIP if they have a regular income and boost their portfolio by investing through lump sum whenever they have a surplus. For those with a large surplus and a low risk appetite, an STP can offer the best of both worlds. Make an informed choice by consulting your advisor or financial planner ■

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

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