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From the
Editor's Desk

Have you been telling yourself that as soon as you achieve the set target, you will start saving? As soon as you pay off just a few more bills? As soon as you get that new raise or sign that new client? If so, then the key to financial independence is Fund Your Future First.

Most of us look forward to the day when we can stop earning money by the sweat of our brow (or at least spend less time having to work for it). Affiliating with money sounds like the quickest and easiest route, but most of us aren't born to it, don't marry it, inherit it, or otherwise "strike it rich." This leaves us with letting our money make us more money, but we need to have money to start with. Hence, becoming a good "saver" is the foundation of financial independence!

If you always save 10% of your gross income (even after you retire), you will never run out of money. This includes gross wages and salaries, self-employment income, rental income, pension, gifts, allowances, windfall gains, investment earnings, and capital gains. While you are moving toward financial independence, reinvest all the earnings on your investments. During retirement, save 10% of your investment earnings as well as 10% of your other income. If this sounds difficult to do, think back for a minute to the last raise you received or the last sale you closed. You'll feel a bit pinched at the beginning, but you will quickly adjust, and soon you won't miss that money that is now working for you, instead of you working for it.

There are many reasons why we fail to save as much as we should. The money we save when we're young is worth more than the money we save at a later age. Creative Budgeting is the mantra to financial independence. It requires you to make a substitution. Perhaps you've always wanted to explore gourmet French cooking, or Chinese cooking. In a Creative Budgeting programme, you would still cut back on the money spent for dining out, but you would take some of that cash and purchase a set of professional cookware or new cookbooks, or perhaps enroll in a cooking class – whatever you need to make a successful substitution. You may not be cutting your spending quite as quickly, but you'll be enjoying something new, eating better, maybe even sharing a new pursuit with loved ones. And you will soon have more money to put toward your savings goal. Creating Budgeting leaves you feeling richer.

Best,

Team Meri Punji

Punji *(noun / Hindi)* **- Capital** *meaning, wealth in the form of money or other assets owned by a person or organization or available for a purpose such as starting a company or investing.*

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The Balancing Act

Rebalancing is the process of selling and buying securities in one's portfolio to set each asset class back to its original proportion. Mutual funds see their Net Asset Value (NAV) change daily due to which the debt-to-equity ratio of portfolios can change considerably over a year or even over a quarter. Additionally, an investor's risk appetite may change over time. Accordingly, he can rebalance his portfolio to accommodate a new asset allocation strategy by readjusting the proportion of different kinds of securities.

Portfolio rebalancing is central to following a disciplined investment strategy. It means deciding on a debt to equity ratio for your portfolio that is in line with your long-term financial goals and sticking to that ratio. Thus, a periodic review of one's portfolio is necessary to maintain the pre-determined ratio by buying and selling units of debt or equity, as may be required.

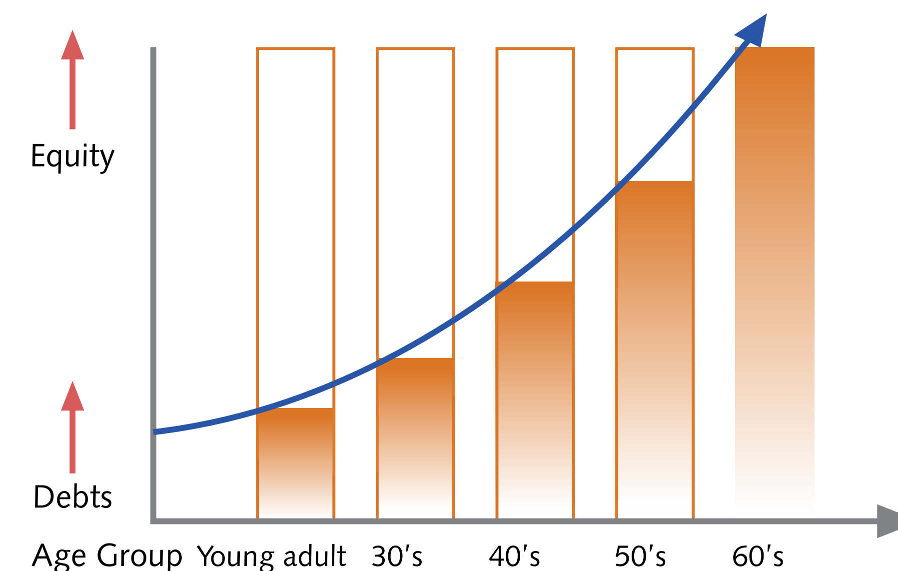
Applying this thumb rule, the ideal age-wise debt to equity ratio is provided below. The rationale being, the older you are, higher the percentage of debt in your portfolio in order to minimise risk. Conversely, the younger you are, higher the percentage of equity in your portfolio due to higher risk appetite and longer time horizon for investment.

Once you have an asset allocation strategy in place, the next important step is rebalancing your portfolio periodically. Over time, the changes in the market value of different asset classes result in a change in their original weights in the portfolio. This creates the need for rebalancing one's portfolio to keep aligned with one's risk and return strategy.

For instance, let's assume Sanya has Rs. 100,000 to invest in securities. She decides to invest 50% in bonds, 10% in a money-market fund and 40% in an equity fund. At the end of the year, Sanya finds that the stock market has outperformed the bond and money markets leading to a considerable increase in the NAV of the equity fund. This has resulted in a change in the portfolio's asset allocation. An increase in the percentage invested in equity funds means a decrease in the percentage invested in bonds and money-market fund. Let us assume, Sanya's Rs. 40,000 investment in the equity fund sees a return of 40% and grows to Rs. 56,000 bonds suffer and realize a loss of 4%, while the money-market fund sees a modest increase of 5%.

THUMB RULE

"The ideal percentage of equity in your portfolio should be the number arrived at by subtracting your age from 100".



The overall return on her portfolio is 14.5% but the portfolio is now more equity-heavy, 56% as opposed to the initial 40%. While she could leave the portfolio as is, this could be risky in the long run due to the stock market being the most volatile relatively.

Hence, the asset mix originally devised by the investor can change due to differing returns among asset classes, resuting in a change in the risk associated with the portfolio.

ADVANTAGES OF REBALANCING

Risk-reward balance

The primary objective of asset allocation is maintaining a balance between risk and reward. Naturally, the performance of different asset classes vary, potentially causing one's risk profile to become skewed towards an asset class.

Disciplined investing

Portfolio rebalancing imposes a certain discipline into one's investment practice and helps reduce one's reliance on instincts. To counter the inherently volatile nature of financial markets, investors should have a clear asset allocation strategy with lower and upper limits for each security type. A breach of these limits should then call for a review and rebalancing of the portfolio.

Portfolio review

While rebalancing, investors should also conduct a complete review of their portfolio including a review of individual holdings and the relevance and effectiveness of their investment strategy. This review ideally goes hand-in-hand with the rebalancing exercise.

Commitment to financial plan

Rebalancing also helps investors remain committed to their original financial plans that contain a clear investment strategy, a target asset allocation and risk tolerance. Periodic rebalancing exercises are crucial to maintaining the pre-determined asset allocation level in line with an investor's personal financial plan.

Portfolio rebalancing at regular intervals helps minimize downside risks associated with your investment assets while ensuring your asset allocation remains stable. It helps stick to the original investing plan regardless of how the market performs and to move closer to achieving your goals ■

Snowballing Towards Prosperity

"Tis the stone that will turn all your lead into gold. Remember that money is of a prolific, generating nature. Money can beget money, and its offspring can beget more."

- Benjamin Franklin

A simple yet powerful concept, compounding is the foundation stone for long-term wealth creation. When you invest in a financial asset, compounding allows you to earn interest on not just the principal investment, but also on the interest that is re-invested periodically. It works on the principle of 'multiplier effect' where the interest earned on the initial capital further earns an interest, growing the value of the investment at a geometric (increasing) rate instead of an arithmetic (straight-line) rate.

HOW DOES COMPOUNDING WORK?

Let's say you make an annual investment of Rs. 1 lakh for 20 years. At an annual compound interest rate of 8%, your initial investment will grow to Rs. 50 lakhs over the 20 years. But at a rate of 10%, you would see the same investment grow to Rs. 63 lakhs. We see how a seemingly small 2% makes a difference of Rs. 13 lakhs to the final corpus. Imagine the benefits of compounding over a longer period or with a larger initial investment.

Compounding, a typically long-term investment strategy, is much like a snowball rolling down a slope, gathering more snow with each turn. Thus, when you invest in a mutual fund, compounding will earn interest on both the principal and re-invested earnings. In short, compounding generates a return on your returns, with your money growing faster as the years roll on. As your corpus grows, the magnitude of every incremental interest amount increases. Thus, the power of compounding can be significant over a long period of time.

START EARLY TO LEVERAGE THE POWER OF COMPOUNDING

On the surface, compounding may seem like a boring concept to mull over. You may wonder, "What does an 8% annual growth in a mutual fund matter? Why do I need to start investing now?"

In the short-term, it really doesn't make much of a difference. But the short-term fades in comparison to the bigger picture – how your corpus grows over the course of the next 20-30 years. On the slow, steady path to wealth, a focus on long-term goals is the best strategy an investor can adopt.

Let's understand the power of compounding through another example. Say, you want to make a provision for your infant's higher education overseas. You have about 18 years of time to save for the event. Let's assume the cost of tertiary education would be close to Rs. 2 crore at the time. Assuming an annual expected return of 15%,

all you'd need to save each month is Rs. 20,000. By the end of 18 years, you would have invested Rs. 43.2 lakhs which, due to the power of compounding, would have snow balled into approximately Rs. 2.2 crore!

The idea is, the earlier you start investing, the more money you stand to make. Even a small amount of money invested over a long period can yield a higher return than a larger sum invested over a short period. This is one of the reasons behind the growing popularity of Systematic Investment Plans (SIP).

The secret to long-term financial success is to start saving today and saving regularly, even if all you can afford is a small sum. How much you invest is not nearly as important as starting early. Every year you put off investing makes your financial goals that much difficult to achieve.

HARNESSING THE POWER OF COMPOUNDING

How can you harness the power of compounding to build long-term wealth? You can start with a few simple steps:

1. **Start early:** The earlier you start, the more time you allow compounding to work for you and the more your corpus grows. There is no better time to start saving than today.
2. **Invest regularly:** The second tenet is discipline. Don't make haphazard investments; instead, remain disciplined in your investment approach. Set aside money on a quarterly or monthly basis, thus incorporating discipline in your investment approach.
3. **Patience is key:** Compounding only works if you remain patient and allow your corpus to grow with time. It might seem like a slow, long-drawn-out process at first, but if you remain patient, it will be worth it in the end ■

Beat Market Volatility with a SYSTEMATIC TRANSFER PLAN

When investors look to invest their capital in a mutual fund, one of their primary considerations is getting market timing right. Especially when markets are soaring to record highs, investing capital at a go naturally seems like an unproductive exercise. However, with a systematic re-allocation strategy, investors can mitigate the risks involved in their investment while booking better-than-average returns.

WHAT IS A SYSTEMATIC TRANSFER PLAN?

A Systematic Transfer Plan (STP) is an investment strategy involving the transfer of a fixed amount from one fund category to another. It helps the investor alternate their investment between asset classes over a period of time, thus maintaining a balance between risk and return.

Since equity markets are often volatile and could prove tricky for investors to wade through, they often shy away from investing a lump sum amount. An STP takes care of the dilemma by allowing investors to systematically invest in equity funds by investing a lump sum amount in a particular scheme and have a pre-determined amount transferred regularly to another scheme.

Often, an investor will park their capital in a liquid ultra-short-term fund and then transfer to an equity balanced fund.

HOW IT WORKS

To invest in the equity fund using the STP, the investor would first select the fund, decide on the amount, and the frequency of transfer. Most fund houses offer daily, weekly, quarterly, and monthly options to transfer funds.

Let's assume a person wishes to invest Rs. 10 lakhs in an equity mutual fund through an STP. He will first need to choose a debt fund that allows the STP to invest in the equity fund of their choice. Once they've invested their entire capital in the debt fund, they'd need to fix an amount to be transferred to the equity fund and the frequency of transfer. Say, the transfer is fixed at Rs. 1 lakh over 10 monthly installments. Each month will now see a transfer of Rs. 1 lakh from the debt fund to the chosen equity fund.

ADVANTAGES OF INVESTING IN AN STP

- **Cost-averaging:** Much like a Systematic Investment Plan (SIP), an STP requires a fixed amount to be invested in a particular fund at regular intervals. It also offers the same benefit of averaging cost out by purchasing more fund units at a lower NAV and vice versa
- **Portfolio Rebalancing:** A portfolio must remain balanced between debt and equity. An STP helps to this end by reallocating investments from one asset class to the other. When debt allocation increases, the capital can be reallocated to equity and vice versa
- **Consistent Returns:** The capital invested in the debt fund earns interest till it is transferred to the equity fund. Investors thus gain a solid advantage since a debt fund assures higher returns and better performance as compared to a savings bank account

IMPORTANT POINTS TO REMEMBER

- An STP is a systematic transfer from one fund to another where the amount transferred is usually fixed except under a flexi STP
- Different fund houses mandate a different minimum investment amount and may also define the minimum amount of STPs to be invested in
- Usually, capital is transferred from a debt fund to an equity one as the latter is more responsive to the movement of the market
- Investors must always check the exit load period of the debt fund when investing through the STP route ■

TYPES OF STPS

Fund houses offer a variety of STP options to investors:

- **Capital Appreciation:** In this category, the appreciated capital gets transferred to the target (equity) fund while the capital part remains in the source fund
- **Fixed STP:** In this category, the transferable amount is fixed by the investor at the time of investment
- **Flexi STP:** Under the Flexi option, the investor is offered the choice to transfer a variable amount. While the fixed amount is some minimum sum, the variable amount depends on the volatility of the market. If the NAV of the target fund falls, investment can be increased to benefit from the falling prices and if the NAV rises, the minimum transfer amount can be invested to mitigate the risk of increasing prices

10 Things women should do to be financially independent

The modern Indian woman is breaking age-old barriers and rising to meet new challenges everyday. She is embracing new responsibilities, both personally and professionally. So here are 10 things women should do to be financially strong and independent.

1 Financial planning

The first thing to do is define a clear and realistic financial goal. All your financial requirements, right from your child's education, to a comfortable retired life to securing your future against unforeseen circumstances, call for meticulous planning. It is critical to factor in inflation while drawing up your financial plan. If you are planning your child's education, you should be aware that a professional degree that costs Rs 4 lakh today, may cost Rs 20 lakh, 10 years from now, and hence, invest accordingly.

2 Personal research

While a qualified financial planner can give you investment advice, the importance of doing your own research cannot be undermined. There is plenty of information available on the internet on the pros and cons of each financial instrument. For example, if you are looking at buying a medical cover for your family, there are websites that help you compare features and prices of various medical insurance products to help you make an informed decision.

3 Personalized financial plan

A common mistake among investors is to opt for a particular plan or product simply because others are doing so. An investment plan must be customized according to personal factors such as one's risk appetite, financial goals and life-stage needs.

4 Adequate time horizon

It is necessary to align the investment plan and the expected time frame for getting returns out of it. It is irrational to expect immediate returns from a long-term product. The various investment instruments that are available in the market like insurance, mutual funds, FDs, PPF, come with varying timelines. For example, if you invest in a fixed deposit (FD), you may get your amount back in 2-5 years, depending on your lock-in period. However, insurance is a long-term proposition, and a person investing in an insurance plan will get the benefits after a longer period of time. Applying these know how will help you plan your investments accordingly.

5 Risk diversification

A smart investor would always ensure that the risk is distributed over a variety of instruments. A high risk instrument such as equity should ideally be balanced with a stable one such as bonds. Your investment portfolio should be a judicious mix of equity, debt, life insurance, commodities, real estate etc. At the same time, investment in each of these should be attuned to your financial goals and risk appetite.

6 Planning for unforeseen events

While you draw out your investment plan basis the current assessment of your future needs, the element of unexpected events must also be factored in. As a woman, it is crucial to be financially prepared to deal with unfortunate events. Today, sudden change in circumstances often force women to take sole responsibility of children, parents etc. In such situations, your investments will come to your rescue and take care of your and your family's needs on the basis of your income alone.

7 Regularly track yourinvestment

It is common to become complacent and expect the returns to flow in, once the investments are done. However, it is every investor`s responsibility to keep a tab on the performance of their portfolio. For example, if you have invested in a Mutual Fund through a broker, you must proactively enquire what stocks your money has been invested in and be aware of the performance of the same.

8 Proper paperwork

There have been several instances where an investor is unable to claim returns from a bona fide investment simply because of misplaced or wrongly-filled documents. Proper documentation is a must to safeguard your investments and ensure that they continue to deliver returns, as planned. It is equally important to ensure that someone other than yourself is fully aware of the investments, the terms and conditions and related documentation.

9 Securing your future

Even if you are not the chief bread earner, as a working woman you contribute to the income stream of your family and help in maintaining a certain lifestyle. This makes it crucial for you to have adequate insurance to ensure that in your absence your family does not go through any financial stress. There are online tools on insurance websites that help you decide how much cover is essential for you. In fact, investing in a simple term insurance plan is a good idea to ensure financial continuity. Also taking a pension plan will help to provide a steady income post retirement.

10 Plan and execute

Last, but most important is to put the plan you have drawn up into effect. It is only natural to be complacent about planning for your long term financial needs at an early stage in your career. However, the cost of postponement will weigh heavily on you in the later years when investing will become a compulsion rather than a choice.

Once you follow these steps and have a solid investment portfolio, you not only safeguard yourself financially against unforeseen circumstances but also ensure that the future of your loves ones is secure ■

Contributed by **Aviva Life Insurance**

TWICE AS NICE

WHY A UNIT LINKED INVESTMENT PLAN MAY BE YOUR IDEAL INVESTMENT OPTION

Most of us are aware of life insurance policies whose primary motive is to provide financial security to the policyholder's family in the unfortunate event of his death. It is a contractual agreement between a policyholder and a life insurance company where the policyholder agrees to make payments to the company at regular intervals (termed as premiums)and in turn the company agrees to pay the beneficiaries a sum of money if they pass away.

Now, what if we say life insurance, in addition to the major benefits it offers, also helps you earn an income? Incredible and true! As many of us may not be aware a Unit Linked Insurance Plan (ULIP) gives its investors both insurance cover and investment under a single integrated plan. It provides risk cover for the policy holder along with investment options to invest in any number of qualified investments such as stocks, bonds or mutual funds. Under this plan, one part of the premium paid goes towards insurance and another part goes towards investment. ULIP offers investors options to invest in equity as well as debt depending on their investment goals and risk appetite. If you want to grow your wealth and don't mind taking some risk, you can pick an equity oriented fund option. On the other hand, if you wish for a steady return on your investment, you can go with the debt option. Equity funds include investments such as buying shares of companies. Debt funds invest in government or company bonds. Balanced funds are those that invest equal proportions in equity and debt funds.

Apart from providing life cover which is its primary purpose, a ULIP can be used for a number of advantages to the policyholders. Here are some reasons why it may be your idea investment option:

ANNUITY PLANS

You can build a ULIP plan where you save and invest during your working years and after retirement; you draw the benefits of your investments in the form of regular pay-outs called 'Annuity'. Annuity plans are highly recommended in case you do not have a suitable retirement plan. In case you already have a retirement plan, ULIP offers a wide range of flexible plans where you can structure your own post-retirement pay-outs. Also, after a stipulated period, you are allowed to withdraw up to 33% of your accumulated amount. This withdrawal is called commutation and is completely tax-free. The balance is to be received in annuities. In the unfortunate event of the death of a policyholder, ULIP can give a stable income to the policyholder's family.

EXPERTISE AT YOUR DISPOSAL

Investments under ULIP are managed by fund managers from the insurance company. For those who may not have the understanding or time to track the markets, you have the option to leave the investing decisions to these expert fund managers by opting for fund options such as asset allocation or wheel of life portfolio options. In an asset allocation fund, the insurer's fund manager switches between equity and debt funds considering the view of the market. In the 'Wheel of Life' strategy, the investment is managed in a pre-defined manner with automatic switches. However, these fund managers are usually more conservative than fund managers of mutual funds.

TAX ADVANTAGES

ULIPs also act as a very good tax saving option. For individuals and HUF (Hindu Undivided Family) policyholders,the premium paid towards a ULIP is allowed as a deduction under Section 80C of the Income Tax Act, up to a permissible limit which is currently fixed at ₹ 1.5 lacs. This is subject to the condition that the premium amount should be less than 10% of the sum assured under the ULIP. For corporate policyholders, though deductions under Section 80C is not applicable, the premium paid on Keyman insurance are treated as business expenses and the company can save 30% plus surcharge on every Rupee of premium paid for such a policy as per current tax law. It leads to indirect tax benefits of around 34%.

Also, under Section 10(10D), for life insurance ULIP policy the amount received on partial withdrawal or maturity is exempt from tax provided the premium payable by the policyholder for the sum assured does not exceed 10%. This exemption is applicable for individuals, HUFs and for Keyman insurance policies.

SWITCHING ADVANTAGES

ULIP investments allow you the option to switch from one asset class to another or modify the proportion in which funds are invested in equity, debt, and money market instruments. A major benefit of this switching option is that gains from such switches are not considered as capital gains and hence these are tax-free. Thus you can buy and sell in short-term without incurring any short-term capital gains. Entry load and exit load are not applicable to such switches although there can be restrictions on the number and frequency of such switching. Most insurance policies offer a number of free switches in a year, and for additional switches, a small fee is charged.

LIQUID AFTER 5 YEARS

ULIP also offers the benefit of partial withdrawal to policyholders to cope with unforeseen circumstances. Upon the fulfillment of a minimum lock-in period of five years, you can withdraw funds from your Unit Linked account, retaining only a stipulated minimum amount. The partial withdrawals are completely tax-free, provided they are made after the completion of the lock-in period. This means that investment in debt fund done in 5th year and withdrawn in 6th year can be tax-free if it is done through ULIP. This feature allows individuals to use ULIP plan for significant milestones like home purchase, education or marriage of children.

All in all, ULIPs are versatile investments which can give you a number of advantages if used appropriately. You can combine your own risk profile depending on your need. ULIP offers flexibility in choosing your own life cover, premium amount, rider benefits, and fund options. However, it is very important to understand all the aspects of this investment product before making the plunge. That way you can reap the utmost benefits of this product ■

Breaking the myth FIXED DEPOSITS v/s DEBT FUNDS

- A Case Study

For most people, fixed deposits are a popular answer to 'Where should I invest?'. Although fixed deposits are secure and provide steady interest, they aren't the ideal low-risk option for investing your money.

Debt funds, on the other hand, are not just an equally safe investing bet but are also 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).

Debt funds coupled with a Systematic Withdrawal Plan can offer a great investment option for investors looking for regular income from their invested corpus with minimum tax liability.

FIXED DEPOSITS VS DEBT FUNDS

	FIXED DEPOSITS	DEBT FUNDS
INCOME COMPARISION		
Corpus (Rs.)	15,000,000	15,000,000
Interest Rate	8%	8%
Interest Amount Per Year (Rs.)	1,200,000	1,200,000
Income Generated (Rs.)	**1,200,000**	**88,889****
Income Tax	30%	30%
Tax Payable Amount (Rs.)	360,000	26,667
Income Net Off Tax	**840,000**	**1,173,333**
CASH FLOW COMPARISION		
Monthly Cash Withdrawl/ SWP (Gross)	100,000	100,000
TDS	10%	NIL
Net Cash in Hand (Monthly)	**90,000**	**100,000**

** By the end of the year, the individual would have withdrawn Rs. 12 lakhs but the entire sum would not be considered his income. The income part (calculated pro-rata to its capital) amounts to Rs. 88,889 (Rs. 12 lakhs * 12 lakhs/1.62 crore). Thus, he only needs to pay tax on Rs. 88,889.

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. Not to mention the tax benefits an investor can receive by investing in debt funds (or mutual funds in general) vis-à-vis investing in fixed deposits. Let's consider an example.

Say, a retired individual has a corpus of Rs. 1.5 crores and requires an annual income of Rs. 12 lakhs for his maintenance. He decides to invest his corpus in a low-risk instrument that earns 8% p.a. interest. Let us consider two investment scenarios – a bank fixed deposit and a debt fund.

Thus, we see how investing in mutual funds is advantageous not just because of the better returns or higher liquidity, but also because of several other benefits like taxation and cash flow. Alignment of investments with financial goals is the purpose as well as the result of sound financial planning ■

ACHIEVING FINANCIAL INDEPENDENCE

FOR CHARITABLE ORGANISATIONS

Donations are the primary source of funding for NGOs, but are not immediately available for use. Tax laws mandate accumulation of up to 15% of the income of an NGO for an indefinite period, forming part of its corpus fund. An NGO also receives voluntary contributions for charitable activities, which it can then choose to accumulate, in accordance with tax laws, for a maximum period of 5 years. During this period, the sum must be deposited in the mandated modes to be qualified for Income Tax exemption.

The total of the corpus and accumulated income, called surplus funds, can create a self-sustaining model for an NGO by earning significant and recurring returns. In this manner, an NGO can reduce its dependence on external donations and become financially independent for achieving both long and short-term goals.

While there are several avenues to park funds, not all investments qualify for exemption under the Income Tax Act, 1961. So how can NGOs go about achieving financial independence?

CHOOSING MUTUAL FUNDS FOR BETTER RETURNS AND HIGHER LIQUIDITY

Typically, NGOS invest their capital in bank fixed deposits or other low-risk instruments due to a lack of information and guidance. While these instruments provide safety of capital and risk-free returns, low returns and high taxes make them an inefficient investment option. What NGOs then need is an avenue that provides not just safety of capital but also higher liquidity and better returns than bank deposits.

The law allows NGOs to invest in mutual funds, which combine safety of capital with high liquidity and better returns. Based on the securities they invest in, mutual funds can be equity-oriented (>65% equity), debt-oriented (>65% debt securities) or a combination of the two.

Since the primary investment consideration for an NGO is safety of capital, debt funds are best suited as they are extremely low-risk investments. However, they are a more lucrative investment option than other low-risk investment options due to the higher liquidity and returns they provide. Coupled with lower income taxes, safety of capital and a possibility of capital appreciation, debt funds make the best long-term investment for NGOs.

HOW FUND INVESTMENTS PROMOTE GREATER FINANCIAL INDEPENDENCE

It is also important to choose the right kind of fund depending on individual objectives. For example, an NGO targeting a regular income for its running expenses can opt for a Systematic Withdrawal Plan (SWP) while an NGO targeting an investment in a major project in the future can opt for a growth scheme. The following illustration will aid further understanding of the benefits of debt funds over other low-risk investment options.

An NGO that requires Rs. 10 lakhs to operate annually has Rs. 1 crore in surplus funds. It decides to invest the surplus in a low-risk instrument that earns 10% interest annually. Let us consider two investment scenarios – a bank fixed deposit and a debt fund.

CASE 1

Fixed Deposit

The NGO invests the sum in a fixed deposit paying 10% interest annually. At the end of year 1, it earns Rs. 9 lakhs after a 10% TDS. Tax laws require an NGO to apply 85% of earnings towards its charitable objective. Thus, it will need to set aside Rs. 8.5 lakhs of the Rs. 9 lakhs for its income to be tax-exempt. But, it also needs this money for its daily operations, thus creating a misalignment between its investment and financial objectives.

CASE 2

Debt Fund

The NGO invests the sum in a debt fund (return at 10% p.a.), which earns Rs. 10 lakhs at the end of year 1. Now, it can opt for a SWP where it can withdraw ~Rs. 84,000 for monthly expenses (no tax withholding). By the end of the year, the NGO would have received Rs. 10 lakhs but the entire sum is not considered income in this case. The income part (calculated pro-rata to its capital) amounts to Rs. 90,909 (Rs. 10 lakhs * 10 lakhs/1.10 crore). Thus, it needs to spend only Rs. 90,909 for the entire Rs. 10 lakhs to be tax-exempt. This leaves the NGO with adequate funds to operate for the year, the investment now aligned with financial objectives.

Thus, we see how investing in mutual funds is advantageous not just because of the better returns or higher liquidity, but also because of several other benefits. Besides, the alignment of investments with financial goals can provide financial independence so an NGO can focus on its core charitable objectives ■

Why Diversified Equity Mutual Funds Make for the Best Long-Term Investment Route

Creating long-term wealth is a common investment objective but one that requires exceptional perseverance and grit. Equity offers one of the best avenues to achieve the goal, outperforming other asset classes over a long investment horizon. While equity does furnish higher returns, it isn't without its risks. If you're looking for a way to earn high returns but with risk lower than that of equity, diversified funds could be the answer. They serve as an excellent path for retail investors to create wealth in the long run, reducing risk by investing in stocks across sectors and market capitalizations.

COMBINING STABILITY WITH HIGH RETURNS

Equity stocks can be categorized on the basis of the market capitalization as large-cap, mid-cap or small-cap. While large-caps offer stability, mid and small-caps can be volatile but with the potential for higher returns. Stocks can also be categorized by sector or industry.

Diversified mutual funds protect investor assets by investing in non-related industries or asset classes. By investing in a large number of stocks across sectors and market caps, they diversify unsystematic risks (the type of uncertainty that comes with the company or industry invested in and can be reduced through diversification) and generate higher risk-adjusted returns than other undiversified investments. Thus, they combine the stability of large-cap stocks with the volatility and long-term-returns potential of mid and small-cap stocks.

Diversified equity funds buy and hold stocks to generate capital appreciation over a long investment horizon. Based on the fund mandate, managers may churn their portfolios at regular intervals. The profits thus booked are either distributed in the form of dividends to investors or reinvested to generate future profits through compounding.

Because different market segments outperform each other through different cycles, these funds generate higher returns owing to diversified investments in unrelated sectors. For instance, an industry could see better-performing stocks owing to a recent change in legislation while another may be seeing tough times because of, say, a disruption in the supply of a raw material. This way, retail investors can enjoy the benefits of a diversified equity portfolio through a relatively small amount of investment. This makes diversified equity funds an ideal choice for capital appreciation over the long term. They work especially well for investors with long-term goals like retirement planning, saving for a child's education or marriage.

WHY CHOOSE DIVERSIFIED EQUITY FUNDS

Diversified equity mutual funds come with a host of benefits for investors that are in for the long haul:

- **Shock absorber:** Such funds absorb shocks to the portfolio that result from market ups and downs. During a bear phase, large-caps will help stabilise the portfolio and during a bull phase, small and mid-caps will provide higher returns
- **Protection against volatility:** The power of diversification ensures industry-specific setbacks don't severely affect your portfolio and upset your long-term financial objectives
- **Better risk-return ratio:** Diversification helps achieve the same or higher returns with lower overall risk
- **Wide suitability:** Such funds are suitable for different kinds of investors, from risk-takers to safe players
- **Tax benefits:** Investment in the short term attracts a 15% tax on capital gain while that in the long term attracts a 10% levy on gains exceeding Rs. 1 lakh

TAKING THE DIVERSIFIED ROUTE FOR LONG-TERM GOALS

We've seen how diversified equity mutual funds make for one of the best wealth creation options in the long term, owing to their suitability for a variety of financial goals - retirement planning, saving for a child's education or marriage, and long-term wealth creation. Either on a standalone basis or in a portfolio with other investments, such funds can prove to be immensely useful for achieving long-term financial goals. Thus, they must ideally form a substantial part of the mutual fund portfolio of an investor with an appetite for equities. However, investors are advised to consult their financial advisors to determine the suitability of diversified funds for their portfolios

We buy a life insurance cover to protect ourselves and our family members in case of an unfortunate event. We are also aware that an individual needs to buy an adequate term plan if their family members are dependent on them.

Let's consider a scenario – Mr. Harish is a businessman and borrows some capital to expand his business. He purchases a term insurance policy with his spouse as the nominee. After his sudden demise, his creditors approach the court and assert their right to get paid out of the proceeds of the policy.

In this example, though Mr. Harish has taken a term insurance policy, his family has not benefited from it. The claim proceeds (death benefits) are given to his creditors.

In today's world, 'buying on credit' has become common. Whether employed or self-employed, most of us buy on credit (home loan, personal loan, consumer loan, etc.). Apart from this, disputes in a joint family after the death of a breadwinner is another problem. In such a scenario, how can you make sure that only your dependents receive the insurance policy claim proceeds?

Are you aware of the Married Women's Property Act 1874 (MWP Act)?

The MWP Act was established to protect the properties owned by women from relatives, creditors, and sometimes from their own husbands. The Act's objective is to protect women's rights, even after marriage. The Act is applicable for all married women of all religions. 'Section 6' of the MWP Act covers life insurance plans.

If you take an insurance policy under the MWP Act, your life insurance policy is treated as a Trust and you can rest assured that the policy money will be given to your nominee(s) only. The claim proceeds are free from creditors, courts, and tax attachments.

Section 6 of the MWP Act allows an individual to buy a policy for himself under the Act and create a trust for the same. There is no need for creating a trust under the Trust Act. The beneficiaries (wife and/ or children) can also be trustees. The policyholder has the option to change the trustees at any point in time.

LIFE INSURANCE & MWP ACT

Who can take an insurance policy under MWPA?

Any married man can take a life insurance policy under the MWP Act. This includes divorced persons and widowers. The policy can be taken only on one's own name (the life assured has to be the proposer himself). Any type of plan (money-back/term plan/endowment, etc.) can be endorsed to be covered under the MWP Act.

Even a married woman can buy MWP policy in her name with her children as beneficiaries, though the husband will not get anything from the policy. It will be considered a separate asset as if she is unmarried.

How to get an Insurance Policy covered under the MWP Act?

Getting a policy assigned under the MWP Act is easy and inexpensive. At the time of applying a proposal (buying a policy), a separate MWPA form has to be filled by the proposer for it to be covered under the Act. You need to provide details of the beneficiaries, the share of the benefits that are to be accrued to them, and the trustees. Providing the trustee(s) names is not mandatory.

Do note that the existing life insurance policies cannot be assigned under MWP Act. The beneficiaries can be:

- The wife alone
- The child/children alone (both natural and adopted)
- The wife and children together or any of them

Can I change the beneficiaries and trustees' names?

Each policy under the Act is considered as a separate trust (there is no need to create a trust). At the time of the proposal, you have to mention the names of the beneficiaries. You may also mention the names of trustees (not mandatory though).

But if the beneficiary is a minor, the appointment of the trustee is compulsory. The trustee cannot be a minor or from a HUF (Hindu Undivided Family). Also, the proposer can neither be the beneficiary nor the trustee. The beneficiary and the trustee can be the same person; for e.g., your wife can be both the beneficiary and the trustee.

The trustees can be the wife and/or one or more of the adult children, or a third person. You (the policyholder) have the option to change the trustees at any point in time. However, the beneficiaries of the plan, once declared, cannot be changed.

In case of a death claim, the insurance policy proceeds are given to the trust and cannot be claimed by the creditors.

Can I assign or take a loan on policies which are under the MWP Act?

No, you cannot assign the policy to another person (or) take a loan on the policies which are covered under MWPA. However, if the loan request comes from you, signed by the beneficiary and the trustee, it can be processed.

Can I surrender the policies which are under the MWPA?

The surrender request should come from the policyholder and signed by the trustee (if appointed) and beneficiary. The beneficiary should be an adult at the time of the request. Surrender proceeds will be paid to the trustee/beneficiary. The policy maturity benefits will also go to the trust.

Due to a lack of awareness, very few policies are being taken under the MWP Act. Life insurance is a tool to protect the dependent family members. If this purpose is to be achieved in its fullness, then having the life insurance plan covered under the MWP Act is the easiest and the best way. So, the next time you are buying a life insurance policy, consider assigning it under the MWP Act. However, do not misuse the MWP Act with an intention to defraud your creditors ■

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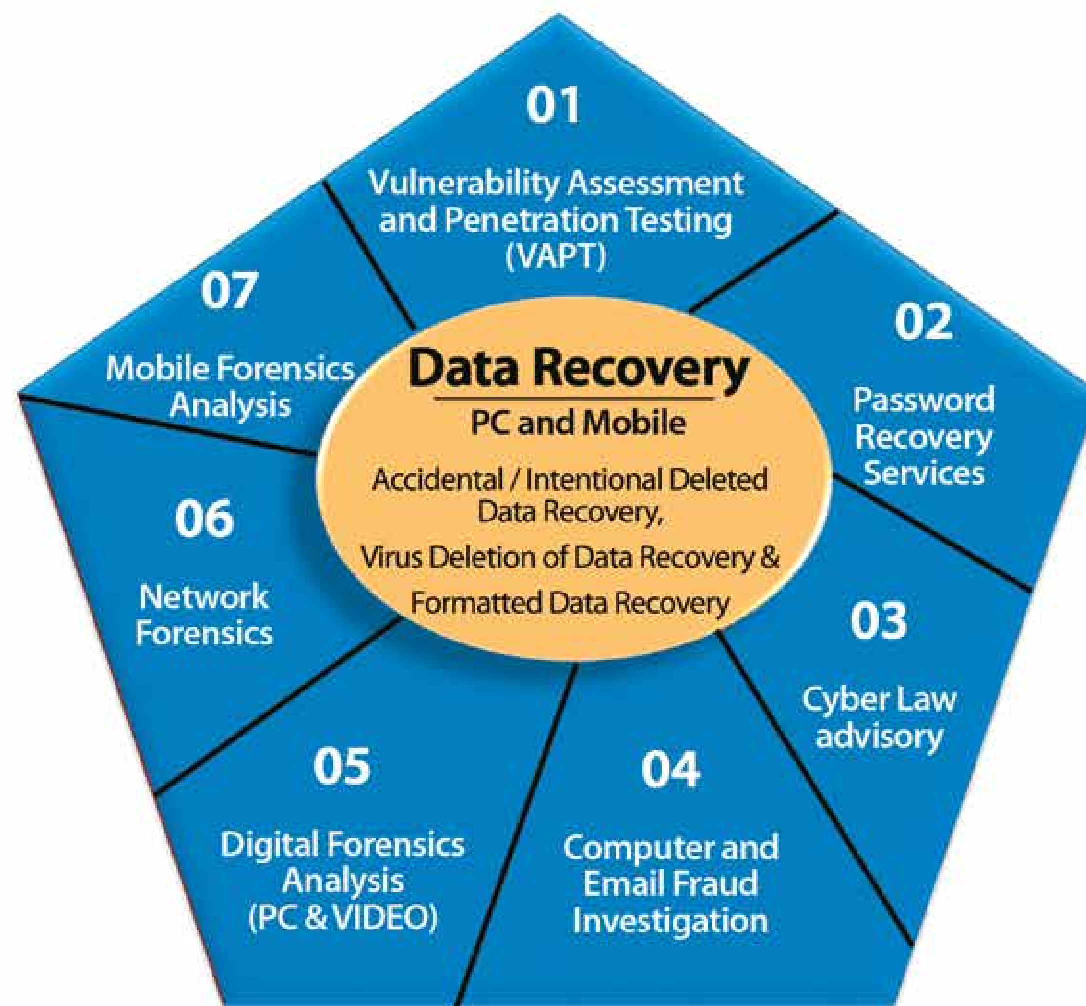

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We prefer and are happy to provide door-step-service to our clients to build trust and long term relationship.

Our current countries of work include: India, Hong Kong, Singapore, UK/ UAE and now extending to Kenya as well starting Dec 2017. We could carve out a neat investment portfolio for Indian individuals/ businessmen to spreads across their investments in the stated countries.

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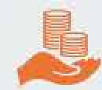
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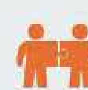
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Every individual is unique and so are his or her investment needs. Investment planning must always be aligned with one's goals. Hence, our approach is to help you chalk out an investment strategy that is best fit for 'you'.

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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