NSDL
Technology, Trust & Reach

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The Financial Kaleidoscope

Defining the different shapes of investment

From The Editor's Desk

As we enter into the world of investments, investors are aided with multiple choices of investment instruments such as PPF, Fixed Deposits, Recurring Deposits, Equity, Mutual Funds, National Pension System etc. One of the common investment choices amongst investors today is parking their money in Mutual Funds.

Most of the investment advisors would suggest mutual funds as one of the must have investment options since the money collected from various investors is pooled in and invested into various asset classes thereby diversifying the risk and raising chances of generation of wealth.

As an instrument of investment, MFs are among the most flexible and scalable options which cater to investors across the spectrum. It also offers a level of complexity or simplicity as desired by the investors. This is what makes MFs a preferred instrument among the more evolved markets across the globe. Though there is a rise in steady income and personal savings of individuals, it is seen that many investors are still away from investing in capital markets and do not enjoy the same level of confidence as with investing in other banking instruments.

In this edition of 'The Financial Kaleidoscope', we aim to demystify Mutual Funds from an investors' perspective. We have attempted to cover enough ground to get investors interested in the types of MFs an investor can invest in to the various tax implications. As always, we look forward to your feedback. Do write to us if you have any queries at info@nsdl.co.in.

Regards,

Team NSDL

What are Mutual Funds?

In the most simple terms, Mutual Fund is a pool of money collected from multiple investors which is invested in stocks, bonds, and other asset classes. Managed by professional fund managers, the collective return on the corpus is distributed among investors based on the number of units they hold. Based on their appetite for risk, investors can choose between various MF schemes offered. Mutual Funds offer a middle ground between risk and returns and are a good option for those who do not have time to manage their investment portfolio regularly.

What are the benefits of investing in MFs?

As an instrument of investment, MFs offer several advantages to investors:

Professional fund management

MFs are managed by qualified and professional fund managers who understand the nuances of investing money. MF houses have the ability to invest time and resources in research to understand the market and analyse stocks to identify appropriate investment avenues.

Transparency

MFs provide investors, information related to the performance of their investments on a regular basis. They are also mandated to furnish details of all investments made by them under various schemes. This makes MFs among the most transparent investment options making it a choice for first time investors as well as experienced investors.

Variety of options

MFs offer investors a wide range of schemes to choose from depending on their investment objectives and risk appetite.

Flexibility

MFs offer investors the flexibility to choose the tenure of their investment based on their financial goals. This gives investors enough flexibility to plan their investments based on their comfort level and needs.

Diversifying risk

Small investors have limited savings and a relatively small corpus of money to invest. Traditional avenues such as stocks and bonds are not always feasible because a small amount allows them to invest in few stocks or bonds. Since MFs invest the pool of money in a wide range of avenues or a large number of stocks, it inherently reduces the overall risk through diversification.

Regulations

All MFs are required to be registered with SEBI and operate under the framework created by the regulator. From reporting to levying various fees on investors, SEBI regulates the MFs with the core objective of protecting investors against malpractices that could put their savings at risk.

Why are Mutual Funds good for new investors?

Very often, new investors can get intimidated by the process of investing given a large number of avenues available in the market. However, the technical aspects and time investment required by most instruments of investment can be quite intimidating for those who are new to it. MFs are designed to overcome some of the challenges which make them an ideal instrument for new investors who want to try investing in different types of securities.

Small investments

Since MFs are a corpus of money invested in other assets, it enables investors to invest smaller amounts which in turn is invested across a larger number of companies or assets. This allows new or small investors to indirectly invest their money in avenues that would have otherwise been out of their reach. Additionally, options like Systematic Investment Plans (SIPs) allow investors to start investing in MFs with an amount as low as ₹ 500.

Liquidity

Investors investing in open ended funds have the option to exit their investments anytime. Investors are neither required nor obliged to provide reasons for their exit and the money is credited to their account quickly. Given their relatively smaller base of savings, new investors may require additional liquidity from time to time, and MFs offer them this option without any obligations.

Ease of investing

Most investment avenues including equities require investors to research, analyse and track their investments on a regular basis. Investors often do not have the time, experience or expertise to do so on a regular basis. In such a scenario, MFs offer a viable option to such investors. Entering and exiting from the mutual fund investments are fairly easy processes.

What are the different types of Mutual Funds?

MFs can be categorised on the basis of different parameters. Let's look at some popular types.

On the basis of investment tenure

- ✓ **Open-ended funds:** An open-ended fund is a scheme that can be subscribed to or redeemed at any time, much like a savings bank account, where you may deposit or withdraw money any time. Additionally, since these are perpetual and do not have a maturity date, such schemes offer better liquidity.
- ✓ **Close-ended funds:** A closed-ended fund is a subscription-based offering with a fixed time window for investing and a specified tenure for maturity - much like a fixed deposit with a bank. While closed-end funds can be redeemed only on maturity, they are also listed on a stock exchange and can be traded on the stock exchange based on their Net Asset Value (NAV). However, since they are generally traded at a discount, a premature exit may not yield the best returns.

On the basis of management style

- ✓ **Actively managed funds:** An actively managed fund is a scheme in which the investment portfolio is actively managed by a fund manager. Such funds are assessed on an on-going basis and trading decisions on whether to buy, sell or hold an investment are taken by the fund managers based on market trends and their analysis. In an actively managed fund, the fund manager's aim is to maximise returns, reduce risks and to outperform the scheme's benchmark.
- ✓ **Passively managed funds:** In contrast and as the name suggests, passively managed funds follow a market index. There is no investment decision or discretion of buy, sell or hold and thus require little analysis or inputs. The objective of such schemes is to match the scheme's benchmark index with the index. Since a passively managed fund tracks the index, the composition of investment reflects the index and is proportionately diversified.

On the basis of investment

- ✓ **Equity funds:** Such funds invest primarily in the equity and their returns are directly linked to the performance of the stock market. Within this, an investor can choose to focus on schemes that invest in large-cap, mid-cap, small-cap or multi-cap equities.
- ✓ **Debt funds:** These funds invest in a combination of debt instruments such as bonds, treasury bills, etc. While these offer higher liquidity compared to FDs, they yield higher returns over a longer period of time. Debt mutual funds particularly those funds with a time-frame of more than three years also offer tax benefits.
- ✓ **Balanced funds:** Also known as hybrid funds, these funds invest in equity and debt instruments. These are good for new investors who have a limited risk appetite that equity funds offer.

What is the difference between Direct and Regular plans?

Investment in MFs can be made in one of two ways - through a financial intermediary in a 'Regular' plan or directly with a fund house which is known as a 'Direct' plan. So, what option is better suited for you?

Answer to this question depends on two parameters:

Expense ratio

Since a regular plan involves an intermediary (distributor or agent), it involves payment of commission. In a direct plan this cost is eliminated, resulting in marginally higher NAV of Direct plans.

Investor experience

In a direct plan, the investors are also required to manage the transactions (buying and redeeming units) on their own. Thus a direct plan is more suitable for experienced and advanced investors. Regular plans, on the other hand, offer convenience and handholding to new and inexperienced investors.

What is the difference between SIP and lumpsum?

MFs offer a unique option to either invest a lumpsum at a time or to invest smaller amounts at a fixed interval. This often leads to a conundrum for first-time investors. Let's understand the features and differences of these options -

Availability of funds to invest

A lumpsum investment requires you to make a one-time investment. While it is a worthwhile avenue for an investor with a substantial corpus of money, it may not be a viable option for small investors. SIPs, on the other hand, involve investing smaller amounts in a scheme on periodic intervals.

Rupee-cost averaging

Investments in SIPs can be spread over a longer period of time thus benefiting of the rupee-cost averaging irrespective of the market conditions whereas, investor making a onetime investment in MF, would subscribe to the units based on the NAV price as on that particular day.

How to Hold Mutual Funds in Demat form?

Investors can hold MF units in two ways – Statement of Account (SoA) form or demat form. The traditional way of buying and holding has been the SoA way. However, with SEBI mandating availability of all the MF schemes in demat form, the investors can enjoy the convenience of buying and holding MF units in their demat account. There is no need to open a separate account for buying or holding MF units. Your regular demat account can be used to buy and keep the MF units.

How to convert your existing mutual fund units into demat?

- Obtain Conversion Request Form (CRF) from your DP.
- Fill-up the CRF and submit it along with the Statement of Account to your DP.
- After due verification, the DP would send the CRF and Statement of Account to the Asset Management Company (AMC) or its Registrar and Transfer Agent (RTA).
- The AMC / RTA, after due verification will confirm the conversion request executed by DP and the mutual fund units will be credited in your demat account. This will appear in the demat account statement sent by the depository / DP to investors.

How to Buy (Subscribe) Mutual Fund units in Demat form directly?

You can subscribe to mutual fund units through your Stock Broker or registered distributor or AMC directly. Nowadays, most of the AMCs provide an option to subscribe units in demat form in NFO through their online portal. If you are comfortable with this, you may get the additional benefit of investing through direct plan.

How to Sell (Redeem) your Demat Units?

You can redeem your mutual fund units held in demat form through three different modes i.e. through your DP or stock broker or online through NSDL SPEED-e service.

- ✓ **Redemption through DP**
  - ❖ Obtain Redemption Form (RF) from your DP.
  - ❖ Fill-up the RF form and submit it to your DP.
  - ❖ After due verification, your DP will forward the redemption request electronically to the concerned AMC / its RTA.
  - ❖ The AMC / RTA will verify the redemption request and if in order, confirm it electronically. It will also arrange to credit your bank account linked to demat account towards redemption proceeds.
- ✓ **Redemption through stock broker**
  - ❖ Place the redemption order to your stock broker.
  - ❖ Submit delivery instruction slip (DIS) to your DP to transfer the mutual fund units to designated CM Pool account of NSE Clearing Corporation Limited (NCCL)/ Indian Clearing Corporation Limited (ICCL).
  - ❖ NCCL / ICCL will credit the requisite funds in your Stock Broker's Bank account through usual settlement process for onward payment to you.
- ✓ **Redemption through NSDL SPEED-e service**

  SPEED-e offers users an option to submit an online request for redemption of MF units available in their demat account using internet at their convenience.

What is SPEED-e?

SPEED-e is an internet based facility offered by NSDL that enables the demat account holders to operate their account directly without the need to give paper DIS to their DPs. It also allows account holders to check the latest balances and transactions in their account and monitor the status of execution of their instructions. This service is available through select DPs upon submission of request in a specified format (more information available on https://eservices.nsdl.com/).

What are the taxation rules related to MF investments?

Long-term holding

From a taxation perspective, gains on equity mutual funds and balanced funds held for more than 12 months are treated as long-term capital gains (LTCG) and taxed at 10%. However, long-term capital gains from equities are exempt upto ₹ 1 lakh in a financial year. LTCG over ₹ 1 lakh is taxable at the rate of 10% without the benefit of indexation. In case of debt funds, gains are considered as long term if holding period is more than 36 months. LTCG on debt fund are taxable at the rate of 20% after indexation.

Short-term holding

Equity and balanced funds attract a 15% tax on short-term gains if redeemed before a 12 month period. In case of debt funds, short term gains are taxed as per the applicable income tax slab rate.

How many MF schemes should one invest in?

While there is no direct answer to this, Diversification is one of the key principles of investing. In the case of MFs, it involves investing in different types of schemes and funds that cater to specific needs. In an ideal world, you should look at investing in three to five funds which could be a combination of different market focus and management styles. Anything more than five funds could be challenging for an average investor to track on an ongoing basis. In addition to this, since MFs are by design a portfolio of diversified assets, spreading your risk between five funds can offer you the requisite diversification and cushion.

How do MFs compare to other investment options?

The basic purpose of an investment is to create wealth and earn the maximum possible returns. So, it helps to understand how various investment instruments perform in the short-to-medium term. The following table compares the five-year mean market returns yielded by MFs with other common investment options:

Investment Instrument	Five-Year Mean Market Returns (%)
Equity Mutual Funds	13-15
Debt Mutual Funds	7-9
Direct Equity	20
National Pension Scheme	9-11
Public Provident Fund	8
Fixed Deposits	6-9

Source: paisabazaar.com

Blog

Manage Your Money with Mutual Funds

By Anurag Garg, CFA
Founder & CEO, Nivesh.com

Wealth management means being able to manage personal savings and investments in an optimum manner that leads to achievement of financial life goals. While choosing the investment instrument, it is important to understand personal needs, investment goals and risk appetite, and choose the right investment instrument accordingly.

Any investor has option to invest in multiple assets - Equity, Debt, Gold, Real Estate, etc. Each asset class has its own characteristics in terms of risk and returns. Selecting the right mix is the key.

One needs to be able to decide the asset allocation mix for himself after understanding risk-return characteristics of different asset classes. However, as a thumb rule, your allocation to equity is 100 – (minus) your age. For example, a 30 year old should have 70% in equity, while a 60 years old could have 40% in equity. However, this is not always true. If a 30 year old is unable to digest the volatility caused by stock markets, then he/she needs to allocate lower to equity.

Mutual Funds can be effectively used as a superior tool for wealth management for multiple reasons:

Required asset allocation can be achieved by mutual funds itself

Mutual Funds are available with different underlying assets like equity, debt, real estate, gold, etc. So, if the desired asset allocation is 70% equity and 30% debt, then one can choose the required mutual funds (70% in equity mutual funds and 30% in debt). Similarly, reallocation can be achieved easily with minimal transaction costs, since moving from one mutual fund to another is not very difficult

Funds available for different time horizons

Mutual funds offer different scheme categories matching different time horizons. Within debt category, funds are available for investment for few days to 10-20 years. This enables matching the duration of fund with the desired holding period, reducing the interest rate risk. Similarly, within equity funds, multiple options are available.

Liquidity

Open ended mutual funds can be bought and sold any time (subject to exit load), which helps in managing the process of investments without hassles, including reallocation.

Transaction costs and taxes

Mutual funds are far superior in terms of total costs of transactions and taxations, again making them a better tool for wealth management. For example, if investment is for long term, then debt mutual funds are better option compared to bank fixed deposits considering better taxation structure.

Carrying / Maintenance Costs

Different asset classes have different costs for maintaining or safely storing them. For example, real estate is required to be maintained well for it to maintain its market value. Similarly, gold needs to be safely stored which also creates additional cost. With mutual funds, the storage cost is almost nil.

Being able to invest systematically every month

SIPs of mutual funds allow investors to save and invest regularly and in a disciplined manner.

Mutual Funds are ideal instruments for accumulating wealth and generating superior tax adjusted returns consistently over a long period of time. There are hardly any disadvantages of using mutual funds against other asset classes, while advantages are multifold.

Investor Education initiatives undertaken by NSDL

NSDL conducts Investor Awareness Programmes (IAPs) throughout the country to ensure investors are aware of different aspects of investing. Till date, NSDL has conducted over 3,700 programmes which have been attended by more than 3.57 Lakh investors. Feedback received from investors during these IAPs is extremely encouraging. Schedule of these programs is published online at **https://nsdl.co.in/Investor-Awareness-Programmes.php.** We shall be happy to conduct IAP for your organization / institute / society. Help us in driving the investor education initiative further by writing to us at **info@nsdl.co.in** for conducting such programmes.

More the education, more the prudence.

Forthcoming Investor Awareness Programmes

Sr. No.	Date	Venue	City	State / UT	Timing
1	30-Oct-19	Keshav Clarks, Innmulugund Naka, Hubli - Gadag Road, Next to Syndicate Bank, Gadag - 582103, Karnataka	Gadag	Karnataka	04.30 p.m. - 07.30 p.m.
2	30-Oct-19	Hotel Mareena Residency, Y M C A Cross Road, Near Viveka Hospital, Kozhikode - 673001, Kerala	Kozhikode	Kerala	05.30 p.m. - 07.30 p.m.
3	31-Oct-19	Hotel Wayanad Regency, National Highway 212, Near Bharath Petroleum Pump, Karady, Thamarassery - 673573, Kerala	Thamarassery	Kerala	05.30 p.m. - 07.30 p.m.

∗ Schedule is subject to change. Please visit https://nsdl.co.in/Investor-Awareness-Programmes.php for updated schedule.

Forthcoming Training Programmes for Participants on Continuing Professional Education (CPE) - Depository Operations Module*

Sr. No.	Date of Training	Location of Training
1	October 26, 2019	Ahmedabad
2	November 22, 2019	Mumbai
3	November 23, 2019	Ahmedabad
4	November 30, 2019	New Delhi

∗ Schedule is subject to change.

Question for Knowledge Wins contest !

Can an investor hold mutual fund in demat form?

Email your reply mentioning your name, address and contact no. with the subject 'Knowledge Wins Contest - August 2019' to info@nsdl.co.in

Terms and Conditions

- NSDL shall be solely responsible for the execution and administration of this Contest.
- This Contest is only open to Indian Citizens. (NSDL employees are not allowed to participate in this contest).
- All personal details submitted must be accurate and complete and are subject to proof upon request by NSDL.
- NSDL reserves the right, at any time, to verify the validity of entries and entrants and to dispqalify any entry not submitted in accordance with these Terms or which tampers with the entry process.
- NSDL reserves the right to discontinue the contest at any given point of time without prior intimation.
- All prize drawings will made on a strictly random basis and the decision made by NSDL will be final.

Your suggestions for newsletter are valuable to us. Send in your suggestions mentioning your name, address and contact number with the subject "Suggestions for the newsletter" to info@nsdl.co.in

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- To know more about NSDL Certification Program, you can email us at trainingdept@nsdl.co.in
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