NSDL
Technology, Trust & Reach

The Financial Kaleidoscope
Defining the different shapes of investment

October-December 2020

Principles of Investing and Understanding Asset Classes

From The Editor's Desk

Dear Readers,

Corporates as well as customers worldwide have adapted themselves for long term effects of the pandemic. At the same time, India is witnessing some normalcy in commercial activity which is evident in the GST collection which stood more than ₹1 lakh crore in October and November months consecutively. What makes it even more special is the fact that this growth in tax collection comes after India's GDP shrunk by 23.9% in the first quarter of the current financial year.

Government of India has adopted a measured approach to provide stimulus package. It focuses on nudging and encouraging spending among households and individuals. From allowing central government and PSU employees to encash leaves to offering a festival advance of up to ₹10,000, the objective is to create a pull effect to revive demand in the market.

However, despite the good news from GST collection and a few other macroeconomic parameters, the fact remains that we are recovering from the worst fall in GDP in decades. Such unpredictable and volatile market conditions call for exercising even more cautions when interpreting market conditions.

From another perspective uncertainties and asymmetry in market conditions also give rise to opportunities. Particularly those sectors, companies or segments of markets that registered positive growth through one of the most economically challenging periods of our lives. And the proof of this lies in the Nifty 50 benchmark which has delivered 31% return for first 6 months period of FY 2020-21 making it the most productive first six months for the NSE in over a decade.

In this edition of The Financial Kaleidoscope titled 'Principles of Investing and Understanding Asset Classes', we cover some foundational concepts of investing, understand the various forms of asset classes, and share some best practices to begin your investment journey.

By the time, you read this edition, the celebrations around 'World Investor Week' would have been over. We trust that you were part of the celebrations and that the webinars and other programs conducted by NSDL were useful to you.

We invite all our readers to participate in the 'Knowledge Wins Contest' share feedback and suggestions at the link given. हिंदी Hindi version of the newsletter is also available at https://nsdl.co.in/publications/nest.php

We request you share the newsletter with your friends, colleagues and anyone else who might be interested. This newsletter can be subscribed at https://nsdl.co.in/e-newsletter.php

Regards,
NSDL Investor Education Team

The Importance of Investing

Difference between saving and investing

In simple terms, savings is done using the money left after all your expenses are deducted from your income. If not invested, this money often stays in your savings bank account. However, the return on these savings in the form of bank interest is minimal. And if you are an ambitious individual with life goals that require financial resources, bank interest would not take you too far.

You can use a portion of this excess money to invest in a number of asset classes that would yield better returns on your savings. Although there is a risk of loss in the value, investments always yield better returns in the long term. In other words, it is like making your money work for you to achieve your long-term financial goals.

The power of compounding

Many of us would have read about simple interest and compound interest during school days.

Compound interest means that you begin to earn interest on the interest you receive, which multiplies your money at an accelerating rate. The compound interest works very effectively in the long term. The underlying principle of creating wealth through investment is the power of compounding.

	Early Investor	**Late Investor**
Age	25 years	40 years
Amount Invested/Month	₹ 5,000	₹ 5,000
Rate of Return	10% pa	10% pa
Amount at the age of 60 years	₹ 1 Crore	₹ 33 Lakh

If the returns on investment are greater, the difference at the end of the period would be even greater. This is the power of compounding and the reason why you should invest. Quite appropriate that it is also called the 8th wonder of the world.

The objectives of investment

Investment typically needs to fulfil three objectives - safety, returns and liquidity. And while in an ideal world, you would want your money to stay safe and earn maximum returns while having the option of being able to use it as and when you wish to, the fact is that these three factors are always at loggerheads with each other. There is always a trade-off between them. And the different asset classes you invest in will score differently on each of these parameters.

It is difficult to recommend a one size fits all approach to investment. Based on the trade-offs discussed above, various individuals can use the following grid as a rule of thumb while making their investment decisions.

Individual category and selection Criteria

	Students	Salary Earners - Private	Salary Earners - Government	Professionals	Traders	Housewives	Retired Persons
Returns	VI	VI	I	VI	VI	I	I
Liquidity	LI	I	I	LI	LI	I	I
Safety	I	I	VI	I	I	VI	VI
Tax Savings	LI	VI	I	VI	VI	LI	LI

Key: VI - Very Important, I - Important, LI - Less Important (Source: Ministry of Corporate Affairs, Primer for First-time Investors)

Asset Classes

What are asset classes?

An asset class is a set of assets or financial products in which money is invested. Typically, all products in a single class exhibit similar traits in terms of safety, returns and liquidity, as well as the manner in which they respond to market conditions and other variables. These are not your classic definitions, but a broad classification where assets are clubbed under respective buckets. The objective of such classification is to enable investors to make an asset allocation that is right for their financial goals and needs.

- Fixed Income

One of the most popular forms of investment, and also the oldest, fixed income assets typically include debt instruments like Fixed Deposits (FDs) and Recurring Deposits (RDs), Public Provident Fund (PPF), Pension Schemes, National Savings Certificates (NSC), Bonds, etc. These are relatively low-risk products and yield a fixed income in the form of interest over a given period, hence known as fixed income assets.

Typically, these forms of investments are sums that organizations or institutions borrow from retail investors and offer a nominal interest on the principal sum invested. These are also a relatively liquid form of investment and can be redeemed or pledged as collateral if such a need arises.

Fixed income assets are usually recommended for those who require a fixed sum of money at a given frequency without a large exposure to market conditions. However, as a trade-off, the returns are not very high and typically yield returns that are marginally better than inflation rates.

PROS

- ✓ Relatively low-risk category
- ✓ Can be easily liquidated

CONS

- ✗ Typically yield low returns
- ✗ Offers little or no tax saving

- Equity

Buying equity shares or mutual funds that invest in equity is bucketed under equity. While it is fairly old, there has been a spike in this form of investment among retail and small investors in recent years.

Given the exposure to the open market, this is a relatively high-risk investment category. It is recommended for someone who has a healthy appetite for risk. Equity investment does not necessarily yield a predictable return, nor does it follow a fixed frequency. Hence, it is not recommended as a primary source of income for beginners. That said, equities do offer a substantially higher return, and if managed well can yield the highest return among all asset classes.

For beginners, it is advisable to opt for equity Mutual Funds. It is essentially a corpus of fund pooled from small investors and invested in the stock market. This is typically done by an asset management company or MF house. The fund is managed by a professional fund manager who looks after the selection of stocks and other assets for a given fund.

PROS

✓ Among the highest returns
✓ Can be easily liquidated

CONS

✗ Requires time to assess, monitor and manage
✗ Can be a high-risk category
✗ No tax savings

- Real estate:

Real estate refers to land or property in the form of a residential house, commercial plot or freeholding land. While traditionally real estate was looked at as the first investment option, Indians have started to look beyond it. Apart from investment, one of the reasons that real estate been a top choice is that it is a part of basic human needs. This interest in real estate has resulted in the appreciation of prices and has yielded some healthy returns. However, being a capital intensive investment avenue, it is not recommended for individuals starting their investment journey. It also requires a careful analysis of a number of factors that may impact the current and future value of the investment.

PROS

✓ Consistent appreciation in value
✓ Safe against inflation
✓ Offers tax savings

CONS

✗ Requires high investment and long term commitment
✗ Liquidating such assets can be time-consuming and a loss in value

- Gold

Gold is one of the oldest and classic forms of holding assets. It is a good example of physical commodities as an asset class. Looked at as a treasured commodity, popularity of gold in India has no parallel. Be it in the form of bullion (coins, bars etc.) or jewellery, it is considered among the safest forms of holding asset. It is so due to the inherent properties of the metal that also makes it a crucial medium in which countries and many central banks hold their reserves.

A typical investor is unlikely to trade in gold as he or she would in stocks or MFs. The relatively stable and consistent growth in the price of gold makes it an attractive proposition for long term holding. And this is also what contributes to the consistent purchasing power of gold that neither diminishes nor appreciates greatly. It generally remains above the inflation and occasionally, even outstrips it. Gold in paper form (e.g. sovereign gold bonds) has gained popularity lately. Investment in gold in form of bonds or gold ETF or digital gold has removed some of the disadvantages related to this commodity.

PROS

- ✓ Nearly no risk category
- ✓ Can be easily liquidated without suffering much loss in value

CONS

- ✗ Risk of theft if held physically
- ✗ Gold in the form of jewellery incurs making charges
- Risk of fraud

- Cash and Cash Equivalent

While it is an asset class because of its value, cash cannot be considered a financial product or an investment. It is rather an enabler of investment. Usually, individuals keep cash for conducting day-to-day transactions or as a reserve for emergency or unanticipated expenses. On the other hand, cash equivalents are similar to cash or bank balance and could be in the form of foreign exchange or flexible fixed deposits that can be liquidated instantaneously as and when required.

PROS

- ✓ It is fully liquid by default
- ✓ The safest way to protect value against external factors

CONS

- ✗ Risk of theft if held physically
- ✗ Least appreciation in value
- ✗ Returns will almost always be less than inflation

"Investing money is the process of committing resources in a strategic way to accomplish a specific objective."

— Alan Gotthardt

Asset Classes and Features

Asset Class	Returns	Liquidity	Safety
Government Bonds, Treasury Bills, Tax-free, Bonds, National Saving Certificates, Fixed, Deposits with Scheduled Banks, Saving Bank and Recurring Deposits	L	M	H
Deposit schemes of PSUs / Infrastructure Companies/Blue chip Companies, ULIPs/Insurance products	M	L to H	M
Mutual Funds Products, Debentures, Corporate Bonds, Fixed Deposits, Preference Shares, Commercial paper, Certificate Deposits, Treasury Bonds	M	L to M	M
IPO/FPO Direct Investment in Equity	H	L to M	L to M
Collective Investment Schemes, Hedging, Derivative Trading, Currency Swaps, Credit Default Swaps (CDS), Collateralized Debt Obligation (CDO)	H	M to H	L

Key: L - Low, M - Moderate, H – High. Source: Ministry of Corporate Affairs, Primer for First-time Investors

Investment Portfolio and Diversification

- What is a portfolio?

A portfolio or an investment portfolio is a collection of assets belonging to different asset classes that an investor has invested in. Based on their financial goals and risk appetite, different investors mix and match different classes of investments. This collection of assets is commonly referred to as a portfolio.

- Why should you have a diversified portfolio?

As the old adage teaches us, it is always risky to place all your eggs in one basket. Diversification is a concept that protects investors from the worst-case scenario if all their funds are parked in a single asset class. Essentially, it is a risk mitigation technique for investors. It relies upon the principle of mixing and balancing a variety of different asset classes within a portfolio to minimize the negative impact of a falling asset class on the entire portfolio. Regardless of the current stability, one must always prepare for a financial catastrophe because the only permanent thing about markets is its uncertainty.

A robust investment strategy involves a healthy mix of asset classes we have covered earlier. Additionally, asset classes perform differently and react differently to economic and market variables. While diversification may result in less than expected returns on investments, a diversified portfolio provides better protection to investors against market shocks and firm-related risks pertaining to the organisation or institution with whom the money has been invested.

For example, if you have invested a disproportionate portion of your savings in the shares of a single company of the stock market, the risk of failure is equally higher. If for any reason the company or the stock market suffers a crash, it would erase a bulk of your net value. However, if you had a diversified portfolio with a combination of non-equity assets like bonds or gold, your money would be relatively shielded if either of the asset class falls.

Investment Best Practices

- Approach to investments

Today, investors have a plethora of investment avenues and asset classes to choose from. While it is always good to have options, it can be easy to lose track or get confused when it comes to making the investment decision. Given the dynamic nature of the economy and the market place, as well as variations in individual financial situations and goals, there is no single formula for success either. What we do have are three parameters to help you benchmark your investment strategy –

a. Financial goals:

This is largely a function of your current financial position and the investment objective (where you are and where you want to reach).

If your objective is to just keep the money safe from unpredictable market conditions, your portfolio mix would contain low-risk, low-return options such as bank FDs or govt. bonds. However, if you have more ambitious financial goals, you will need a more aggressive investment strategy that may offer smart returns, but at a higher risk.

b. Timeline:

As we saw in the power of compounding, time plays a big role in the eventual outcome of your investment which goes a long way in giving your investment strategy a direction. For example, if you start planning for retirement early in your career, smaller and low-risk investments could also result in a larger corpus at your retirement thanks to the power of compounding. However, if you start at 40, meeting your retirement goals would require you to invest in asset classes that are likely to yield higher returns, but at a higher risk.

c. Personality and risk appetite:

Risk is an inherent part of an investment process, so your investment decision will largely be shaped by your personality type and your appetite for taking risks. The risk profile of a 59-year-old salaried individual nearing retirement, would be very different from a 21-year-old starting her professional life. This in-turn will be completely different from an entrepreneur on the verge of a major breakthrough in his technology start-up. Thus it is paramount to be aware of your risk appetite in light of your current financial position and commitments.

As you begin investing...

- **Always remember your financial objectives and timeframe**

It is important to have financial objectives as an investor. It is equally important to bear in mind the timeframe to achieve those outcomes. For example, your investment strategy to help you buy a car next year will be very different from a strategy if you plan to purchase a house in three years. And this is what determines the asset class you invest in. Doing so will enable you to achieve your objectives without compromising or undermining your current financial status.

- **The risk and return trade-off**

As we discussed earlier, every asset class has its own risk-return trade-off. This is often the function of a number of factors including your current financial standing, your age and profession, and even your personality type. Irrespective of what anyone tells you, a scheme or financial product which offers very high returns at low risk does not exist. Do not believe that it is likely to be there in the future, because that is against the very basic tenet of economics. As an investor, the money is yours and the buck stops with you. It is advisable to exercise extreme precaution while making your investment decision. Looking at it through the lens of risk-return trade-off is the best way to make your decision.

- **Re-assess your financial priorities and strategy periodically**

Traditionally, the best returns on investment come from long-term investments. However, financial requirements, emergencies and external factors (like the COVID-19 pandemic) do not necessarily follow your financial plans and schedules. On the other hand, if an asset yields better returns than expected, it is possible to achieve your financial goals before time. Either way, it is always good to periodically re-assess your financial goals and strategy to undertake course correction. This will help you relieve financial pressure or to prevent underutilization of funds which could be invested elsewhere.

Operational guidelines in respect of OTP for off market transfers

With effect from Nov. 1, 2020, demat account holders are required to confirm the off market instruction through OTP received by them on their registered mobile number and email ID. In view of this, clients must ensure that the mobile number and / or email ID are registered in their demat account(s).

1. On the execution date of off market transfer instruction, a link would be generated and sent by NSDL on mobile number and e-mail ID registered in the demat account of the client.

2. On clicking the said link, client will be redirected to a web page where after authentication, client will be displayed the details of off-market transfer instructions for the specific demat account which are pending for his confirmation. On OTP confirmation, Off Market Transfer instruction(s) as selected by the client will be processed, subject to payment of stamp duty, as applicable.

3. In case OTP confirmation is not completed till End Of Day of the execution date (from November 1, 2020 onwards), transaction will be rejected by depository.

Reference: Circular No. NSDL/POLICY/2020/0138 dated October 20, 2020 available on NSDL website.

Cut-off timings to be restored for Mutual Fund Schemes

Accordingly, effective from October 19, 2020, the cut-off timings for applicability of NAV for various categories of schemes are as mentioned below:

Reference: Circular No. NSDL/SPEED-e/POLICY/2020/0013 dated October 28, 2020 available on NSDL website.

Sr. No.	Scheme Category	Cut off timings in case of subscription	Cut off timings in case of Redemption
1	Liquid and Overnight Funds	12:30 PM	1:00 PM
2	Debt Schemes and Conservative Hybrid Fund, other than Liquid and Overnight Funds	1:00 PM	1:00 PM
3	All schemes other than those mentioned above at sr. no. 1 & 2	3:00 PM	3:00 PM
All other provisions of various SEBI Mutual Funds Regulations w.r.t. applicability of NAV in respect of subscriptions and redemptions shall remain unchanged.			

Join Our Investor Awareness Webinars

NSDL conducts Investor Awareness Programs (IAPs) throughout the country to ensure investors are aware of different aspects of investing. In view of the prevailing situation, NSDL is continuing the investor awareness programs in form of webinars. The schedule of the forthcoming programs/ webinars is published online at

https://nsdl.co.in/Investor-Awareness-Programmes.php.

Prior registration is required for joining the webinar. Link for registration is available along with schedule.

We shall be happy to conduct IAP for your organization / institute / society. Please write to us at info@nsdl.co.in for such requests.

Forthcoming Investor Awareness Programmes

Sr. No.	Date	Timing	Topic	Language
1	18-Dec-2020	05.30 p.m. - 07.00 p.m.	Account Opening and Nomination	Hindi
2	19-Dec-2020	10.30 a.m. - 12.00 p.m.	Demat and Remat of Securities	Marathi
3	19-Dec-2020	05.30 p.m. - 07.00 p.m.	Introduction to Securities Market	English
4	26-Dec-2020	10.30 a.m. - 12.00 p.m.	Margin Pledge and Re-pledge	English
5	26-Dec-2020	05.30 p.m. - 07.00 p.m.	Introduction to Securities Market	English

More the education, more the prudence

Knowledge Wins Contest [redacted]

What is also known as the 8th Wonder of the World in Finance?

To send your replies: visit/click www.nsdl.co.in/knowledge-win-contest.php
or
Scan this QR code

25 Lucky Winners get FREE GIFTS

Previous Month's Winners

Abhay Gaiki - Pune
Aliasgar Hathiyari - Dhari
Anant Sharma - Bengaluru
Ashutosh Dubey - Bhagalpur
Bipradip B - Paschim Bardhaman
Chandran Shankaran - Thiruvallur
Davy Joseph - Thrissur
Dharmesh Oza - Ahmedabad
Guruprasad Pai - Bengaluru
Harshavadan C - Ahmedabad
Irfan Ali - Chennai
Jagadisha S - Bengaluru
Jasmeet Arora - Pune
Komal Kashyap - Jalandhar
Krishna Sharma - Bengaluru
Mayuresh Date - Pune
Pradeep Bishnoi - Jodhpur
Pradeep Kumar - Tinsukia
Pradeep Rana - Aurangabad
Pradeep Singhvi - Bengaluru
Pratheesh SP - Kollam
Sathyaraj Pitchai - Kancheepuram
Shreedhar Subhas - Belagavi
Venkatakrishnan S - Gummidipoondi
Vinay kumar Singh - Delhi

Mumbai : 4th Floor, 'A' Wing, Trade World, Kamala Mills Compound, Senapati Bapat Marg, Lower Parel, Mumbai - 400013 Tel.: (022) 24994200

Branch Offices

Ahmedabad Bengaluru Chennai Hyderabad Jaipur Kochi Kolkata Lucknow New Delhi

For any grievance related to Demat account, you can email us at relations@nsdl.co.in
For any other information related to Demat account, you can email us at info@nsdl.co.in

Published by **Mr.Prashant Vagal** (Editor) on behalf of National Securities Depository Limited Investor Protection Fund Trust