NSDL
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The Financial Kaleidoscope

Defining the different shapes of investment

September 2022

From The Editor's Desk

Dear Reader,

The youth of our country are privileged to see a capital market that is modern, electronic and world class. It was not the same even 25 years ago. In the early and mid 90s, some significant reforms in the form of a capital market regulator, electronic trading and dematerialisation of shares through NSDL, truly democratised the Indian capital markets. It no longer mattered where you resided, the markets were now open to all Indian citizens, with the same access and ease of transaction at the click of a button.

For a country of 130 crore people, it shows how much more ground we need to cover, to bring the benefits of financialisation of assets to every citizen of our country. To enable every individual to derive the benefits of equity and participate in the India story.

Regards,
NSDL – Your Depository

The Need For Financial Education

Financial education is the solution. A lot has been done. A lot more needs to be done. In my nearly three decades as a financial journalist, I have been fortunate to interact and interview some of the biggest financial planning minds of this country. I am putting down some key learnings.

Step By Step Guide To Becoming Wealthy

Do not fear the word personal finance or investing! Since we have in the past never been exposed to this learning in our school or college, many of us tend to believe this is a subject that we cannot handle and hence push back our investing journey. It intimidates us. It need not. Personal finance is no rocket science. It is just a series of steps that require discipline and patience. Many young people believe that investing or financial planning is something you do when you have a lot of money! Nothing could be further from the truth. India's financial infrastructure allows an individual with as little as Rs 500 to start the investing journey. In fact, the earlier you start the more wealthy you are likely to be, with the power of compounding, something we learned in school and forgot by the time we passed out.

Why you need a financial advisor

The first step to financial planning is finding a financial planner. While we need a lot more financial planners in this country, we do have some extremely high quality registered financial advisors. Details of them can be found on the regulator's website and one can access the person closest to us. In fact, while physical proximity is good, you can even through online video chats access the best planners in any city just like you would do with a doctor. In fact, you need to treat your financial advisor like a financial doctor just like you would treat your medical doctor for your health issues. A good way to find a financial advisor is like we find a doctor. We check with friends and family and scour the internet to find highly recommended doctors, we should do the same with finding a financial advisor.

Your financial advisor will draw out your entire financial plan as also the path to get to where you want to go. In fact, the first step to any financial planning is goal setting. Why are you investing? What are you investing for? When do you need money to fulfil your goal? Putting this down, is the first step to investing, and easy as it sounds, most people don't do this simple exercise.

How much risk can you take?

The next important conversation to have with your financial advisor is how much risk can you take? Can you see your investment move up and down? Can you stomach volatility? If yes, for how long? Are you wired to expect a guaranteed return? The answer to these among many other questions an advisor will pose to you will decide your risk profile. And whether you can invest in equities and if yes to what extent. Yet, most people start investing without undergoing this exercise and set themselves up for disappointment and anxiety.

Let us step back a little. Why do we need to invest? The simple answer is: Inflation. And building wealth to achieve our goals. Inflation is going to be a constant in our life for the next many years considering we are a fast growing developing economy. In fact, in the current times, even developed countries are logging record high inflation. The only proven asset class backed by years of data that has effectively beaten inflation over long periods of time is equity. Similarly, if we need to achieve long term goals like a child's education or our own retirement, the proven asset class to build wealth is equity.

However, in the short term equity can be very volatile. Hence it is advised to consider equity as a long term asset class. Do you have the patience to stay the course? Most people unfortunately don't and attempt to time their entry and exit into the market, something even the best experts find it difficult to do. As a result, they suffer losses, and abandon the asset class altogether.

What has often amazed me is we as consumers are so driven by discounts in everything we buy. We love to bargain and drive down the price. We rush to buy when there is a discount offer going on. But we do just the opposite with equity. We buy when markets are going up and sell when they are falling! This trend is changing given the record success of systematic investment plans or SIPs that allow you to put in a fixed amount every month and this achieves rupee cost averaging for you as you buy when markets are both up and down.

Importance of asset allocation

Once you have figured out your goals and risk assessment, comes the most important part of your investment journey. Asset allocation. And this where the role of the financial advisor becomes imperative. As the old adage goes: Never put all your eggs in one basket. To derive maximum returns, asset allocation is a must. It is important to remember that no asset class is linear. They all move up and down depending on the developments that impact their prices. And hence, to be confined solely to one asset class is not prudent. Experts say more than 90% of the returns you earn come from proper asset allocation.

Your asset allocation is a function of your goals and your risk appetite. For long term goals you may have more equity, and for short term goals, it could be more debt. Gold is an asset class known to counter inflation and financial planners recommend between 5-10% gold in your portfolio as a hedge against inflation. What is more important is to periodically review your portfolio to ensure your asset allocation is not disturbed by price movements. For example, if the equity component in your portfolio has gone past your recommended asset allocation, then it needs to be rebalanced. The rebalancing is best done by your financial advisor. It is usually done every 6 or 12 months.

It is very easy to get carried away when asset prices are rising and move away from the asset allocation that you started with. But that is a big mistake. And this is where discipline comes into play. You have to control emotions and stick to your asset allocation.

All about mutual funds

Once your asset allocation is in place, comes the stage of picking the right instruments and approach for your portfolio. Should you buy a bunch of good stocks directly? By all means if you have the ability to research on a regular basis and track developments in the company that are announced from time to time. Or should you invest through the mutual fund route, which gives a range of different options of schemes to suit your risk profile. You pay a small fee and then a team of professional fund managers set into action to invest your money.

Mutual funds are among the best regulated entities by market regulator SEBI. There are stringent requirements in place, to prevent potential fraud. Of course, market movements and their impact on your investment is your risk to carry. As the industry evolved, there are a wide range of mutual fund schemes available, suitable to an investor's needs, risk and asset allocation. These are across equity , debt, gold and global assets. There are schemes that are hybrid in nature as well and invest in both debt and equity. In other words, whatever is your requirement, mutual funds have it available for you.

How many mutual fund schemes do you need?

The key question that then arises for investors is which scheme to buy? And how many to buy? This is again, where the financial advisor's role becomes important. I have seen many people who have bought close to 50 mutual fund schemes! This is a big mistake. Each mutual fund scheme by definition invests in a number of stocks or debt instruments. In other words, its very purpose is to provide diversification to your portfolio that cuts down risk and enhances returns. So when you are buying too many schemes, you are over diversifying and buying the same shares through different schemes, while paying a cost of purchase. This does not serve any purpose for you. There is no right number of schemes that you should have, but you need to choose only those that meet your goals and risk profile.

Disease doesn't knock and come: get yourself a health cover

Even before you start investing, there is something else you need to do. Get yourself a health insurance policy. Most of us believe that the policy provided by the company we work for is sufficient. It is not. What if you quit your job? What if you face a lay-off? Given the rate at which the cost of quality medical care is rising, the Rs 2 lakh or Rs 5 lakh cover your company gives you is not enough. You need to get yourself at least a Rs 25 lakh cover and keep topping it up as and when your family expands.

The sooner you get yourself a cover the better. With age, policy issuance process and pre-existing diseases related exclusions start kicking in. In some cases, if you have suffered a disease you may not even get a health cover. The fast pace of digitization in the country has meant you can buy your health insurance at a click of a button sitting at home. What is the point of investing your hard earned money if one health setback is going to wipe away all your gains?

Death is inevitable. Get yourself a life insurance.

Next comes life insurance. When do you buy it? As soon as you have a responsibility. This could be parents dependent on your income, spouse or children or even a loan that you have taken the liability of which will fall on your family in the event of your death. Focus on buying a term life insurance cover where you get a higher insurance cover at a low rate. Again, the earlier you do this the better, as the premium goes up sharply with age. So, best to lock yourself in at an early age and again keep increasing the cover as your responsibilities rise. In fact, there is a move by the regulators to dematerialize insurance policies as well and keep them in your demat account. This could be a gamechanger for consumers as you would have access to your policy in a consolidated manner and avoid loss of policy and unnecessary paperwork.

Have you done your nominations?

Perhaps the most under-rated aspect of financial planning is estate planning. This means your effort to effectively pass on your wealth to your family or any other individual or entity in the event of your death. Making a will and providing nominations in your financial assets, is a must. One of the most important aspects of financial assets is the ability to put a nominee and in the event of your death your money is seamlessly transferred to your nominee even if you have not made a will. This is applicable to all financial assets but is most effective in stocks or mutual funds.

In the earlier years, when there were paper share certificates, many family members would struggle to find these after the death of the person who had invested. The process of then transferring them into their name was long drawn and tedious. This has resulted in thousands of crores of rupees worth of shares and dividends on them lying unclaimed. While 25 years ago, NSDL did away with the need for paper share certificates, even now people are reluctant to put in place nominees, prompting the market regulator SEBI to step in and insisting that either you put in a nominee or explicitly state that you do not wish to nominate by March 31, 2023.

Now that you can even dematerialize your mutual fund units and keep them in your same demat account for shares and other instruments, your nomination can be done at one single point rather than making changes at each mutual fund level. Covid taught us the fragility of life. Most of us saw near and dear ones going to a hospital to never come back. Their families are still struggling to get the investments transferred in their name. So if you want your family, for whom you started investing in the first place, to be financially protected in your absence, please ensure you put your nominations in place and make a will.

This article is written byMr. Vivek Law, Founder - Money Paathshaala

Demat Debit and Pledge Instruction (DDPI)

If you have ever signed a Power of Attorney (POA) with your Stock Broker, then you must know about DDPI.

SEBI has issued guidelines regarding Execution of 'Demat Debit and Pledge Instruction' (DDPI) for transfer of securities towards deliveries / settlement obligations and pledging / re-pledging of securities.

- A separate document viz. 'Demat Debit and Pledge Instruction' (DDPI) now exists (refer DDPI Format below)
- Clients shall explicitly agree to authorize the stock broker/stock broker and depository participant to access their beneficiary owner (BO) account for the limited purpose of meeting pay-in obligations for settlement of trades executed by them. Client can either physically sign or e-Sign the DDPI document.
- The DDPI shall serve the same purpose of PoA and significantly mitigate the misuse of POA.
- The guidelines are applicable from **September 1, 2022** for new and existing clients based on client consent for DDPI.

The use of DDPI shall be limited only for below mentioned purposes

1. For transfer of securities held in the beneficial owner account of the client towards Stock Exchange related deliveries / settlement obligations arising out of trades executed by such a client on the Stock Exchange through the same stock broker.

2. For pledging / re-pledging of securities in favour of the trading member (TM) / clearing member (CM) for the purpose of meeting margin requirements of the client in connection with the trades executed by such a client on the Stock Exchange.
3. Mutual Fund transactions being executed on Stock Exchange order entry platforms and Tendering shares in open offers through Stock Exchange platforms *(effective from November 18, 2022)*

Important points to be noted wrt aforesaid points:

- Post implementation of DDPI, PoA will no longer be executed for these aforesaid points.
- The aforesaid points shall be made part of a separate document viz. 'Demat Debit and Pledge Instruction' (DDPI)
- The existing PoAs given prior to DDPI implementation will continue to remain valid till the time client revokes the same.
- After DDPI implementation, if client revokes/cancels the existing POA and provide DDPI to the broker, then all transactions mentioned in the aforesaid points shall be processed using DDPI only.

Change in the process of Pay-in of securities due to DDPI and block mechanism:

- Based on account transfer instruction uploaded, the securities will be blocked in the Client account.
- For DDPI based transactions, - block mechanism will be applicable wherein securities will be blocked in the client account till matching with obligation received from Clearing Corporations (CCs) of the Exchanges.
- After matching is successfully executed, securities will continue to remain in Client's account till the pay-in day.
- On the pay-in date (T+1 or T+2) as the case may be, securities will be transferred Client account to CM Pool --> CM Delivery (special DO) and subsequently to CC Settlement account automatically.
- Every instruction executed by DDPI shall be considered for EPI benefit

Benefits to Clients:

- Securities to the extent of trading obligation will be blocked in the Client account.
- Corporate action will be credited in the Client account as securities will remain in block status till the pay-in date.
- The system has become even more robust as securities obligation (sell transaction) that is blocked is being matched with the Clearing Corporation obligation.
- Clients will receive early pay-in benefit immediately post blocking of securities

S.No.	Purpose	Signature of Client *
1.	Transfer of securities held in the beneficial owner accounts of the client towards Stock Exchange related deliveries / settlement obligations arising out of trades executed by clients on the Stock Exchange through the same stock broker	
2.	Pledging / re-pledging of securities in favour of trading member (TM) / clearing member (CM) for the purpose of meeting margin requirements of the clients in connection with the trades executed by the clients on the Stock Exchange.	
3.	Mutual Fund transactions being executed on Stock Exchange order entry platforms	
4.	Tendering shares in open offers through Stock Exchange platforms	

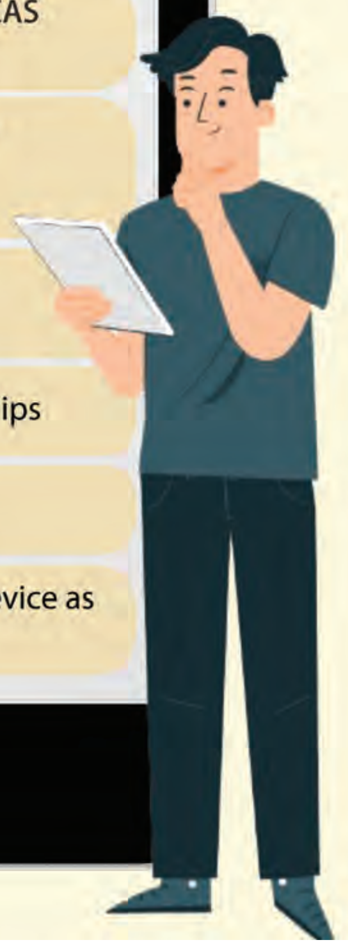
SEBI Circular No. - SEBI/HO/MIRSD/DoP/P/CIR/2022/91 dated June 30, 2022

SEBI Circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/137 dated October 06, 2022

Be a Surakshit, Samajhdar and Atmanirbhar Niveshak

Guidelines to become a Prudent Investor

1. Always deal with a SEBI registered Depository Participant for opening a demat account
2. Register / update your email ID and mobile number in your demat account to get updates from NSDL
3. Make your internet passwords unique and strong, and change them on a regular interval . The OTP and password are meant exclusively for you
4. Carefully examine the nature and implications of Power of Attorney before giving it to a Stock Broker or Portfolio Management Services etc.
5. Regularly monitor your electronic or physical NSDL-CAS statement
6. When you update your personal information in your demat account, you will receive a Client Master List/update confirmation from your DP
7. Monitor NSDL's SMS or email alerts for debits or changes in demographic details
8. Please ensure safe keeping of Delivery Instructions Slips
9. Please ensure to nominate in your demat account
10. Ensure to download known Apps on your phone / device as unknown Apps may access your confidential data



Join our Investor Awareness Programs

NSDL conducts Investor Awareness Programs (IAPs) to help investors to be aware of different aspects of investing. These programs are conducted on different topics of interest to investors and in different languages. The schedule of the forthcoming programs/webinars is published online at https://nsdl.co.in/Investor-Awareness-Programmes.php. We invite you to participate in these programs. We shall be happy to conduct an awareness program for your employees, staff, students, or members. Please write to us at info@nsdl.co.in if you want any such program to be conducted.

Nominate Your Loved Ones In Your NSDL Demat Account Today !

Registration of nominee(s) makes transmission of securities easy

- Upto 3 nominees can be added in one Demat account
- Nomination can be changed anytime by the account holder (s)

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Branch Offices

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