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The Financial Kaleidoscope
Defining the different shapes of investment

April 2023

From The Editor's Desk

Dear Reader,

Power of Compounding is something we have all learned in school, but then forgot! It is called the 8th wonder of the world as it converts hundreds into lakhs and lakhs into crores over a long period of time. Through the power of compounding, you earn interest on your interest and provided you stay invested, you can see a significant multiplication of your assets. Most billionaires in this world have made full use of this rather simple tool to build wealth. The key is to stay invested over long periods of time, for compounding to work. And this requires a basic human skill -Patience. Unfortunately, most of us lack that and hence panic and withdraw money every time the market falls. In this month's edition, well known SEBI registered Portfolio Manager **Mr. Gurmeet Chadha**, outlines the **power of compounding** and how you can benefit from it.

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Regards,

NSDL – Your Depository

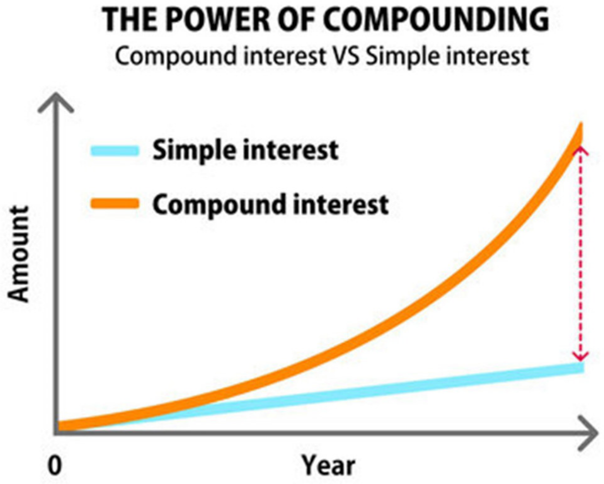
Discover the Magic of Compounding -
How small investments Today can yield Big Returns Tomorrow

As quoted by Albert Einstein **"Compound interest is the eighth wonder of the world. He who understands it, earns it, he who doesn't, pays it."**

Before we understand power of compounding, let's understand simple interest and compound interest.

Imagine you lend your friend money. The amount is Rs.10,000. the interest you charge him is 10% and the loan time period is 5 years. Every year you get Rs.1,000 as interest, a total of Rs.5,000 as interest over 5 years. **This is simple interest.**

Compounding in the World of finance refers to the ability of money to grow itself. It builds upon the fact that money can grow exponentially when you keep reinvesting your profits. Assuming the gains of year 1 get reinvested for year 2, gains of year 2 gets reinvested for year 3, gains of year 3 gets reinvested for year 4 and so on.



Simple interest is the interest that gets paid only on the outstanding principal. Compound interest is paid on both interest and the principal outstanding.

Assume that you invest Rs.100 which is expected to grow at 20% every year (also called as CAGR i.e., Compounded Annual Growth Rate). At the end of the first year, the money grows to Rs.120. Assuming that you do not withdraw Rs.20 profit but rather invest it. This Rs.120 amount at the end of the 2nd year grows at 20% to Rs.144. At the end of 3rd year, Rs.144 grows at 20% to Rs.173. So on and so forth.

Now assume that you withdrew this Rs.20 of profits every year. You would have collected Rs.60 of profits every year compared to Rs.73 in the compounded example where you didn't withdraw any money. Now compare both, in just 3 years, there is a Rs.13 difference, which is almost a difference of 22% in terms of return!

Compounding is a powerful way to build wealth. It's when the earnings from your investments get added to your original investment pile (reinvested) and those earnings then build upon themselves. Over time, these returns can compound on themselves, creating a snowball effect of growth.

Compounding is most commonly associated with long-term investing, such as investing in stocks, bonds or mutual funds. When investors reinvest their dividends or interest payments, they can take advantage of compounding to accelerate the growth of their investments. Compounding basically denotes how money makes money over a long period of time.

The power of compounding is perhaps best illustrated by the story of two friends A and B who started investing together in stocks but friend A stayed invested for 30 years and B stayed invested only for 20 years.

Assume A invests Rs.500 every month for 30 years and gets 14% return on his investments, his future value of investments will be Rs.27.8 lakh.

Assume B invests Rs.500 every month for 20 years and gets 14% return on his investments, his future value of investments will be just Rs.6.6 lakh.

Just see the difference of 10 Years. The amount that A gets by staying invested for 10 more years is 4.2x more than B!

To give an example, the stock of Titan went from Rs.0.15 to Rs.2,535, if held for last 20 years! Rs.1 lakh invested 20 years ago would now be Rs.169 Crore!

But this patience was rewarded only after going through turbulence in the stock price and periods of zero returns (time correction). Even when the price of Titan fell from Rs.1,600 in 2008 to Rs.600 in 2009, investors had faith in the stock.

But one must remember, these returns come with their own set of baggage. Time correction (periods of zero returns) do keep happening. The stock of Reliance Industries didn't give any returns from December 2007 to June 2017, but post that gave stellar returns. The stock of Hindustan Unilever, India's largest FMCG company gave zero returns from March 2002 to April 2010. But post that it gave spectacular returns.

Moral of the story? If you are investing in a financial product for the long term, there will be periods of inactivity and drawdowns, but if you have done your research and if you have the conviction, you should stay put.

The longer you stay invested, the more money is made from your existing money which leads to the snowball effect. In the initial years, the size is small and the force is low but with time, the snowball size & force get bigger and bigger.

The best part is - Compounding is not limited to the world of finance. It can be applied to other areas of life, such as personal growth and skill development. When we learn new things, we can apply that knowledge to future learning, building on what we already know to deepen our understanding and accelerate our progress.

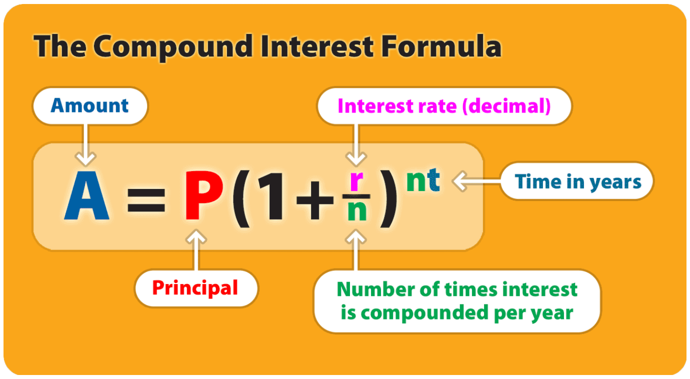
Compounding is a powerful tool for building wealth and achieving long-term success. By reinvesting earnings or returns, investors can take advantage of compounding to accelerate the growth of their investments. Whether applied to finance or personal growth, the concept of compounding underscores the importance of consistency, patience and a long-term perspective.

Start as early as possible. Save more, invest more and for longer. At the end of it, watch your money compound. The best way to take advantage of compounding is to start saving and investing wisely as early as possible. The earlier you start investing, the greater will be the power of compounding.

How to ensure that you reap the benefits of Compounding?

1. Start investing early

The formula for Compound interest is –



The whole world focuses on 'R', the rate of return that they can get. But what everyone misses is the 'T'. The more you stay invested, the more your money earns money and then the kind of returns they earn is very big! The earlier you start investing, the more time your money has to compound. Even small investments made early in life can grow into large sums over time, thanks to the power of compounding.

Take the case of Mr. Warren Buffet who was born in 1930. Investing at a young age, buying his first stock at age 11 and his first real estate investment at age 14. At Age 56, he was a billionaire. At Age 66, he was worth USD 17 billion, and today he is worth more than USD 106 billion! The best example of what happens when you stay invested. A significant proportion of his net worth increase happened in the past 12-15 years.

2. Invest regularly

An investor doesn't need multimillion-dollar systems or technologies in place to make money, a simple monthly regular investment can do the trick. Investments that have been made consistently over time can help you benefit from compounding. You can consider setting up a Systematic Investment Plan (SIP) that allows you to invest a fixed amount of money at regular intervals.

3. Choose the right investments

Now that investors know the 'what', choosing the 'how' is even more important. We all know how Equity creates wealth by giving more returns over a long period of time, when compared to other asset classes such as Bank deposits, Golds, Real Estate, etc.

One needs to invest in assets that have the potential to grow in such a way that it gives returns more than inflation, only then it becomes a value proposition.

One can explore Equity shares, mutual funds, among other options. However, remember that it's imperative that you do your due diligence, find out your life/financial goals, risk appetite and see if those financial instruments will help you achieve your goals and see if the risks associated with the instruments lie within your tolerance level.

4. Patience

We have heard so many stories of legendary investors who made it big in the markets. They had a secret formula. It wasn't their degree, it wasn't luck, it wasn't their brains but it was Patience.

One common thread between all the investors who made it big in the markets has been patience when it came to their investments. The power of compounding takes time to work its magic. It's important to be patient and stay invested for the long term, even if there are short-term fluctuations in the value of your investments.

In 2008 the net worth of Mr. Buffet declined from USD 62 billion to USD 37 billion. That is a 40% drawdown during the Great Financial crisis. But did that influence him to leave the markets? Not at all. Patience is the name of the game and even the best of the investors as we see here go through turbulent periods.

How do you make up for the bad periods? By being consistent with your investments!

Patience and Compounding is a marriage made in heaven. When these 2 combine, it leads to massive synergies!

5. Maintain the Discipline

Don't break the cycle of compounding and just develop a habit of investing regularly.

There will be many periods of pessimism and turbulence in the markets but that shouldn't stop you from investing.

Warren Buffett — *'We don't have to be smarter than the rest. We have to be more disciplined than the rest.'*

6. Reinvest your earnings

'Money makes money', is a famous saying and this fact is nowhere as important as it is in the area of compounding. Reinvesting your profits ensures that the profit that you earn keeps getting bigger and bigger.

For example, if you own stocks that pay dividends, you can reinvest those dividends to buy more shares of the company.

To sum up, while you work for money, make sure you also make that money work for more money by investing it in assets that will appreciate at above inflation rate and also beats the returns of the traditional investment Assets.

***"If you don't find a way to make money while you sleep, you will work until you die."* – Warren Buffett.** Remember you can work 9-5 for money, but your money can work 24*7 by being invested and experiencing the fruits of compounding.

This article is written by

Mr. Gurmeet Chadha,

CIO & Managing Partner, Complete Circle Wealth

NSDL CAS - Single Statement for a hassle-free portfolio management experience

Meenal came home from work to see her grandfather at the dining table, buried in files and paperwork.

"Hi Dadu! You look like you are preparing for an exam," she said.

"This is worse than preparing for any exam I have ever taken in my whole life, Meenu," he said, sounding hopeless. "I'm trying to collate all my investments and it is so complex. I have been buying and selling stocks through three stock brokers and I have units of mutual funds from 4-5 mutual fund houses, corporate bonds and debentures..."

"My problem is that I avoid updating my portfolio records because it is so complex," he continued, "and the more I avoid doing it, the more complex it becomes!"

She took a look at all the papers he had spread around him and said, "If I promise to give you a consolidated statement of all your holdings, every month, will you buy me a dress of my choice?"

Meenal, being a digital-native investor, was aware that NSDL has a facility called Consolidated Accounts Statement (CAS), which is a single statement of all the investments that an individual holds in the securities market.

NSDL CAS includes investments in equity shares, mutual funds (in demat and folio format), preference shares, sovereign gold bonds, corporate bonds, debentures, securitized instruments, Government securities as well as insurance policies held in repository format with National Insurance Repository (NIR). NSDL will be shortly introducing investing in NPS schemes in NSDL-CAS subject to consent from demat account holder. Investors can give consent to include its NPS investment details in CAS by accessing url viz., https://gipw.gupshup.io/wpp/brand/nsdlconsentv1

The beauty of this statement is that it is linked to your Permanent Account Number (PAN), which ensures that irrespective of how many demat accounts you have, since all these are linked to your unique PAN, the securities will appear in your CAS.

Almost a decade ago, in the budget speech of July 2014, the then Finance Minister, Shri Arun Jaitley, proposed that investors should be facilitated with a single electronic statement, which would contain all their holdings. Towards materializing this vision, SEBI took the lead in connecting with depositories, AMFI and RTAs of Mutual Funds (MF-RTAs) to discuss how to implement the FM's vision for investors. NSDL CAS is the first step in that direction.

Clearly, NSDL CAS delivers unprecedented convenience in keeping track of your investment portfolio. In one single document, you can view the value of your investments, as on a particular date. It also reveals how your portfolio has performed and the rate of return it has generated over the past 12 months.

In fact, NSDL CAS also lets you know the amount of commission that you have paid to your mutual fund distributor as well as the total expense that the mutual fund house has charged you. The statement provides a percentage breakdown of how much of your investment is in equity, and how much is in debt and various other investments in your portfolio.

If you hold an e-insurance account with NSDL's National Insurance Repository, the details from that account are also displayed in your NSDL-CAS. It also displays, whether you have opted for nomination or not. So, effectively you can easily monitor your investments and gain automatic access to the value and composition of your portfolio, all within a single statement. Having all these details at your fingertips empowers you to develop a well-informed strategy to manage your investments better.

You can opt to receive your CAS by e-mail, i.e., in an electronic form (also known as the e-CAS), on your registered e-mail id. The NSDL e-CAS offers convenience of storage and retrieval and is completely secure. You can also opt for CAS in electronic form by visiting https://nsdlcas.nsdl.com/. NSDL-CAS can be accessed and downloaded from https://eservices.nsdl.com/

If you undertake at least one transaction in a month, in either your demat account(s) or mutual fund folios, you will receive your NSDL CAS to your registered email id if you have opted to receive CAS in electronic form or at your registered address if you have opted to receive CAS in physical form. However, in case there is no transaction, your CAS with all the holding details will be sent to you on a half-yearly basis.

Meenal's grandfather now looks at his NSDL CAS and he is completely amazed at the report before him. Not only does he feel a great sense of relief that he does not have to sit through reams of paper, with his calculator, to arrive at all the information, but he is assured that it is all accurate as it is automated and comes from a reliable source – NSDL.

While reviewing the statement, he realised that it contained a lot of a mutual fund investments that he made 15 years ago and had completely forgotten about, which were reflecting in his NSDL CAS.

To his good fortune, the stocks are currently worth a pretty package. "Meenal, thank you so much," he exclaims, "I should buy you not just one dress but two!"

This article is written by
Mr. Narayan Venkat, Vice President, NSDL

Key Information for Investors

Investor Grievance Redressal Mechanism

1. SEBI Master Circular on the redressal of investor grievances through the SEBI Complaints Redress System (SCORES) platform dated November 7, 2022

Investors can access the master circular with the below link. SEBI | Master Circular on the redressal of investor grievances through the SEBI Complaints Redress System (SCORES) platform

2. We encourage investors to Read **'Investor Charter'** at **https://nsdl.co.in/publications/investor_charter.php**

3. Online web-based complaints redressal system of NSDL can be accessed via link https://nsdl.co.in/nsdlnews/investors.php (Post your complaints/queries to NSDL)

4. Lodge your complaint with SEBI at www.scores.gov.in/ or SEBI Mobile App - SCORES

- SEBI Toll free helpline - 18002667575 / 1800227575
- NSDL helpline - 022-48867000 / 022-24997000
- NSDL email for grievance - relations@nsdl.co.in
- NSDL email for other information - info@nsdl.co.in

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

Be Vigilant! Invest through a SEBI registered Intermediary

Do Not Fall Prey To Stock Tips, Hot Picks etc. Circulated on Twitter, Instagram, WhatsApp, Telegram, Unsolicited SMS, YouTube Channels etc.

Be a Prudent Investor – Consult a SEBI Registered Investment Advisor and Do Your Own Homework Before Investing

Update your email ID & income range in your demat account Today!!

Update your email ID & income range in your demat account

Dear Investor,

If your demat account has been frozen due to non-update of email ID and income range, kindly update the details in **3 easy steps**

Step 1 - Visit https://eservices.nsdl.com/kyc-attributes/#/login, Enter DP ID, Client ID & PAN. Submit OTP

Step 2 - Update email ID / income range

Step 3 - e-Sign

Scan to know the procedure

Or

- Download NSDL Speede Mobile App to update your email ID & income range

Play Store App Store

Or

- Visit your Depository Participant (DP) to update email ID and income range

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Hurry!! Link PAN to Aadhaar before June 30, 2023 to avoid your demat account becoming inactive

Hurry!! Last date is

30th June, 2023

LINK PAN TO AADHAAR

- **If your Demat & Trading account with PAN is not linked to Aadhaar, your demat & trading account will be marked as inactive**
- **In case of demat accounts with joint holders, linking PAN to Aadhaar is mandatory for all joint holders**

Link PAN to Aadhaar in 3 easy steps

Step1: Visit www.incometax.gov.in

Step 2 : Click on 'Link your PAN'

Step 3 : Enter your PAN and Aadhaar number and Validate

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Hurry!! Nominate Your Loved Ones by September 30, 2023 to avoid your Demat account becoming inactive

Nominate Karo - Surakshit, Samajhdaar, aur Atmanirbhar Niveshak Bano !

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NOMINATE YOUR
LOVED ONES IN YOUR
NSDL DEMAT ACCOUNT TODAY!

Visit
https://eservices.nsdl.com/instademat-kyc-nomination/#/login

OR

SCAN TO NOMINATE ONLINE

Applicable to single demat account holders who have not opted-in/opted-out for Nomination in their demat account.

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