uti
UTI Mutual Fund
Haq, ek behtar zindagi ka.

UTI SWATANTRA
An investor education initiative | Powered by THE TIMES OF INDIA

Why Worry About Demonetisation When You Can Monetise With MFs

Investing through the mutual fund route also helps to lower your tax burden while in the long run equity funds help you get inflation-plus returns

Partha Sinha | TNN

The government's demonetisation drive has opened up huge opportunities for financial services companies to press ahead with existing and prospective investors to use the electronic and digital modes of banking to invest in their products. And investors, those who are already using the electronic and digital channels for banking, can look forward to more convenience and security when they use these channels for banking and investment.

There, however, exists a large number of people who have mostly used cash for saving and investing, with most ending up with abysmally low or no return on those returns. In addition, savings in the form of cash also carried huge risks.

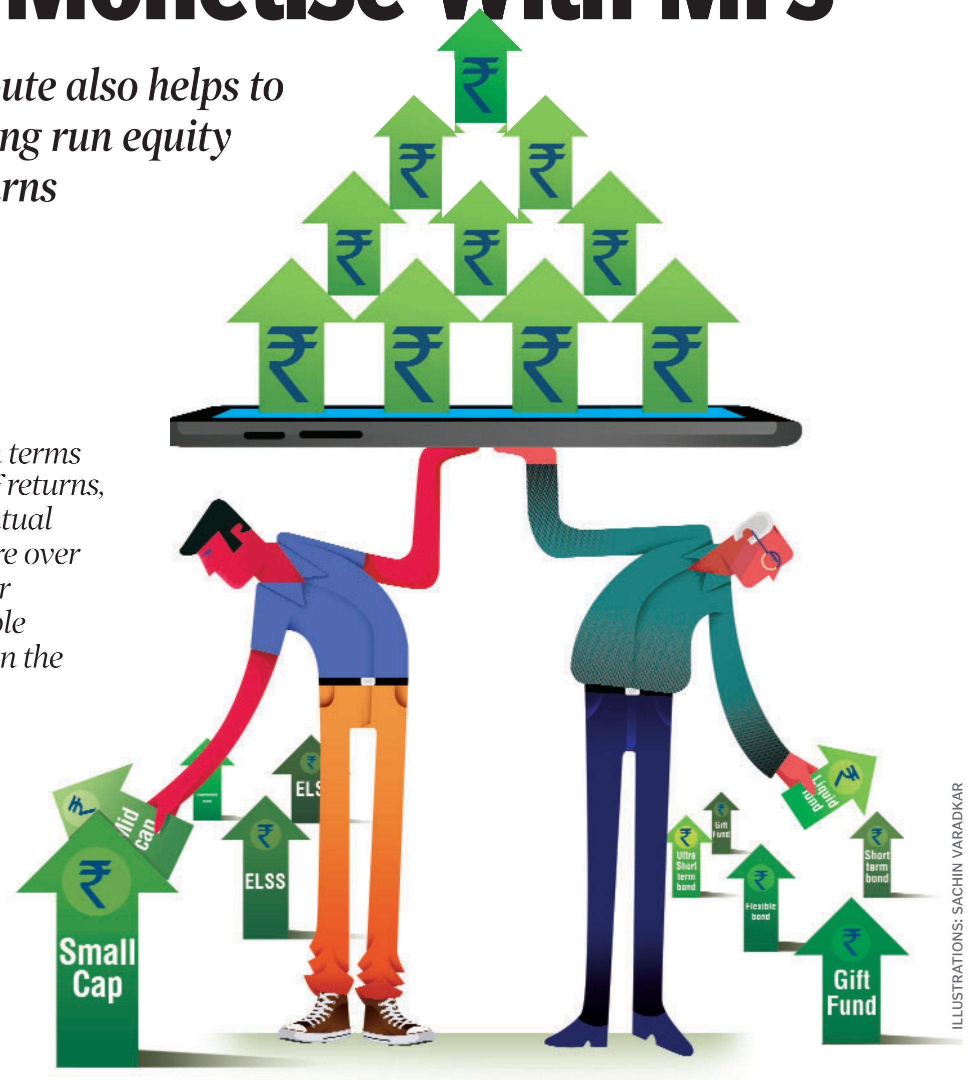
The demonetisation drive is also expected to bring in a large number of people into the banking fold and also within the tax brackets. This will in turn push them to think more and more about investment avenues which are more tax efficient and can also beat inflation in the long run. Financial planners and advisors say as investors start to calculate the impact of these two factors on their investments, mutual funds stand a high chance of scoring above most other comparable investment products. In other words, in an era when the impact of tax and inflation would matter, investors would be better off investing in mutual funds than most other financial products. And more so for meeting their long term financial goals, they say.

> *In terms of returns, equity mutual funds score over most other comparable products in the long run*

For one, mutual fund products offer better tax efficiency than other comparable products. Long term returns as well as all dividends from mutual fund investments are tax free in the hands of the investors. In comparison, if one parks his/her money in say bank fixed deposits, there is a tax on the returns. The same holds for returns from recurring deposits. Also investors need to account for some tax outgo on returns from investments through pension products offered by financial services companies other than mutual funds. In terms of taxation, PPF investments are at par with mutual fund investments.

In terms of returns, equity mutual funds score over most other comparable products in the long run. For example, even on a five-year basis, average annual returns from various categories of schemes within the mutual fund universe varies between 13% and 26%, data from Value Research showed. In comparison, PPF gave a little less than 9% average yearly return, bank FDs returned about 8.5%, savings bank 4% in most banks, while traditional money back insurance policies gave about 5%, data from various sources showed. Gold funds on the other hand gave a marginally negative return in the last five years.

If one considers even longer investment duration, say 20 years, post-tax returns from equities is about 13%, more than double compared to FDs and real estate while much higher than gold (8.4%). With demonetisation, financial planners and advisors say that gold and real estate are expected to witness a tough rise while financial assets could see increased interest.

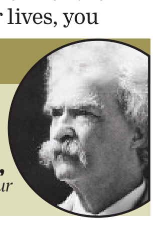


ILLUSTRATIONS: SACHIN VARADKAR

GURU SPEAK

> The secret of getting ahead is getting started

Mark Twain, *Writer and entrepreneur*



CASE STUDY

For long term goals invest in a mix of debt & equity funds

I am a doctor, 30 years old, working with an MNC health insurer. My CTC is Rs 8 lakh with a monthly take-home salary of Rs 50,000. I have two life insurance policies (one sum assured of Rs 50,000 endowment plan, another Rs 51,000 risk cover) with six-monthly premiums of Rs 2,876. I also have a Rs 10 lakh family floater health policy (yearly premium Rs 13,000). I need advice as to how and where I should invest. Our goals are: Buying a Rs 1-crore home in 8-10 years, Rs 10 lakh corpus and a Rs 20-lakh land in a small town in next 20 years. For retirement we need Rs 5 crore and for our children Rs 50 lakh in 20 years.

—Abhinav

Rajiv Satija *replies*

I would break this into two parts. Firstly I'll deal with broad aspects of your personal finance and then with specific investment instruments.

PART I

Given your present resources, your goals are ambitious. However, since you are in the early stages of your career, the earnings shall hopefully grow manifold allowing you to meet all your goals. Invest in yourself, obtain a specialisation to be worth more to your employer or in self-employment. Other than that here are my broad thoughts:

Obtain Life Insurance: You have your wife and possibly more dependents would follow. Your current life policies are woefully inadequate. Assuming you need to provide for an expense of Rs 50,000 per month for them for the rest of their lives, you should take a life cover of Rs 2 crore. Take an online term cover for this from a leading insurer. Its better to front-load life-insurance as today you have the longest productive span ahead of you for yourself and assets and savings take time to build.

Emergency Fund: Everyone should keep some money that could be used in case of an emergency. The thumb rule for this is a sum equivalent to six months' expenses but this could differ depending on your comfort level. It could be lower if your wife is working.

Saving goals: The actual numbers will change over time. Thus while Rs 5 crore for retirement may look to be large corpus today but when you retire in about 28 years, you would need a corpus of about Rs 6.5 crore just to meet a monthly income of about Rs 50,000 in present value terms. At an average annual inflation of about 6%, in 28 years this will be about Rs 2.55 lakh. Assuming an average annual return of 12% on your investments till retirement, you need to invest Rs 23,500 per month towards this goal only.

If all the savings goals are combined, it's obvious as of now we do not have resources for all. We'll thus have to prioritize.

PART II

The objective of emergency fund could be met only if you keep it highly liquid. Put this money in a bank fixed deposit (preferably one which gets automatically encashed), a liquid mutual fund or a very short term debt fund.

For long-term goals, I suggest a simple combination of debt and diversified equity mutual funds. The percentage in debt and equity should depend on how close you are to a goal. For now you could start with a 70%-30% equity-debt allocation. As you reach closer to the goal or an anticipated large expense, you should gradually reduce equity exposure in percentage terms. Also, you rebalance your portfolio every-time there is a more than 5% deviation from planned allocation keeping transaction costs and taxation in mind. Within equity funds you may wish to choose ELSS schemes as it'll also help you meet your 80C tax savings limit.

INVESTOR QUERY

I AM 25, HAVE AN ANNUAL INCOME OF RS 4.5 LAKH AND CURRENTLY LIVING WITH MY PARENTS. I WANT A SYSTEMATIC INVESTMENT PLAN FOR FUTURE WHEREIN I CAN SEE GROWTH. MY CURRENT INVESTMENTS INCLUDE PPF, NSC, FDS AND RS 12,000 ANNUALLY IN AN EQUITY SCHEME. I GENERALLY SEE THAT TAX SAVING EXAMPLES OR INVESTMENT EXAMPLES ON THIS PAGE ARE OF PEOPLE WHO FALL UNDER THE HIGHEST TAX SLAB. I WANT PEOPLE OF MY GENERATION WHO HAVE JUST STARTED EARNING TO ALSO HAVE GUIDANCE FROM FINANCIAL EXPERTS ON INVESTMENTS.

Meenakshi

Vikas Agarwal *replies*

First, let me appreciate that at this age you look more aware than most of the investors. The concept of compounding is not only about money, it also applies to knowledge. Things you will learn about personal finance at the young age will be more beneficial than if you learn these concepts later in life.

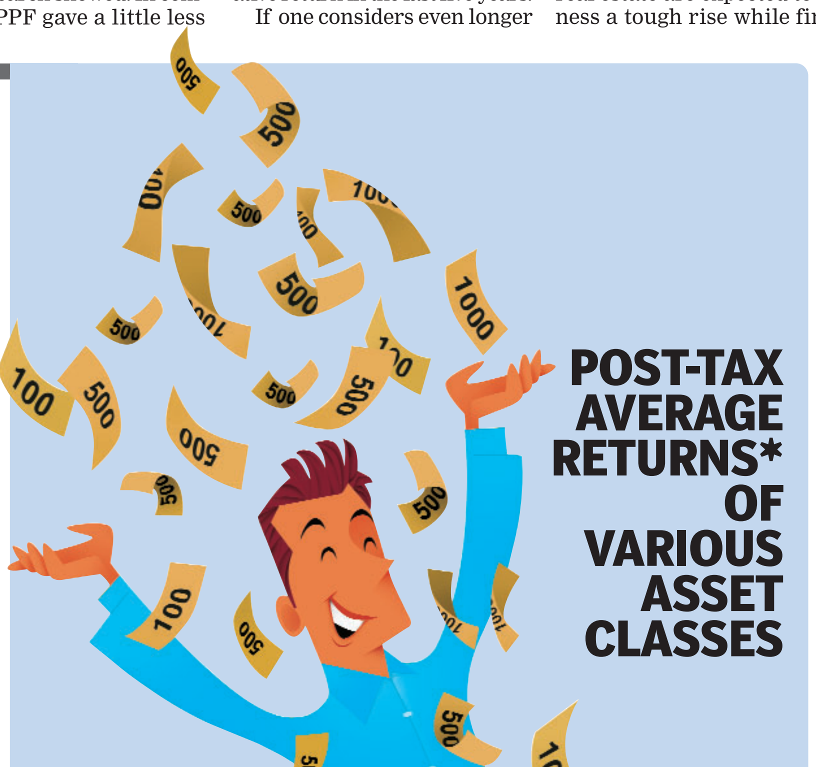
You should set achievable goals and also inculcate the right strategy in handling finances. List down your financial goals and make a financial plan. You can seek help of a professional financial planner to make it right. Make sure that all financial products should be considered on a need based analysis.

If your parents are not dependent on you, try to save at least 40-50% of your income for your long term and short term goals. You can build an emergency fund equal to six months' expenses by parking that amount in a liquid fund.

If you don't have any big short term goal, then you can think of diverting 60-70% of savings in diversified equity funds or ELSS if you have to save tax. PPF and FD contributions can be kept to a minimum. You should focus on asset allocation and rebalancing.

Be sure to avoid some common mistakes like mixing insurance and investments like unit linked insurance plans (ULIP), spending on wants and desires rather than needs, investing in liabilities like big cars and not assets, building a portfolio similar to your parents and not giving importance to financial literacy and planning.

Vikas Agarwal *is Director, Ark Financial Planners, Jaipur*



POST-TAX AVERAGE RETURNS* OF VARIOUS ASSET CLASSES

PRODUCT	5-YEAR	10-YEAR	15-YEAR
EQUITY MFS	13-26%	6.5-16.7%	13.8-28.5%
GOLD	9%	12%	11%
BANK FD	5.7%	5.2%	5.1%
REAL ESTATE	8%	13.4%	10.8%
AVERAGE INFLATION	7.3%	6.2%	5.9%
(* CAGR)			

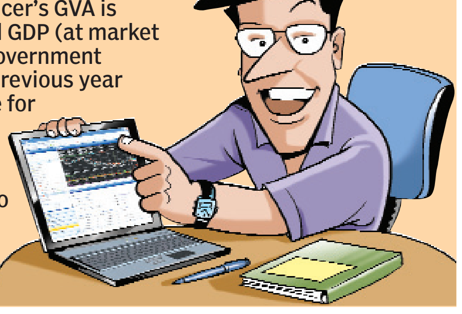
NEXT EDITION

In our next edition we will guide you to make your own financial calendar for 2017.

DEMYSTIFIER

HOW IS GDP CALCULATED?

In India, the current method of calculating GDP is by using the gross value added (GVA) method with the base year 2011-12. This method uses the prices that producers of good and services receive for their respective economic activities. When net of indirect taxes and subsidies are added to this, we get GDP at market prices. For example if the cost of a service to a consumer is Rs 100 and the service tax is 14%, the producer's GVA is Rs 86. Now after getting the final GDP (at market price) figure for a quarter, the government calculates the change over the previous year which gives the GDP growth rate for the country. Earlier till 2014, the government used a different method to calculate GDP. The change to the new system was to make it more in tune with the widely accepted method of calculating GDP globally.



Send in your suggestions, queries to **info@beswatantra.com**.
Please mention **'Swatantra in TOI'** in subject line.
You can also tweet us at **#swatantra** or visit us at **www.beswatantra.com**

Mutual Fund investments are subject to market risks, read all scheme-related documents carefully