

Use MF investment tools to grow wealth

Mutual funds offer a host of tools for the lay investor to enter the equity market. Follow the path and watch your portfolio grow, says **Nikhil Walavalkar**

MUTUAL funds offer investors some investment tools free of cost. Using these tools, you can not just create a portfolio, but enhance your portfolio returns and manage risks.

SYSTEMATIC INVESTMENT PLAN

Assume you are one of those who realised the importance of equity in portfolio in their euphoric times by the end of 2007. Had you invested ₹1,000 everyday starting January 1, 2008, in S&P CNX Nifty till date, you would have been sitting on ₹8.21 lakh on a cumulative investment of ₹6.39 lakh. This looks even better if compared with a one-time investment of ₹6.39 lakh on January 1, 2008, which would have stood eroded to ₹5.65 lakh. The experiment ignores the fact that you can't buy fractions of Nifty.

Those who ignored the noise of 'death of SIP' in late 2007 pinpointing its underperformance vis-à-vis one-time investments did well in the downturn of 2008 though the market still quotes below the highest level hit in early 2008. SIP not only offers you rupee-cost averaging, but also helps you invest as you earn.

"Value SIP can be a better option for investors investing at regular intervals due to better returns it offers, on the back of more purchase of equities when the markets quote at a lower level," advises Abhinav Angirish, managing director, investonline.in, a mutual fund distribution portal. Value SIP is an SIP where instead of a fixed sum, the investor's investment amount is dependent on the market value of his portfolio. He invests more if the markets are down. If the market goes up, he would invest less as the portfolio value goes up.

SYSTEMATIC TRANSFER PLAN (STP)

If you have run into a windfall or managed to accumulate savings of a few lakhs, the only way you can really put your money to work is by investing in equities. But how do you avoid the risk of investing all your money at the top? The answer lies in Systematic Transfer Plans. "STP allows investors to take exposure to equities over a period of time and gets you more returns than what it would have earned in a savings bank account as the lumpsum amount is invested in a debt mutual fund," Swapnil Pawar, head-HNI services, Karvy Private Wealth. STP can be utilised by investors with no appetite for timing risk and who have a lumpsum amount to invest. You can also consider daily STP where you have to invest in the liquid fund, and the fund house will transfer a certain fixed amount daily into equity fund. In most cases, you have to commit a minimum investment in the range of ₹13,000-20,000.

If you are a low-risk investor and intend to taste equities, you can choose to enroll with STP

THE GLOSS FACTOR

AN MF INVESTOR'S CHECK-LIST

- ▶ **Systematic Investment Plan (SIP)** Instead of investing at one go, an investor here commits to invest in a selected scheme at regular intervals – say, on 10th of every month – a pre-defined amount of money for a stipulated period of time, say, 1 year. This helps him build an investment over a period of time taking advantage of market volatility employing rupee-cost averaging
- ▶ **Systematic Transfer Plan (STP)** Investors transfer a fixed amount of money or appreciation enjoyed by them on the unit value in one scheme to another at regular intervals with an intention such as profit booking or step-by-step exposure to a new asset class. STP is done for a specific period of time
- ▶ **Systematic Withdrawal Plan (SWP)** Investors can redeem their investments using SWP. A fixed sum or a specific number of units can be redeemed at regular intervals. This is exactly opposite to an SIP. It helps an investor encash his investments without getting exposed to timing risk. Income need of an investor can also be met using SWP
- ▶ **Trigger** Investors can instruct the fund house to redeem their investments or transfer their investments to another scheme if an event takes place. Such events can be appreciation in value of investments, NAV movement or market index movement



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where the fund house transfers the appreciation you enjoy in liquid schemes to equity mutual funds at regular intervals. This offers to protect the capital. If you maintain your emergency funds in liquid scheme, you can consider doing the same.

TRIGGER

Profit booking is key to wealth creation in equities. This need was felt with more intensity, post the meltdown in equities in 2008. Fund houses came out with the 'trigger-based' action facility. You may define profit booking levels using various parameters such as value of your investments, a particular date, level of index and so on. You can choose to either take home the money or keep it in some debt mutual fund. You can also choose to take only profits off the table or take home the entire investment. The shortcomings of this arrangement include exit loads, if any, and payment of tax on short-term capital gains if the trigger gets activated in less than one year. **To answer this problem, you can avail of dividend trigger facility.**

"Dividend triggers enable funds to have a disciplined approach towards disbursing appreciation in value. Particularly in a situation where

dividends are tax-free from equity funds, investors like their profits to be booked and given back to them in the form of tax-free income periodically," says Ved Prakash Chaturvedi, managing director, Tata AMC. Though the dividend triggers help you save on the short-term capital gains tax front, please note that the dividend declaration is done taking into account the NAV movement in comparison with the previous ex-dividend NAV, and not your entry point. The extent of the dividend payout need not be exactly the amount of appreciation on the base of ex-dividend NAV, but it is the fund manager's prerogative. So, choose wisely how you intend to book profit.

SYSTEMATIC WITHDRAWAL PLAN

They say, in equities exit is equally important if not more than entry. If you have invested in equities for, say, 10 years after the dotcom bust, you must have been sitting on a good corpus. If you are nearing the end of your time horizon, just do not wait for the last day. Opt for a systematic withdrawal plan and log out of equities over a period of 6 months to 3 years depending on your risk appetite, your financial needs and time in hand.

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