FINANCIAL MARKETS & INVESTORS PROTECTION

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Financial Markets

- Few years ago very few options were available for Investments: like Post Office ,Gold, Silver, Land etc.
- Today thousands of Products are available in Financial Market
  - Corporate: Shares, Debentures, Bonds, FDs
  - Banks/ NBFCs: FDs, Saving Schemes ,RD Accounts
  - Mutual Funds : 43 MF having 11856 Schemes
  - SEBI Approved Funds: Venture, PE, AIF, PMS
  - Commodity & Currency : Physical and Non Physical
  - Real Estate : Direct and thru REITs

What is Investment

- Savings

  The money what is saved out of earning is called savings which are to meet future expenses :

  - Cash
  - Balance in Saving Bank

- Investment

  Instead of keeping the saving idle, if it is it put to get good return on it in the future is known investment then you must keep them in forms other than cash :

  - Financial Investment
    - Government securities
    - Banks FDs
    - Shares & Bonds
  - Non Financial Investments
    - Commodities
    - Real Estate

Why Investment Is Necessary

- To Beat Inflation
  - When prices remain more or less constant, the impact on the cost of living hardly make any difference
  - But , when prices go up tremendously one needs to beat it by earning more than inflation rate.
- To Meet Increasing Needs:
  - Medical treatment
  - Children's education, & their weddings
  - Buying Assets
  - Change in Lifestyle : Brands and comfort- Car, Gadgets , Clothing, Restaurants, Cinema, Travel etc.

Investment Considerations

- Before you go for investment, consider
  - An emergency fund
  - Adequate insurance: Mediclaim and Term
  - Control over credit use
- When you are considering an investment plan, careful consideration need to be given to –
  - Your investment goals
  - Time available for working with investments
  - High Returns With Low Risk is the Key

    "Risk comes from not knowing what you are doing."

    Warren Buffett
  - Ability to absorb the extent of loss
  - Raight Wealth Advisor

    "*If you don't know jwellery, know the jweller*"- Warren Buffet

Investment Goals

Investment should be for a period based on your goals

For Retirement : Very Long Term

- Children Higher Education/ Wedding : Long Term
- Buying Assets like 2ndHouse , Jewellery etc: Mid Term
- Annual Expenses like Travel, Fees , celebrations : Short Term
- Waiting for decision: Very Short Term
- Daily needs, Medical emergency etc: Cash

Invest for the Long Term

"Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years." Warren Buffett

Golden Rules Of Investment

- Start Investing as soon as start earning
  Investment to be in regular interval, just like income .

  Q. Invest some amount from the earning every month
  Invest Rs. 500 pm thru SIP
  for 40 years (Start at the age 22 to retire at 62)
  CAGR 12% (Compounded Monthly)
  Maturity Amount?

  Q. Invest Rs. 1000 pm thru SIP for 30 years
  (Start at the age 32 to retire at 62)
  CAGR 12% (Compounded Monthly)
  Maturity Amount?

Power of Compounding

Rule of 72 to double the money in years?

Divide 72 by Rate of interest

If rate of Interest is 18% money will be double in ?

If rate of interest is 12 % money will be double in?

If rate of interest is 24 % money will be double in?

Q. Invest Rs. 100 one time only for 50 Years

Rate of interest 24%

Maturity Amount?

Diversification

- Not to put all eggs in one basket

  Allocate Capital in different assets class

  But How to Diversify?
- The Formula : Many Investment Advisors and Experts have developed complex formulae for Asset Allocation based on Expected Return, Risk Aversion, Time etc.
- Age Theory

  100-Age = Risky assets
  - Equity, Long Term Bonds, Gold, Real Estate etc

  Balance in Risk Free Assets
  - Short Term Bills, Small Saving Schemes, FDs , Tax free Bonds etc.
- My Theory: Be simple go for 50:50 with Sub Allocation in different class

Investment Selection Criteria

- Commonly accepted criteria for evaluating types of investments as well as specific investments include
  - Risk – Safety
  - Return – Net of Taxes
  - Liquidity & Marketability
  - Efforts & Expertise : Land in village, Real Estate

Care To Be Taken While Investing

- Before making any specific investment, one must ensure to

- Obtain written documents explaining the investment, read & understand such documents & verify the legitimacy of the same. Ads and brochures have no legal binding
- Ascertain if it is appropriate for your specific goals & compare these details with other investment opportunities available
- Deal only through an authorised intermediary
- Know your future commitments: ULIP Premium , Draw Down for AIF

Investors Protection

- From Losses
  - Disciplined Investment (SIP)
  - Manage your greed

    “doing in the name of greed is very poor management of our funds”
    Warren Buffett
  - Manage your fear
  - Knowledge about product
  - Diversification
  - Use of Future and Options
- From Fraud or Wrong Doings
  - Register complaint to Regulator
- “*Rule No. 1.: Never loose Money*
- *Rule No.2.: Refer Rule no. 1*” Warren Buffett

Types Of Investment Plans

- Saving A/c :Giving more interest, convenient, better service
- Tax free Bonds
- 8% taxable saving bonds
- Public Provident Fund (PPF)
- Fixed Deposits with banks (FD)
- Recurring Deposits with bank
- Fixed Deposits with Companies /NBFC's
- Small Saving Schemes: NSC, P.O. MIS, Kisan Vikas Patra, Senior Citizen Bonds, Sukanya Samriddhi Yojana
- Shares
- Debentures
- Unit Linked Insurance Plan (ULIP)
- Mutual Funds

Tax Free Bonds

- Assured Tax Free Return for long period 10/15/20 years
- Bonds trading on NSE/BSE, liquidity is available
- No lock-in period
- Could be held either in Demat or Physical form
- Tax free bonds are issued by PSUs like IRFC, PFC, NHAI, NHB, HUDCO, REC, NTPC, NHPC, IREDA etc
- Quota for Retail Investor with higher interest rate during IPO

Senior Citizens

- Bank FDs ½ % to 1% extra
- LIC Bonds
  - Budget 2017 Senior Citizen Scheme by LIC to provide assured pension 8% p.a. for 10 years
- Inflation Indexed Bonds can exit after 1 year.

Inflation Indexed Bonds

- Eligibility - Indian Resident
- Investment
  - Minimum – 5000
  - Maximum
    - 10lac per Individual
    - 25lac p.a. for institute such as HUFs, Charitable Trusts, Education Endowments.
- Tenure – 10 Years
- Easy Liquidity – Exit after 3 years.
- Fixed rate of 1.5 % act as a floor plus inflation adjusted return using Consumer Price Index (CPI) as reference.

8% taxable saving bonds

- Risk Free Assured Return of 8 % for 6 Years
- Interest payment(Half Yearly)- cumulative and non cumulative.
- No maximum limit
- Safe & Secure
- 6year maturity
- Income Tax: Not Exempt, Not Exempt, Exempt

Public Provident Fund

- It is a Long term Investment for 15 years
- The liquidity is offered in the form of loans from the 3rd year
- Partial withdrawal is allowed from the 7th year, limited to 50% of the balance at the end of 4th year in the A/c.
- Risk-free
- No attachment from liability
- Income Tax: Exempt, Exempt, Exempt
- Strategy: Open account at early stage invest only minimum amount for initial years, and invest maximum amount in last 5 years or so.

Government Securities

- A bond is issued by a government
- Periodic interest payment
- Low-risk investment because they are backed by the taxing power of government
- Types - Savings bonds, Treasury bills and Notes
- Rate of interest is low
- Liquidity is difficult for Retail Investor

Unit Linked Insurance Plan (ULIP)

- A combination of insurance as well as investment
- Choice of funds but not like Mutual Funds
- Tax Free Returns: If insurance is not less than 5 times of annual premium.
- Choice of Switches between funds without tax impact and exit Load
- Liquid only after lock in period of 5 Years
- Fixed sum assured & premium
- Can be taken under Married Women Property Act

Mutual Funds

- **Concepts of a Mutual Fund**

- Mutual funds pool investor's money and deploy it in various financial assets.
- Each mutual fund product has a defined objective.
- Investors buy units of a mutual fund product to participate in the portfolio.
- Mutual funds declare the value of their portfolios on a per unit basis (net asset value or NAV)
- Mutual funds are professionally managed portfolios.
- Mutual funds are subject to SEBI Regulations.

Benefits Of Investing In Mutual Funds

- Portfolio diversification across asset classes, segments & securities to get benefits of all and reduce the risk
- Low transaction costs due to scale of economies
- Professional management by experts & process-driven approach
- Protection of investor interests : SEBI regulated
- Enable & encourage systematic investments : SIP
- Convenient , flexible & easy to transact
- Liquidity from open ended structure or listing
- Tax advantages from structure & choice of options

Mutual Fund Product Variety

Organisatinal Structure

- Open ended fund
- Closed end fund
- Interval fund

Management of portfolio

- Active Fund
- Passive Fund

Investment Objective Portfolio

- Growth: Equity Funds
- Income: Debt Funds
- Hybrid Funds
- Liquid funds

Other Fund Types

- Gold exchange traded funds
- Arbitage Funds
- International Funds
- ELSS
- Real Estate Mutual Funds
- Capital Protection funds
- RGESS Funds

Open Ended,closed-end & Interval Fund

OPEN ENDED FUND	• Do not have a fixed maturity date • Investors can buy(purchase)or sell(redeem) units • It is based on the net asset value (NAV) of the fund. • Unit capital is not fixed
CLOSE–ENDED FUNDS	• Operate for a specific period of time. • Offered in an NFO only • Investors may buy & sell the units thru Exchange during tenure
INTERVAL FUNDS	• Variant of close-end ed funds • Subscriptions & redemptions allowed at specific intervals • Minimum duration of interval period (15 days.)

Growth/Equity Funds

- **Equity funds invest primarily in equity & equity related instruments.**
  - Performance of an equity fund is compared with the performance of a equity market index.
- **An investor may choose equity funds if**
  - The requirement for return is higher,
  - Investing horizon is longer,
  - And ability to take on short-term volatility for long-term growth is higher.
- **Equity funds can be classified into**
  - Diversified equity funds
    - Invest in equity shares across various sectors, sizes & industries
  - Sector specific funds
    - Invest in shares in a specific sector or industry
  - Thematic Equity funds
    - Invest in shares related to a particular theme

Types of Equity Funds

- **Large cap Funds**
  - Invest in companies with a large market capitalisation.
  - Portfolio consists of profit making & dividend paying blue-chip companies with superior financial ratios-industry leaders.
  - Large cap funds are less volatile & outperform in the long run.
- **Mid cap funds**
  - Invest in mid sized companies
  - Potential to become large cap in the long run
  - Offer more growth than large cap funds
  - Lesser volatile than small cap funds
- **Small cap funds**
  - Invest in companies with small market capitalisation
  - High Volatility
  - Higher risk-higher returns

Equity/Growth Fund Performance Chart

Fund	1- year return	3- year return	5- year return
UTI Mid Cap	28.53	32.01	25.06
HDFC Mid-cap Oppurtunities Fund	40.7	31.41	23.89
Birla Sun Life Pure Value Fund	43.31	37.48	25.17
Franklin India Prima Fund	35.01	32.84	25.51
Tata Mid Cap Fund	31.05	30.96	22.55

Debt/Income Funds

- **Debt funds predominantly invest in debt securities such as**
  - Treasury bills, Government Securities, Bonds & Debentures
  - Debt securities have a fixed maturity date & pay a specific rate of interest.
- **The return from a debt fund is made up of**
  - Interest income & capital appreciations (depreciation) in value due to changes in market prices of securities they hold.
  - Such changes are called mark to market (MTM) or interest rate risk
- **Higher the average maturity of a debt fund, greater the interest rate risk of the fund.**
- **A debt fund should be chosen considering.**
  - The investor's holding period.
  - Interest rate view (or ability to bear interest rate risk)

Types Of Debt Funds

- **Liquid & ultra short term funds**
  - Invest in very short term debt instruments for stable NAV
- **Corporate bond funds**
  - Invest in a portfolio of corporate bond for high accrual & managed risks
  - FMPs are closed end corporate bond funds
- **Gilt funds**
  - Invest in G-secs with no credit risk, but interest rate is risky
- **Floating rate funds**
  - Invest in short term instruments with floating rate of interest
- **Dynamic bond funds**
  - Can invest across maturities based on fund manager's view.
- **Bond index funds**
  - Replicate an index
- **Infrastructure debt funds**
  - Specifically created to encourage investment in infrastructure

Debt/Income Fund Performance Chart

Fund	1- year return	3- year return	5- year return
UTI Dynamic Bond Fund	14.83	11.54	10.37
ICICI Prudential Long Term Fund	16.69	12.88	11.6
Axis Dynamic Bond Fund	13.19	10.71	9.17
Birla Sun Life Dynamic Bond Fund	13.06	10.71	9.17
Franklin India Corp. Bond Oppurtunities Fund	11.02	10.11	9.87

Hybrid/Balanced Funds

- **Hybrid funds can have an equity or debt orientation**
  - Depending on the proportions invested in equity or debt.
- **Equity-oriented balanced funds invest at least 65% or more in Equity or Equity relate products, & the balance in Debt to offer a cushion to an all equity portfolio.**
- **Debt –oriented hybrid funds invest 65% or more in debt, & the balance in equity to offer a yield-kicker to a debt investor.**
- Best suited for investors who seek growth with some protection from volatility

Balanced Fund Performance Chart

Fund	1- year return	3- year return	5- year return
HDFC Prudence Fund	34.12	22.13	15.4
ICICI Prudential Balanced Fund	32.44	22.06	18.08
HDFC Balanced Fund	28.14	21.67	16.81
Tata Balanced Fund	20.67	21.42	17.18
DSP Black Rock Balanced Fund	28.26	22.22	14.17

Liquid FUNDS

- Invest in debt securities with very short term maturity (less than 91 days to maturity)
- Interest income limited due to low or no presence of interest rate risk
- Suitable for short term & for parking funds for very short period of time
- Used primarily by large corporate investor & institutional investors
- Better than Bank Current or Saving A/c

National Pension Scheme (NPS)

- **National Pension System** (**NPS**) is a voluntary, defined contribution retirement savings scheme
- NPS offer two types of account Tier – I & Tier – II
  - **Tier – I**
    - 80CCD(1) – 10% of Salary & 20% of GTI for Non-salary (u/s80C)
    - 80 CCD (1B) – 50 000 – Over & above 150000 limit of u/s 80c
    - 80CCD (2) – 10% of salary by employer - Over & above 150000 limit of u/s 80c
    - Withdrawal up to 25% of own contribution of employee
    - Commuted amount on maturity – 40% of the corpus
  - Tier – II
    - Good saving & investment option
    - No limit for withdrawal
    - No deduction u/s 80C
    - No penalty fee is charged for prematurely withdrawals

Equity Linked Savings Scheme

- Fully equity
- Lock-in period 3 years
- Exemption u/s 80C
- Opt for Dividend
- Advantage of –
  - Capital appreciation
  - Tax benefits

ELSS Fund Performance Chart

Fund	1- year return	3- year return	5- year return
Axis Long term Equity Fund	19.12	24.78	20.73
ICICI Prudential Long Term Equity Fund	27.44	22.38	17.1
Franklin India Taxshield Fund	26.19	24.18	17.24
HDFC Taxsaver Fund	40.11	21.75	14.2
Birla Sun Life Tax Plan	22.8	24.01	17.53

Sovereign Gold Bond

- Issued by the RBI
- Available in Demat as well as paper form
- Investment minimum – 1 gm & maximum 500 gm
- 2.75% interest at fixed rate
- Can be used as collateral for loans
- Capital gain tax will be exempted on redemption


Thank You!