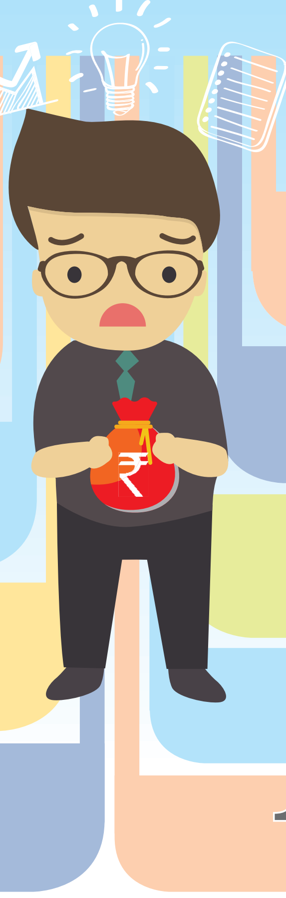
SWATANTRA

An investor education initiative | Powered by hindustantimes

Starter Kit: This is how you begin investing in Mutual Funds

You may have been advised on 'how' to invest in a Mutual Fund, but do you really know where to begin?
Allow us to explain:



1 A BALANCED START
When you don't know which way to go, it's best to start with Balanced Funds. These will help you get exposure to both Debt and Equity.

2 COUNT THE CHANGE
Whether you know which Funds match your risk and return profile or not, start investing small amounts like ₹500 or ₹1,000 every month.

3 INVEST MORE OVER TIME
By starting small, you can take baby steps and adjust your investment plan according to your comfort. This lowers risk.

4 LOW RISK APPETITE
Average risk-takers can invest ₹500 each in a Debt Fund and an Equity Fund. Lower your risk appetite, higher should be the Debt MF exposure.

5 DIVERSIFY OVER TIME
As you get more comfortable with investing in MFs, slowly increase your exposure to different kinds of Funds over time.

6 ADD EQUITY
Even if you have a low risk appetite, you can add Equity Funds of different kinds for long term goals. Increase slowly to check your risk.

7 TIME PERIOD
Ideally, Equity Funds are best suited for goals over 5-10 years, while Debt Funds are often best for shorter years. You can decide according to your goal.

8 INTEREST RATE CYCLE
Generally, investors flock to Debt Funds when they expect interest rates to fall. During these times, prices rise as the rates fall, thus increasing returns.

9 LIQUIDITY
After a few months, you can branch out to Liquid Funds and Ultra Short Term Debt Funds to ensure you have liquid cash.

10 GOLD WITH RESERVE CASH
Every time you have any reserve money left, invest it equally between Liquid Funds and Gold Funds/ETFs for a rainy day.

CASE STUDY

CHITRA IYER
COO & Financial Coach, My Financial Advisor

THE PROBLEM

My bank only pushes Mutual Funds of a single Fund House. Who else can I approach for better recommendation?

THE SOLUTION

Investing in MFs is best done through a financial advisor, who can link your investments to your financial goals. They can recommend MFs for your goals after considering your time horizon, risk profile etc.

BEFORE INVESTING, KEEP THESE THINGS IN MIND

① Most banks today are empanelled by Fund Houses to sell their Funds. This is an arrangement in which a bank and a Fund house enter into a partnership so that the Fund house can sell its products to the bank's customer. Banks can earn additional revenue by selling the MFs to their customers, while Fund houses are able to expand their customer base.

② Though financial advisors earn commission from Fund House, they are not attached to any Fund House in particular. Generally, they evaluate each the Fund managers and schemes based on many fundamentals.

③ Financial advisors also generally charge fees from their clients for their advice. Hence their recommendations are unbiased and purely in the client's interest. They do not have a product-oriented approach to sell anything to their clients.

KEY TAKEAWAYS

1 Start with a Balanced Fund to get exposure to both Debt and Equity

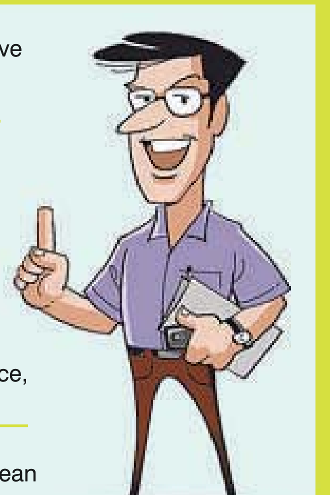
2 If you have a low appetite for risk, then opt for Debt Funds

3 If you have a long term goal, you can afford to increase exposure to Equity

WHAT NEXT?

You need not be alone in your investment journey. You can find a good guide by choosing the right Mutual Fund advisor. Here are some things you should keep in mind.

Swatantra Kumar Explains: Choosing MF advisors



Check The Credentials: Prefer financial advisors who have a credible degree that supports their work like a Certified Financial Planner.

Experience Matters: It's simple - experience is the best teacher. Check how long the advisor has been in the business.

What's Their Forte? The financial industry is quite big. One advisor may specialise in Insurance, while another on Mutual Funds.

History Is Important: Check your advisor's track record. While this does not indicate future performance, it can give you an idea about the quality of service.

Money, Money, Money: Don't forget to compare fees. Too high a fee without a justified high return would mean you end with lower profits.

Now that you have started on the Mutual Fund Investment journey, our next edition will take you one step forward. Just like how you regularly conduct health checkups, you can learn how to efficiently check the health of your finances. After all, wealth is also important to health. Mail us your queries and we will try to answer them next time. Don't forget to give your name, location and the name of the newspaper!

For more details, visit www.beswatantra.com, follow us on Twitter #swatantra;
Email queries or suggestions: info@beswatantra.com, Please mention 'Swatantra in HT' in subject line.

DID YOU KNOW

Even though you are investing in a Balanced Fund, it can be treated as an Equity Fund for Tax purposes. So as long as the Fund invests 65% in Equity, all your capital gains are free of Tax after 1 year.

THEY SAID IT

What They Said:
"The number one problem in today's generation and the economy is the lack of financial literacy."
– *Alan Greenspan*

WHAT IT MEANS

It's a big misconception that you need to remember childhood maths to understand finance. No, the logic underlying financial decisions are quite simple. And you can only understand this if you have basic financial knowledge. Without it, you are prone to making big mistakes with your money, which eventually spills into other aspects of life and economy.

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