ACCUMEN

Accumen Wealth Advisors Pvt Ltd

Basics of Investing / Wealth Creation

Your Aspirations

Savings:

"Money saved from regular income after accounting for all expenditure."

$\boxed{\text{Savings}} = \boxed{\text{Income}} - \boxed{\text{Expense}}$

Inflation

- Over FY79-15 CPI inflation has been 7.58%, eroding purchasing power of Rupee by 95%.
- **The value of 100 in 1979 is now 5.45**

Cost of Savings

Money in savings account	+	100,000
Interest earned in 1 year (@4% per annum)	+	4,000
		104,000
Tax on Interest (@30.9%)	-	1,236
Impact of Inflation (@5% per annum)	-	5,000
Value at the end of year 1		97,764

However, to create value you need to beat inflation.

Investing

As witnessed earlier, the amount saved is usually not enough to meet current and future needs.

Hence the need to invest.

Thus, when S***avings*** start generating income, they become ***Investments*****.**

So to maintain your wealth, you need to ***meet*** inflation
But to create wealth you need to ***beat*** it.

Instruments of Investments

Instruments of Investments

ACCUMEN

- Ideal for secure long term investment options and tax free. Lock-in for 15 years

PPF (Public Provident Fund) Account

- Long term investment requires high capital. It is taxed on the capital gains.

Real estate

- Considered as evergreen investment product by Indians, as the liquidity is always there. One can invest in gold in any format like Gold deposit scheme, Gold ETF, Gold bar, Gold mutual fund etc.

Gold

- Being a govt. savings scheme, it has very low risk. Also there is no TDS in a POSS.

Post Office Savings Schemes (POSS)

- Long term high risk investment. Recommended only if one can analyze a share or stock before you buy.

Direct Equity or Share Purchase

- Mutual Funds investments are generally preferred by people who want to invest in equities and bonds with a balance of risk & return.

Mutual Funds

- Unit linked insurance plans or ULIPs invest in equities and debt markets. Besides that, one can also get income tax exemption on investment as well; means the net yield will be much higher

ULIP plan

- Safe investment option, the tenure varies from few days to years. Taxation can eats up into your returns, as the profits are taxed as per the tax slabs

Bank Fixed Deposits

Challenges involved in investing directly in Capital Market:

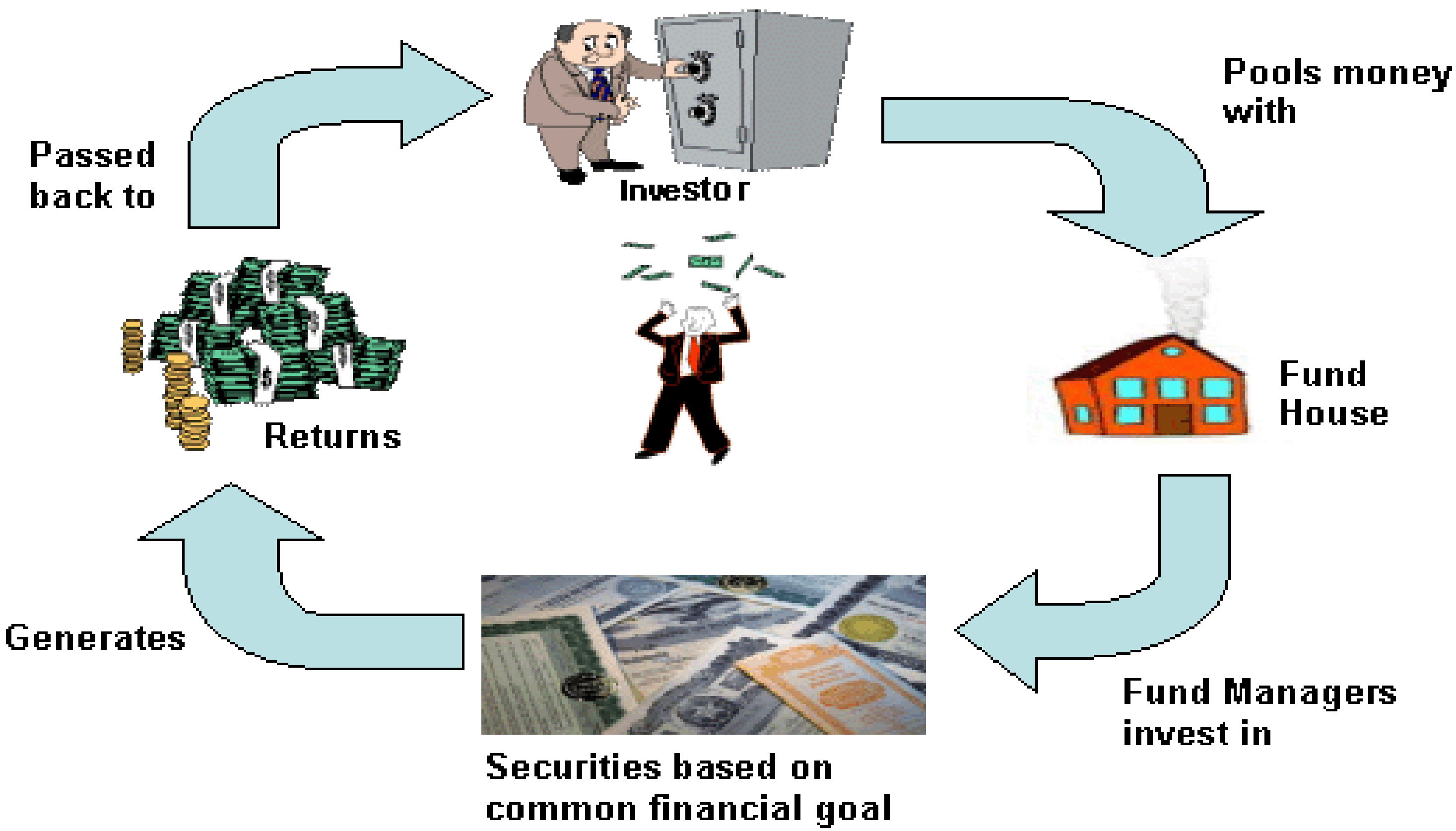
- Requirement of Capital
- Time
- Expertise
- Lack of Information
- Portfolio
- Volatility

Thus, Mutual Funds: Advantages of Mutual Funds

- Professional Management
- Low Risk
- Low transaction Cost
- Liquidity
- Choice of Schemes
- Diversification
- Transparency & Safety

How Mutual Fund works?

A vehicle for investing in portfolio of stocks and bonds



How do I make money from a mutual fund?

1. **Capital appreciation:**

   As the value of securities in the fund increases, the fund's unit price will also increase. You can make a profit by selling the units at a price higher than at which you bought.

2. **Income Distribution:**

   The fund distributes part of the appreciation to the investors as dividend.

Types of Mutual Funds

Debt Mutual Funds	Equity Mutual Funds
Liquid Plus / Liquid Funds	Large Cap Funds
Short Term Income Funds	Mid Cap Funds
Income Funds	Small Cap Funds
Credit Opportunities Funds	Multi Cap Funds
Dynamic / Flexi Debt Funds	Thematic Funds
Arbitrage Funds	ELSS Funds
Fixed Maturity Plans	Sectoral Funds
	Global Funds
	Balanced Funds

What are Debt Mutual Funds?

A debt Fund is a Professionally managed mutual fund which

- Invests in highly rated fixed income earning instruments with
- Low risk
- Investments In instruments such as Govt Bonds, Corporate Bonds, Money Market instruments, Bank Bonds and Certificate of deposits etc.
- More tax efficient than Fixed Deposits and Bonds

Types of Debt Mutual Funds

Liquid Funds / Money Market Funds: (Investment Horizon of 3 days to 3 months)
These funds invest in highly liquid money market instruments and provide easy liquidity. The period of investment in these funds could be as short as a day.

Arbitrage Funds (Investment Horizon of 3 months to 12 months)
Arbitrage funds generate returns by capitalising on the price differential of securities between two markets, mostly the spot and derivatives market. Simply put, these funds simultaneously buy shares in the cash segment and sell futures of the same company that are trading at a reasonable premium. On the day of expiry of the futures contract, the cash and futures prices coincide, thus generating positive returns for investors. The returns from an arbitrage fund are thus dependent on the spreads available between cash and futures position. As these funds are categorized as equity funds for taxation purpose there is.no Dividend Distribution tax of 28.33% and thus they are more tax efficient compared to other debt funds.

Short Term & Medium Term Income Funds (Investment Horizon of 1 year – 3 years)
These funds invest predominantly in debt securities with a maturity of upto 3 years in comparison to a Regular Income Fund. These funds tend to perform when short term interest rates are high and could potentially benefit from capital gains as liquidity comes back to the market and interest rates go down.

Gilt Funds (Investment Horizon of 1 year – 3 years)
They invest in government securities of medium and long term maturities issued by central and state governments. These funds do not have the risk of default since the issuer of the instruments is the government. Gilt Funds invest in government securities of medium and long term maturities issued by central and state governments. These funds do not have the risk of default since the issuer of the instruments is the government.

Types of Debt Mutual Funds

Corporate Bond Funds (Investment Horizon of 3 years and above)
These funds invest predominantly in corporate bonds and debentures of varying maturities that offer relatively higher interest, and are exposed to higher volatility and credit risk. They seek to provide regular income and growth and are suitable for investors with a moderate risk appetite with a medium to long term investment horizon.

Income Funds (Investment Horizon of 3 years and above)
These invest in corporate bonds, government bonds and money market instruments. However, they are highly vulnerable to the changes in interest rates and are suitable for investors who have a long term investment horizon and higher risk taking ability.

Dynamic Bond Funds (Investment Horizon of 3 years and above)
These invest in debt securities of different maturity profiles. These funds are actively managed and the portfolio varies dynamically according to the interest rate view of the fund managers. These funds Invest across all classes of debt and money market instruments with no cap or floor on maturity, duration or instrument type concentration.

Fixed Maturity Plans (A closed ended debt mutual fund with a fixed maturity date)
FMPs are the funds which have defined maturity period. These funds normally comprise of debt instruments which mature in line with the maturity of the scheme, thereby earning through the interest component (also called coupons) of the securities in the portfolio. FMPs are normally passively managed

Why it makes sense to invest in Debt Mutual Funds as Compared to Fixed Deposits?

ACCUMEN

Taxation Advantage - Debt Mutual Funds Vs Fixed Deposits if held for 3 or more years

Particulars	Debt MF	Fixed Deposit
Investment Amt	10,000,000	10,000,000
Investment Tenure in Years	3	3
Assumed Rate of Interest / Yield	7.50%	7.50%
Gross Amt at Maturity	12,422,969	12,422,969
Taxation	LTCG tax @20% with indexation plus applicable surcharge and cess	Marginal Tax Rate - 30% + applicable surcharge and cess
Assume Indexation p.a. for 3 years	5%	N.A.
Cost of Purchase After Indexation	11,576,250	
Gain amt for taxation	846,719	2,422,969
Tax Amt	200,588	861,001.95
Maturity Amt after 3 years post tax	12,222,381	11,561,967
CAGR p.a. post tax for 3 years	**6.92%**	**4.96%**

Debt Mutual Funds Returns

Index	Annualised (%)						CAGR (%)			
	1W	2W	1M	2M	3M	6M	1Y	2Y	3Y	5Y
Average of 48 Ultra Short Term Funds	-2.26	0.37	6.42	7.41	6.85	5.91	6.61	7.13	-	-
Average of 47 Liquid Funds	6.31	6.39	7.29	7.11	6.89	6.60	6.62	6.70	-	-
Average of 48 Short Term Income Funds	-16.53	-9.19	3.69	6.50	5.09	3.79	5.80	6.98	7.27	7.91
Average of 37 Income Funds	-29.06	-19.30	3.56	6.81	2.99	1.31	4.67	6.90	6.99	7.45
Average of 24 Credit Opps Funds	-18.14	-9.61	4.20	7.24	5.61	4.64	6.64	8.30	8.50	8.86
Average of 27 Dynamic / Flexi Funds	-29.05	-20.34	3.12	7.11	2.14	-0.42	3.57	6.49	6.61	7.53
Average of 28 Long Term Gilt Funds	-47.89	-34.16	1.92	8.15	-0.28	-3.75	1.63	6.17	6.45	7.31

Average returns of various categories' of Debt Mutual Funds as on 24^{th} April 2018

Equity Mutual Funds

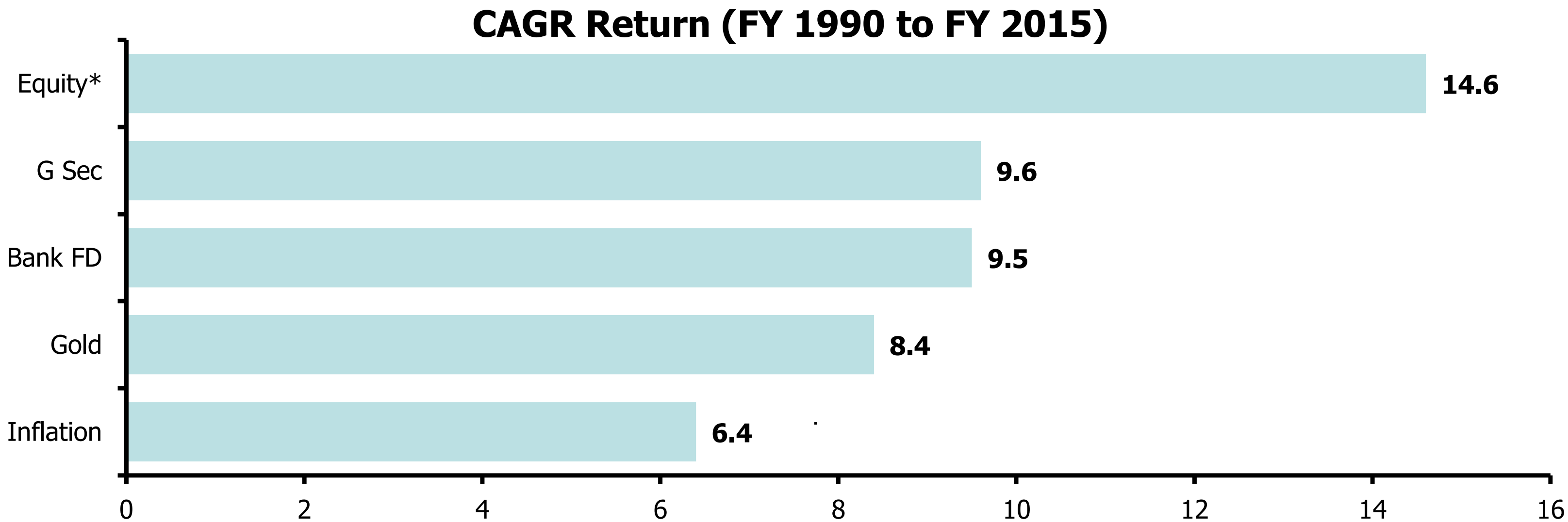
What are Equity Mutual Funds?

Equity Mutual Funds invest the pooled investor money into shares of various companies. The gains or losses arising from the rise or drop in prices of these shares in the stock market decide the performance of the Mutual Fund

Benefits of Equity Mutual Funds

- ✓ Portfolio Diversification
- ✓ Capital Appreciation – Superior Returns in Long-Term
- ✓ Liquidity – Investor can get money in 3 working days from the sale date
- ✓ Transparent investment vehicle managed by a Professional Team to achieve long term goals
- ✓ Tax Efficient – No Long term capital gains tax if funds are held for 1 year and more

Equity vs Other Instruments



Source: CLSA
Data is of CAGR returns of various asset classes for the period of April 1990 to Dec 2015. *Equity data is of S&P BSE Sensex
Equities are a volatile asset class. However, volatility in returns reduces as holding period increases. **Past performance may or may not sustain in future**

- **Equities have compounded faster than any other major asset classes over last 25 years**

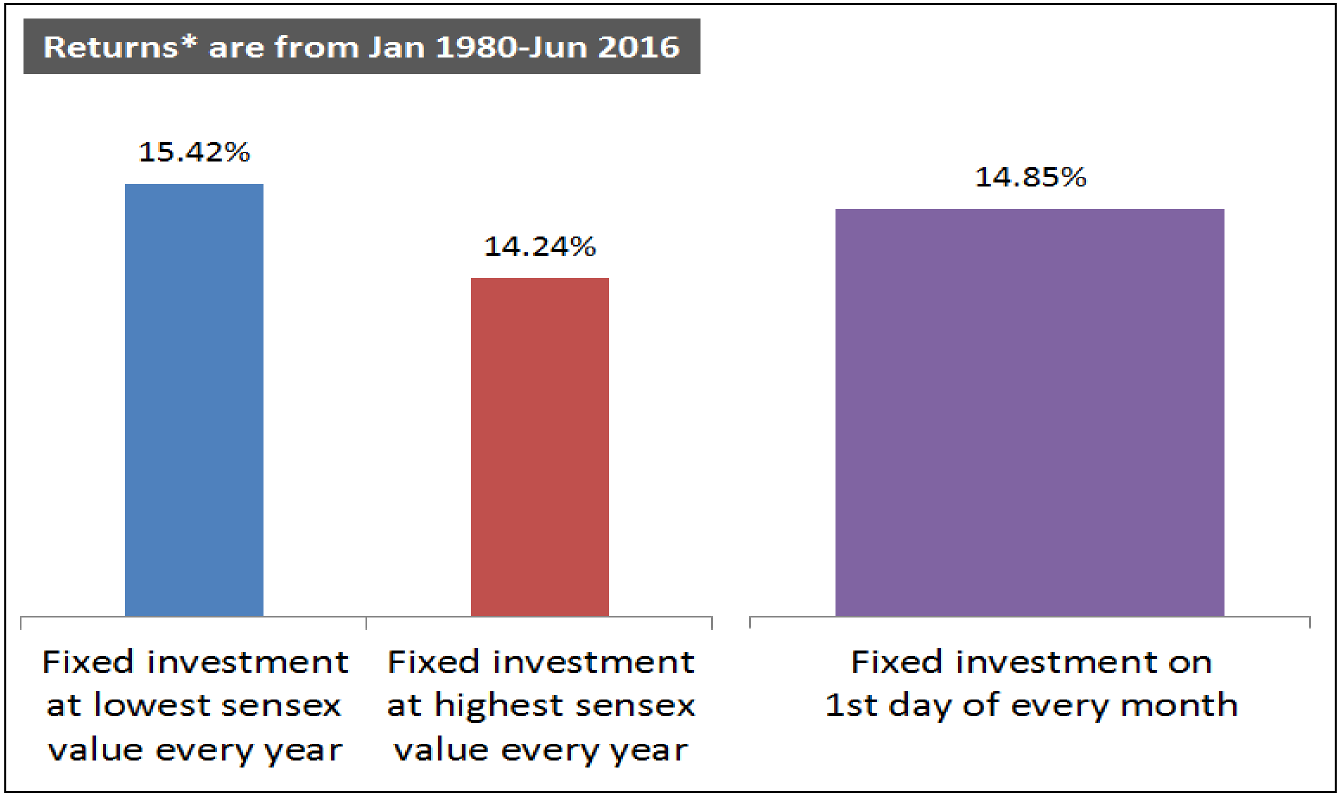
"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case." — Robert G. Allen

Equity Works for Long Term

- For investment horizon of 3 Years and above, average market returns are attractive (15%+ CAGR)
- Longer the investment horizon, lower is the probability of getting negative returns

- Source: Bloomberg. All values in the Pie chart indicate Probability of Returns in %
- Rolling return data has been analyzed since inception of S&P BSE Sensex (1979 to December 31,2015)

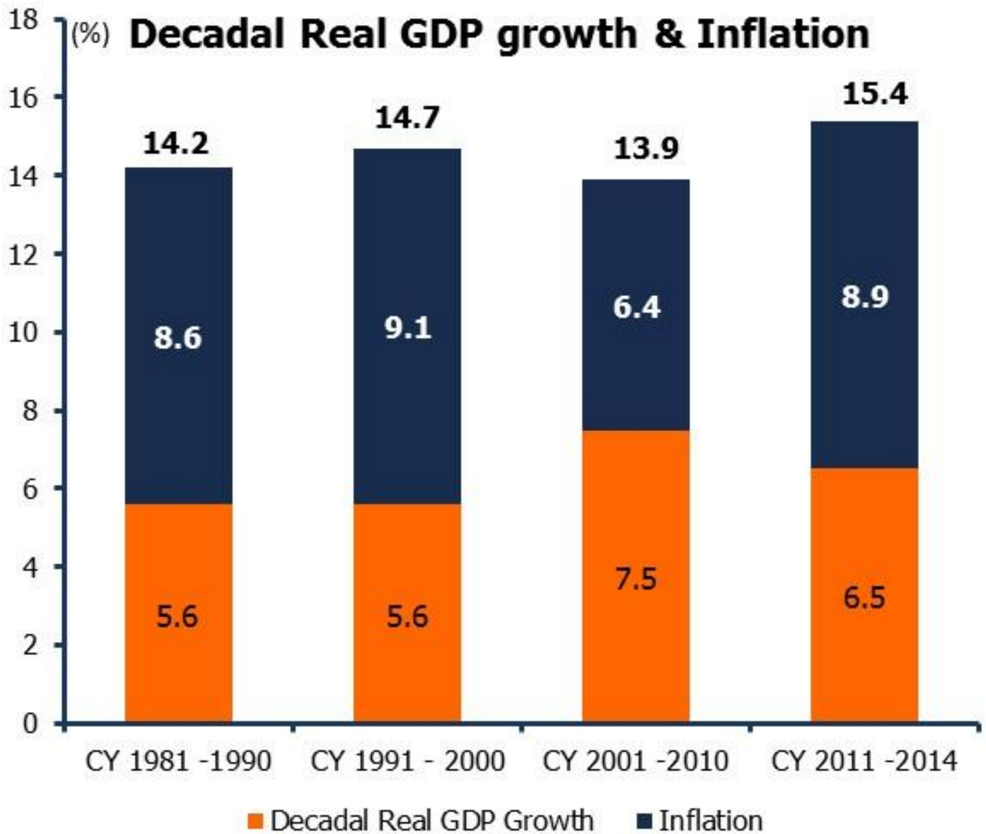
Timing does not matter over the long term



Source: DSP BlackRock Mutual Fund. *XIRR, time period considered Jan 2, 1980 to Jun 30, 2016

Market timing does not matter over the long term

Is Equity hedge against Inflation?



- The Indian economy has grown at a remarkably nominal growth of ~15% p.a.
- Sensex has delivered 16.4% CAGR* returns, close to 15% nominal
- As businesses comprise the economy, the nominal growth of the economy (real growth plus inflation) is a good proxy for the average growth in businesses.
- Equities over time grow in line with the growth of underlying businesses
- Equities have delivered nearly 9% p.a. excess return over inflation.

Source: World Bank
The table above gives the nominal growth rates of Indian economy over last 34 years
* Sensex CAGR is for the period of 2nd April 1981 till 31st March 2015

Types of Equity Mutual Funds

Large Cap Funds
Large- cap funds invest in stocks of large, liquid blue-chip companies with stable performance and returns. The stocks with a market cap of Rs 10,000 crore or more are large cap stocks.

Mid Cap Funds
Mid-cap funds invest in mid-cap companies that have the potential for faster growth and higher returns. These companies are more susceptible to economic downturns and evaluating and selecting the right companies becomes important. Company stocks with a market cap between Rs 2 crore and 10 crore are mid cap stocks.

Small Cap Funds
Small-cap funds invest in companies with small market capitalisation with intent of benefitting from the higher gains in the price of stocks. The risks are also higher. Companies with less than Rs 2 crore market cap are small cap stocks.

Multi Cap Funds
These are diversified mutual funds which can invest in stocks across market capitalization. That is, their portfolio comprises of large cap, midcap and small cap stocks. They are relatively less risky compared to a pure mid cap or a small cap fund and are suitable for not-so-aggressive investors.

Sector funds
They invest in only a specific sector. For example, a banking sector fund will invest in only shares of banking companies. Gold sector fund will invest in only shares of gold-related companies. The performance of such funds can see periods of under-performance and out-performance as it is linked to the performance of the sector, which tend to be cyclical.

Types of Equity Mutual Funds

Equity Linked Savings Schemes (ELSS) / Tax saving mutual funds
They are diversified equity funds that offer tax benefits to investors under section 80 C of the Income Tax Act up to an investment limit of Rs. 150000 a year. ELSS are required to hold at least 80% of its portfolio in equity instruments. The investor's the investment is subject to lock-in for a period of 3 years during which period it cannot be redeemed, transferred or pledged.

Balanced Fund.
These schemes were historically launched for the purpose of giving an investor exposure to both equity and debt simultaneously in one portfolio. The objective of these schemes was to provide growth and stability (or regular income), where equity had the potential to meet the former objective and debt the latter. The balanced funds can have fixed or flexible allocation between equity and debt.

International Funds
They invest in markets outside India, by holding certain foreign securities in their portfolio. The eligible securities in Indian international funds include equity shares of companies listed abroad, ADRs and GDRs of Indian companies, debt of companies listed abroad, ETFs of other countries, units of index funds in other countries, units of actively managed mutual funds in other countries. International equity funds may also hold some of their portfolios in Indian equity or debt.

Exchange Traded funds (ETF)
They are open-ended funds, whose units are traded in a stock exchange. Investors buy units directly from the mutual fund only during the NFO of the scheme. Al further purchase and sale transactions in the units are conducted on the stock exchange where the units are listed. The mutual fund issues further units and redeems units directly only in large lots defined as creation units. Transactions in ETF units on the stock exchange happens at market-determined prices

Equity Mutual Funds Returns

Index	Absolute (%)					CAGR (%)			
	1W	2W	1M	3M	6M	1Y	2Y	3Y	5Y
Average of 56 Large Cap Funds	0.51	1.40	6.30	-4.28	3.55	13.47	17.07	10.30	16.00
Average of 35 Mid Cap Funds	0.55	1.54	7.80	-3.57	5.65	15.23	23.33	15.67	25.35
Average of 7 Small Cap Funds	1.49	2.04	8.46	-4.20	9.41	21.73	29.54	21.22	31.95
Average of 38 Multi Cap Funds	0.33	0.95	5.95	-4.68	3.52	13.29	18.96	12.18	18.86
Average of 34 Thematic Funds	0.47	1.13	6.49	-3.93	3.83	14.52	21.03	13.43	19.93
Average of 16 Thematic - Infra Funds	0.37	0.32	6.26	-7.04	1.97	11.19	21.76	11.61	18.43
Average of 14 Value Style Investing Funds	0.49	1.38	6.40	-5.12	2.83	14.16	21.87	14.24	20.52
Average of 24 Balanced Funds	0.22	0.76	4.60	-3.29	2.90	11.18	15.76	10.58	16.14
Average of 14 Arbitrage Funds	5.52	4.43	5.39	5.89	5.90	5.97	6.06	6.23	7.14

Average returns of various categories of Equity Mutual Funds as on 24th April 2018

SIP

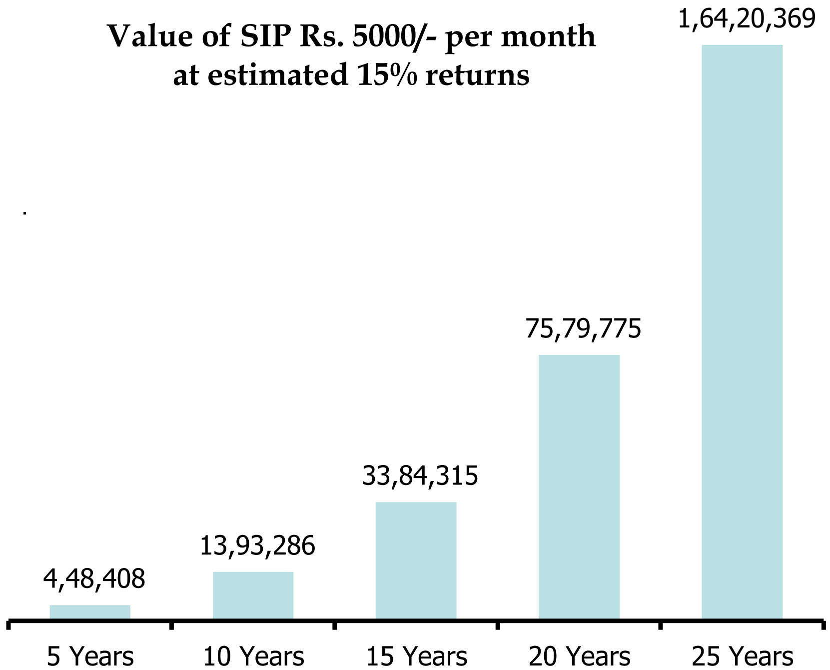
Systematic Investment Plan (SIP) is a simple process of investing in mutual funds similar to a recurring bank deposit. It is designed to help investors save regularly and thus accumulate wealth in a disciplined manner over the long-term, thereby ensuring a better future for you and your family.

Benefits:

Affordability: Invest as little as Rs. 1000 per month

Rupee Cost Averaging: By investing fixed sums at regular intervals, you pick up more units when the prices are low and less units when the prices are high.

Convenient way to invest: ECS bank mandate is only required



Investment in SIPs yields better returns than timing the market

If you are a mutual fund investor, it doesn't pay to be a Nostradamus on Dalal Street. A backtesting study by ET shows that regular investing yields better results than timing the market. A mutual fund investor who continued his SIPs irrespective of market movements would have made more money than one who successfully avoided the 10 biggest falls in the Sensex in the past five years. Both investors are assumed to have started SIPs in a diversified equity fund five years ago in July 2011. While the regular investor kept investing in the fund irrespective of the noise, the market timer withdrew the entire investment a day before the market crashed and reinvested the entire amount on the next SIP due date.

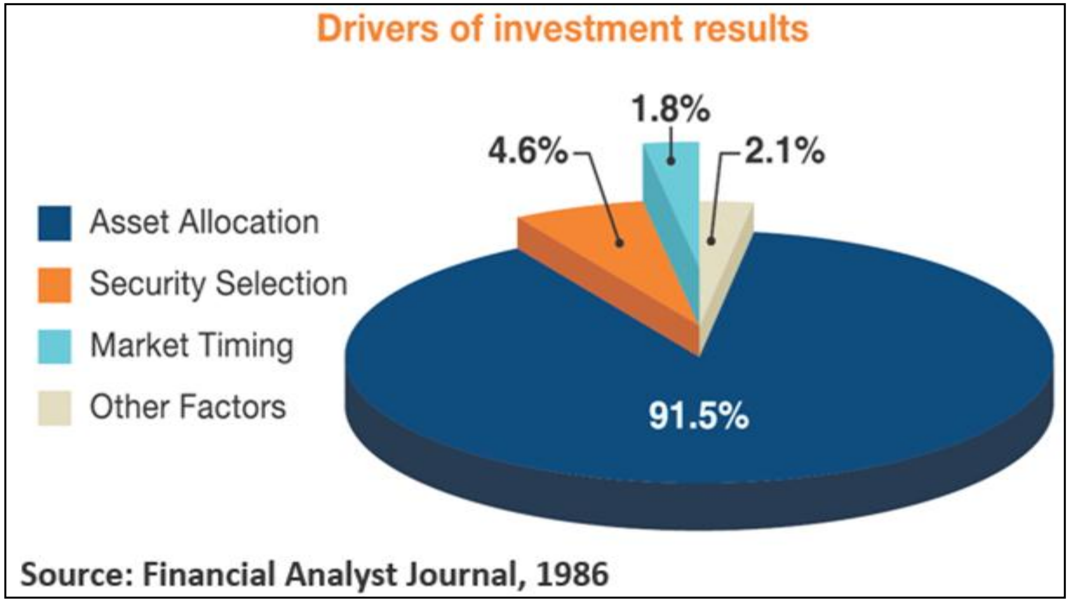
Winning the Game

Three investors assumed to have started ₹10,000 SIPs in diversified equity fund in July 2011. Even though 'Market Timer I' managed to avoid the 10 biggest crashes, he made less than the 'Regular Investor' who continued the SIPs irrespective of market movements. Even investing on the day of the 10 crashes led to marginal gains.

Investor	Strategy	Current Investment	Returns (%)
Regular Investor	Continue SIPS without a break.	₹9.26 lakh	17.01
Market Timer I	Withdraws before 10 biggest falls & reinvests proceeds on next SIP date.	₹8.91 lakh	15.62
Market Timer II	Invest more when markets crash by advancing next SIP.	₹9.33 lakh	17.27

Market Timer I has also booked short-term capital losses of ₹58,333 which can be adjusted against other taxable capital gains.

Asset Allocation key to wealth creation



Source: Reliance Mutual Fund

Asset Allocation contributes almost 92% in driving investment results!!

Asset Allocation for investors – Risk Profile

Risk Profile Defination		Asset Allocation	
		Debt	Equity
Conservative:	As a conservative investor, the best investments for your risk profile will be low risk instruments such as cash and fixed income securities. This approach offers a high degree of stability, liquidity and is aimed towards capital preservation.	**90% - 100%**	**0%-10%**
Moderate:	As a moderate investor, the best investments for your risk profile will be a judicious combination of cash, fixed income securities and equities. This approach aims to achieve balance between capital preservation and growth but is likely to involve at least some short term volatility. They are willing to tolerate more fluctuations in short term in exchange for more reasonable returns, but are still not comfortable enough with market risk to invest their funds aggressively.	**70%-80%**	**20%-30%**
Growth:	As a growth investor, the best investments for your risk profile will be primarily in equity instruments. This approach concentrates on achieving a good overall return on your investment while avoiding the most speculative areas of the capital market. Significant short term fluctuation in value can be expected but with a high potential for upside in the long term.	**30% -40%**	**60%-70%**
Aggressive:	Your primary investment goal is long-term capital growth. You can tolerate substantial fluctuations in the value of your investment in the short-term in anticipation of the highest possible return over a longer time period.As an aggressive investor, the best investments for your risk profile will be in equity instruments and will include exposure to more speculative areas of the market. Due to the exposure to higher risk instruments there possibility of a return greater than what is expected from a growth portfolio in the long term.	**5%-10%**	**90% -95%**

Thank You

.

This material has been prepared for information purpose only and on the basis of publicly available information, internally developed data and other sources believed to be reliable. Accumen Wealth Advisors Private Ltd does not warrant its completeness and accuracy. It does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. Publishing lists of products merely indicates the funds and securities which we deal in and shall not be construed as recommended schemes by Accumen Wealth Advisors Private Ltd . List of funds and securities is non-exhaustive and non-advisory in nature and should not be relied upon as a substitute for professional advice. Clients are advised to consult their investment advisors and not base their investment decisions on the publication made. Clients are advised to obtain individual financial advice based on their risk profile before taking any action based on the information contained in this material. Clients alone shall have the right to choose their investments and shall be responsible to invest in with their objectives and risk appetite, for which Accumen Wealth Advisors holds no liability. Accumen Wealth Advisors Private Ltd and/or its clients may have positions in the securities mentioned in the report and may offer to buy or sell such securities or any related investments. Accumen Wealth Advisors Private Ltd does not guarantee the performance of products listed in the collateral and accepts no responsibility whatsoever including any loss suffered by clients resulting from investing in such funds. Although Accumen Wealth Advisors Private Ltd endeavours to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future.

Mumbai
Accumen Wealth Advisors Private Ltd
Rise Mumbai, 1902, 19th Floor,Tower B,
Peninsula Business Park, Lower Parel,
Mumbai - 400013
Mobile: +91 9769677272

Email: saurav@accumenadvisors.com

Kolkata
Accumen Wealth Advisors Private Ltd
Unit H605A, Diamond Heritage,
16 Strand Road,
Kolkata - 700001
Phone : +91 33 66451281
Mobile: +91 9831793018,
+91 9830449456
Email: alok.jain@accumenadvisors.com
rajiv.jain@accumenadvisors.com

For any queries you may also write to us at info@accumenadvisors.com or visit our website www.accumenadvisors.com