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## **Knowledge Initiative**

**Dear Patrons,**

### **Season's Greetings!**

We are pleased to share our monthly newsletter "**Knowledge Initiative**" for November 2016.

We thank you for reading and acknowledging our newsletter every month. Knowledge Initiative Team is committed to bring to you more educative and informative articles.

We would very much appreciate your feedback which consistently helps us in improving and upgrading the contents.

Also send us your questions or queries related to any financial product.

#### **The issue includes:**

- Steps to Handle Volatility
- Should You Invest in PPF or ELSS
- Financial Planning for Children with Special Needs
- Investment Opportunities in Real Estate
- SIP Returns in Top Equity Mutual Funds



**Akhil Chugh**

**Warm Regards,**

**Akhil Chugh**  
**Director**



## Steps to Handle Volatility

The stock market of late has been highly volatile on account of global events. Investors often panic and lose sight of their investments goals during high volatility. For the benefit of all, we are listing some important steps on how to handle and take advantage of volatile markets:

**Portfolio Rebalancing:** Rebalancing begins with a review of investments in your portfolio, looking for any changes and how the allocation has shifted. You can leave the portfolio's baseline asset allocations intact and, instead, make adjustments within asset classes. For example, suppose your allocation is 60 percent stocks, 30 percent bonds and 10 percent cash. If stocks fall significantly, your portfolio could shift to 40 percent stocks. But your goals and investment strategy remain the same. So it's time to rebalance – shifting assets into stocks to bring the allocation back into line with your target of 60 percent stocks.

**Don't Time the Markets:** Timing the market is easier said done. Tell me how many people were able to predict dotcom crash or subprime crisis in 2008. How many people exited their investments when markets were at peak in January 2008 or entered in October lows of 2008? That's the double-edged sword of market timing – it's not just about skipping the market highs; should you miss a crash, you miss riding the recovery that follows. Stick to your investment plan.

**Don't Stop SIPs:** There is a famous saying: "In SIPs we don't time the market, we spend time in the market. SIP works best in volatile and bad markets. With every fall in the stock market, SIP or Systematic Investment Plan gives more units to the investor. This in turns lowers the average cost of purchase. You have to stay invested in SIPs during bad or volatile markets to take benefit of rupee cost averaging and power of compounding.

**Clean Up Time:** This is a good time to take a close look into your portfolio. There may be some funds that are underperforming as compared to their peers or have not stuck to their mandate. You may want to exit them. For example, a fund has a mandate to invest in large caps, but has a good exposure in mid and small cap companies. This may not be a good fund to hold.

**Clear Strategy:** Volatility is part and parcel of stock market. If you have a clear and firm investment strategy in place, you can have a smooth ride. Investments should be always backed by financial goals like children education, retirement, etc. Such goals have minimum investment period of 5 -10 years, thus inculcating the habit of saving and investing regularly. Do not change your asset allocation based on the stock market. That should be determined by the goal, the amount of risk you are capable of taking depending upon on your current situation and investment time frame. The time frame is determined by counting the number of years left until you achieve your goal.



## Should You Invest in PPF or ELSS

Investment in Public Provident Fund (PPF) or Equity Linked Saving Schemes (ELSS) will totally depend upon your investment objectives, risk appetite and financial goals. Equity is the best asset class to create long-term wealth. From that perspective, Equity Linked Saving Schemes (ELSS) are far superior to PPF. Equity tends to be risky in the short-term but for an investment horizon of five years or more, it is extremely rewarding. PPF returns are guaranteed, but look disappointing in relation to inflation.

### ***Important factors to be considered before you invest in PPF or ELSS:***

**Tax Benefit:** PPF and ELSS are eligible for a deduction of Rs 1.50 Lac under Section 80C of the Income Tax Act. The PPF qualifies as EEE (exempt, exempt, exempt) which means the investment, returns and withdrawals are exempt from any tax. Similarly, any capital appreciation in ELSS is tax free.

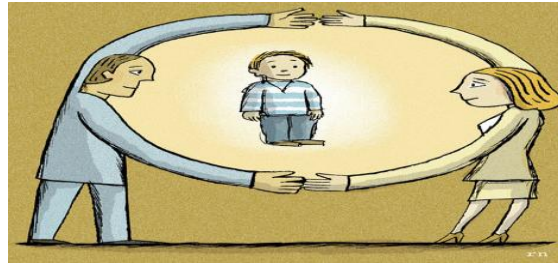
**Tenure:** ELSS scores over PPF in terms of tenure. It has the lowest lock in period of 3 years. As clients can remain invested in ELSS even after 3 years, investments in ELSS can be linked to achieve long term financial goals like retirement planning and children future planning. PPF on the other hand has a lock in period of 15 years. Investors can extend their PPF account even after maturity in a block of 5 years for any number of blocks.

**Risk Appetite:** If the investor has risk tolerance level, ELSS is an ideal product for him. ELSS is a 100% equity oriented scheme. On the other hand, PPF offers fixed returns which are better suited for conservative investors. Equity certainly has high level of risk, but if you buy and hold equity you generally face less of a shortfall risk than the investor who parked the same amount in a fixed return investment over many years.

**Other Risks:** Any investor who parks too much money in fixed-income assets like PPF can face other types of risk such as inflation risk and shortfall risk. High inflation would erode the value of your savings. Shortfall risk is the risk that an investment's actual return will be less than the return needed to meet one's investment goals. PPF has a liquidity issue too with a 15 year lock in period.

**Returns:** The returns of PPF have actually declined over time: 12% to 11% to 9.5% to 9% and 8%. As interest rates are expected to fall in near future, PPF rates may fall further. However, if one looks at the tax-saving category (ELSS) of mutual funds, the average annualized returns over past 15 years (17.13%), 10 years (9.52%), 5 years (10.24%) and 3 years (14.39%). This is just the average return and there are funds that have delivered a more superior performance – Franklin India Tax Shield has delivered annualized returns of 23.29% CAGR over past 15 years.

**To conclude, if you are willing to take some risk go with an ELSS. Conservative investors can invest in both ELSS and PPF in the ratio of 50:50.**



## Financial Planning for Children with Special Needs

Every child is special. In a normal circumstance, a parent chalks out a plan for a child's education and marriage. In case of a special child, there is much more to it. They not only have to plan for college expenses but for their life-long medical expenses as well.

Besides this, the parents have to put together a system where the child is taken care of, after their death and he/she continues to get a particular amount every month. In this article, we bring to you various insights and issues a parent of a special child has to take care of and act on from time to time, to ensure a secured life for his child:

**Legal Guardian:** A guardian is the person who will care for your child if you were to die before he or she becomes an adult. In choosing this person, consider how much time you now spend tending to your child's needs. Who can handle that type of commitment? Who has bonded with your child? Who has the patience, understanding, and other personality traits necessary to deal with the day-to-day responsibilities of raising your child? Once you pick someone, ask the person if he or she can and will accept that responsibility (even though you hope it will never be necessary). And talk about how this commitment will likely stretch beyond when your child turns 18.

**Will:** A will specifies what will be done with your assets after your death. By writing a will, you make sure that your assets are left to the special needs trust and not to your child. When you have a child with special needs, a will should not be a do-it-yourself endeavor. A lawyer should be hired, who works specifically for people with special needs and is aware of your state's disability laws. Once the documents are drafted, your lawyer keeps one copy of the will and gives copies to any executors or guardians named in the will.

**Special Needs Trust:** A special needs trust is the most important part of your child's long-term financial plan. This is where you can put money that you save, that others give your child as gifts, or that you receive from an insurance settlement without worrying that these funds will interfere with your child's eligibility. Even if you're unable to pay into a trust right now, set one up anyway. This way, you can make the trust the beneficiary of your life insurance policy and your estate, ensuring that those assets don't get passed to your child when you die.

**Trust:** A trustee is the person who will be responsible for managing the special needs trust after your death. It can be a family member, a friend, or even a bank or lawyer. The trustee ensures that the money in the trust is spent only on your child with special needs and only on services that you've specified or that are appropriate to your child's needs. The trustee also supervises how the money in the trust is invested. The person who is caring for your son or daughter (the guardian) cannot spend any money in the trust without the trustee's approval.

**Power of Attorney:** Once your child is 18, he is considered an adult in the eyes of law. This gives him right to make medical and financial decisions. Hence, applying for a power of attorney to take supervision and maintenance in parents' hands is the right thing. A lawyer can guide the parents' in preparing one and proceeding ahead with the formalities.

**Portfolio with Equity Allocation:** In case of a special child, you may have to provide for income for the entire life. Even if the child could eventually generate income based on his abilities and skill sets, retirement planning should be done in a manner that the child has sufficient means of income through alternative sources. The investment plan will vary from family to family based on their financial realities. Asset allocation is the key and knowing the kind of corpus and returns that you would need for your goals is paramount. As a general rule, a portion of the portfolio should be allocated to equities and this portion could be higher considering the time horizon in such cases (for retirement goal: parents as well as child's) is more than 30-plus years. Parents should also have exposure to real estate (not as an investment, but as a residence), which can come in handy to the child.

**High Sum Assured Term Plan:** A high sum assured plan factors in the uncertainty risk, if something were to happen to the parents. Today, the term plans are very reasonably priced. Parents can choose the child as beneficiary and nominate the special needs trust to ensure that the beneficiary gets share of proceeds.

**Educate Family Members:** Having a family meeting with grandparents, aunts, uncles and loved ones is a great idea. This is because assigning or putting something for the child is no solution. If they wish to - say gift bonds, cash or life insurance policy etc, they can assign the special needs trust as the beneficiary to ensure that the child holds no assets in his or her name.

**Letter of Intent:** A letter of intent talks about your child's day-to-day needs in detail - child's daily, weekly, and monthly schedules. A list of contact information for your child's physicians, therapists, and other medical support people as well as current medications and their dosages and schedules is created. The people you don't want around your child or activities to be avoided are mentioned in this. The copy of LOI is kept along with the will and brought to the guardian's notice too.

**Financial Adviser:** A financial adviser can guide you on the right way about how you can invest long term in a bouquet of investment products for your child - what is the kind of term plan suitable, how much equity and debt allocation your portfolio should have for the child and other important issues you need to be educated on.

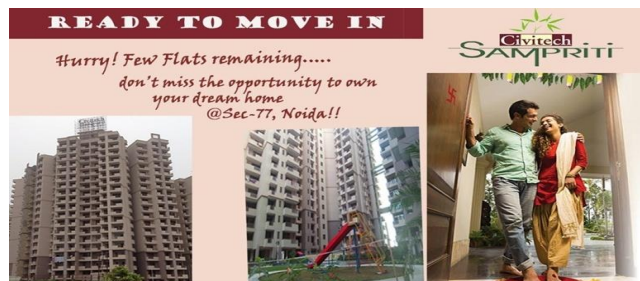
**Special children have special needs which should be understood and taken care of. If not planned, it can severely impact their lives along with that of other family members. Financial planning helps in identifying those needs and through it parents can make appropriate decisions for achieving their financial goals.**

## Investment Opportunities in Real Estate

The government will notify the rules of the Real Estate Act soon, moving another step toward operationalizing the legislation which seeks to regulate the housing sector, bring transparency and help protect consumer interests. As per the provisions of the Act, Real Estate Regulatory Authorities and Real Estate Appellate Tribunals have to be set up by the end of April, 2017 and the entire Act is to come into effect the day after.

Net Brokers presents to you lucrative options in Real Estate for November 2016:

Project	Type	BSP/S q.ft	Cost
Vatika Seven Lamps, Vatika INXT, Sector - 82, Gurgaon	Residential	6300	85 Lacs onwards
Vatika Gurgaon 21, Vatika INXT, Sector - 83, Gurgaon	Residential	6200	81 Lacs onwards
Godrej 101, Sector - 79, Gurgaon	Residential	5255	75 Lacs onwards
Vatika Turning Point, Sector - 88B, Gurgaon - Vatika Shield (Zero Risk Investment)	Residential	5250	60 Lacs onwards
Mahagun Moderne, Sector - 78, Noida - Full Furnished - Ready to Move	Residential	5500	70 Lacs onwards
Civitech Sampriti, Sector - 77, Noida - Ready to Move	Residential	5500	62 Lacs onwards
DLF Prime Towers, Okhla Phase - 1, New Delhi	Commercial	14,500	1.27 Cr onwards
DLF Galleria, Mayur Vihar, New Delhi - Retail Shops	Commercial	12,000	1.16 Cr onwards
Vatika Mindscapes, Mathura Road - Assured Returns @ 10.50% p.a & First Lease Gurantee @ 9% p.a.	Commercial	8800	44 Lacs onwards



For more information on Real Estate Projects, contact us on [mail@netbrokers.co.in](mailto:mail@netbrokers.co.in)

## SIP Returns in Top Equity Mutual Funds

\* Returns as on 07<sup>th</sup> November, 2016

Current Value & Yield (XIRR) %							
Scheme Name Monthly Investment: Rs 10,000	Category	Value & Return (3 Yr)		Value & Return (5 Yr)		Value & Return (10 Yr)	
		360000	%	600000	%	1200000	%
Birla SL Frontline Equity Fund (G)	Large Cap	444,752	14.2	926,991	17.4	2,621,098	14.9
SBI Blue Chip Fund (G)	Large Cap	458,951	16.4	969,903	19.3	2,549,957	14.4
ICICI Prudential Value Discovery (G)	Multi Cap	461,933	16.8	1,045,424	22.3	3,477,899	20.2
Birla SL Adv Fund (G)	Multi Cap	495,324	21.8	1,068,409	23.2	2,684,651	15.4
UTI Mid Cap Fund (G)	Mid Cap	506,893	23.5	1,198,474	28.0	3,573,126	20.7
Mirae - Asset Emerging Bluechip Fund (G)	Mid Cap	554,227	30.0	1,313,147	31.9	NA	NA
Franklin India Smaller Companies Fund (G)	Small Cap	535,505	27.5	1,307,942	31.7	3,926,226	22.4
DSP BlackRock Micro Cap Fund (G)	Small Cap	599,919	36.1	1,430,837	35.6	NA	NA
HDFC Balanced Fund (G)	Hybrid Equity	457,098	16.1	949,856	18.4	2,882,282	16.7
Tata Balanced Fund Plan (G)	Hybrid Equity	451,157	15.2	941,517	18.0	2,736,073	15.7
Franklin India Taxshield (G)	ELSS	453,826	15.6	954,836	18.6	2,775,891	16.0
Axis Long Term Equity (G)	ELSS	455,788	15.9	1,033,361	21.9	NA	NA

\*Returns over 1 Year are compounded annualized



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