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## **Knowledge Initiative**

**Dear Patrons,**

**Greetings!**

We are pleased to share our monthly newsletter "**Knowledge Initiative**" for June 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:**

- What is Long Term in Equities?
- Sector Funds – Not for Everyone
- Important Facts on Home Loan Tax Benefits
- Investment Opportunities in Real Estate
- SIP Returns in Top Equity Mutual Funds



**Akhil Chugh**

**Warm Regards,**

**Akhil Chugh**  
**Director**



## What is Long Term in Equities?

We often hear from our broker, friends or colleagues to invest in equities for long term to gain better returns. Long term may have different meanings for different people. It can be 1 year for someone, 3 or 5 years for another and 10 years for someone else.

So what is the long term period required in equity? When should a person make an exit? This is the biggest question in the mind of the investors. The answer to this depends upon your financial goal. If you have a goal, you know exactly how much you have to save on monthly or annual basis and what will be investment tenor required to achieve that goal. For example, if you are 30 years old and want to have a retirement corpus of Rs 1 Cr at 60 years, you need to invest Rs 2833 per month in an equity mutual fund assuming returns are 12% CAGR. When you are 3 – 4 years away from your goal, you should slowly and gradually start shifting equity investment to safer instruments like debt mutual funds to safeguard the retirement corpus. In this way, you get to know when you have to exit equities.

Investments should be always backed by goals. Financial Goals like retirement plan, children education and wedding plan encourages you to have a long term horizon and not to panic during short term volatility in stock markets. Based on your goal, asset allocation is decided. For example, a person who has a goal to buy a home in 3 years will be advised to invest in 100% fixed income products and zero % in equities as fluctuations in stock markets may spoil his chances to reach the goal due to a shorter investment horizon. On the other hand, a person saving for his 3 year old child's higher education has 15 years and can have a larger allocation to equities and rest into debt products to create a good corpus in the long run. In equities, longer the horizon; better are the returns and lesser is the risk.

If you have the expertise and required knowledge, you can invest directly into equities. Otherwise, Mutual Funds provide the best solution to the investment needs of the common man. The biggest advantage is portfolio diversification. There is a highly qualified fund manager monitoring the investments supported by a dedicated research team looking into fundamental and technical aspect of the companies. Together, they short list the sectors and the companies where the investments are to be made.

Systematic Investment Plan (SIP) is a very useful tool provided by mutual funds. SIP offers two big benefits: Rupee Cost Averaging and Power of Compounding. The basic principle of SIP is not to time the market, but to spend time in the market. SIPs linked to Financial Goals such as children future planning (education & marriage) and retirement, etc. encourages an approach of long term investment and focus towards achieving financial goals among investors.

***If you want to know the answer of what is long term in equities, have a financial goal to know how long you need to stay invested and what is the right time to exit.***



## Sector Funds – Not for Everyone

Sector funds are not meant for everyone and carry high risk. One requires expert knowledge of the sector and strong ability to time the market. Unlike diversified equity funds, which invest in a variety of sectors based on the fund manager's views, sector funds can invest only in one sector and often get caught in bad cycles.

The most common approach while buying a mutual fund scheme is to look at past performance. This is not the approach to be followed in case of sector funds. The best performing sector also keeps changing from one year to another.

When the sector is doing well and is in the investors' good books, sector funds can be outperformers. But when the tide turns, sector funds can be among the big losers. When a sector starts slipping on performance and falls out of favour, funds focused on it suffer sharper cuts than the broader market. This is because the portfolios of sector funds are concentrated in a limited number of homogenous stocks. This 'all eggs in one basket' approach makes these funds a high-risk bet.

High risk does not always guarantee high returns. You must know well enough about the sector and its cycles to benefit from such funds. Every sector goes through peaks and troughs, which reflect in the performance of its stocks.

***The 'buy-low and sell-high' mantra for investment success requires that you be able to time your entry into the sector fund when the stocks are at a trough, and exit when they are at their peak. The trouble here is, even experts can and often do go wrong on their calls regarding the timing and length of sector cycles.***

Sector funds could also suffer from lack of flexibility and may be left holding the can. Being mandated to hold predominantly stocks of the sector, these funds may not be able to completely exit when the going gets tough, or to capitalize on good buying opportunities in other sectors.

Therefore, sector funds may not be suitable for those who seek consistent returns and want to build a long-term portfolio. But if one still wants to bet, he/she should not have more than 10% exposure of the total portfolio in sector funds.

***At Net Brokers, we always emphasize on investing in equity diversified mutual funds which provides diversification across various sectors and reduces dependence on one particular sector***



## Important Facts on Home Loan Tax Benefits

The real estate scenario in the current year 2016 can be an advantageous deal for many home buyers. The prices of property are pretty much stagnant, new launches are introduced in the freebies segment along with attractive payment schemes and considerable home loan rate cuts are seen. But, besides this, one must know the important facts about tax benefits on home loans:

### 1. EMI missed, still claim tax benefit for the entire year

The deduction on principal repayment of home loan under section 80C is available on paid basis. But, in case of interest payments, one is eligible for claim deduction on the EMI for the entire year, whether it is paid or payable. Hence, keeping the interest certificates issued by home loan companies can be a great idea to explain to substantiate if questioned by tax authorities.

### 2. Tax deduction on home loan processing fee

The common man is unaware that the processing charges that they pay to get a home loan approved are also eligible for tax deduction under Section 24 of income tax act. Usually, the processing fee for any home loan is 0.5% of the home loan amount or a maximum cap of Rs 10000 + 14.50% service tax. As per law, these charges are considered as interest and deduction can be claimed on the same.

### 3. Principal repayment tax benefit is reversed if you sell before 5 years

As per law, the deduction availed under Section 80C on the principal repayment of home loan can get reversed if one sells the property within 5 years from date of purchase. But thankfully, the home loan amortization are interest heavy in the initial stage of a home loan and the tax reversal rule only applies to Section 80C.

### 4. Loans from relatives and friends are eligible for tax deduction.

In case of a purchase or construction of property, the money borrowed from bank or from friends/relatives is eligible for claim. The taxpayer should be able to satisfy the assessing officer how the loan has been utilized for constructing or purchasing a house property and completion of construction was within five years and other conditions are met. You also get a claim deduction under Section 24 for interest repayment on loans taken from anyone provided the purpose of the loan is purchase or construction of a property.

### 5. Tax deduction cannot be availed even if you are just a co-borrower

You may be paying EMIs, but this alone does not mean you can claim tax benefit. If the property is in the name of parents and the son is paying EMIs of the home loan, that doesn't get him eligible for any sort of tax deduction on the home loan. You have to be both an owner and a borrower to claim benefits. If either of the titles is missing you are not eligible.

### 6. Pre-construction period interest for up to 5 years eligible for tax deduction

Many home loan buyers are unaware that the principal repayment cannot be claimed till the time construction of property is complete and the possession is handed over. Only, the interest payment is accrued and can be claimed post - possession and that too equally divided over the period of 5 years

**For more information on Home Loan Tax Benefits, contact us on [mail@netbrokers.co.in](mailto:mail@netbrokers.co.in)**

## Investment Opportunities in Real Estate

The Real Estate Bill passed by parliament provides transparency and accountability in the realty sector. Its objective is to make known the status of building approvals, to enable customers to make accurate decisions. This apart, the bill aims to take steps to promote affordable housing for everyone.

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

Project	Type	BSP/Sq.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
Mahagun Moderne, Sector- 781, Noida - Full Furnished - Ready to Move	Residential	5500	70 Lacs onwards
Civitech Sampriiti, Sector 77, Noida - Ready to Move	Residential	5500	62 Lacs onwards
Sunworld Arista, Studio Apartments, Sector- 168, Noida Expressway- Fully Furnished	Residential	-	50 Lacs
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	Commercial	8800	44 Lacs onwards
Cyberwalk, Manesar, Gurgaon - Assured Returns @ 15% p.a & Assured Buyback	Commercial	6000	30 Lacs onwards



For more information on Real Estate Projects, contact us on mail@netbrokers.co.in

## SIP Returns in Top Equity Mutual Funds

\* Returns as on 04<sup>th</sup> June, 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	450,397	15.1	913,033	16.8	2,586,123	14.7
Invesco Business Leaders Fund (G)	Large Cap	448,788	14.9	880,700	15.4	NA	NA
ICICI Prudential Value Discovery (G)	Multi Cap	493,503	21.6	1,052,588	22.7	3,423,958	19.9
Franklin India High Growth Companies Fund (G)	Multi Cap	490,683	21.2	1,052,484	22.7	NA	NA
IDFC Premier Equity Fund(G)	Mid Cap	478,625	19.4	992,578	20.3	3,381,798	19.7
Franklin India Prima Fund (G)	Mid Cap	524,973	26.2	1,135,958	25.9	3,249,494	18.9
Franklin India Smaller Companies Fund (G)	Small Cap	559,597	30.9	1,268,554	30.5	3,648,867	21.1
DSP BlackRock Micro Cap Fund (G)	Small Cap	619,592	38.7	1,327,620	32.5	NA	NA
HDFC Balanced Fund (G)	Hybrid Equity	462,911	17.1	922,416	17.3	2,791,616	16.1
Tata Balanced Fund Plan (G)	Hybrid Equity	459,203	16.5	931,484	17.7	2,692,017	15.4
Axis Long Term Equity (G)	ELSS	490,104	21.1	1,062,816	23.1	NA	NA
Invesco Tax Plan (G)	ELSS	472,348	18.5	962,598	19.0	NA	NA

\*Returns over 1 Year are compounded annualized



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