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Dear Patrons,

Greetings!

We are pleased to share our monthly newsletter "Knowledge Initiative" for September 2020.

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.

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### **SYSTEMATIC INVESTMENT PLAN - THE FUTURE:**

**THE FUTURE:** SIPs have been great source of investment, generating good returns for the investor. SIPs offer a simple and disciplined approach of accumulating wealth in the long term. This article talks about the future - investing in SIP's.



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### **FIVE MONEY HABITS IMPACTING YOUR CHILD'S FINANCIAL FUTURE:**

**THE FUTURE:** The biggest disconnect between parents and kids is that they themselves may have wrong money habits. Enlighten yourself on how one should maintain good money habits for their children to carry forward.



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### **MYTHS ABOUT MID - CAP AND SMALL - CAP FUNDS:**

**THE FUTURE:** Mid cap and small have recently seen a rapid growth in AUM (Assets under management), but sadly are considered a highly risky product. Let's understand the reality now, by removing the general myths from our minds.



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### **LIST OF TOP MUTUAL FUNDS:**

**THE FUTURE:** Check the best performing funds in their respective categories.



## SYSTEMATIC INVESTMENT PLAN: THE FUTURE

SIPs have been great source of investment, generating good returns for the investor. SIPs offer a simple and disciplined approach of accumulating wealth in the long term. Mutual Fund SIPs work pretty much like bank recurring deposits, except they generate superior risk adjusted returns compared to recurring deposits.

There are number of benefits of investing in Mutual Funds through SIPs:

NO TIMING  
REQUIRED

The biggest advantage of investing in SIPs is to beat the volatility of the market, as one stays invested in the highs and lows of the market. Timing the market in SIPs is irrelevant because you are investing regularly.

DISCIPLINED  
APPROACH

SIP is a disciplined approach to investing in mutual funds. By investing a fixed amount regularly, out of your savings, you will be able to build a corpus for your long term financial needs. Money not invested often gets spent on things that you may not need.

TRANSPARENCY /  
CHOICE

Mutual funds offer transparency to investors in relation to charges. For a smart investor, mutual funds through SIPs offer several choices, such as funds can be selected based on risk profiles, track record, and fund objectives.

TAX BENEFIT

Equity oriented mutual funds are more tax efficient than most other investment products. Long term capital gains for equity mutual funds are taxed @10% post one year. Most debt investments, with the exception of public provident fund, are taxable as per slab.

FLEXIBLE  
INSTRUMENT

Mutual funds are very flexible instruments. There are no restrictions and penalties on regular SIP payments and withdrawals, unlike PPF or ULIPs. You can start a SIP with a monthly investment, as low as Rs 500. Some mutual funds have even lower minimum investment limit.

# FIVE MONEY HABITS IMPACTING YOUR CHILD'S FINANCIAL FUTURE

The biggest disconnect between parents and kids is that they themselves may have some wrong money habits. This is the reason you need to go through the following points and understand which habits of yours can make or mend your children's financial future.

## TALKING ABOUT MONEY

When parents communicate with each other about household finances, spending, saving, investing, and planning for the future, it gradually and subconsciously becomes a financial template for the child to work with as an adult. "It is very important because otherwise, it will leave children ill-equipped to earn, maintain and multiply money. This could result in their overspending and under-saving. It is important for parents to discuss and plan their finances regularly and explain children the power of compounding and benefits of saving.

## SAVING AND INVESTING FOR GOALS

If the parents have saved and invested systematically throughout their lives for all their goals, including children's education and wedding, the kid is most likely to do the same for his family once grown up. "Planning is the only way to reach goals and it is important to choose the right tools for the right goals. You cannot keep your money in a fixed deposit for 15 years and expect it to work for you. The more important thing to do is to involve children in the process so that they also get a firsthand experience of risks, wins and losses. As they turn 16, they should be involved in discussions about funding their higher education.

## BEING ORGANISED

Do you maintain a budget, compare your inflow and outflow periodically, do not miss deadlines for paying bills or premiums, and make investments and check them regularly? Your ability to keep your finances under a firm check and manage these in an orderly manner lends financial stability and security to the household. Since you will know exactly how much money is available for saving and spending, you can impose financial discipline on your kids and not give in to their random demands for toys, gadgets and clothes.

## HEALTHY RISK APPETITE

It's almost a given that children are influenced by the type of investments their parents make. So if equity and stock markets have been seen as a risk, the children are unlikely to explore these. The older generation saw the markets as a gamble and stayed away from it. They only considered debt options like fixed deposits, gold and property as safe. This is the reason why current generation is very conservative in their approach towards investment. Now the changed government policies have rendered these options very unattractive and they are moving towards equity through mutual funds.

## SECURING RISKS

Your finances can never be secure if you do not buy adequate insurance or have a contingency fund, as well as a will, to ensure that your legacy passes on safely to the heirs. Not having these can expose your loved ones to undue hardships. Make sure you have a good contingency fund in place, an adequate term insurance cover and a registered will.

## MYTHS ABOUT MID CAP AND SMALL CAP FUNDS

Stocks are classified into large cap, mid cap and small cap, based on their market capitalisations. Investors understand the valuations of the company, based on their market capitalisation. Mid cap and small have recently seen a rapid growth in AUM (Assets under management), but sadly are considered a highly risky product. Let's understand the reality now, by removing the myths from our minds:

### A RISKY PROPOSITION

Risk and volatility are always understood to be the same, by any investor. But, they're not. Volatility is the daily Net Asset Value (NAV) or price fluctuation of a fund. Risk is the probability of making a loss. Investors should understand that they will make a loss only if they redeem (sell) – if you are holding your investment, then all profits or losses are notional. Mid-cap funds are unreasonably taken as a risky and volatile product. But, one cannot generalise it. Some madcap companies have robust business models and strong balance sheets.

### INFERIOR PRODUCT

The clear cut difference between large cap and mid-cap/small cap is understood by higher revenues or profits. But that doesn't imply stronger fundamentals. High operating margins, free cash flows and high return on capital employed (ROCE) drives the EPS growth. There are many mid-cap companies that are often able to generate higher free cash flows and ROCE. Large cap companies are more capital intensive and hence have higher debt equity ratios, that eat away from the profits generated. On the contrary, mid-cap / small cap are less capital intensive, enjoying lower debt equity ratio and hence are able to generate higher profits.

### HIGH DIVIDEND YIELD STOCKS ARE THE BETTER FUNDS

India is a fast growing economy and the equity investors look forward to being a part of the growth story. Mid-cap / small cap have huge potential in context of their growth. Instead of paying large dividends that benefits large shareholders most, why can't the companies reinvest the dividends into growth opportunities, where the investors can gain by way of capital appreciation in the long term. Dividend is not a very tax efficient way of getting returns. The company has to pay dividend distribution tax (@ 15%) before declaring dividends to investors. Further, if dividends exceed Rs 10 lakhs in a year, then the investor has to pay 10% dividend tax. Long term capital gain, on the other hand, is much more tax efficient way of generating returns.

### MULTI BAGGER STOCKS IS THE APPROACH

It would not be wise to buy madcap /small cap stocks by way of rumours to gain multi bagger returns. It can backfire the investor, as these stocks need to be bought at the right time and right price. This requires expertise of fund managers and professionals in the field. Hence, mid cap and small cap mutual funds is the best route for investing in these funds.

### MID-CAP / SMALL CAP PERFORM IN BULL MARKETS ONLY

Mid-cap and small cap outperform in bull markets and underperform in bear markets, is a myth continued for years now. One cannot time the movements in the markets. Hence, these products have to be routed through skilled and professional managers in a SIP approach. This benefits the investors to follow a disciplined approach and he gains from rupee cost averaging in the long run.

## LIST OF TOP MUTUAL FUNDS

CATEGORY	NAME OF SCHEME
LARGE CAP	Axis Bluechip Fund
	Mirae Asset Large Cap Fund
LARGE AND MID CAP	Mirae Asset Emerging Bluechip Fund
	Kotak Equity Opportunities Fund
MULTICAP	DSP Equity Fund
	Kotak Standard Multicap Fund
FOCUSED	SBI Focused Equity Fund
	Axis Focused 25 Fund
MID CAP	Axis Midcap Fund
	DSP Midcap Fund
SMALL CAP	Axis Small Cap Fund
	SBI Small Cap Fund
ELSS	Axis Long Term Equity Fund
	Mirae Asset Tax Saver Fund
HYBRID AGGRESSIVE	Mirae Asset Hybrid Equity Fund
	SBI Equity Hybrid Fund
BALANCED ADVANTAGE FUND	DSP Dynamic Asset Allocation Fund
	Edelweis Balanced Advantage Fund
HEALTHCARE	Mirae Asset Healthcare Fund
	TATA India Pharma and Healthcare Fund
GLOBAL	Franklin India Feeder Franklin US Opp Fund
	Edelweiss US Technology Equity Fund of Fund
DEBT - CORPORATE BOND	Kotak Corporate Bond Fund
	ICICI Pru Corporate Bond Fund
DEBT - BANKING & PSU	DSP Banking & PSU Debt Fund
	IDFC Banking & PSU Debt Fund



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