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TW2 Beginners Guide to Investments

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Why this E-Book?

I get many questions from the readers who have just started earning or have just woken up to the reality to make Savings & Investing.

They frequently inquire and want answers to:

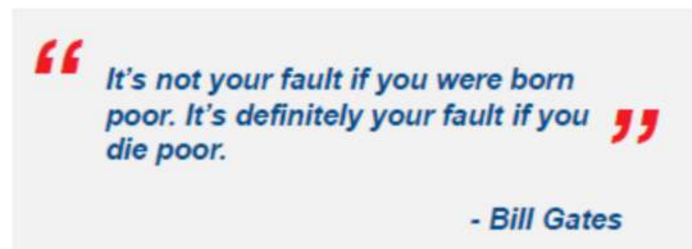
- I am just doing fine. Why should I invest?
- It all looks so complex. How should I invest?
- I am scared. Is it the right time?
- Ok, what is the first baby step that I should be taking?
- Are mutual funds good for me?
- What do I require if I start investing?

Well…

This e-book answer all the above concerns.

So if you are looking for a guide to make you start investing… This is it.

Lets start and let me convince you – Why should you Invest?



Why should I Invest?

Why should you invest? The answer is very simple: to create wealth.

And why would you want to create wealth? Well, to fund various financial goals you may have in your life like an expensive TV, foreign holiday, retirement, and so on.

The trouble is that most of us have a single source of income and there are various needs that are immediate, medium term and long term. If we move from one goal to the other with our accumulated savings, we would be left with almost nothing for our long-term goals. That is why it is important to not just keep money in the savings bank, but use it to make investments that will help you create wealth over a long period of time.

The Thumb Rule:

- In your 20s – Save at least 20% of your income
- In your 30s – Save at least 30% of your income
- In your 40s – Save at least 40% of your income
- In your 50s – Save at least 50% of your income

If you start your investments as early as possible, you will be in for a pleasant surprise. This is because time and compounding interest are a lethal combination that will multiply your wealth beyond your imagination over a long period of time.

RULES OF COMPOUNDING

1 The earlier you start, the more you can save.

2 The higher the rate of interest/returns the more you can accumulate.

3 The longer you save for, the more pronounced the effects of compounding.

How Compounding Works?

HOW DOES THAT HAPPEN?

Your investment (principal) earns returns or interest at a certain %

1 This return/interest gets added to your capital.

3 This bigger block of money generates interest again, at the same percentage but this time, the interest is slightly larger, because you started with a bigger base.

2 The process repeats itself, only this time the principal you start with is bigger, as it contains the interest generated.

Every time the process repeats after the first time, you start with money that generates money to end up with more money

If you are still not inspired enough to start your investment plan right away, here is a quick list of habits that stops you from being rich.

Waiting for the perfect plan: Spending months or years to come up with a fool-proof investment plan is not a great idea. There is no guaranty that your perfect plan indeed is going to be perfect. So, start right away.

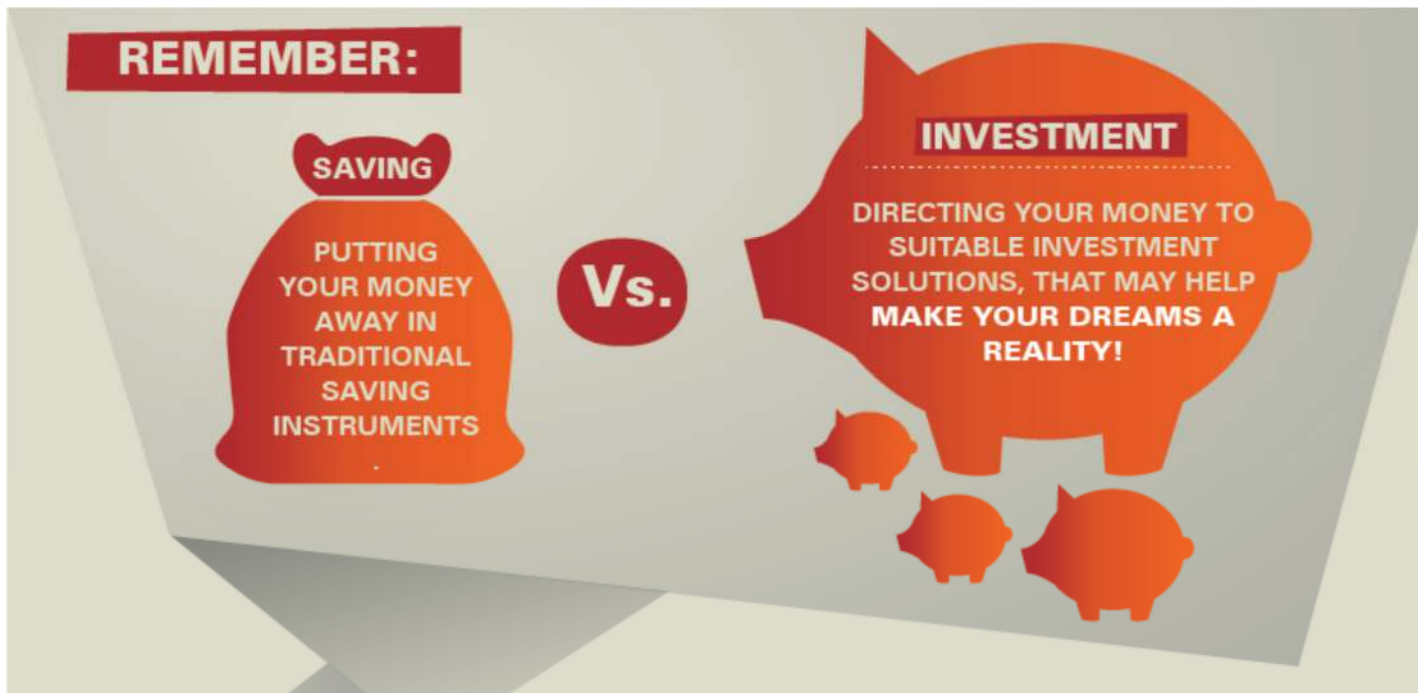
Starting late: It is extremely difficult or almost impossible to catch up with someone who has started investing regularly much earlier. Even with a very large investment, you would find it difficult to catch up. Once again, start now.

Investing for short-term: Try to think beyond a few months or a year. You think of short-term investments only when you have short-term goals. Long-term goals need long-term investments. The basic rule: stick to debt investments for goals that are below three years. Invest in equity if your goal is five years away or longer.

Playing it safe: You can't build a large corpus with small investments in debt schemes. If you want anything substantial over inflation, you should invest in stocks. Get rid of the fear of stocks and invest in stocks for your long-term goals.

Looking for tips: Don't waste time looking for tips to get rich quick. Most of these tips would do exactly the opposite: rob you a chance of making money on your investments. If you got your basics right, shut out all the noise and stick to your plan. Take our word for it: you would be rich one day.

Trading is not investing: Getting in and out of investments, especially equity investments, is not a great idea. You would pay higher taxes on such frequent sale and purchases. It also would rob you a chance to make spectacular returns from your investments over a long period. Giving time to your investment is key to creating wealth over a long period.

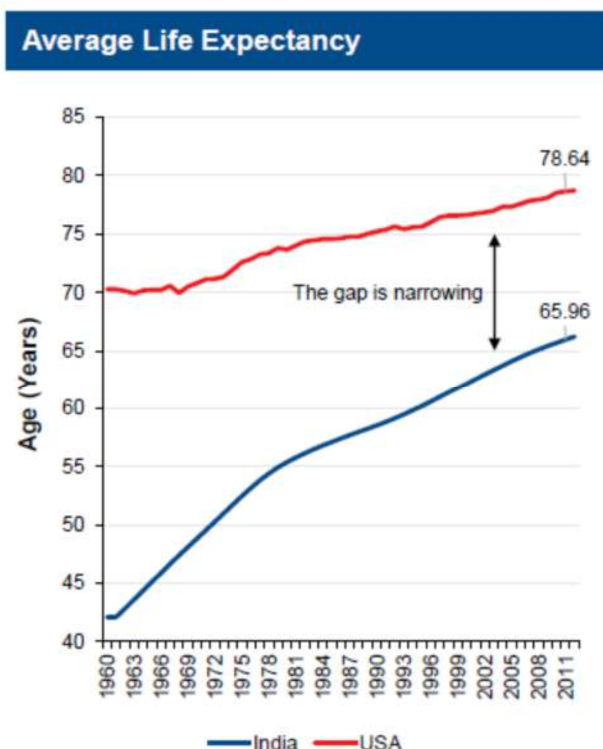


When is the right time to invest?

Yesterday was the best day to start your investments.

If you missed it, you should start your investments today. Delay it further only if you want to forgo some extra returns.

Your life expectancy is increasing too. You need to work 30-35 years and save, to live another 30-35 year on these savings.



Don't worry too much about getting everything right. If you are following the basic rules, you will definitely get it right. It is quite usual for you to feel a bit nervous when you are investing in unfamiliar instruments for the first time. But you will learn on the way. So, don't let your nervousness delay your investments further.

As said before, always try to match your investment horizon with your investment choice.
This will help you eliminate unwanted choices, and identify the right ones. It will also save you a lot of headaches later.

As a rule, avoid risky investments like stocks, equity mutual funds for short-term goals. This is because equity can be extremely risky and volatile in the short-term. You should try to preserve your capital and try to secure stable returns for short-term needs.

However, if you have time in hand, you can be a little adventurous and invest in equity. It will help you earn a few extra percentages. This is because equity has the potential to offer superior returns than any other asset class over a long period of time.

The below illustration is to showcase how you need to invest larger sums as you delay your retirement saving and how much it costs you in the long run. The % change is reflected over the previous start age. The calculations are done assuming a rate of return of 12% p.a.

	Start @ 25 Yrs	Start @ 35 Yrs	Start @ 45 Yrs
Investment Amount Per Month	5,000	7,000	11,667
Amount Invested	21,00,000	21,00,000	21,00,000
Value of Retirement Corpus @ 60 Years of age	3,21,54,797	1,31,51,926	58,28,436
Delay by 10 years would reduce your corpus by		59.10%	55.68%

...A delay in 10 years cuts your retirement corpus by more than 50% at every step even though you may invest the same amount over time.

Don't forget to review your investments periodically. Investing and forgetting all about it is not a great strategy. You should regularly check how your investments have done over a period of time.

Always compare the performance of a mutual fund of your choice with its peers and the relevant benchmark. If you find that the performance is not up to the mark, put it on a watch list. Track it for the next few months and try to find out the reason for its underperformance. If you find reasons to believe that it is not going to bounce back again, sell it. There is no point in continuing with a bad investment because it robs you a chance to make more money elsewhere.
You should also sell your risky investments at least two years before your goal and park the proceeds in a safe avenue. This is to ensure that you have the money safely parked somewhere when you need it.

How do I invest?

Your first step towards successful investment starts with taking stock of your finances.

You should first know your income, expenses, liabilities, savings. Sure, you know all these things vaguely, but that is not enough. You should be absolutely clear about all these things.

Boosting your savings is key to creating more money to invest. That is why you should closely examine your expenses, especially discretionary expenses, and figure out how you can cut down on them. Similarly, you should also closely examine your liabilities to figure out the cost involved in servicing them.

First, buy a health cover for you and family. Two, buy a term life insurance cover if you have financial dependents. Three, create a contingency fund that will cover your expenses for at least six months. These steps will ensure that no unforeseen events will derail your investment plans.

Next, try to find out answers to these questions.

1. What are your financial goals?
2. What is your investment horizon?
3. What kind of investments should you make?
4. How much money should you invest?

Don't try to be evasive while answering these questions. If you don't clearly spell out various goals and how much money you would require, you are unlikely to achieve them. This is because a forgotten goal can have a cascading impact on your other investment program. Similarly, it is also very crucial to get the investment horizon and instruments right.

> *"The smallest of actions is always better than the boldest of intentions."*
> *– Robin Sharma*

Where should I invest?

Your investment horizon should broadly decide your investment choice.

Always remember, you're short to medium-term goals should be funded by using safe or relatively safer debt investments. This is because you cannot afford to lose money when you don't have much time in hand.

Always invest in bank deposits and liquid funds for goals that have to be met within a few months or in a year. Use bank deposits and short-term debt schemes to take care of goals that have to be met within a couple of years.

Always invest in stocks to fund long-term goals. Long-term is five years or more.

Short-term investment options

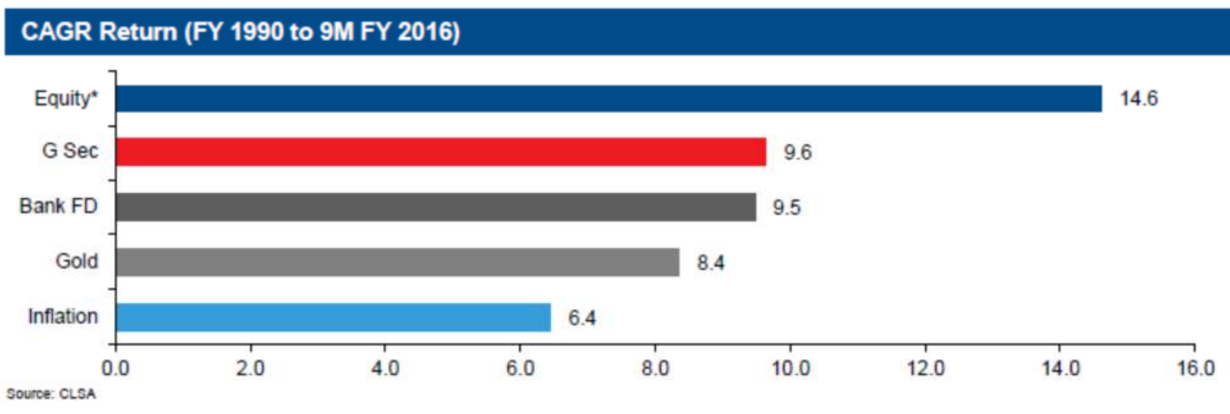
Bank deposits: They are the safest and they also offer assured returns. However, the trouble with fixed deposits is that the interest is taxed. Use them only for keeping contingency funds, and money needed in the next few months to a year.

Company deposits: They offer slightly higher returns, but they are also a little riskier. Always stick to higher-rated deposits. Do not compromise on ratings for higher returns. Also, never put your entire investments in a single company, spread your investment across a few companies.

Debt schemes: They no longer have the tax advantage, but they may still offer slightly superior returns. However, use them carefully. Also, you should find out whether it is worth your while. This is because there won't be much difference in returns if the amount involved is small. It is extremely important that your investment horizon should match with the fund. For example, use liquid funds to park money for a few weeks or months. Ultra short-term funds are suitable to park money for a few months to a year. Short-term funds are ideal for parking money for a two to three years.

Long-term investment options

Long-term debt schemes: If you have an investment horizon of more than three years, investments in debt schemes still make sense. This is because long-term capital gains from these schemes are taxed at 20 percent with the indexation benefit, which is beneficial to those in the highest tax bracket.
Equity mutual funds: If you have an investment horizon of five years or longer, you should pick equity mutual fund schemes. If you are looking to save taxes under Section 80 C of the Income Tax Act, pick one or two Equity Linked Savings Scheme (ELSS) or tax planning schemes. If you are a conservative investor new to the market, pick one or two equity-oriented balanced schemes. Balanced schemes invest in a mix of equity (at least 65 percent) and debt, and they are less volatile than pure equity schemes because the debt portion offers a cushion in times of volatility. Others can pick up one or two diversified equity schemes to fund their long-term needs.
Stocks: Investing directly in stocks can be extremely rewarding, but it is also equally risky. You should attempt it only if you have a sound knowledge about the working of the stock market. You should also have enough time in hand to pick stocks and monitor them.



Tax saving options

Public Provident Fund: Ideal long-term tax saving option for conservative investors. The contributions to it qualify for tax deductions and interest earned is also tax-free.
ELSS or Tax planning mutual funds: The best tax saving option for aggressive investors. They have a mandatory lock-in period of three years but invest only if can wait for more if the market gets into a bad phase.

Performance of MF Categories as on 31 March 2016

How to buy a mutual fund?

What do you need to get started with Mutual Fund investing?

To start investing in a fund scheme you need a PAN, bank account and be KYC (know your client) compliant. The bank account should be in the name of the investor with the Magnetic Ink Character Recognition (MICR) and Indian Financial System Code (IFSC) details. These details are mentioned on every cheque leaf and it is common for an agent or distributor to seek a canceled bank cheque leaf.

How to get your KYC?
The need for KYC is to comply with the market regulator SEBI in accordance with the Prevention of Money laundering Act, 2002 ('PMLA'), which undergo changes from time to time.
KYC process is investor friendly and is uniform across various SEBI regulated intermediaries in the securities market such as Mutual Funds, Portfolio Managers, Depository Participants, Stock Brokers, Venture Capital Funds, Collective Investment Schemes and others. This way, a single KYC eliminates duplication of the KYC process across these intermediaries and makes investing more investor friendly.
Documents required to be submitted along with KYC application

- Recent passport size photograph
- Proof of identity such as a copy of PAN card or UID (Aadhaar) or passport or voter ID or driving license
- Proof of address passport or driving license or ration card or registered lease/sale agreement of residence or latest bank A/C statement or passbook or latest telephone bill (only landline) or latest electricity bill or latest gas bill, which are not older than three months.

You will need to submit copies of all these documents by self-attesting them along with originals for verification. In case the original of any document is not produced for verification, then the copies should be properly attested by entities authorized for attesting the documents. In case you are unable to furnish proper documents, it could result in delays in getting a KYC.

Resident Indians can get it attested by: Notary public, Gazetted officer, Manager of a scheduled commercial or co-operative bank or multinational foreign banks. Make sure the name, designation, and seal are affixed on the copy.
NRIs can get attestation from Authorised officials of overseas branches of scheduled commercial banks registered in India, notary public, court magistrate, judge, Indian Embassy in the country where the client resides.

How to check your KYC status?

Existing investors and those who have submitted their applications can check the status on KYC compliance with their PAN number with any of the KYC Registration agency

- https://www.cvlkra.com/
- https://kra.ndml.in/
- https://www.nsekra.com/
- https://camskra.com/
- https://www.karvykra.com/

Mutual fund application form

Each mutual fund scheme has a form that investors need to fill. If you start investing in the systematic investment plan (SIP), you need to fill in two forms: one to open an account with the mutual fund and the other to specify your SIP details such as frequency, monthly installment amount, and date on which the SIP sum is to be invested.

Investing for Minors

If you wish to invest in the name of a minor, you need to fill in a third-party declaration form.

- Only parents are allowed to invest on behalf of their children
- Documents that establish the parent's relationship with the child should be submitted (Passport, birth certificate or any other ID proof)
- If the child has no parents in case of an eventuality, then a court-appointed guardian can invest if necessary documentary proof is submitted to establish the relationship between the minor child and the guardian

Growth, Dividend or Dividend Reinvestment

When investing in mutual funds, there are three options that are available in which you could invest: growth, dividend and dividend reinvestment. One is normally expected to select one of the three options when filling an investment form, however, in case if you do not fill any of the options, the fund house selects the default option for the scheme as mentioned in its Scheme Information Document (SID), which is most often the growth option. Investors have the flexibility to change the investment option at a later date to suit their convenience.

Growth option: In this option, the scheme does not pay any dividend, but continues to grow. Therefore, nothing is received by you as a unit holder and hence, there is nothing to reinvest in the scheme. Any gains made by selling the fund holdings are invested back into the scheme, which can be

seen in the NAV (net asset value) of the scheme, which rises over time. But, the number of units with the investor remains the same.

Dividend payout: In this option, the mutual fund scheme pays you from the profits made by the scheme at regular periods which could be monthly, quarterly, half-yearly or yearly in case of debt funds and at irregular intervals in case of equity funds. A liquid fund also provides for a daily or weekly dividend option. However, you should be aware that dividends are not guaranteed, which means a fund is not bound to pay out a dividend; it may or may not pay a dividend.

Dividend reinvestment: In this option, the dividend is not paid to you, instead it is reinvested in the fund scheme itself by buying more units on your behalf.
Each of the three options has its share of pros and cons, which will vary depending on your needs. As investors, the treatment of gains and taxes are the two essential features that differentiate these options. If evaluating the returns from an investment at a point in time, there is no difference between the three options. The difference emerges in an implicit form with respect to the applicable taxes.

Further, it is important to consider the tax impact when selecting between the growth, dividend payout or dividend reinvestment options as the post-tax returns' differs between the options. This difference occurs because the tax treatment is different for long-term and short-term holding period. The tax treatment also differs for equity and debt funds.

Capital Gains from Mutual Funds

Equity and Equity-oriented Hybrid Funds

Short-term holdings (less than one year)	Long-term holdings (more than one year)
Taxed as short-term capital gains, currently 15 per cent	Not Taxed

All Other Funds

Short-term holdings (less than three years)	Long-term holdings (more than three years)
Taxed as per applicable marginal rate of tax	20% with indexation

Dividend Income from funds

Type of investment	Dividend tax
Equity and Equity-oriented Hybrid Funds	None
All Other Funds	25%*

** for individuals and HUF, plus surcharge as applicable and 3% education cess*

Where and how to buy funds?

Like the many mutual fund schemes to choose from, there are several ways in which one can invest in them. One can invest online or offline or in direct as well as regular plans. Like everything else, each option has its limitations and advantages, which vary for each investor.

Direct Plan: Since January 1, 2013, all mutual fund houses have rolled out a new plan under all of their existing fund schemes-the Direct Plan. These plans are targeted at investors who do not make their mutual fund investments through distributors and hence have a lower expense ratio compared to existing fund schemes of the AMC.

This means that you, as an investor, will get an opportunity to earn a slightly higher return from your mutual fund despite it having the same portfolio. The direct plans will not charge distribution expenses or commission, resulting in these plans having lower annual charges and eventually, a different (higher) NAV compared to the regular plans.

RIA or SEBI Registered Investment Advisors Deal in DIRECT PLANS ONLY
SEBI has requested general public to invest through Registered Investment Advisors only

भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

प्रेस विज्ञप्ति
PRESS RELEASE

संपर्क पगभार, सेबी भवन, बांद्रा कुर्ला कॉम्पलेक्स, बांद्रा (पुर्व), मुंबई - 400 051
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PR No. 235/2015

SEBI cautions public to deal with only SEBI registered investment advisers and research analysts

]The general public is hereby cautioned to deal with only SEBI registered investment advisers and research analysts for availing investment advisory services / research service. The details of SEBI registered investment advisers and research analysts are available on the SEBI website www.sebi.gov.in The public in general are advised th check the registration status of the entity / person on the SEBI website before availing the investment advisory services / rese b nbnarch services.

Through intermediaries: There is a wide variety of intermediaries available. These include most banks, distribution companies having national or regional presence, some stock brokers (including online brokers) and a large number of individuals and small financial advisory companies an individual called agents. All intermediaries have to be registered with the Association of Mutual Fund in India (AMFI), which also maintains a searchable online directory at www.amfiindia.com. The website also lists intermediaries who have been suspended for malpractice to protect investors from going back to them.

The intermediary, normally brings the required mutual fund application form, helps you fill the forms, submit the forms and other documents to the Mutual Fund office and sometimes even brings in the Account Statement. But, all these services come to you for a fee. Typically, agents charge a flat fee for these services.

Directly with the AMC: You can invest in a mutual fund scheme by investing directly through the AMC. The first time you invest in any Mutual Fund, you may have to go to the AMC's office to make your investment. Subsequently, future investments in different fund schemes of the same AMC can be made online (provided this facility is offered by the AMC) or offline, using the folio number in your name. Some AMCs may extend the facility of sending an agent to help you fill the application form, collect the cheque and send the acknowledgment.

Through Online Portals: There are several third party online portals, from where you can invest in various mutual fund schemes across AMCs. Most of the portals have tie-ups with banks to facilitate easy fund transfer at the time of investing. These portals charge an initial fee to set up an account and facilitate future smooth online access to invest and redeem your investments.

11 Mutual Fund Myths Exposed

Myth 1: Mutual funds are only for the long term

Myth 2: One needs a large sum to invest in mutual funds

Myth 3: Mutual Funds invest money only in the share (equity) market

Myth 4: Debt funds are also impacted by equity market movement

Myth 5: Mutual Funds with Rs.10 NAV are best to invest

Myth 6: Investing in a fund managed by a 'Star' Fund Manager guarantees success

Myth 7: Buy a fund once it announces dividend

Myth 8: You need to time MF investments

Myth 9: Stop SIPs when markets are rising

Myth 10: One needs a demat account to invest in Mutual Funds

Myth 11: KYC is required multiple times for Mutual Fund investments

Seek Professional Help Of An Investment Advisor

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Get in touch with us through other social media's also-

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