



A Long Fund Ride

Investing in mutual funds is one sure way of defeating the price demon. These can be used to build a huge retirement kitty | **By Tanvi Varma**

It's a question that has foxed financial planners for ever—how to beat inflation and generate the desired wealth over long periods.

Inflation, we know, can upset calculations by eroding the value of savings. At 5% inflation, an expense of Rs 10,000 will become Rs 40,000 in 30 years. For a person saving for retirement, generating returns that can beat inflation seems difficult. It's not, provided he invests wisely in mutual funds.

For a long time, retirement planning meant investing in small saving schemes like the Public

Provident Fund (PPF), the National Saving Certificate Scheme and the Employee Provident Fund (EPF). Some also bought traditional insurance policies. However, the problem was that these seldom beat inflation. Then came mutual funds in 1964, when UTI was launched, but these were seldom used for retirement planning. Things picked up slightly from 1993 with the advent of private sector mutual funds. Now, they are changing fast.

Know yourself

Before investing, there are some questions you need to ask yourself. How many years are left for your retirement? How much money will you need at retirement? What is your risk-taking ability? What is the

monthly income you will need to sustain your current lifestyle? Once you have answered these, planning becomes simple. No matter what your investment horizon is, no matter what your risk-taking ability is, no matter how much your investment is, there are mutual fund products for every need.

You can invest in equity funds for capital appreciation, debt funds for regular income or gold funds for securing your future. In terms of risk, not only can you choose funds which are safe (liquid funds), you can also invest in funds that are highly risky (sectoral funds), or hybrid funds, which invest in both equity and debt and are moderately risky. **Abhinav Angirish**, founder, www.InvestOnline.in, says apart

from versatility and convenience, mutual funds are the lowest cost options for wealth creation when compared to unit-linked insurance plans and structured products.

Time it right

Building a corpus for retirement is most likely your last goal after others such as child's education or buying a home. This means you have more time to plan and invest for retirement.

This, experts say, is why equity schemes are the best vehicles to build a retirement corpus. Anil Rego, CEO & founder, Right Horizons, says large-cap and blend-cap (which invest across market caps) funds can be used.

"In fact, over long tenures, most equity risks are ironed out," says Swapnil Pawar, chief investment officer, Karvy Private Wealth. Also, equity as an asset class tends to be adequately hedged against inflation, the biggest risk in the long run, says Pawar.

Although the choice between blue-chip and mid-cap or sectoral schemes depends on your risk profile, Pawar recommends well-diversified equity and index schemes to begin with.

If you take a look at the chart (See *How various asset classes have moved*), the only asset class that has generated exceptional wealth over the long run is equities. In fact, the best performing equity mutual fund over the last 10 years, Reliance Growth Fund, has delivered a return of 36% a year on a compounded basis. If you had invested Rs 1 lakh in the scheme in August 2001, your money would have grown to Rs 22 lakh. The top 10 diversified equity schemes have returned more than 25% a year on a compounded basis in the last 10 years (See box on *Top 10 Diversified Equity Schemes*).

If had you invested the same amount in the Sensex, it would have grown to Rs 5 lakh, a compounded annual growth rate of 15%. A debt mutual fund would have taken your

TAKING NOTE

MFs can harness equity advantage

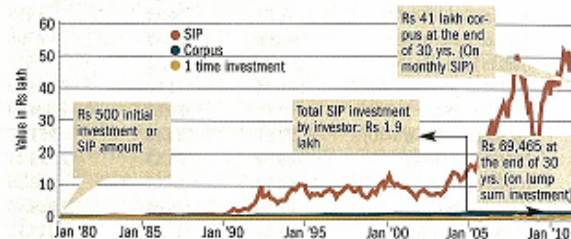


SANDESH KIRKIRE
CEO, Kotak Mutual Fund

Given the uncertain nature of the 'Future', the natural tendency for savings, security and growth is inevitable. However, the complexity of the present economic setup - not the least of which includes multitudinous investor aspirations, multifactorial financial markets, globally integrated economy, overlapping systemic and non-systemic events - present an arduous undertaking for an investor. Moreover, the idea of saving, without having to invest, is a risk in itself since inflation slowly corrodes the wealth of a non-

invested savings corpus. This becomes more relevant for retirement. From the long-term perspective, an investment in equity tends to be more competitive and cost-effective option for generating income, than other available investment avenues.

How your money works



For example, in the last 31 years period, the equity market (Sensex) provided a CAGR return of 16.85%, which is higher than other comparable asset classes. This highlights that equities' investment is may be better suited to generating wealth over a longer period of time.

Furthermore, it is also important to begin investment early. And that is for two reasons. Firstly, it provides the investor a higher risk appetite, and a higher potential for return over the long run. Secondly, a seemingly marginal delay in investment, results in a disproportionately high opportunity loss for the investor in the eventual realisation of the corpus. For example an equity mutual fund investor, who invested Rs 500 once at 25 years (i.e. 01/01/1980), would have had a corpus of Rs 69,465 on Aug 11, 2011.

However, had the same investor invested in a SIP of Rs 500 per month, the corpus at the end of 31 years would have been around Rs 41 lakhs against a total investment outflow of around Rs 1.9 lakh.

But an intuitive outlook to investing in equities may be equally hazardous. The intricacy of the equities market places a stringent demand for a highly skill-oriented, knowledge-intensive application. Therefore, investors should avail equity oriented mutual funds. Since mutual funds are essentially a pass through vehicle for investment, an investor is able to obtain the benefits of professional portfolio management service, cost efficient equity investment, and a potential for a superior risk-adjusted return.

(This is a sponsored article)

various asset classes have moved



10 diversified equity schemes

ber of plans have given stellar returns in the last 10 years

E NAME	NAV (Rs)	10-YR CAGR	AUM
ce Growth-Ret(G)	418.33	36.78	6,958
ce Vision-Ret(G)	248.58	33.90	2,796
n India Prima(G)	261.19	31.73	810
Equity(G)	255.74	31.60	9,738.90
op 200(G)	194.68	30.93	11,064.99
agnum Global'94(D)	27.07	30.16	971.05
Equity-Reg(D)	46.09	29.15	2,525.41
Opp-Reg(G)	80.39	28.83	668.55
Growth(G)	81.10	28.02	1,339.46
ister Value(D)	21.34	27.62	714.25

Source: Accord Fintech

ent to Rs 2.5 lakh, a com-
l annual growth rate of 9.5%.
e investment in gold would
en to Rs 6.5 lakh by giving
ear on a compounded basis.

choice of fund depends on
jective and risk-taking abili-
h asset offers funds that
you to meet specific goals.
lanning, take help from a
l advisor to decide the asset
on. Pick funds that have a
cord, performance and line-
ck to funds that are simple
rstand.

ing out

funds are ideal during accu-
n/earning years as equities
outperform most assets over

long periods, says Angirish. A simple
way to start is to invest in a system-
atic investment plan (SIP) of an
equity mutual fund. SIPs smoothen
unpredictable market movements by
accumulating more units when the
markets fall. You should start mov-
ing towards debt when your retire-
ment is 5 years away by investing
20% corpus each year in debt instru-
ments, says Pawar. You can use a
Systematic Transfer Plan for this.
The idea is to reduce risk and build
the debt portfolio, which will give
consistent income after retirement
with little or no loss of capital.

“The retirement corpus should
not be rebalanced unless there is
any significant change in the expect-
ed performance of a fund due to the

fund manager leaving, change in the
fund mandate, acquisition of the
asset management company, etc”,
says Pawar. Mutual fund portfolios
can be rebalanced without costs.
Such a review is advisable as it
helps reassess performance and
realign strategy if there is an impor-
tant market development or a
change in asset allocation.

Most mutual funds do not distrib-
ute regular income in the form of
interest. There are no guarantees but
track record shows that they can give
regular income. Funds distribute div-
idends from profits generated by the
portfolio. Thus, if the fund has not
made any profit, there are chances
that no dividend will be paid.

Investors looking for fixed
income may consider switching to
hybrid debt options like Monthly
Income Plans, which have an expo-
sure of 85% to debt and 15% to equi-
ty, says Angirish. One can also look
at Fixed Maturity Plans, among the
best options, and Quarterly Interval
Plans with dividend payouts for
steady income. “These schemes do
not provide monthly income but
regular dividend payouts. It’s the
closest one can get to high returns
and regular income”, says Angirish.

“If you are looking at consistent,
regular income after retirement,
you can buy an annuity from an
insurance company,” says Pawar.

The world over, mutual funds
have been highly successful in cre-
ating long-term wealth. In fact,
countries like the US have defined
contribution retirement plans such
as the 401K (equivalent of the EPF
in India) which hold a large party of
assets in mutual funds, especially
equity funds.

“At the current return of 8%,
EPF is not a great option to either
beat inflation or maximise wealth
creation for retirement”, says
Angirish. “An equity mutual fund
will help you accumulate more,”
he says.