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JULY 2007

Theme 188

MUTUAL FUND

PART-II

A monthly publication from South Indian Bank

Mutual Fund

MUTUAL FUND INVESTMENT OPTIONS

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SIB STUDENTS' ECONOMIC FORUM

JULY 2007

Theme No. 188 : MUTUAL FUNDS – PART II

Discuss the various options available to the MF investor for structuring his return on investments?

Growth and Dividend Plans

A growth plan is a plan under a scheme wherein the returns from investments are reinvested and very few income distributions, if any, are made. The investor thus only realises capital appreciation on his investment. This plan appeals to investors in the high-income bracket. Under the dividend plan, income is distributed from time to time. This plan is ideal for those investors requiring a regular income.

Dividend Reinvestment Plan

Dividend plans of schemes carry an additional option for reinvestment of income distribution. This is referred to as the dividend reinvestment plan. Under this plan, dividends declared by a Fund are reinvested on behalf of the investor, thus increasing the number of units held by the investor.

Automatic Investment Plan

Under the Automatic Investment Plan (AIP) also called Systematic Investment Plan (SIP), the investor is given the option of investing small amounts of money (as little as Rs.500/= a month) at regular intervals. AIP allows the investors to plan their savings through a structured regular monthly savings program.

Automatic Withdrawal Plan

Under the Automatic Withdrawal Plan (AWP) also called Systematic Withdrawal Plan (SWP), a facility is provided to the investor to withdraw a pre-determined amount from his fund at a pre-determined interval.

What are standard risks associated with MFs?

Standard risk factors are SEBI stipulated factors that apply to the Mutual Fund products as a category. These have to be stated in the first section of the Offer document. The standard risk factors are:

1. Mutual Fund and securities investments are subject to market risks and there is

no assurance or guarantee that the objectives of the Mutual Fund will be achieved.

2. As with any investment in securities, the NAV of units issued under the scheme can go up or down, depending on factors and forces affecting capital markets.
3. Past performance of a sponsor/ AMC / Mutual Fund does not indicate the future performance of the scheme.
4. The name of the scheme does not in any manner indicate either the quality of the scheme or its future prospects and returns.

What are the best practices to be followed while investing in MF?

The world of investments has several ground rules meant for investors who are novices in their own right and wish to enter the myriad world of investments. Self-assessment of one's needs, expectations and risk profile is of prime importance failing which, one will make more mistakes in putting money in right places than otherwise. One should abstain from speculating which in other words would mean getting out of one fund and investing in another with the intention of making quick money. One would do well to remember that no body can perfectly time the market, so staying invested is the best option unless there are compelling reasons to exit. Not all fund managers have the same acumen of fund management and with identification of the best man being a tough task, it is good to place money in the hands of several fund managers.

What is AMFI and its role?

With the increase in mutual fund players in India, a need for mutual fund association in India was generated to function as a non-profit organisation. Association of Mutual Funds in India (AMFI) was incorporated on 22nd August 1995. AMFI is an apex body of all Asset Management Companies (AMC) which has been registered with SEBI. Till date all the AMCs that have launched mutual fund schemes are its members. It functions under the supervision and guidelines of its Board of Directors.

Association of Mutual Funds India has brought the Indian Mutual Fund Industry to a professional and healthy market with ethical lines enhancing and maintaining standards. It follows the principle of both protecting and promoting the interests of mutual funds as well as their unit holders.

Who is an AMFI certified Person?

One of the objectives of AMFI is to develop a cadre of well trained Agent distributors and to implement a programme of training and certification for all intermediaries and other engaged in the industry. The Securities and Exchange Board of India (SEBI) has made mandatory for any entity / person engaged in marketing and selling of mutual fund products to pass AMFI certification test (Advisors Module) and obtain registration number from AMFI. Since MF business is booming, an AMFI certified person has got high job potential in the Indian financial service segment. This test is open to all persons who wish to test their own knowledge of mutual funds. There are no restrictions of age or qualifications for anyone to take the test. For further details please log on to www.amfiindia.com

What are the different types of mutual funds with respect to investment objectives?

Depending on the investment portfolio, mutual funds are broadly classified in to three – Equity funds, Debt funds and Balanced funds.

Equity Funds?

Equity funds are those funds that invest mainly in equity of companies. Depending on the variety of equity investment and its mix, these funds are again classified in to Simple equity funds, Primary market funds, Sectoral funds, and Index funds. Sectoral funds invest in the equity market of one or more chosen business sectors, like IT, Telecom, Textile, Automobile etc. An index fund is a mutual fund, which follows a passive indexing strategy instead of picking individual stocks. A passive strategy, also known as indexing, is much less complicated and involves tracking an index like say the Sensex or the Nifty and building a portfolio with the same stocks in the same proportions as the index. If these indices increase in value your portfolio will follow suit. If their value drops so will your portfolio's worth.

Debt Funds?

Here, funds are mainly deployed in debt securities – bonds, debentures and money market instruments. In the Indian market, we use the name 'bonds' to refer to debt securities issued by government, semi-government bodies and public sector financial institutions and companies. We use the term 'debentures' to refer to the debt securities issued by non government bodies. Debt funds are also known as income funds, since most of the debt securities pay periodic interest to investors.

Based on the composition of debt securities involved, there are variants of debt funds marketed in the label of Liquid funds, Money market funds, Gilt Funds and Sectoral debt funds. Liquid funds invest in debt instruments with maturity less than 1 year, where as, in case of Money market funds the investment is predominantly in money market like, call money lending, commercial papers, certificate of deposits etc.

Balanced Funds?

Funds that invest both in equity markets as well as in debt markets are termed as balanced funds. Here the proportion of the mix may be 1:1, 3:1 or 1:3 . A balanced fund at a time provides exposure to both equity and debt markets. With this the benefit of diversification get further enhanced, as equity and debt markets have different profiles of return and risk.

Is PAN a must for investing in mutual funds?

Starting from 2nd July 2007, you cannot even continue investing in an already active systematic investment plan (SIP), if you cannot show a PAN card or supply proof that you have at least applied for one (Form 49A). The Securities and Exchange Board of India (SEBI) has made it mandatory for all participants transacting in securities market (including all mutual fund investors), irrespective of the amount of transaction, to submit the PAN card copy, or at least a proof of application for a PAN card, while investing fresh money. Gone are the days when mutual fund investments up to Rs 50,000 did not require a PAN proof. Even small investors have to become PAN-compliant. The only exemptions to the rule are investors in micro-SIPs – those investing amounts as low as Rs.50 to Rs.100 through the SIP route. Non PAN card holders investing Rs.50,000/= and above, will have to submit Form 60/61 along with address proof, in addition to Form 49A. But, as per the existing SEBI guidelines, effective from 1st January 2008, copy of PAN card is mandatory for all applicable transactions.

Conclusion

In investing, the only certainty is uncertainty. As we discussed earlier, since it is extremely difficult to know when to enter or exit the market, it is important to beat the market by being systematic. The SIPs (Systematic Investment Plans) offered by all funds help the investor in being systematic. It is important for all investors to research the avenues available to them irrespective of the investor category they belong to. This is important because an informed investor is in a better position to make right decisions. Knowing when to exit a fund too is of utmost importance. No one really knows what will happen from one day to the next. So never act in haste to repent at leisure. For clarifications and advice on mutual fund investments, please contact our mutual fund help desk – **mutualfund@sib.co.in**

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SOUTH INDIAN Bank


Youth PLUS
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Our Account
Free Internet Banking facility & fund transfer
Free International ATM cum Debit Card
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Admn age: 20 to 35 years
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*Conditions apply
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