

As a financial planner and advisor, the planning exercise I do for clients, throws up a lot of investment needs. These needs spring from the fact that clients have many things they want to achieve with their money – be it overseas education for children or that new fancy car or even that pristine retirement. The list of goals and milestones to be achieved is long. During the planning exercise, a lot of clients usually do realize that they need to invest in order to achieve these various things they want. Many of them though, have one common question they ask. The question being – “Is there a silver bullet for my investment needs”, as in “Is there a simple solution to this complicated task of investing for various goals”. In my experience of many years in the advisory business, I do think that mutual funds could well be that silver bullet that investors are seeking to simplify their investments.

Mutual Funds:

A silver bullet solution for all your investment needs

Of course a lot of investors do feel that mutual funds are risky, and that they would rather invest in bank FDs. As a planner I would say that, yes, some part of your monies should be in FDs, but not all of it. The resistance to using mutual funds as an investment vehicle may be stemming from the fact that they are not understood and the benefits are not clearly experienced by investors. Let us understand therefore the merits of using mutual funds as an investment vehicle.

Mutual funds are simple investment



Investors should look at mutual funds as an investment vehicle in their investment portfolio, writes **SHALINI DHAWAN**.

vehicles and are suitable for wealth creation and generating a corpus - Investors can invest simply in a monthly manner by using Systematic Investment Plans (SIPs) and not be burdened by needing any big lumpsums to start investments. SIPs over long term time frames have generated sizeable corpuses for investors. An internal study done showed that, monthly investments of Rs. 10000 over 15 years have grown to become Rs. 80-100 lakhs i.e. approx.5-6 times, versus the Sensex which has grown 3 times. Infact, irrespective of the choice of which category of equity mutual fund schemes, money invested grew between 4-6 times of investment versus approx. 3 times on the Sensex.

This study done exemplifies that systematic and regular investments using mutual funds as a mode of investments have the potential to create wealth for investors over the long term.

Scheme	Invested Amount (Rs. 1000 p.m. for 15 years)	Market Value as on 31.08.2016 (Rs.)	CAGR (% p.a.)	Growth (times)
A balanced mutual fund scheme	18 lakhs	80.6 lakhs	10.5%	4.5
A large cap mutual fund scheme	18 lakhs	90.8 lakhs	11.4%	5.0
A flexi cap scheme	18 lakhs	109.9 lakhs	12.8%	6.1
Sensex	18 lakhs	55.9 lakhs	7.9%	3.1
Nifty	18 lakhs	55.6 lakhs	7.8%	3.1

Past performance is not an indicator of future performance. Mutual Funds are subject to market risk

Mutual funds give investors access to professional managers – As mutual funds are managed by knowledgeable and expert fund managers, investors get access to some of the best minds in investment management and professional management and in depth research to manage their monies. Most investors would usually not have the time or

the bandwidth to spend time from their busy schedules to spend on this kind of activity.

Mutual funds give investors access to multiple asset classes – Most investors think that mutual funds are risky as they invest in equity markets. All mutual fund schemes are not so. Mutual funds in India today are of different categories and invest in various asset classes such as debt, equity, gold, international equities and a combination of different asset classes as well. These schemes thereby give investors a choice of a variety of asset classes to distribute their investments into, thereby enabling an easy investing experience.

Mutual funds aid investors in risk diversification – As most investors know, there is risk in putting all your eggs in one basket. By using mutual fund schemes as investors can invest across asset classes (equity, debt, gold, commodities) and across geographies (India, Overseas) and thus they can diversify the risk appropriately.

Mutual funds can be used to achieve tax efficient returns – Gains made on equity mutual fund investments held for more than a year are tax free in the hands of the investor. Although one year may be a short term horizon and investors should have a longer horizon when investing in equity, nevertheless from a tax perspective the gains made from such equity funds held for more than a year are tax free. In the case of debt mutual funds, gains from such funds held for more than three years have indexation benefits, that bank FDs don't. Therefore in comparison to bank FDs, this indexation benefit available to debt funds can improve returns for investors.

To summarise one can say that with all the

above benefits in mind, investors should look at mutual funds as an investment vehicle in their investment portfolio.

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