

Savings Ka Behtar Tareeka

An Investor Education & Awareness Initiative
By
Franklin Templeton Mutual Fund



Program Outline

- Basics of Investment
- Investment Avenues
- Presenting Mutual Funds
- Five Factors Key to Investing





BASICS OF **INVESTMENT**



NEED FOR SAVINGS



Children's Education



Child's Marriage



Retirement



House purchase



Vacation

Are you financially prepared to fulfill your needs?

SAVINGS PLAN

Start saving as early as possible

Don't wait for large amount of money to start your savings plan. You can start with a small amount too

SAVINGS PLAN

Regularity of savings is important

Start making your money work for you

Question is, how much to save?

ALWAYS SAVINGS FIRST

Right Savings Formula

Income – Expenses = Savings ❌

Income – Savings = Expenses ✅

- Accomplish goals with a process oriented approach
- Psychologically consider only 70%-80% of your salary as income
- Indians generally channelize 20%-30% of income towards savings
- Keep one eye on the present and one eye on the future

The % numbers mentioned are an indicative and not a recommendation from Franklin Templeton Investments. We recommend that you should consult your financial advisor while deciding the levels of savings

SOURCES OF INCOME



WORK HARD AND MAKE YOUR MONEY WORK HARDER



Profession

- ➔ You work hard to generate income
- ➔ you know best

Investment

- ➔ Your money works hard to generate returns
- ➔ Trust an Investment Professional







Making money work harder - A smarter approach to wealth creation



INFLATION THE SILENT ASSASSIN



INFLATION IN DAILY LIFE

				
	Loaf of Bread	1 Liter Milk	1 Litre Petrol	Higher Education #
2000	10	25	28	3 lakhs
2012	17	43	62	16 lakhs
2020	29*	72*	148*	26 lakhs*
2030	51*	129*	265*	47 lakhs*

MBA or Medicine

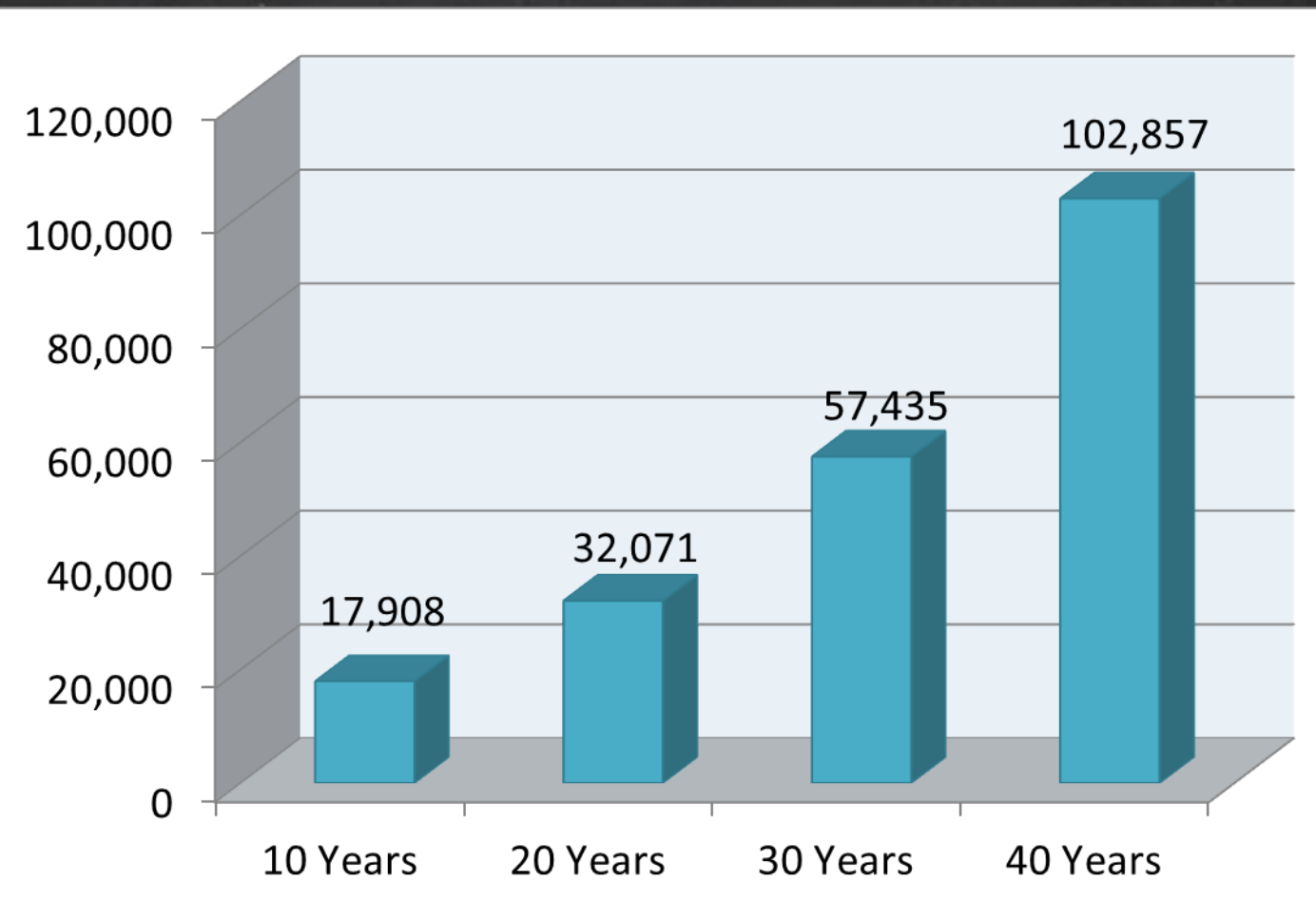
*Assuming Inflation @ 6% for years 2020 and 2030

- Increase in cost of goods and services over time is termed as inflation
- Inflation gradually reduces our purchasing power if our income were to remain constant

Inflation shrinks buying power

INFLATIONARY BLOW

If your monthly expenses are Rs. 10,000 today they will grow 3 times in 20 years due to inflation (assuming inflation @ 6% p.a.)



Over time, inflation reduces purchasing power

GOOD INVESTMENT

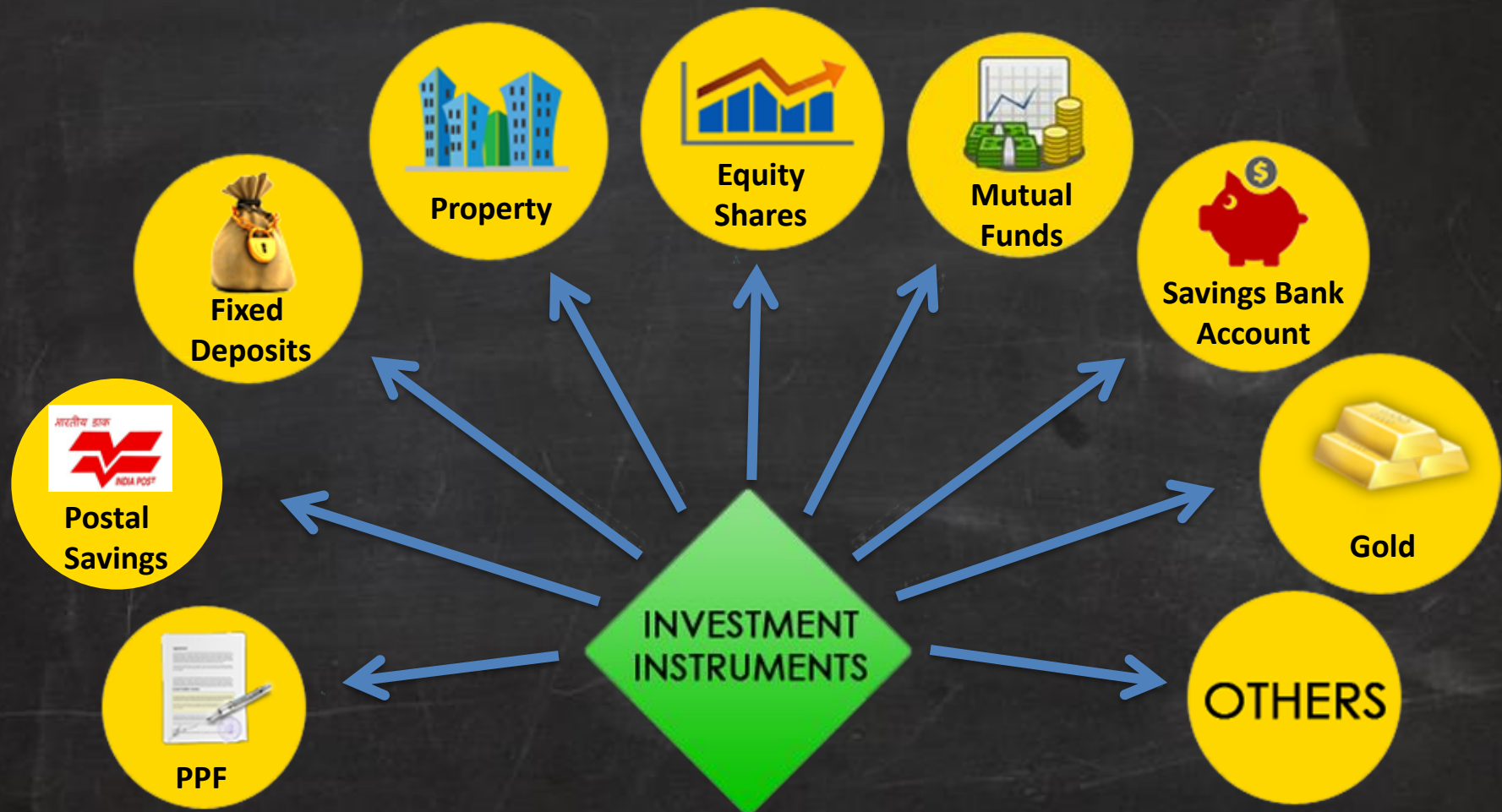
**A good investment may not
only match inflation but is
also likely to beat it**



INVESTMENT AVENUES

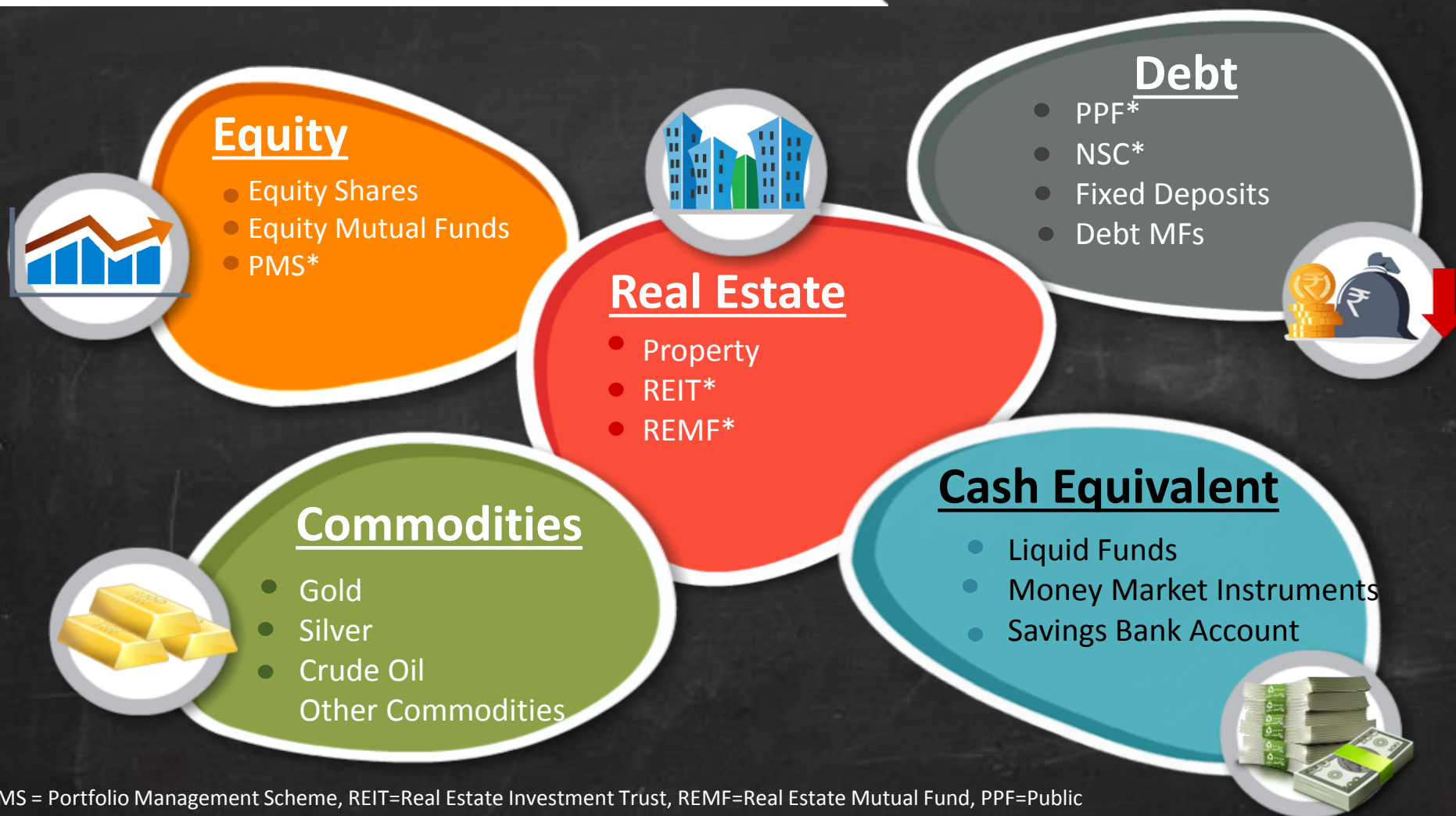


OPTIONS GALORE



Diversify across asset classes through these investment options

ASSET CLASS TYPES



* PMS = Portfolio Management Scheme, REIT=Real Estate Investment Trust, REMF=Real Estate Mutual Fund, PPF=Public Provident Fund, NSC=National Saving Certificate

Every investment option belongs to a broad asset class

FEATURES OF DEBT

- Investors are lenders
- Fixed tenure*
- Low fluctuation in returns
- Debt mutual funds affected by interest rate fluctuation but offer tax efficiency
- High liquidity for most instruments^

* With a few exceptions like open ended Mutual Fund debt schemes

^ There may be a cost attached to liquidity like exit loads in case of mutual funds, brokerage in case of listed instruments, premature penalties / conditions in case of few others, etc

Debt

- PPF
- NSC
- FDs
- Debt MFs



Relatively safe and steady returns makes debt suitable for all types of investors

FEATURES OF EQUITY

- Shareholders are owners
- Volatile asset class
- Potential to deliver high long term returns
- Dividends and long term returns from equity are currently tax free

Equity

- Shares
- Equity MFs
- PMS



Positive inflation adjusted returns makes it a suitable investment for long term goals

FEATURES OF REAL ESTATE

- High initial investment
- High gestation period
- Provides long term capital appreciation and rental income
- Low on liquidity

Real Estate

- Property
- REIT
- REMF



A good hedge against inflation but lacks liquidity

FEATURES OF COMMODITIES

- Includes gold, silver, other metals, crude oil, etc.
- Demand supply equation affects prices
- Prices have a high global influence
- Performance in line with inflation
- Very volatile asset class



Commodities

- Gold
- Silver
- Metals
- Crude Oil
- Others

Commodities offer an effective avenue to hedge against inflation

FEATURES OF CASH EQUIVALENTS

- High liquidity
- Low returns
- Very low risk of capital erosion
- Liquid mutual funds are more tax efficient than traditional savings

Cash Equivalent

- Liquid Funds
- Money Market Instruments
- Savings Bank Account



Maintain a couple of months expenses in these liquid assets

WILL YOU PLAY WITH YOUR OWN MONEY?

**Why should you
experiment with your hard
earned money when you
can outsource it to an
investment expert?**



Presenting **MUTUAL FUNDS**



CONCEPT OF MUTUAL FUNDS



ADVANTAGES OF MUTUAL FUNDS

Professional management

Qualified professionals manage your money with a research team that continuously analyses the performance and prospects of different investment options, in line with the investment objective of the fund.



Portfolio diversification

Diversification lowers risk of loss by spreading your money across various asset classes and securities.

Low Cost

The Fund Management Fee for Mutual Funds is low.



ADVANTAGES OF MUTUAL FUNDS

Tax efficiency

Investments held for a period of 12 months or more qualify for “long-term” capital gains benefits. In addition, dividends are tax free in the hands of the investors.



Liquidity

You can redeem all or part of your investment any time you wish and receive the current value of the units, subject to exit loads (if any).

ADVANTAGES OF MUTUAL FUNDS

Transparency

The performance of a mutual fund is reviewed by various publications and rating agencies, making it easy for investors to compare one fund to another. As a unitholder, you are provided with regular updates, for example, daily NAVs, as well as information on the fund's holdings and the fund manager's strategy.



Regulation

Mutual funds are tightly regulated to protect investor interest. Investor education is also one of the agenda followed by fund houses. Indian Mutual Funds are supervised and regulated under SEBI (Mutual Funds) Regulations, 1996.

ADVANTAGES OF MUTUAL FUNDS

Convenient options

Investors can choose from various investment options like lump sum or SIP. Within a scheme- dividend payout, dividend reinvestment, growth, SWP, STP, Switch, Trigger and the like are available. They are also lighter on the wallet.



Variety of schemes

Mutual funds offer solutions that suit your investment needs considering your risk appetite, investment horizon, liquidity requirement and tax concern

BROAD TYPES OF MUTUAL FUNDS



Liquid Funds

Flexibility to withdraw in one working day*

Pre-dominantly invests in money market instruments and are suitable for investors with a very short term investment horizon of even one day.

Suitable if you do not want to take relatively low risk. These funds invest across different debt instruments with maturity typically ranging from “medium / short term” to “long-term”.

* On a best effort basis



Debt Funds

Invest in different types of fixed income securities

Mutual Funds offer plethora of options

BROAD TYPES OF MUTUAL FUNDS



Equity

Invests in shares
of companies

Suitable for longer
investment horizon and for
those with a higher risk
appetite

Suitable for a moderate risk
appetite with some cushion
for protecting against the
downside

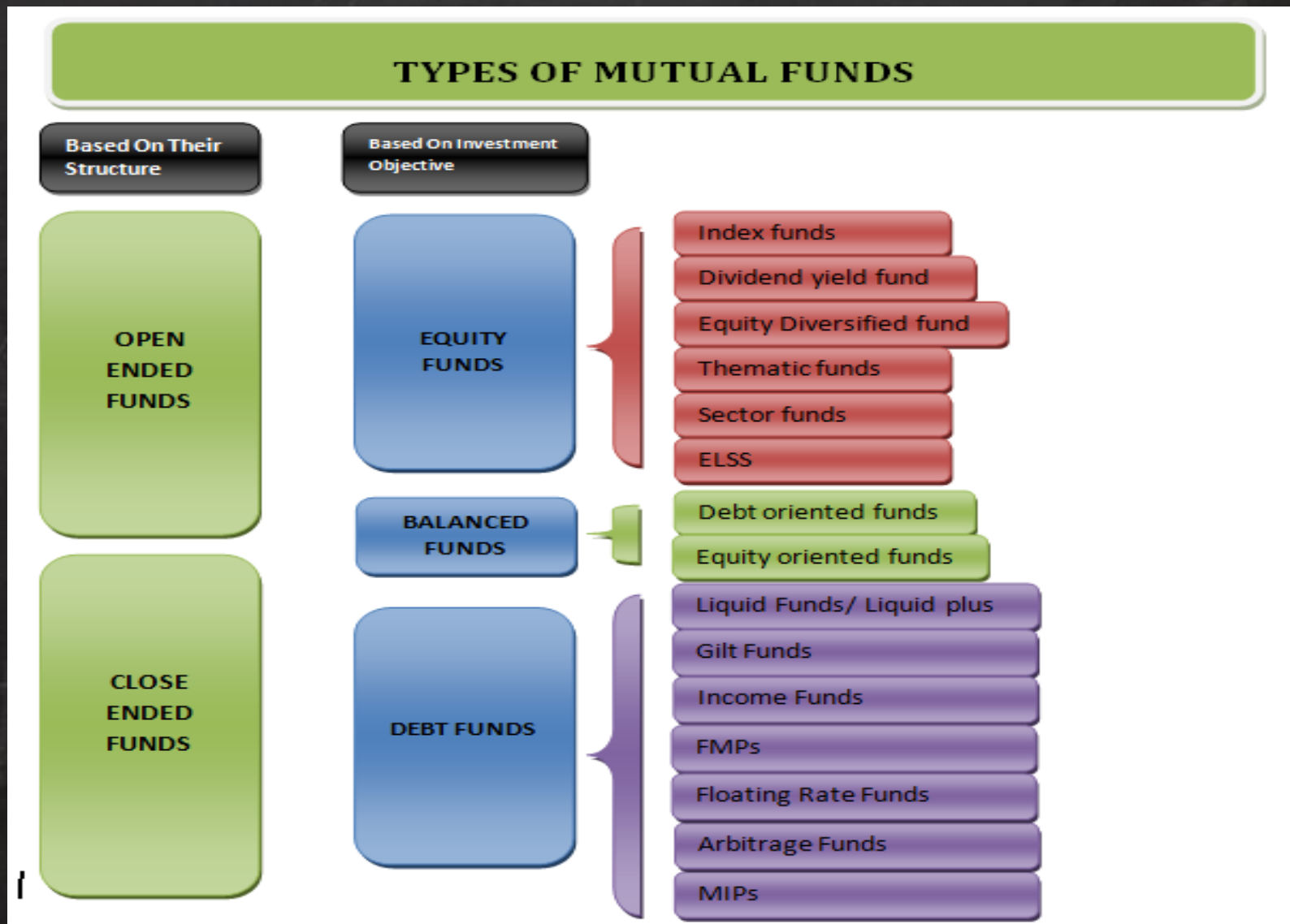


Hybrid

Invests in a mix of shares
and bonds

Mutual Funds offer plethora of options

DETAILED MUTUAL FUNDS CLASSIFICATION



QUICK RECAP

- Just “Saving” is not enough?
- Inflation will erode your savings over time
- To counter inflation – You need to “Invest”
- Easy to “Save” on your own...But difficult To “Invest”
- Essentials of a Sound Investment Strategy
- Mutual Funds – Easy way to invest; Offer benefits like
 - Professional fund management
 - Liquidity
 - Diversification of risk
 - Low cost
 - Variety of products for different investment needs and risk profiles
 - Transparent functioning
 - Strong Regulatory Oversight

**Investment success is based on a
strong foundation**

Lets develop the foundation...

FIVE FACTORS KEY TO INVESTING



Start By Listing Out Goals



Review Portfolio Regularly



Diversify Across Asset Classes



Start Early



Select The Right Product



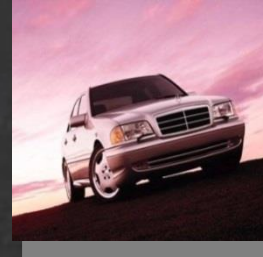
Start By Listing Out Goals



LISTING OF FINANCIAL GOALS



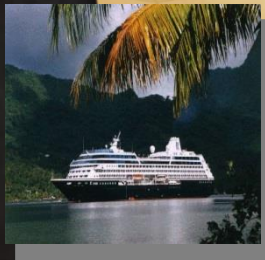
Child's Higher Education
Time to Goal – 5 years
Amount – 15 lakhs



Purchase of Car
Time to Goal – 3 months
Amount – 10 lakhs



Child's Marriage
Time to Goal – 10 years
Amount – 10 lakhs



International Vacation
Time to Goal – 1 years
Amount – 4 lakhs



Your Retirement
Time to Goal – 15 years
Amount – 5 crores

Limited resources and unlimited wants, so prioritize

PRIORITIZED FINANCIAL GOALS

Goal	Priority	Tenure	Required Amount (Rs)	Recommended Investment
Emergency Fund	High	Urgent	3-6 months salary	Liquid
Child's Higher Education	High	5 years	15 lakhs	Hybrid
Your Retirement	High	15 years	5 crores	Equity
International Vacation	Medium	1 year	4 lakhs	Debt
Purchase of Car	Medium	3 months	10 lakhs	Liquid
Child's Marriage	Medium	10 years	10 lakhs	Equity

Note: The above table is an illustration to explain how assets are typically allocated based on various factors and should not be construed as an investment advice. Please consult your financial advisor for investment decisions.

In case of resource shortfall focus only on important goals



Diversify Across Asset Classes



DIVERSIFY ACROSS ASSET CLASSES

real estate

equity

commodities

gold

short term debt

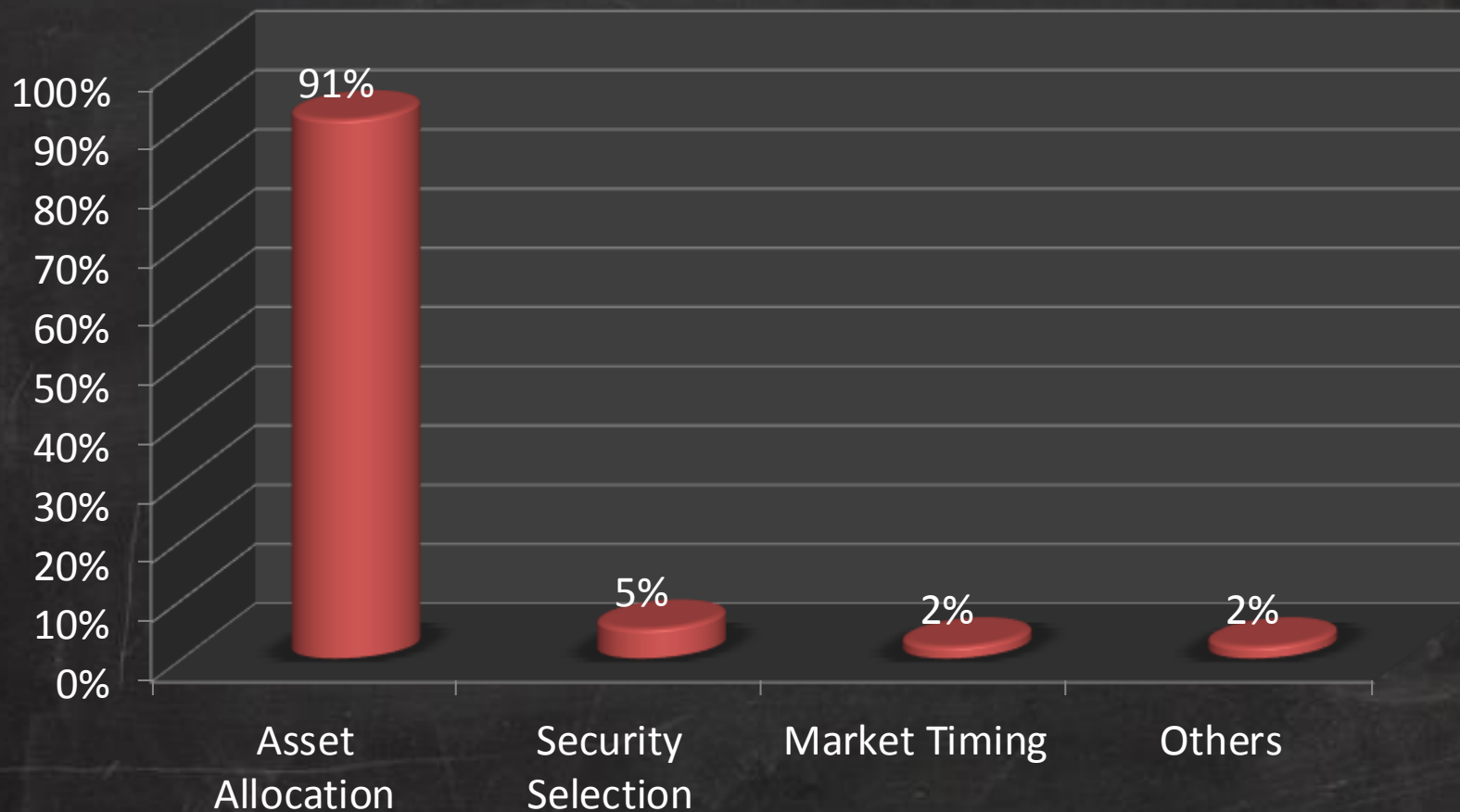
long term debt

international assets

- Each asset class is associated with a particular risk, return and investment horizon
- Equities offer better long term return, but higher short term volatility
- Debt is less volatile and offers more stable but relatively lower returns

Your investments have to be allocated across different asset classes as per your risk appetite and time to goal

ASSET ALLOCATION -KEY DETERMINANT OF PORTFOLIO PERFORMANCE



Source: "Determinants of Portfolio Performance II: An Update " by Gary P. Brinson, Brian D. Singer and Gilbert L. Beebower, *Financial Analysts Journal*, May/June 1991.

91% of returns are due to right asset allocation

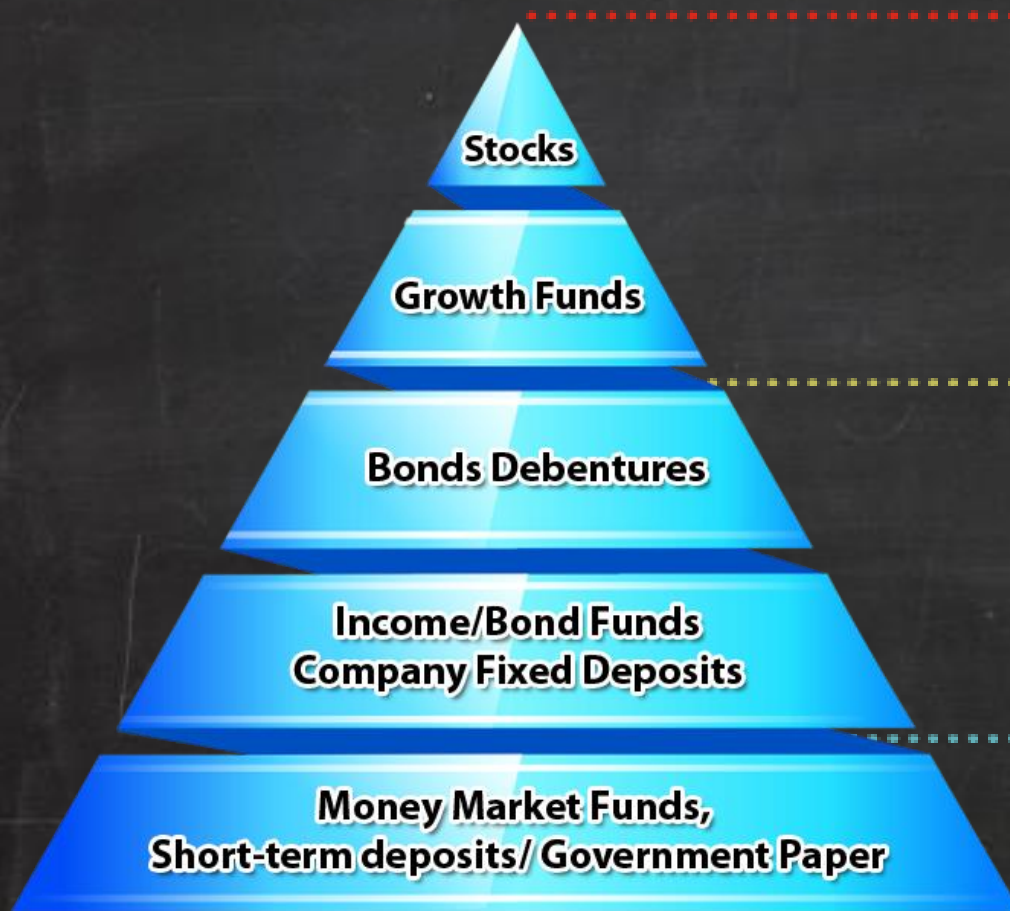
ASSET CLASSES PERFORM DIFFERENTLY ACROSS TIME PERIODS

Year	Best	Next	Next	Next	Worst
FY07	15.9% S&P BSE Sensex	6.5% Liquid	5.8% IBEX	5.7% ST Bond	3.8% LT Bond
FY08	19.7% S&P BSE Sensex	9.0% IBEX	8.8% ST Bond	8.2% LT Bond	7.5% Liquid
FY09	14.6% IBEX	9.8% ST Bond	8.8% Liquid	7.4% LT Bond	(37.9%) S&P BSE Sensex
FY10	77.0% S&P BSE Sensex	5.9% ST Bond	5.4% LT Bond	4.5% IBEX	3.7% Liquid
FY11	9.9% S&P BSE Sensex	6.3% IBEX	6.2% Liquid	5.1% ST Bond	5.0% LT Bond
FY12	8.4% Liquid	8.3% ST Bond	7.8% LT Bond	6.7% I BEX	(10.4%) S&P BSE Sensex
FY13	12.7 % IBEX	9.2% LT Bond	9.1% ST Bond	8.2% S&P BSE Sensex	8.2% Liquid

Note : Past performance may or may not be sustained in future , all data sources CRISIL Mutual Fund Research Tool. ST Bond, LT Bond & Liquid in this table represent Crisil Short Term Bond Index, CRISIL Composite Bond Index and CRISIL Liquid Fund Index respectively; I BEX represents I Sec Sovereign Bond Total Returns Index. The example given above is for illustration purpose only. One cannot invest directly in the Index."

Combination of asset classes helps to optimize returns

GOAL BASED ASSET ALLOCATION



Goal - Capital Growth

Risk: Medium to High
Period: Above 3-5 years

Goal - Income

Risk: Medium to Low
Period: 1 to 3 years

Goal - Capital Preservation

Risk: Low to Medium
Period: Less than 1 year


Nearer the goal, lower the risk and vice versa



Select The Right Product



BASED ON TIME TO GOAL

LESS THAN
YEAR **1** 
LIQUID FUNDS

1 – **3** 
YEAR
DEBT FUNDS

3 – **5** 
YEAR
HYBRID FUNDS

ABOVE
YEAR **5** 
EQUITY FUNDS

TAX 
PLANNING
ELSS SCHEMES

Longer investment horizons are associated with riskier asset classes



Review Portfolio Regularly



NEED FOR PORTFOLIO REVIEW

- Deviation from original asset allocation
- Outperformance or underperformance of individual securities or mutual funds
- Change in market risk, regulatory change, tax laws and personal dynamics necessitates a review

Monitoring and review is a discipline, to be followed religiously

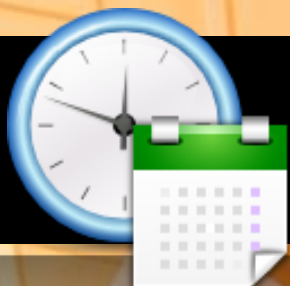
REVIEW PROCESS

Review across asset classes

- ✓ Record original asset allocation
- ✓ Ascertain quantum of deviation in asset allocation
- ✓ Take corrective asset allocation action
- ✓ Sell outperforming asset classes or buy underperforming asset classes to match original asset allocation

Review within the asset class

- ✓ List outperformers and underperformers
- ✓ Ascertain reasons for outperformance or underperformance
- ✓ If underperformance is unjustifiable then select better options



Start Early

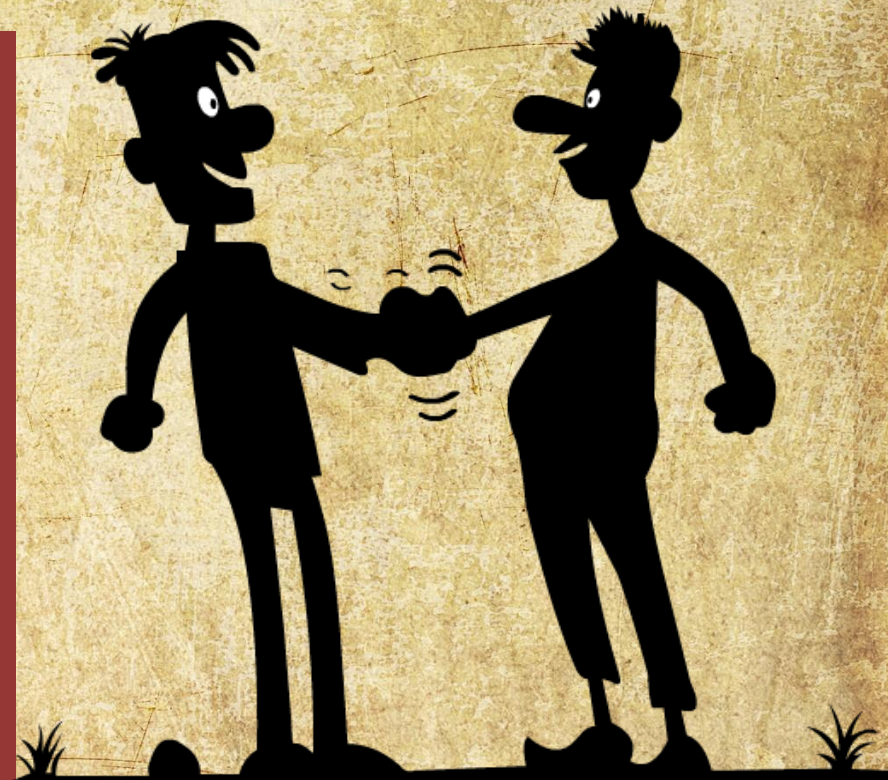


Story of Manan and Jigar

Manan and Jigar are old friends who retired at 60 years. They meet and discuss their investments till retirement.

Manan invested Rs. 1 lakh every year from age 30 to 60. Jigar started late and invested Rs. 1 lakh every year from age 40 till age 60.

Both earned 10% p.a. return on investment.



INVESTMENT DETAILS OF MANAN & JIGAR



Manan



Jigar

Investment

Rs. 1 lakh per annum

Rs. 1 lakh per annum

From age – To age

30 - 60

40 - 60

Rate of Return

10% p.a.

10% p.a.

No of years invested

30

20

Total amount invested



Rs.30 lakhs



Rs. 20 lakhs

While the winner is obvious, the difference in retirement corpus is the clincher

THE RESULT

Corpus at age 60



Manan



Rs.1.80 crore



Jigar



Rs.63 lakhs

Manan has 3 times more corpus than Jigar only because he started early and benefited from the power of compounding

THE MORE THE DELAY, THE MORE THE NEED TO MAKE UP

Monthly saving for a corpus of Rs.1 crore at 60 years @ 12% p.a.

Investment begins at	Monthly saving required Rs.
25 years	1,555
30 years	2,861
35 years	5,322
40 years	10,109
45 years	20,107

For Illustrative purposes only

Every 5 year delay doubles the monthly saving needed to meet the corpus

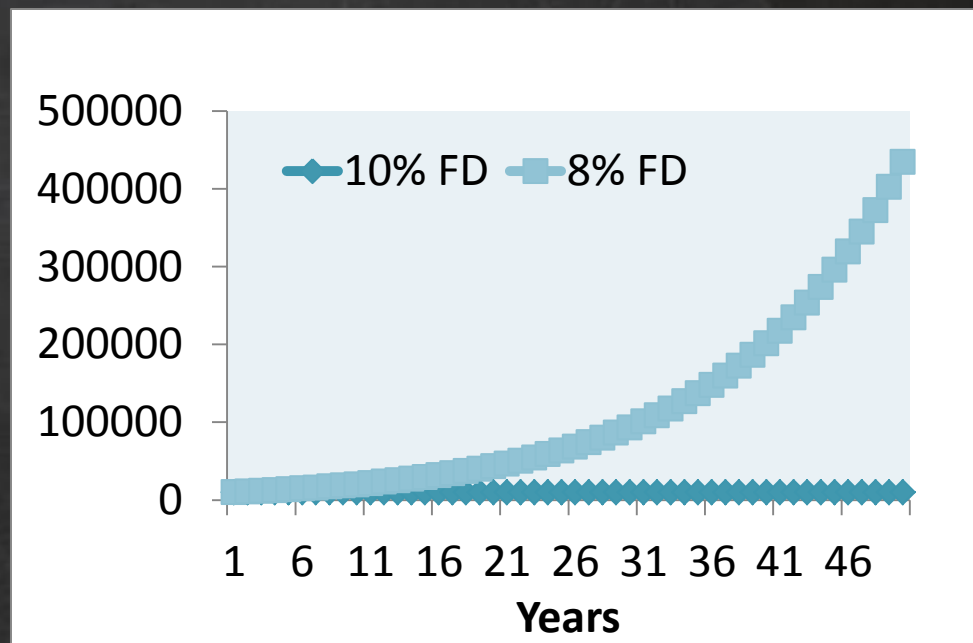
POWER OF SIPS

SIP is a process oriented approach where a fixed amount is invested irrespective of the market levels.

SIP enables wealth creation due to power of compounding and rupee cost averaging

POWER OF COMPOUNDING

- Which of these will deliver better end result in 50 years?
 - An FD with 10% interest payout or an FD with 8% cumulative interest.
- A common response is “The 10% FD will deliver better returns.”
- Think again...
 - Rs. 10,000 @ 8% cumulative grows to Rs. 4.34 lakhs in 50 years
 - Rs. 10,000 @ 10% interest payout does not grow if the interest is not reinvested



“Compounding is the eighth wonder of the world.” - Albert Einstein

START EARLY FOR BEST COMPOUNDING RESULTS

You are 30 years old. If you save Rs. 1 lakh every year till your retirement at age 60 generating 10% returns. How much will you accumulate?

1.80 crores

If you start at age 40, other things remaining the same, how much will you accumulate?

63 lakhs

If you start at age 40 and wish to accumulate Rs. 1.65 crores at age 60, how much do you need to save every year?

2.62 lakhs p.a.

RUPEE COST AVERAGING

Amount Rs.	NAV Date	NAV	Units Allotted
5000	01-Jan-13	10	500.0000
5000	01-Feb-13	11	454.5455
5000	01-Mar-13	10	500.0000
5000	01-Apr-13	9	555.5556
5000	01-May-13	10	500.0000
Total Units			2510.1010
25,000	01-Jan-13	10	2500.0000



Systematic investment plan

- Invest fixed amount at regular intervals irrespective of market conditions
 - Buy more at lower prices and less at higher prices
- Eliminate the risk of emotional decisions
- You get more units if you invest regularly through SIP (2510) than in lump sum (2500)

Risk Factors

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

The NAVs of the schemes may go up or down depending upon the factors and forces affecting the securities market. Setting up the goals, planning of investment and taking informed investment decision might require professional expert advice. You are advised to consult your advisor prior to arriving at the investment decision. There is no assurance or guarantee that the goals planned for will be achieved and the same is subject to the investment performance of the schemes. Past performance of the schemes is neither an indicator nor a guarantee of future performance, and may not be considered as the basis for future investment decisions.

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Thank You

