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HOW TO APPROACH INVESTMENT IN MUTUAL FUNDS IN THE VOLATILE MARKET CONDITIONS? HERE ARE SOME TIPS

Mutual fund investment: Volatility is inherent in all financial markets. Thus, investing in equity-based instruments can be managed by taking a calculated risk.

- Basudha Das

As the bulls in the market regain strength and drive up valuations, there is a notable likelihood that we could witness a resurgence of volatility on the financial arena. The events of Wednesday's trading session may serve as a precursor to more frequent occurrences of such market fluctuations. Therefore, regardless of the specific market segment where one directs their investments, it is prudent to remain prepared for increased volatility in the financial landscape. It is advisable to refrain from making quick decisions to buy or sell assets solely based on short-term price fluctuations.

Market volatility impact on mutual funds is typically assessed using variance or standard deviation. High volatility means significant deviation from the mean in a period. Changes can be positive or negative. On the other hand, low volatility implies minimal deviation from the mean value within a specific timeframe.

Volatility is inherent in all financial markets. Thus, investing in equity-based instruments can be managed by taking a calculated risk. Like the investment guru Benjamin Graham once said, "In the short run, the market is a voting machine but in the long run, it is a weighing machine."

"Long-term investment should not be time bound and dependent on the market conditions. We have observed that equity markets are upward trending, however it may not be linear always and investors should not panic or change investment strategies," said Chirag Muni, Executive Director, Anand Rathi Wealth Limited.

Muni added: "Like to invest Rs 5 lakh, one needs to ascertain the timeline of investment. If the period is short-term i.e less than 3 yrs then one can invest Rs 5 lacs in 60:40 ratio in equity and debt. Long-term investors can allocate up to 80% of their assets in equity. This will help them generate at least 12% return. This should be diversified across funds from different AMCs and categories while maintaining a market cap ratio of 50:30:20 in large, mid and small cap segments."

"In the last 4 major market dips (May' 2004, Feb 2009, Mar' 2016, Mar'2020), whenever the market has dropped >20%, it has swiftly recovered in 5-6 months and so have the equity flows into Mutual funds, hence it is advisable to avoid knee-jerk reactions and watching the portfolio too much," said Devam Sardana, Business Head, Lemonn.

"The inherent volatile nature of equities as an asset class can be quite unnerving for equity mutual fund



investors, especially for those who are relatively new to equity investing. However, sticking to the following basic principles can help effectively tide over market volatility," said Nilesh Naik, Head of Investment Products, Share.Market.

Naik further lists the basic principles of investing in mutual funds:

A Long-Term Perspective

It's important for equity mutual fund investors to realise that volatility is an inherent part of equity investing and in the short term, the market will be driven by sentiments. However, from a long term perspective, corporate earnings growth is the single most important factor driving the stock prices and the markets. Given the high long-term growth prospects for the Indian economy and businesses, it is important to invest in equity mutual funds with a long-term view.

Diversification and asset allocation

The metaphor "Don't put all of your eggs in one basket" may sound too banal, but the idea it conveys is relevant for mutual fund investors. So ensure that you spread your investments across different asset classes (equity, debt, gold, etc) to reduce the risk arising in any of the asset classes. Maintain an asset allocation that aligns with your risk tolerance and goals and ensure that your portfolio asset allocation is reviewed during periods of extreme volatility. This could help course correct and maintain the desired asset mix to manage the risk through optimal exposure to various asset classes. A byproduct of this exercise is that it systematically helps you to take advantage of buying during market-falls and also booking profits in case of a significant run-up in one particular asset class.

Stay Invested with SIPs

Investing through SIPs automatically inculcates discipline and helps investors benefit from rupee-cost averaging during times of market volatility. That is because systematic investments purchase more units when prices are low and fewer units when prices are high, potentially lowering your average cost per unit.

Don't allow emotions to drive your investing

decisions: Experienced investors understand that market downturns often offer great investment opportunities. So rather than reacting impulsively based on emotions, you need to stick to an investment plan and consider market falls as a potential buying opportunity for long-term growth.

Ignore the noise

During times of market volatility, you will invariably witness continuous news flow that can lead to fear or panic among investors. It's important to avoid reacting to such daily news noise and focus on your long-term investment goals.

A simple thumb rule

Sardana added: "While we love to live by the adage "short term pain, long term gain", there is a thumb rule that retail investors can use to avoid sleepless nights

1. If you are uncomfortable with the portfolio drawdown, it is time to review the portfolio and type of funds with a potential to de-risk with hybrid and fixed income funds and look at portfolio rebalancing.
2. If the time horizon is 3-5 years or more, as a user I would not be too worried about the short term moves and would continue to concentrate on the goals.

Disclaimer: Mutual Fund investments are subject to market risks, read all scheme-related documents carefully. This content is exclusively for educational and informational purposes only.

Source <https://www.businesstoday.in>



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THE POWER OF RUPEE COST AVERAGING IN MUTUAL FUNDS

Investing in Mutual Funds is generally considered a popular way for individuals to build wealth over time. One strategy that has gained significant attention and importance in the world of Mutual Funds is “Rupee Cost Averaging.” Let us understand what rupee cost averaging is, why it’s important, and how it could potentially benefit investors in the long run.

Understanding Rupee Cost Averaging:

Rupee Cost Averaging (RCA) is an investment technique where an individual invests a fixed amount of money at regular intervals, regardless of the market’s ups and downs. In simple terms, it is a Systematic Investment Plan (SIP) that has the potential to help investors build wealth. In this process, one buys more units of a mutual fund when prices are low and fewer units when prices are high. Over time, this strategy aims to reduce the impact of market volatility on overall investment.

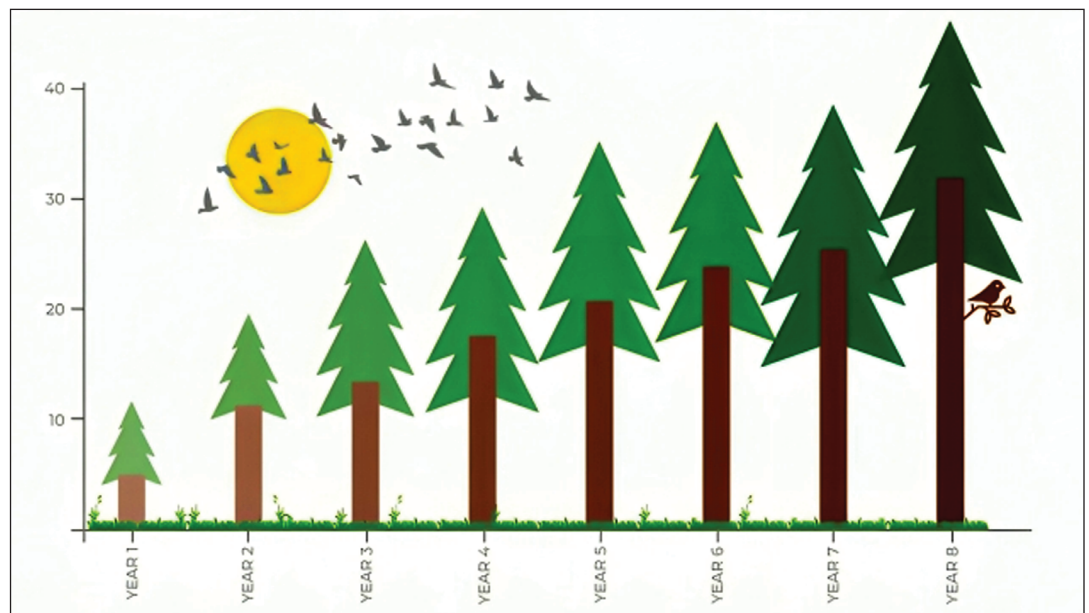
The following example explains this concept more clearly.

Let’s take an example. Priya invests a fixed amount of Rs 1,000 on the tenth of each month with a SIP in a mutual fund scheme. Let’s see what happens in both scenarios if the market goes higher or falls. Let’s say she started investing in April of a particular year, and the market went up for 8 months.

Month	Amount invested each month	Price of each unit	No. of units accumulated
April	1000	15	66.66
May	1000	16.5	60.60
June	1000	18.3	54.64
July	1000	22	45.45
August	1000	24.6	40.65
September	1000	25	40
October	1000	28.1	35.59
November	1000	29	34.48
Total	Rs 8000		378.07

The average cost of buying each unit in this case comes at a much lower Rs 21.16 (total amount invested/total units accumulated). Similarly, if we assume that the markets fall during the 8 months, the average cost of each unit would come to Rs 20.05 (see the table below).

Month	Amount invested each month	Price of each unit	No. of units accumulated
April	1000	27	37.03
May	1000	25.5	39.21
June	1000	23	43.48
July	1000	21.6	46.29
August	1000	20.1	49.75
September	1000	18.5	54.05
October	1000	16	62.5
November	1000	15	66.67
Total	Rs 8000		398.98



In the second (market falling) scenario, if Priya had invested Rs 8,000 as a lump sum in April itself at an NAV of Rs 27, then she would have got 296.29 units. These units by the end of 7 months, would have brought down Priya’s investment value to just Rs 4,444.35 (296.29 units multiplied by the price of each unit in November, i.e. Rs 15).

Comparing this to 398.98 units accumulated using the rupee cost averaging approach, her investment value in this case would be Rs 5,984.7. One can see the difference rupee cost averaging has made in cutting losses in Priya’s investment.

The above is for illustration purposes only, with the assumed price of units taking into account various market factors, and is shown only for understanding purposes. The same should not be construed as returns that the investors may receive. It does not guarantee, assure, promise or indicate any returns.

Importance of Rupee Cost Averaging (RCA):

1. Mitigating Market Volatility:

The primary benefit of RCA is its ability to mitigate the impact of market volatility. When one invests a fixed amount at regular intervals, one automatically buys more units when prices are low and fewer units when prices are high. This reduces the risk of making significant investments at the wrong time, such as during market peaks.

2. Disciplined Investing:

RCA brings discipline to the investment approach. It encourages one to stay invested over the long term, regardless of market fluctuations. This long-term perspective can help accumulate wealth steadily and achieve financial goals.

3. Emotional Control:

Investing can be emotionally taxing, especially during market downturns. RCA removes the need for emotional decision-making. You invest systematically, regardless of whether the market is bullish or bearish, which can help you avoid impulsive decisions driven by fear or greed. This approach brings in automation when investing and helps the investor reduce the guessing game to time the market.

4. Potential for Lower Average Cost:

By consistently investing a fixed amount, one automatically buys more units when prices are low. Over time, this lowers the average cost per unit. This means that even if the market experiences fluctuations, investors will benefit when the market eventually rises. Especially when markets are in a bear grip, investors gather more units and in a bull market investors gather less which helps investor average out their total cost of buying units.

5. Magic of compounding with SIP (RCA):

Rupee cost averaging is generally considered ideal for long-term wealth accumulation goals, such as retirement planning or saving for your child’s education. Over an extended period, the power of compounding, coupled with disciplined investing, has the potential to grow your investments.

Conclusion:

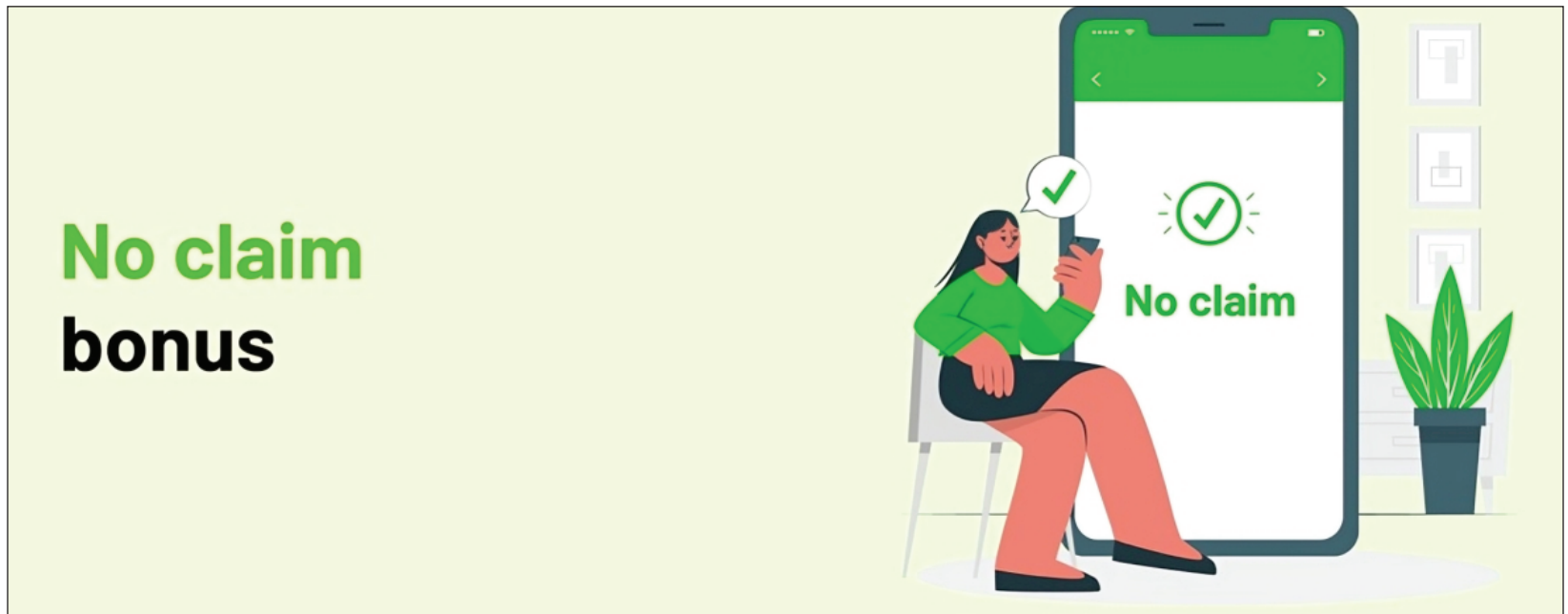
Rupee Cost Averaging is a simple yet good strategy for mutual fund investors. SIP investing uses the rupee cost averaging approach. It can mitigate the impact of market volatility, promotes disciplined investing, and aims to allow investors to benefit from the power of compounding over the long term. By embracing RCA, one can navigate the ups and downs of the market with confidence, which would help work toward achieving one’s financial goals and make every SIP count. Remember, consistency and patience are key when it comes to rupee cost averaging, as it’s a strategy designed for the long haul.

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Source: <https://www.hdfcfund.com>

WHAT IS NO-CLAIM BONUS (NCB) IN HEALTH INSURANCE?



Your health is your most valued asset. Health Insurance plans can secure the health and financial future of yourself and your family. Having a Health Insurance policy has many benefits, such as coverage against medical expenses, a cashless treatment facility, wellness rewards, annual health check-ups, e-medical opinions and many more. Besides the usual benefits from the Health Insurance plan, other benefits come to you when you have a Health Insurance policy that is continuously in force without a break. One such continuity benefit is No-Claim Bonus (NCB) or Cumulative Bonus (CB).

What is No-Claim Bonus?

No-Claim Bonus or Cumulative Bonus is an increase or addition in the Sum Insured granted by the insurer without any associated increase in Premium. In simple terms, it is a reward to the policyholders for not making any claims during the policy year.

Let's say, Ms Nila has bought a Star Comprehensive Health Insurance Policy for a Sum Insured of Rs. 5 lakhs. She would be entitled to the benefit of No-Claim Bonus, calculated at 50% of the Sum Insured per year under her policy, following the claim-free years up to a maximum of 100%. Once the Bonus accrues under the policy, the limit of coverage for the policyholder for any subsequent claim will be the Sum Insured together with the Bonus.

How does No-Claim Bonus work?

No-Claim Bonus applies to both individual and floater Health Insurance policies.

Here is an example to show how the Sum Insured gets enhanced for every claim-free year by way of No-Claim Bonus.

Mr Sinha has a Health Insurance policy for Rs. 3 lakhs Sum Insured. Assuming his policy offers a No-Claim Bonus of 5% per claim-free year subject to a maximum of 25%, the year-wise Sum Insured, No-Claim Bonus and Limit of Coverage will be as shown in the table below (on the assumption, there is no change in the Sum Insured year-on-year):

Claim-free years	Sum Insured (Rs.)	Cumulative Bonus (Rs.)	Limit of Coverage (Rs.)
After 1 year	3,00,000	15,000 (5%)	3,15,000
After 2 years	3,00,000	30,000 (10%)	3,30,000
After 3 years	3,00,000	45,000 (15%)	3,45,000
After 4 years	3,00,000	60,000 (20%)	3,60,000
After 5 years	3,00,000	75,000 (25%)	3,75,000

The formula for the calculation of No-Claim Bonus and the rules for the utilisation of the same vary from policy to policy.

In some policies, if there is a claim, the Bonus that has already accrued is reduced by one stage in the next policy period, whether the Bonus has been utilised for the claim or not.

However, in the recently introduced policies of Star Health, such as Star Women's Care Insurance Policy and Star Health Assure Insurance Policy, a vastly improved formula of No-Claim Bonus has been introduced. Under these policies, the Bonus is reduced only to the extent utilised for the purpose of the claim and the balance, if any, is carried forward. Of course, no further Bonus will accrue in the next policy period, in view of the claim preferred.

For subsequent claim-free years, the policyholder will start earning the No-Claim Bonus once again till it reaches the maximum

permissible percentage, which varies from 50% to 100% of the Sum Insured, depending on the type of policy.

Irrespective of the type of policy, the Bonus is always calculated as a percentage of the Sum Insured under the previous policy year, which was claim-free. If the Sum Insured is reduced

at renewal, the Bonus shall in no case exceed 100% of the reduced Sum Insured, even though the amount of Bonus already earned may be higher.

What is the benefit of No-Claim Bonus?

As mentioned earlier, with every claim-free year, the limit of coverage will increase without any additional Premium. This is beneficial, especially during current times when medical inflation is high, and hospital expenses are skyrocketing. Depending on the type of policy, the benefit can be as high as 50% or 100% of the Sum Insured, which can be used by the policyholder for a single or multiple claims during the policy period. Thus, the benefit provides additional financial safety and security at no extra cost.

Source : <https://www.starhealth.in/blog>

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WHY INDIA IS THE GO-TO MARKET IN A VOLATILE WORLD

By **Jiten Doshi**, ET CONTRIBUTORS

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As we navigate through the uncertain waters of 2024, the global economic landscape is marked by escalating geopolitical tensions, delayed monetary policy actions, and a resurgence of market volatility. Amidst this turbulence, India emerges as a beacon of stability and growth, demonstrating resilience in a world beset by challenges. India's unique position in the global economy is a narrative that investors and policymakers alike would do well to heed.

The global scenario presents a paradox. Despite a backdrop of slower growth and persistent inflation, equity markets, particularly in the United States, have shown remarkable strength, buoyed by investor optimism and expectations of monetary easing. The S&P 500 and Nasdaq have both posted impressive year-to-date gains, a testament to the market's resilience. Yet, this optimism is tempered by the realisation that the second half of the year could be fraught with challenges.

Key economies are entering election cycles, which invariably bring a mix of social, economic, and political uncertainties. The cycle that began with India, Mexico and South Africa have all thrown up unexpected outcomes. The United States, with its unpredictable electoral dynamics, stands at the forefront of this uncertainty. The potential for a change in presidency adds a layer of complexity to the geopolitical landscape, raising questions about future support for global alliances and trade policies. Meanwhile, the war in Ukraine drags on, and tensions with China remain high, further complicating the global economic outlook.

Withstanding the test of time

In stark contrast to the global gloom, India has managed to carve out a narrative of steady, consistent growth. India has not only withstood the test of time

Synopsis

Amid global economic unpredictability in 2024, India stands out with steady growth driven by robust structural reforms and forward-looking policies. Its macroeconomic stability and strategic focus on self-reliance make it an attractive destination for investors, highlighting India as a relative safe haven amid volatility.

but has emerged stronger from it. India's ability to navigate a series of unprecedented challenges—from demonetization to the pandemic—speaks volumes about the robustness of its economic framework.

India's growth story is underpinned by a series of structural reforms and policy initiatives that have positioned it as a must-own destination for both foreign portfolio investors (FPI) and foreign direct investment (FDI). The forecast of a 7.6% growth rate this year, followed by 7.2% next year, reflects the country's strong investment climate, recovering consumption, and improving export performance. But beyond the numbers, it is the qualitative factors that set India apart.

The country's macroeconomic stability, progressive policy continuity, and a burgeoning middle class with rising aspirations have created a fertile ground for sustained growth. With a GDP per capita poised at an inflexion point, India offers a scalable, predictable opportunity for long-term investors. This is a market where the rules of engagement are changing, where resilience and predictability are now prized over short-term efficiency and just-in-time operations.

Furthermore, India's macroeconomic framework is being reinforced by a combination of prudent fiscal management and strategic policy initiatives. The focus on maintaining a balanced trinity of above-average growth, below-average inflation, and a steady currency has been a key driver of this stability. The government's emphasis on self-reliance, particularly in the manufacturing sector, is opening new avenues for growth, especially as global supply chains continue to recalibrate. This balanced approach is not just sustaining current growth but is laying the foundation for long-term economic resilience.

Rethinking investment strategies in the Indian context

For investors, particularly those with a long-term horizon, India presents a compelling case. However, the journey is not without its challenges. The market's

premium valuation—reflected in the Nifty Index trading at a significant premium to the MSCI EM ex-China—demands a careful selection of investments. In this environment, the emphasis must shift towards businesses that not only promise growth but do so with a sustainable and transparent business model.

The cautionary tale here is clear: while India's growth prospects are bright, the path to wealth creation is paved with prudent choices. The temptation to chase short-term gains must be tempered with the wisdom of focusing on quality, consistency, and the long-term potential of businesses. This approach is particularly crucial in a market where heightened valuations require a discerning eye for value. In an environment of global uncertainty, prioritizing ownership of high-quality businesses with strong governance, clear growth trajectories, and the ability to withstand macroeconomic pressures is essential for sustainable investment success.

The road ahead: Navigating with prudence

As global markets brace for what could be a turbulent second half of 2024, India's position as a relative haven is likely to attract increased attention. Yet, with this attention comes the responsibility to navigate carefully. It is important to remember that in the world of investing, strategies must evolve with the times. As India continues its march towards becoming a \$10 trillion economy, the focus must remain on building and sustaining long-term value.

For investors willing to look beyond the immediate volatility and focus on the long term, India offers a compelling proposition. The key will be to stay disciplined, prioritize quality over quick gains, and remain committed to the principles of sound investment.

(The author is co-founder & CIO, Enam AMC. Views are own)

Source <https://economictimes.indiatimes.com>

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