finlabs

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Samriddhi

Monthly Newsletter from Finlabs

IMPORTANT NEWS | INTERESTING FACTS

- Revenue Secretary Ajay Bhushan Pandey said the efforts are to automatically provide the taxpayer information on their capital gains from sale of stocks and mutual funds, dividends, etc so that when an individual is filing income tax returns, he does not have to manually fetch the data from different sources and fill in their returns.
- At the start of 2020 (January), the average assets under management for index funds and ETFs, including gold ETFs, stood at Rs 8,082 crore and Rs 1,84,534 crore, respectively. By October 2020, asset under each of these segments ballooned to Rs 13,017 crore and Rs 2,27,332 crore, respectively, registering a growth of 61% and 23%.
- Total AUM of ETFs along with index funds still comprises less than 10 per cent of the overall mutual fund AUM. In the US, passive funds account for more than 50 per cent of the overall mutual fund industry AUM.
- The Atal Pension Yojana (APY), a guaranteed pension scheme offered by the Government of India, has crossed a landmark by reaching a total of 2.75 crore enrolments.It clocked in more than 52 lakh new subscribers during the financial year 2020-21

Expert Corner

What are common Investor biases? How do you help a client overcome that

Bandwagon effect

The herd mentality describes gaining comfort in something because many other people do (or believe) the same. When the markets are going up, many investors have the fear of missing out and they too start investing without doing proper analysis. Typically we have seen that when the markets are going up month on month, there is a spurt in the demat account openings and brokerage accounts. The number of folios in the mutual fund industry also goes up. It is important to take into account the risk profile and the financial goals before initiating an investment. Seeking help from an MFD / financial advisor should streamline making informed decision.

Loss aversion bias

Loss aversion is the tendency of people to strongly prefer avoiding losses than obtaining gains. You feel more unhappy with a 10% loss in one of your stocks, than you feel happy for a 10% appreciation in another stock. This leads you to prefer very safe investments such bank deposits over equity. Equities are volatile in the very short term, but have delivered much better returns over the long term. Be objective in your decision making. Sometimes it makes sense to book the loss in case the prospects of the company are not good for the future.

Information bias

Information bias is the tendency to evaluate information even if it may not be irrelevant from the perspective of the investor's needs. The key in investing is to see the wood from the trees and to carefully evaluate information that is relevant to making a more informed investment decision and to discard (and hopefully ignore) irrelevant information. More information download only leads to confusion. So, you need to trust your instincts or depend on your MFD to take decisions on your behalf.

Recency bias

As investors, we are very influenced by what has happened in the recent past. Many a times we get influenced and look out for mutual fund schemes that have topped the 1 year performance charts and invest in that. To avoid recency bias, look at the long term performance, pedigree of fund managers, consistency of the fund to deliver in inconsistent times and the portfolio style before investing

What is the best way to invest in International Markets? How much portion should I allocate?

First and foremost, one should understand the risk and return prospects of investing in the international markets. Investment in international markets is generally recommended to investors who already have experience in investing in the domestic market. It provides a geographical diversification to the investment portfolio.

The best way to invest in international markets is to invest through the Mutual Funds which invest in the international markets. International funds or overseas funds, as their name suggests, invest in the stock markets abroad. Therefore, it gives the investor an opportunity to indirectly own foreign stocks in their portfolio. There are international funds dedicated to the US market, Europe, Brazil, China, Asian markets, emerging markets, among others.

Investing in international markets present two more risks in addition to the market risk. First, the currency exchange rate risk. If the value of the foreign currency goes down vis-à-vis the Indian currency, the returns on the fund would reduce. Second is the geopolitical risk. Any political issue, border tensions, terrorism, economic downturn or any country specific policy changes can badly impact the returns.

The amount of allocation to International funds would depend on the risk profile of the investor. International funds are generally recommended to investors with a higher risk appetite and with a longer time horizon. For an investor who wishes to begin investing here, at any point in time, should not invest more than 10% of his entire portfolio in foreign markets.

Prasad Rao - MFD, Co-founder of Investor Miles
At Investment Miles, we not only provide a resolution to your query related to personal finance and investments; but also accompany you in this journey of achieving your financial goals.
contactus@investmentmiles.com | 98206 77277