

Monthly Musings

July 2021

INVESTING LESSONS FROM SPORTS



**MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS,
READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.**

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From the Editorial Team

Last year and a half has seen Covid cast a long shadow on virtually every aspect of life and sense of normalcy has been elusive. Against this backdrop, recent resumption of various major sporting events, across the world, has provided some respite to everyone, who have been longing for some semblance of normalcy during this pandemic. While most of us enjoy the sporting action from around the world, it would be interesting to draw some parallels between sports and investing.

Just like every athlete dreams of being a national/world champion, every individual aspires to create wealth and enjoy financial freedom. However, just like in sports, where preparation, planning and persistence is not equal across athletes; financial awareness, planning and ability to curb emotional biases differ significantly across individuals and often make a critical difference between someone being financially independent or falling woefully short.

While the fame, limelight and adulation received by athletes is there for all to see, one often overlooks the emotional, mental and physical pain that these athletes endure for years to reach this stage. As an investor too, one typically looks at success and wealth creation journey of one's peers/relatives/successful investors, often overlooking the fact that the outcome that we see is on account of years of discipline and steadfast approach, even in the wake of market volatility.

What makes successful athletes special is the fact that there are so many aspirants in every sport, across the world, and yet, so few eventually make it to the national or world stage, let alone win a world championship. Skill alone is not enough. Indefatigable spirit, tenacity, resilience and persistence are equally important, if not more. Likewise, as an investor, knowing what to do and having a financial plan is not enough. One needs to have an unwavering focus on one's financial goals and stick to the financial plan through thick and thin.

Sporting history is replete with examples of enormously talented athletes, tagged 'favourites', who failed to win a major title/medal/championship and could never quite get over the disappointment. At the same time, there are countless examples of other athletes who didn't quite make the cut initially but eventually, through sheer persistence, managed to emerge victorious. An investor's journey may not unfold exactly as planned and there could be disappointment and despair along the way. Being patient with one's investment is necessary during period of sharp market downswings.

Contrary to sports, where in certain disciplines, being fast or reaching the finishing line first is the ultimate objective; in investing, being in haste and looking for short cuts to wealth creation is a dangerous endeavor, which needs to be avoided. In fact, the pursuit for financial freedom is like a marathon, where a short quick burst of sprint could be self-defeating. Approaching this marathon one step at a time or in investing parlance, investing through SIPs, can help you stand atop the podium of financial freedom.

In this instalment of HDFC MF Monthly Musings, we shed more light on the similarities between sports and investing. There are many more sections that we hope will make an interesting and insightful read for you.

Investing Lessons from Sports

This edition is dedicated to the entire sports fraternity and the indomitable spirit of all the sports persons/athletes contesting in various sporting events taking place across the world. It has been a very challenging year and a half owing to the Covid pandemic and we can imagine how difficult it would have been for a sportsperson to prepare for any major sporting event. Life of sportspersons is very hard with many sacrifices, physical pain and emotional turmoil being part and parcel of their journey. Covid certainly made it tougher for them. To watch them perform at exceptional levels, in spite of all the odds and pandemic induced restrictions is certainly awe inspiring and we salute all of them for their exceptional grit, hard work and the never say die spirit. All of us admire sportspersons across various sports and it is quite interesting to draw parallels between the world of sports and investing.



Starting early makes a world of difference

Most acclaimed sportspersons embark on their sporting journey at a very young age. While they may have become household names in their 20s or 30s, most of them, would have taken up the sport even before they had turned 10. Starting early gives them ample time to hone their skills in a particular sporting discipline. Rarely does one come across a player who started playing a sport, just few years before succeeding at the national or international level. Likewise, as an investor, starting early makes a world of difference to your investment corpus.

The below illustration showcases how you need to invest larger sums as you delay your retirement saving and how much it costs you in the long run.

	Start @ 25 Years	Start @ 35 Years	Start @ 45 Years
Investment amount per month (Rs.)	5,000	7,000	11,667
Total Amount invested @ 60 years of age (Rs.)	21 Lakh	21 Lakh	21 Lakh
Value of retirement corpus @60 years of age (Rs.)	3.21 Cr	1.31 Cr	0.58 Cr
Delay by 10 years would reduce your corpus by	NA	59%	56%

The % change is reflected over the start age in the previous column i.e. Start@45 years vs Start@35 years and Start@35 years vs Start@25 years. The calculations are done assuming a rate of return of 12% p.a. CAGR

Source: Internal Calculations. Calculations are based on assumed rates of return compounded monthly (XIRR), and actual returns on your investment may vary. This illustration is not intended to be indicative of the performance of any specific investment and does not represent a guarantee of returns in any Scheme. The above is only a tool that may help you to know benefit of early investment to reach your goal of retirement saving but it should not be construed as providing any kind of investment advice or as a substitute for any kind of financial planning.

A delay of 10 years cuts your retirement corpus by more than 50% at every step even though you may invest the same amount over time.

Small Differences with Big Consequences!

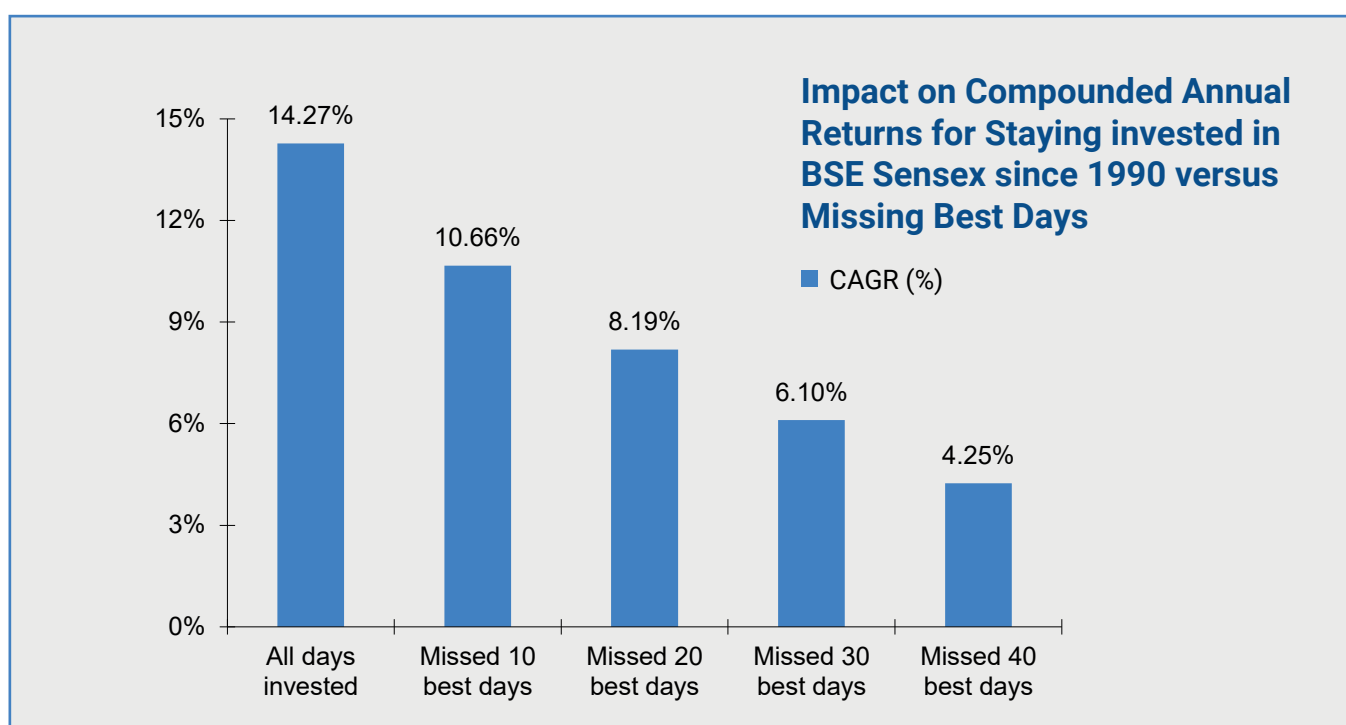
A missed catch or a minor instance of mis-fielding or even a quick single not taken in a cricket match can prove crucial and change the end result. A few unforced errors can prove costly in a game of tennis.

Similarly, small differences can have big impact in the world of investing too. We all have heard about power of compounding, but not many truly understand its importance. Rs. 1 lakh invested in an asset growing at 9% CAGR (Compounded Annualized Growth Rate) for 35 years (typically, the working tenure of an individual) grows to about Rs. 20.4 lakh. If we increase the returns by merely 2% (i.e. considering 11% CAGR) in this example, the end value is a staggering Rs. 38.6 lakh, almost double the amount compared to the earlier scenario. In other words, the extent of wealth creation depends critically on where you invest, in addition to how much time you invest the sum for. Most people focus on how much they earn every month or how much they save as well but not as much on where the savings are invested and for how long. Equities are an essential component of an investor's overall portfolio, which can give a boost to the overall returns. It may make a small difference to the portfolio returns in a year or two, but that can have a large impact on wealth creation in the long term. Small differences have big consequences. Depending on your risk appetite and investment horizon, you could consider investing in equities through equity oriented mutual funds, and more importantly, start early and stay invested for a long term.

Do not give up in the wake of adversity

Setbacks are common for every sportsperson, and this is true even for champions. The best batsman in the world can be out-of-form in a particular series. There are many examples of athletes, who at the peak of their career, faced injury crisis. However, the mark of true champions is to never give up even during toughest of times and emerge victorious. Quitting is the easiest option, but is hardly the best one from a long-term view, be it sports or investing.

Building wealth requires discipline of staying invested in the market, even if one encounters disappointment in the short run. Exiting prematurely can derail one's long term financial goals. To simplify this statement, let us assume we had invested in the S&P BSE Sensex Index on January 1, 1990 and stayed invested till June 30, 2021. The compounded annual return would have been 14.27%. Out of the total time period of 7,596 days, what if we had missed 10 best days? Does not sound like a big impact? Let's have a look at the graph below, which simply highlights the impact on our returns¹ had we missed 10, 20, 30 or even 40 best days:



Many a times, investors tend to exit equities after sharp downswings in market and wait on the side-lines for the perfect time to invest. More often than not, they miss the bus. Ability to accept disappointment in the short run is necessary to have a fruitful investing journey in the long run.

¹ Daily returns from January 1, 1990 to June 30, 2021.

Source: Internal Calculations based on Data procured from www.bseindia.com

Patience is the key!

There are many examples in the history of sports where one had to wait for years to achieve success. There are even players who have made their debut for their country past their prime. Not giving up and waiting patiently are core values of sportsmen's spirit.

Same holds true for investing. Consider the case of HDFC Flexi Cap Fund, which began its journey on 1st January 1995. A SIP of Rs. 10,000, on the first business day of every month since inception, would have created a wealth of Rs. 9.69 crores[^] ([Click here for complete performance](#)) as on 30th June 2021. Sounds so easy, but this long journey is not without hurdles and setbacks that can make us quit at inopportune times. The journey saw various events, good and bad, that would have led emotions to take over one's investment decisions. A case in point is the phase of Global Financial Crisis, where markets saw a sharp fall of over 50%. Any nervous investor would have redeemed his investment and might have failed to achieve his financial goals. An investor who maintained discipline during the entire journey is the one who would have sailed through these events and reached his goal.

No substitute for emotional strength

Any sportsperson will vouch for the fact that mental strength is as important as physical strength. All of us frequently hear that key matches/races are often won/lost in the mind. Focus, resilience and ability to cope under pressure - all play a critical part in the eventual outcome.

We have witnessed countless football or hockey matches where a team, which had performed flawlessly till then, crumbled under pressure in the last few minutes of a knockout game. Successful investing requires mental strength too. You are constantly subjected to a lot of noise in the financial markets but staying focussed and keeping emotions in check is imperative. Just like a player losing his cool and getting a red card in football can land his team in trouble, an investor losing his cool and reacting in a knee-jerk manner can throw a sound financial plan into disarray.

Right guidance can do wonders

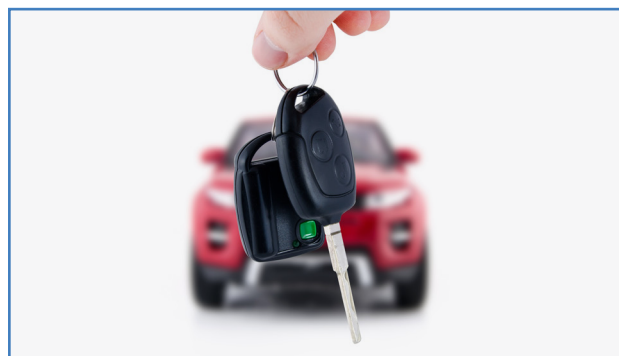
Can you name a sport where a coach/mentor is not required? Think hard!! Can't think of any? Well, there isn't any such sporting discipline where coaching is not required. While there may be some athletes who are innately more talented than others, they still require a coach/mentor. In fact, in many sports, players have a coach/mentor at all times, even till their last professional game. Just like a sportsperson's coach, a financial advisor can play a pivotal role in the pursuit of wealth creation. A trusted financial advisor can help devise a financial plan as per investor's unique circumstances and financial goals. The advisor can hand hold the investor during challenging times and guide him in the right direction. Having a better understanding of the financial markets and years of experience means that financial advisors can become pillars of strength for investors in their pursuit of financial freedom.

[^]Past performance may or may not be sustained in future.

HDFC MF/AMC is not guaranteeing/offering/communicating any indicative yield or guaranteed returns made in this scheme. The views expressed herein are based on internal data, publicly available information and other sources believed to be reliable. Any calculations made are approximations, meant as guidelines only, which you must confirm before relying on them. The information contained in this document is for general purposes only and not an investment advice. The document is given in summary form and does not purport to be complete. The document does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. The information/ data herein alone are not sufficient and should not be used for the development or implementation of an investment strategy. The statements contained herein are based on our current views and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Past performance may or may not be sustained in future.

Upgrading Lifestyle

Upgrading lifestyle is one of the top most priorities for all individuals – whether it is an upgrade to the latest phone or to the newly launched smartwatch or from a 2-wheeler to a 4-wheeler. Riding on a 2 wheeler on a hot afternoon and passing through the billboard with a picture of a sleek white car that reads “Buy your dream car today at Rs. 6 lacs” would certainly tempt you to lay your hands on that steering wheel. However, for many of us shelling out Rs. 6 lacs at one go may not be an easy decision to make.



So, how does one upgrade his/her existing lifestyle and turn their dreams into reality of owning a four wheeler?

One of the options is to take a loan. Buying a car via loan may be light on your pocket for the time being. However, paying interest over the tenure of the loan can turn out to be an expensive affair. For example, Rs. 5 lacs loan can be obtained for a car worth Rs. 6 lacs. The monthly EMI for a 5-year loan would be Rs. 10,319[^]. You may not realize but you may end up paying an interest of Rs. 1.19 lac over the entire tenure of the loan. Also, buying a depreciating asset via loan may not be the right option. A car, unlike land and equity, reduces in value over time.

Planning and Investing for Upgrade is better than borrowing

A much superior alternative that could be considered is goal based investing via the mutual fund route. Instead of taking a loan, one can plan in advance and start investing their savings in HDFC Equity Savings Fund or HDFC Hybrid Debt Fund (*click to know more about these funds*) With limited exposure to direct equities, these schemes are less volatile than other equity oriented funds. If the horizon to buy the car is around 3 years, one can consider investing in these funds. Planning in advance will not only help you achieve your goal, but will also help you to save on interest that you would otherwise pay on the loan.

As a transition from a 2-wheeler to a 4-wheeler can be a bumpy ride for some, one can also consider a used car (before they lay their hands on a brand new car) and save a substantial amount. Also, insurance premium and registration fees are far lower for a used car.

[^]Assuming interest at the rate of 8.75% p.a.

Few points to note while upgrading from a 2-wheeler to a 4-wheeler:

- An upgrade from a 2 wheeler to a car would result in higher fuel and maintenance costs. Going for a car with low maintenance would be ideal.
- Opting for a CNG car may make sense if the commute distance is expected to be long; this may help one save on fuel cost. There could be more electric car launches in the near future. Electric cars will not only save on fuel cost, but are also environment friendly.
- One can time the purchase of a car during festivals to avail festive discounts offered by dealers.
- Dealers also offer discounts during the last quarter of a calendar year to make up for their year-end targets.
- One can also claim depreciation if the car is registered under business name, thereby resulting in tax savings.
- Lastly, don't upgrade just because your neighbour has bought the latest one.

So, next time you think of an upgrade or come across that enticing billboard, consider the above points!

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Indexation Benefit

A rupee saved is rupee earned - This is an old saying which also applies to our investments. Tax outflow is one of the most common expense that impacts our investment returns. One of the ways to reduce our tax liability is to make use of indexation benefit which is applicable for debt and real estate investments.



What is indexation?

Tax on investments is usually paid on the gains, which is nothing but the difference between selling price and purchase price. Indexation allows you to adjust the cost of acquisition i.e. purchase price by Cost Inflation Index (CII). The Cost Inflation Index is released by the Central Government annually by way of notification in the Official Gazette of India and is adjusted to reflect rise in the inflation for the previous year.

How does indexation work for Debt Mutual Funds?

Investors in Debt Mutual Funds can avail indexation benefit provided the investment qualifies for long term capital gain tax i.e. it is held for more than 3 years. Indexed cost of acquisition is calculated as:

Indexed Cost of Acquisition = Cost of acquisition * (CII in the year of sale/CII in the year of purchase)**

Let's take an example to understand indexation. Suppose Mr. A invests Rs. 1,00,000 in Debt Mutual Fund on 1st July 2017 and redeems his investment for Rs. 1,25,000 on 1st December 2020. As Mr. A has held the investment for more than 3 years, the investment will qualify for indexation benefit. The gain will be categorised as long term capital gain and indexed cost of acquisition will be Rs 1,10,661.76 (1,00,000 *301/272). Thus, the taxable gains will be Rs. 14,338.24 (1,25,000-1,10,661.76) and not Rs. 25,000 (1,25,000-1,00,000). Tax liability on the gain i.e. Rs 14,338.24 will be equal to 20% plus applicable surcharge and cess. Thus, by holding the investment for more than 3 years, one can take the benefit of indexation and reduce the tax liability.

Cost of Inflation Index for last 6 years are shown below:

Financial Year	Cost Inflation Index**
2016-17	264
2017-18	272
2018-19	280
2019-20	289
2020-21	301
2021-22	317

Investors can also take advantage of **four indexations**, where the holding period will be slightly higher than 3 years, but the investment is held across 5 financial years. This can be achieved by investing towards the end of the financial year (assume in the last quarter of FY 20-21 i.e. between Jan'21 to Mar'21) and redeeming at the start of the financial year 2024-25 (assume in Apr'24). In such a scenario, indexed cost of acquisition will be adjusted for 4 years. Thus, by planning the purchase & redemption and holding the investment for slightly more than 3 years, one can take the advantage of four indexations.

Thus, Investments in debt mutual funds held for more than 3 years is beneficial compared to investments in fixed income instruments that earn interest, for investors whose overall income fall under higher tax slabs.

Information as of 31st July, 2021 and as per prevailing tax laws, which are subject to change. Readers should seek professional advice before taking any investment related decisions and alone shall be responsible. Returns are not assured or guaranteed.

#AMA - Ask Me Anything

Retirement queries

**Personal Finance queries
answered by Mutual Fund
Distributors**

Name - Mr. Bharat Bagla
ARN - 00135



What should be my asset allocation post retirement as I have a moderate risk-taking ability and which category of mutual funds to consider? #RetirementPlanning #Contest #Personalfinance

Asset allocation is important for every investor, but post retirement, it's even more crucial that you do not drift away from your optimal asset allocation. Your income stops at retirement and there is no time to recover from financial setbacks. Inflation can throw in a few surprises forcing you to dip more into your savings.

Given this, it is ideal to have a conservative approach to asset allocation with a higher proportion of income generating assets to take care of your monthly expenses, post retirement, while also not shying away from equities that can tackle inflation over time. Fund categories including Balanced Hybrid Funds, Aggressive Hybrid Funds, Equity Savings Funds or Conservative Hybrid Funds could come in handy in such situations as they offer varying degree of equity exposures suiting the need of different investors. You also need to make sure there are enough liquid assets that can prove useful in times of emergencies.

Remember, there is no one-size-fits-all formula, when it comes to asset allocation. It would always be better to seek professional help.

Additionally, for liquidity you can opt for Systematic Withdrawal Plan (SWP) of a mutual fund, which could act as a pension stream from your investments in your post retirement phase.

Equities are volatile in the short term. How to ensure I get what I planned?

Equity is a growth-oriented asset class that helps you create wealth and beat inflation over the long run. But in the short term, it is subject to ups and downs and is driven by various events like dot com bubble, 9/11 attack, domestic elections, global financial crisis, Brexit, Covid pandemic, etc. The short term fluctuations might instil a sense of fear in you, causing your emotions to get the better of you. But it is important to stay invested over the long term, as the risk or volatility reduces as the investment horizon increases. The short term volatility may make you nervous and you may exit the journey midway. Similarly, a sharp rally in the market can tempt you to book profits, thereby endangering your long-term goals.

To overcome these urges to act, it is ideal that you take the SIP route for investing in equities.

Name - **Mr. Bhupinder Singh Manik**
ARN - **86103**



We often say that asset allocation is important for comfortable retirement. But which assets should you include in your retirement portfolio?

Planning for retirement is essential. Life expectancy has increased and so has the inherent need to maintain a lifestyle post retirement. But one of the biggest enemies of your wealth creation is inflation because it erodes the value of money over time. Hence, you need to have a financial plan to secure your future.

- Building retirement corpus is usually done with integrated asset allocation approach that helps to monitor and re-adjust your asset allocation between debt and equity based on changes in markets and your risk tolerance. The asset allocation keeps changing at different stages of life.

At the start of your career, it is smarter to have a relatively higher exposure to equities as it has the potential to outperform other asset classes in the long run.

Few years down the line, as your financial responsibilities increase, it is recommended to shift towards a more hybrid approach, while continuing to allocate a sizeable amount towards equity.

On nearing retirement, it is recommended that you make higher allocations towards debt through lesser risky products like debt-oriented funds because stability is the need of the hour at that point of time.

Post your retirement, you should ideally opt for a Systematic Withdrawal Plan (SWP), which would help in withdrawing specific amounts at specific intervals of time for meeting your expenses in the post retirement phase.

How much money should one start keeping aside from day one after he starts working? How much inflation % is to be taken into consideration while calculating the required corpus for retirement?

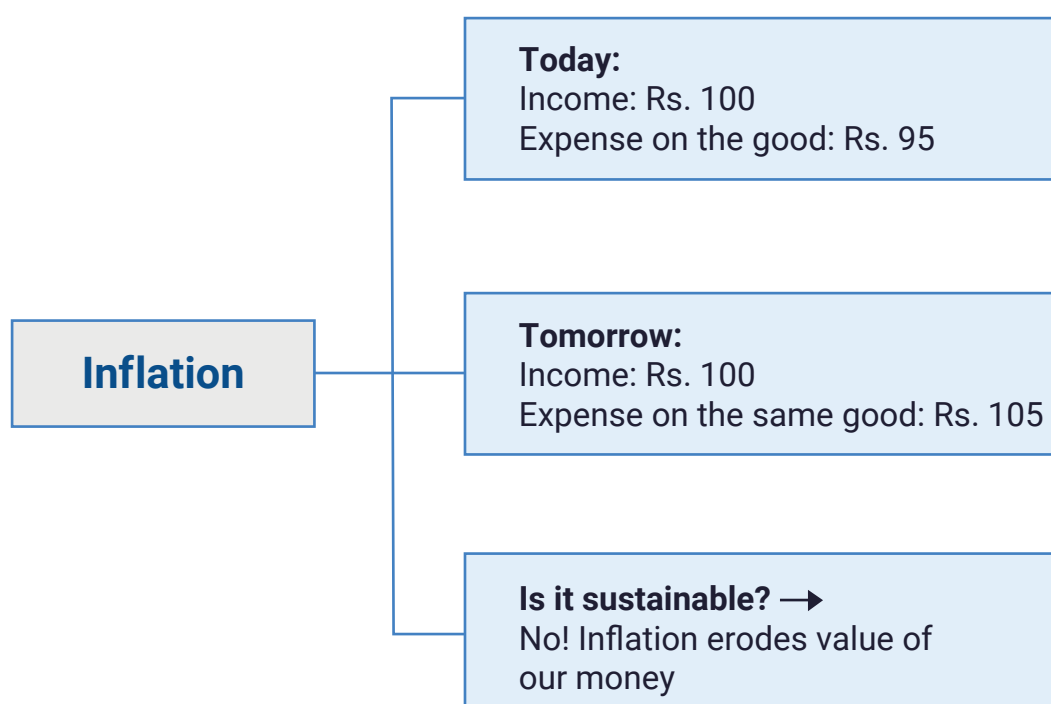
With times changing, working years are decreasing and retirement years are increasing. Hence, it has become increasingly important that you develop a habit of saving. The thumb rule that can be followed is as below:

- In your 20s: Save at least 20% of your income
- In your 30s: Save at least 30% of your income
- In your 40s: Save at least 40% of your income
- In your 50s: Save at least 50% of your income

Time is the biggest multiplier in building retirement corpus and it is advised to save as much as possible during first 10 years of earnings to get maximum compounding years possible and ease the pressure on savings in later stages of life.

There is a famous quote by Warren Buffet that goes “Do not save what is left after spending; instead spend what is left after saving”. This is a great message, especially for younger investors to bring discipline when it comes to saving for retirement.

As inflation decreases the value of what money can buy, it is an important element to factor in retirement planning. To explain the meaning of inflation simplistically, you may have to look at the following:

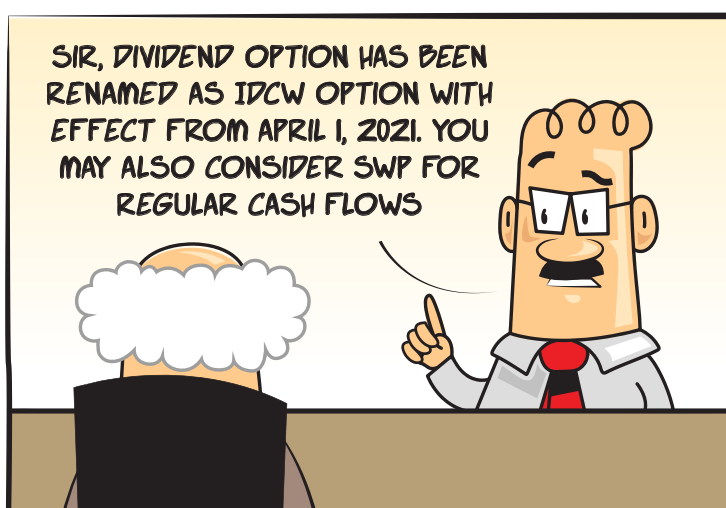


While there are various types of inflation data available, like the one based on CPI (Consumer Price Index) or WPI (Wholesale Price Index), the actual inflation for each family differs with the composition of goods and services consumed.

Costs of medical services are known to increase at a higher rate than general inflation, which is a key consideration while planning for retirement. However, we also need to be prepared financially to make use of them. More importantly, while planning for an important life goal like building a retirement corpus, one needs to consider the lifestyle improvements that we keep indulging in.

From the perspective of an investor, it is necessary that an investment earns a return higher than inflation, or else, the investment will lose value on an inflation-adjusted basis. For instance, if inflation during a particular year was 5% and value of investments grew at 4%, the real returns would work out to -1%. For this reason, an investor needs to have some allocation to equity-oriented mutual funds, which have the potential to beat inflation over the years.

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SWP - A SMARTER WAY TO RECEIVE PERIODIC CASH FLOW FROM MUTUAL FUNDS

From April 1, 2021, dividend options under mutual fund schemes have been renamed as IDCW (Income Distribution cum Withdrawal) Option as per a SEBI directive. Besides, the change in name, there is no difference between the two.

For an investor requiring periodic, say, monthly cash flow, opting for an SWP (Systematic Withdrawal Plan) is ideal as compared to Dividend. The biggest advantage of SWP is that the investor decides the frequency and amount of cash flow. On the other hand, distribution under IDCW option, is subject to availability of distributable surplus in the respective Scheme and the investor cannot choose/fix the amount being distributed. The other major advantage in SWP is the taxation. The entire amount distributed under IDCW option is added to an investor's income and taxed as per his / her slab. On the other hand, opting for SWP results in tax incidence only on the gain component in the form of capital gains taxation.

Please refer to the Scheme Information Document available on our website for more details on SWP.

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Word Scramble

Unscramble the words from the hints given below:

1. FICIATOINSREVID	2. DIFODEMI	3. TDEB
4. NMDGCUOONPI	5. AEABIRRTG	6. IGNTAKRC

Hints:

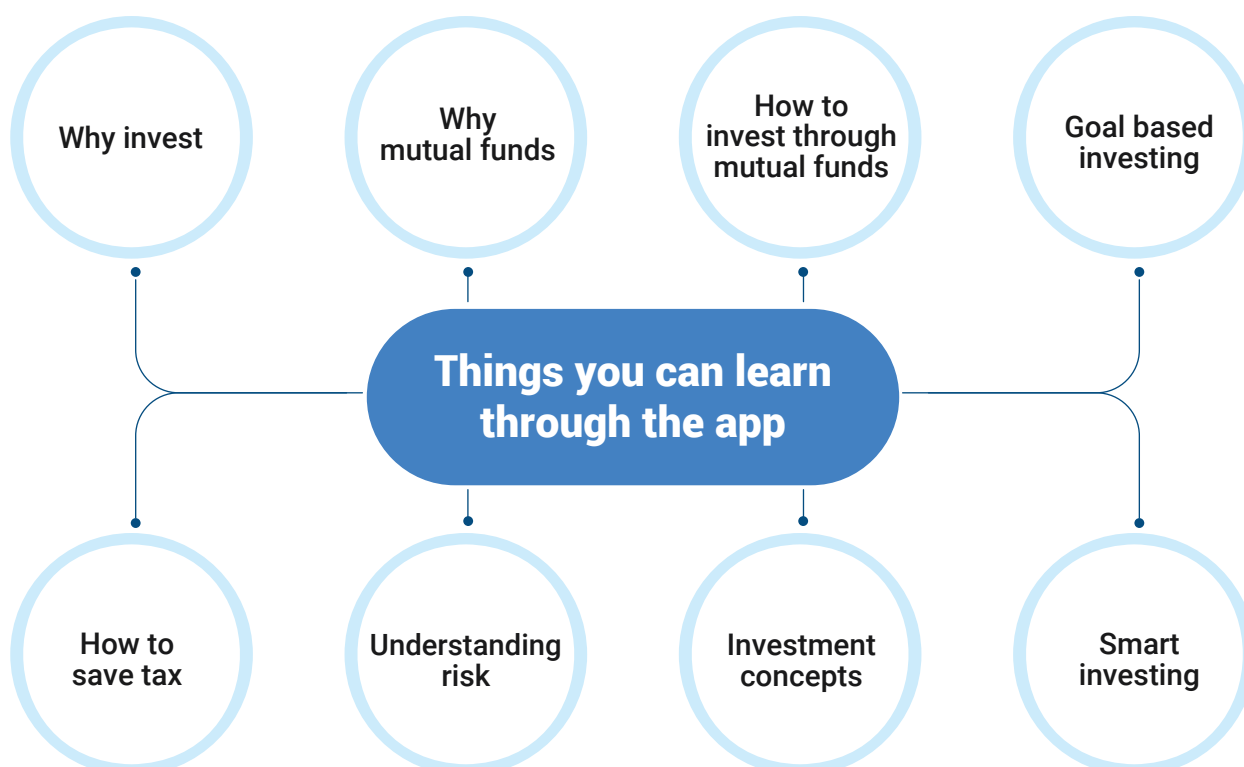
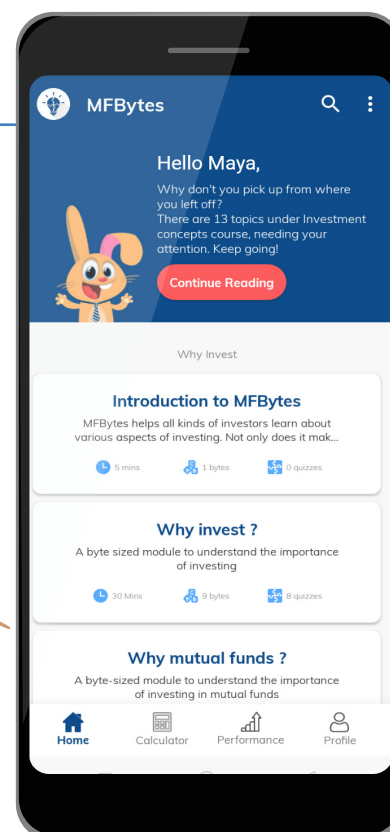
1. Allocating capital in a way that reduces the exposure to any one particular asset or risk
2. Duration which measures the price volatility of fixed income securities.
3. Fixed income securities like bonds and treasury bills.
4. When an investment generates earnings on reinvested earnings.
5. The simultaneous purchase and selling of a security in order to profit from a differential in the price
6. Error which indicates how closely a passive strategy is tracking the benchmark Index return

Word Scramble: Answers

1. DIVERSIFICATION	2. MODIFIED	3. DEBT
4. COMPOUNDING	5. ARBITRAGE	6. TRACKING

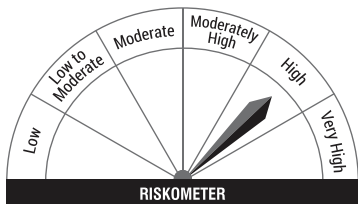
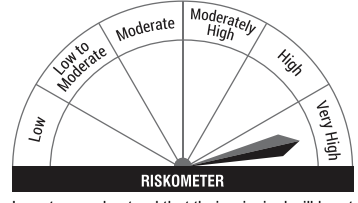
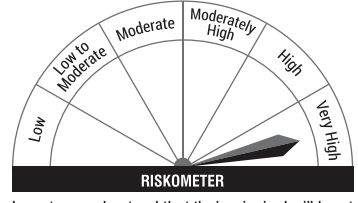
This interactive and informative app makes learning fun and simple.

With this app, you can learn about Mutual Fund investments on-the-go.



[Click here to learn about Beating Inflation.](#)

Disclaimer

Name of Scheme	This product is suitable for investors who are seeking*	Riskometer#
HDFC Equity Savings Fund An Open Ended Scheme Investing in equity, arbitrage and debt	<ul style="list-style-type: none"> Capital appreciation while generating income over medium to long term. Provide capital appreciation and income distribution to the investors by using equity and equity related instruments, arbitrage opportunities, and investments in debt and money market instruments. 	 <p>RISKOMETER</p> <p>Investors understand that their principal will be at high risk</p>
HDFC Hybrid Debt Fund An open ended hybrid scheme investing predominantly in debt instruments	<ul style="list-style-type: none"> To generate long-term income / capital appreciation Investments primarily in debt securities, money market instruments and moderate exposure to equities 	 <p>RISKOMETER</p> <p>Investors understand that their principal will be at high risk</p>
HDFC Flexi Cap Fund (Erstwhile HDFC Equity Fund) An open ended dynamic equity scheme investing across large cap, mid cap, small cap stocks	<ul style="list-style-type: none"> To generate long-term capital appreciation / income Investment predominantly in equity & equity related instruments 	 <p>RISKOMETER</p> <p>Investors understand that their principal will be at very high risk</p>

*Investors should consult their financial advisers, if in doubt about whether the product is suitable for them.

#For latest Riskometer, investors may refer to the Monthly Portfolios disclosed on the website of the Fund viz. www.hdfcfund.com

**MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS,
READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.**

**Thank
You**