

Monthly Musings

March 2022

She Can, She Will!

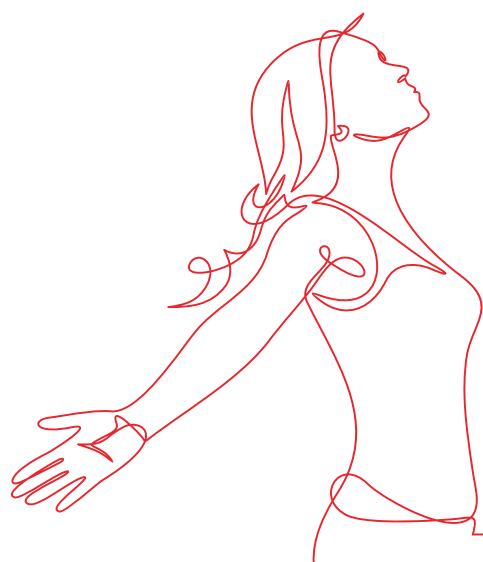


**A Women's
Day Special
on Investing.**

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

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Message from Navneet

In a few months from now, India will turn 75 on 15th August 2022. A momentous occasion it would be for every Indian to witness the celebrations as India completes 75 years of independence. Amidst all the celebrations though, one would do well to remember the role of 'the hand that rocked the cradle' of India over the years – Indeed, I am referring to the contribution of women to pre and post-independence India. The oft-used idiom that the "hand that rocks the cradle, rules the world" emphasizes how women have a pivotal impact on the society. Likewise, Indian women have had a telling impact on the world by shaping India's fortune over the years.



From the warrior queens of India like Rani Laxmibai, Rani Abbakka and Rani Ahilyabai Holkar to women involved in the independence movement like Mahadevi Verma and Captain Laxmi Sehgal, Indian women have shown unparalleled resilience and fortitude to rise up against all odds and fight not just the foreign enemies, but also innumerable societal stereotypes and social evils prevalent at the time. Even post-independence, from the likes of Sucheta Kriplani (first woman chief minister of India), Sarojini Naidu (first woman Governor of a state in independent India), Rajkumari Amrit Kaur (founder of AIIMS) to Vijaya Lakshmi Pandit (elected as President of United Nations General Assembly -1953), women continued to shape the future of India. The list could go on and on, and naming a few actually does injustice to countless others who have had an equally critical contribution to the country.

Monumental contribution of Indian women across all walks of life, including Science, Sports, Medicine, Defence, Politics, Economics etc. is undisputable. In spite of this, there are few areas where societal stereotypes result in women having limited involvement – one of which happens to be personal finance. In quite a few families, even today, women do not have significant say in decisions pertaining to personal finance and investments. While household dynamics have changed significantly over the years and women today contribute significantly to household budgets, when it comes to financial planning, patriarchal stereotypes still dictate financial planning decisions.

Further, while Indian women have been exceptional at managing household budgets and saving money for the rainy day, not a lot of thought has gone into growing that money or in other words, investing for wealth creation. Considering this need for creating financial awareness, HDFC Mutual Fund recently launched the #BarniSeAzadi initiative where we urged investors to avoid keeping money idle and consider prudent investment options like Mutual Funds for long term wealth creation. The campaign aimed at striking a chord with the wider audience, especially women across the length and breadth of India, and the feedback received to this campaign has certainly been encouraging.

It is no secret that financial freedom is the bedrock of a fulfilling life. For women, it assumes all the more significance as being financially independent gives one the confidence to be assertive and take a stand on key

issues. With this in mind and against the backdrop of Women's Day (8th March), we dedicate this issue of 'Monthly Musings' to Indian women, with a focus on financial planning.



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Ruth Bader Ginsburg, the second female Justice of US Supreme Court, once said that women belong in all places where decisions are being made and it shouldn't be that women are the exception. While these words may be close to 2 decades old, they are as relevant today as they were ever before; in a way, highlighting the slow pace of women empowerment over the years. However, slowly but steadily, women have broken the glass ceiling in most walks of life and made stellar contributions to the fields of Science, Medicine, Literature, Music, Philosophy, Politics, Sports, Finance, etc. over the past century or so.



Increased focus on education of girl child over the years has reaped rich dividends and we have been seeing **increasing presence of women in workforce** – across domains and hierarchy - in recent times. **Women entrepreneurs have increased** too. While this is a huge positive for society at large, commensurate attention has not been paid to financial planning for women, especially in India where conventionally men in the family take care of investments while women have been tasked with managing the household budget. This archaic thought process has stemmed from the fact that traditionally, men were earning members of the family and women were the caregivers. This thought process being still deep rooted in Indian psyche is detrimental to financial well-being of not just women, but society as a whole. Taking the liberty to tweak Ginsburg's quote, one may say, *Yes, women certainly belong in all places where decisions are being made and financial planning shouldn't be an exception.*

Why financial planning is more important for women now?

More women are earning now than they were 3 decades ago and they are earning more than ever before too. However, simply earning money may not be enough, owing to inflation or increase in cost of living over a period of time. Traditionally, citing inflation and consequent lack of affordability was indeed the last resort for mothers to fend off unreasonable requests from children for costly toys and other goodies. **Times have changed since then though and women today do not just manage household budget, but also add to it substantially.** However, the menace of inflation still cannot be ignored and hence a 3 pronged approach to wealth creation viz. earning, saving and investing with a sound financial plan is a must.

Longer life span means longer post retirement period

Another important variable at play is life expectancy. In line with other parts of the world, **life expectancy for women is higher than men in India too.** As per World Bank statistics (2019), globally, average life expectancy for women was ~75 years, while that for men was ~70 years. Consequently, number of years post retirement are higher for women. Coupled with the gender pay gap, longer duration of post retirement life makes planning for retirement extremely important for women. Something which has been ignored by most.

Factors beyond control affecting career trajectory

At times, traditional gender roles in our society, also lead to trajectory of women's careers being different from their male counterparts. This could be on account of child birth, employment gap on account of child care, other caregiving responsibilities at the household etc. While in many households, gender neutrality is slowly becoming the norm when it comes to caregiving responsibilities, this particular headwind on account of caregiving role does make financial planning imperative for women.

How to go about personal finance? – Start taking interest

This brings us to the more important aspect around financial planning for women i.e. How to go about it? To begin with, women, especially younger women, should **start taking active interest in personal finance, without paying heed to societal stereotypes of delegating personal finance decisions to spouse/father etc.** In quite a few families, even today, women have limited involvement in financial decisions. This needs to change. In fact, one of the first things that women ought to do post marriage is to have a transparent discussion with their spouse about each other's financial goals and ascertain key life events/ responsibilities that need to be planned for.

Come up with a financial plan

Next up is drawing a financial plan. Here one can take a leaf out of previous generation of women's book. **Traditionally, women were responsible for managing household expenses within limited resources.** They had to strike a balance between wants and needs of the family. Keeping a monthly budget ensured that financial discipline was maintained at all times. **Today's women need to take this to the next level and draft a plan, not just for a month, but for years and decades,** considering various life events, medical expenses, contingencies, dependencies and eventually, retirement. Seeking advice of a professional financial advisor is ideal.

Channelize savings into investments by taking the SIP Route

Indian women have always been exemplary when it comes to saving well and managing emergencies, including financial ones. This skill could be used by today's women, who have more financial resources than the previous generation, to create wealth over the long term, by investing prudently. SIPs in equity oriented mutual funds, with a long term horizon, can be considered for wealth creation. SIPs create a disciplined approach to investing, help to keep emotions at bay and leverage the benefit of rupee cost averaging (purchase of higher units at lower NAV and vice versa).

Also, for women, time is at a premium, as they may have to manage professional and household responsibilities. SIPs provide women a convenient way to invest in Mutual Funds regularly, without having to initiate a new transaction every time. SIPs in goal-oriented schemes may be considered to create a separate pool of investment for children's education or retirement planning.

Don't put all eggs in the same basket

Propensity of women to take excessive risk in the pursuit of quick returns is generally lower than men. Capital preservation is generally given more importance and rightly so. In this context, Asset Allocation becomes critical. **Just like women of yesteryears never kept all the household money in one place to mitigate the risk of theft, loss etc; women today can diversify their portfolio across different asset classes like Equity, Debt, Gold etc. to mitigate the impact of market volatility.** Asset Allocation products like Multi Asset Funds or Asset Allocator Fund of Funds provide one stop solutions to achieve asset allocation in one's portfolio.

Liquidity to meet contingency

Women may also consider investing a portion of their portfolio in Liquid and other short duration debt funds to meet medical emergencies in their household or to assist their elderly parents, whenever required. This may also come handy in case of an employment gap for childbirth, child care etc.

Being clueless is not an option

It is an increasingly uncertain and fast moving world that we live in. You would have come across many instances of women in the family or in your social circle who were completely clueless about their financial assets, liabilities, nominations etc. in the event of divorce/sudden demise of their spouse. One can not stress enough on financial independence and planning in today's uncertain world.

Women empowerment possible only with financial freedom

Women have strived hard to break old stereotypes and live life on their own terms. This, to a large extent, can only be achieved through **financial freedom**, which **not only gives one the confidence to take key decisions but also provides a firm footing to stand up against social malaise of any kind.**

It is worth noting that India is certainly stepping in the right direction on this count. More than 55% of 42 crore Pradhan Mantri Jan Dhan accounts belong to women under the PMJDY (Pradhan Mantri Jan Dhan Yojana), which was launched in 2015 to promote universal access to banking facilities across households.

Next time someone tells you that women should not get involved in financial decisions, you may consider helping them look up on internet about countless women, who are finance ministers of various countries or are leading major financial institutions around the world.

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Standard deviation



Most investors understand that there are risks while investing. But, how do we measure it? To make it simple, let's assume there are two investment options with similar return potential, but one of them is likely to fluctuate more around its average returns. Which one would you choose? Obviously, the one with lower tendency to undergo fluctuation (we also use the word "volatility"). In other words, the asset that fluctuates more has a higher element of unpredictability in its returns. A common way to measure this risk is standard deviation.

What is standard deviation?

Standard deviation can be used to measure the volatility of returns from a mutual fund scheme (or any other investment) over a particular period. It tells you how much the scheme's returns have been deviating from its historical average returns. It is a percentage, expressed as an annualized figure.

If a scheme has a 12% average rate of return and a standard deviation of 4%, its return is likely to range from 12% - 4% to 12% + 4%. i.e. between 8 to 16% on most occasions.

Higher the standard deviation, higher is the volatility of the asset. Higher the volatility, higher is the risk of unpredictability of returns in an asset.

Illustration using random return numbers

Yearly Returns	Investment A	Investment B	Investment C
Year 1	3%	3%	25%
Year 2	3%	8%	5%
Year 3	4%	6%	-2%
Year 4	5%	12%	8%
Year 5	7%	5%	4%
Year 6	2%	4%	-12%
Year 7	5%	18%	33%
Year 8	4%	12%	21%
Year 9	5%	0%	8%
Year 10	3%	-3%	5%
Year 11	1%	15%	15%
Year 12	2%	9%	22%
Year 13	3%	8%	4%
Year 14	4%	5%	16%
Year 15	5%	9%	8%
Average	4%	7%	11%
Standard Deviation	1.53%	5.51%	11.45%

The above example is for illustration purposes only

The above table shows the notional yearly returns of 3 investments. As can be observed, the returns of Investment A averaged 4% with a lower volatility as compared to Investment B. The standard deviation of Investment B, in turn, is lower than that of Investment C. It is commonly understood that in investing, risk and return go hand in hand, or, higher the risk, higher the returns. So the choice is not as simple as 'go for the lowest volatility investment', as you may be sacrificing on potential returns.

So the key question here is **How to deal with volatility?** Standard deviation in an asset class like equities, is usually high for shorter periods and reduces with increase in the investment horizon. Also, debt mutual funds tend to be less volatile than equity mutual funds. Within equity mutual funds, small or mid cap funds are more volatile than large cap funds.

Volatility is the nature of equity markets and equity mutual funds. Investors who wish to reduce volatility in their portfolios can diversify their investments across asset classes, invest via Systematic Investment Plan and can invest for the long term.

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Budgeting vs Impulsive Buying Behaviour



As quoted by the neuroscientists Joseph W. Kable and Joseph T. McGuire of the University of Pennsylvania – *The timing of real-world events is not always so predictable!*

Impulsive Buying Behaviour – Pros vs Cons

We are living in an era where everything is available at the click of the button. This ease of access has its pros and cons.

People have traditionally considered shopping as a stress-relieving activity. This mode of stress-relief used consciously or unconsciously by many people purchasing products for boosting their mood is referred to as “**Retail Therapy**”. Over the years, retail therapy has got accentuated because of **increase in accessibility to products of different brands made readily available through different channels at lucrative prices.**

On one hand, retail therapy releases dopamine in the brain making the buyer feel relieved, but on the other hand, **with brands incessantly pushing products, there is a higher tendency of impulsive buying.** It could be argued that buying behaviour differs from individual to individual. But the continued rise in ease of access of products makes it easily possible to fall prey to spending beyond earnings. This could dent one’s personal finances. But how?

Which choice is Smarter – Budgeting or Impulsive Buying?

Say for example, there are 2 scenarios – a person buying a product today and the same person buying the product tomorrow.

The person buying a product **today**, is prone to “**Instant Gratification**”. This feeling is deceptive because buying today nudges you to spend more impulsively. By spending more, we are not accounting for any need-based or emergency expenses that might crop up in the foreseeable future.

Talking about the other scenario – when the person buys the same product **tomorrow**, it implies that he or she is willing to **delay his or her gratification**. Such a postponement suggests that the person is considering to keep certain portion of his or her earnings aside in order to meet any exigencies.

Now, controlling impulsive buying is simple to understand, but difficult to implement. The reason for this is the **uncertainty of the benefit achieved through delaying the consumption**.

One of the best ways to control impulsive buying is **drawing up a budget**. Budgeting helps to keep better track of your expenses, and ensuring that you do not spend beyond what you earn. It further aids at reverse engineering your goals, and developing a process to come closer to your **long-term financial goals – one of the important objectives of financial planning**.

The steps involved in budgeting are:



List out your income and unavoidable categories of expenses



Creating a buffer to prepare for emergencies



Sticking closely to the budget set out for the month to reduce any chances of impulsive purchases



Regularly tracking your progress for the month



Starting your budget afresh at the start of every month

As a result of following these steps, there will be higher tendency of saving. If these savings are invested, it could help counter inflation, an enemy of your wealth creation, over a longer period of time.

Before concluding, we should understand that drawing up a budget is not a compulsion, but with the timing of real-world expenses being difficult, it is the **smarter choice than impulsive buying!**

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Game Section

Fill in the blanks

Founder member of Narmada Bachao Andolan

Q1

M _ D H _ P _ T K _ R

Youngest global CEO of a luxury brand

Q2

L _ _ N _ N _ _ R

Executive chairperson and founder of Biocon Limited and Biocon Biologics Limited

Q3

K _ R _ N M _ Z _ M D _ R S H _ W

Founder of VLCC

Q4

V _ N D _ N _ L _ T H R _

Former chairperson and chief executive officer of PepsiCo

Q5

_ N D R _ N _ _ Y _

President of the National Federation of Indian Women

Q6

_ R _ N _ R _ Y

1 = Medha Patkar, 2 = Leena Nair, 3 = Kiran Mazumdar Shaw, 4 = Vandana Luthra, 5 = Indra Nooyi, 6 = Aruna Roy

This is sourced from publicly available information and HDFC MF /HDFC AMC does not claim any accuracy or correctness for the same.

Financial Goals Need Not Frighten You



3 Mantras for any Financial Goal

Yes, any financial goal at the beginning looks to be a daunting task and it's easy to give up or lose focus midway. However, with these three simple mantras you are more likely to be successful in achieving your financial goals.

- **Start early** – The power of compounding in investing is not new to us. Time happens to be an important ingredient for compounding to work. So don't delay to start building your corpus. Talking to an expert as to how to go about is ideal.
- **Invest regularly** – Investing is not a one-time event. It's a journey throughout which you need to contribute regularly towards your goal. A simple SIP can come in handy here.
- **Stay invested** – Like in any journey, you are bound to pass by distractions in the investing journey as well. Choosing a goal-oriented fund (like a Children's Fund) can help you stay committed to the goal.

So what are your financial goals and are you prepared to ace them?

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