

# Wealth Creation Through Mutual Funds

Mutual Funds are investment products that operate on the principle of 'strength in numbers'. They collect money from a large group of investors, pool it together, and invest it in various securities. Compared to other asset classes, Mutual Funds offer several features that make them a powerful and convenient wealth creation vehicle worthy of investment.

There are two approaches an investor can choose for wealth creation through Mutual Funds.

- 1) Invest a lump sum amount and stay invested for long-term
- 2) Invest systematically through SIP for long-term

In both the cases, it can be seen that, emphasis is given on long-term investment. Investment of long-term nature is inevitable for wealth creation. There are no shortcuts for wealth creation and if they exist then the outcome from such shortcuts are short-lived. Normally, a period of more than 5 yrs is considered as long-term nature.

Let us understand the two approaches of wealth creation through mutual funds :

## Option 1 : Investor invests a lump sum amount and stay invested for long-term

No.	Scheme Name	Investment on 14-Feb-00	Value as on 21-Sep-01	Value as on 24-Nov-04	Growth
1	Franklin India Prima	1,00,000	45,550	2,56,670	156%
2	Reliance Vision Fund	100,000	41,240	2,55,610	155%
3	HDFC Prudence Fund	1,00,000	71,651	2,35,370	135%
4	Reliance Growth	1,00,000	26,818	2,21,750	121%
5	ICICI Pru Power	1,00,000	45,433	2,21,220	121%
6	HDFC Equity fund	1,00,000	51,179	2,12,360	112%
7	Franklin Blue Chip Fund	1,00,000	66,222	2,02,540	102%
8	Tata Pure Equity	1,00,000	43,927	1,82,630	82%
9	HDFC Top 200	1,00,000	46,002	1,69,780	69%
	<b>Sensex</b>	<b>5924</b>	<b>2,600</b>	<b>6009</b>	

(Values as on 21<sup>st</sup> Sep 01 & 24<sup>th</sup> Nov 04 are calculated using dividend re-invest NAV of the respective schemes)

The above table shows value of investments done in selected MF schemes under 3 market scenarios i.e. when the Sensex was at 5924 level on 14<sup>th</sup> Feb 2000 as the dot com bubble peaked, when Sensex drops to 2600 level as the dot com bubble busts, and when it again reached to 6009 in 24<sup>th</sup> Nov 2004. All the above schemes are having good track record and have tested the up and down phases of market.

Suppose an investor invested Rs. 1 lac on 14<sup>th</sup> Feb 2000 in Franklin India Prima Fund. The value of this Rs. 1 lac as on 21<sup>st</sup> Sep 2001 was Rs. 45,550 i.e. 54% decrease in the investment value. He knew that in the short-term, volatility remains high. Considering this as a short-term phenomenon he remains invested. His long-term outlook paid him off when Sensex crossed its 2000 level of 5924 on 24<sup>th</sup> Nov 2004 (approximately 5 yrs from his investment date). The Sensex closed at 6009 on 24<sup>th</sup> Nov 2004. His investment of Rs. 1 lac grew by 156% (in absolute terms) at Rs. 2,56,670.

Likewise, had he invested Rs. 1 lac each in Reliance Vision, HDFC Prudence, Reliance Growth, ICICI Pru Power, HDFC Equity Fund, and Franklin Bluechip Fund then the investment would have grown to 155%, 135%, 121%, 121%, 112% and 102% respectively.

No.	Scheme Name	Investment on 8-Jan-08	Value as on 13-Feb-09	Value as on ?	Growth
1	Franklin India Prima	1,00,000	35,367	?	?
2	Reliance Vision Fund	100,000	45,641	?	?
3	HDFC Prudence Fund	1,00,000	55,105	?	?
4	Reliance Growth	1,00,000	43,144	?	?
5	ICICI Pru Power	1,00,000	44,566	?	?
6	HDFC Equity fund	1,00,000	47,834	?	?
7	Franklin Blue Chip Fund	1,00,000	51,606	?	?
8	Tata Pure Equity	1,00,000	48,518	?	?
9	HDFC Top 200	1,00,000	52,608	?	?
	<b>Sensex</b>	<b>20873</b>	<b>9635</b>	<b>?</b>	

(Values as on 13<sup>th</sup> Feb 2009 are calculated using dividend re-invest NAV of the respective schemes)

We can draw similar analogy for the current market situation. This time the market which touched its all time high of 20873 on 8<sup>th</sup> Jan 08 (owing to India Growth Story and huge FII inflows) is down by 54% at 9635 level on 13<sup>th</sup> Feb 2009 as a consequence of global financial crisis. Let's say an investor has invested Rs. 1 lac in Franklin India Prima Fund on 8<sup>th</sup> Jan 08. The value of his investment of Rs. 1 lac as on 13<sup>th</sup> Feb 2009 is Rs. 35367 i.e. 64% erosion of capital. Now he has two options – either he remains invested or redeem his investment. If he quits from his investment, then he would incur a huge loss on his investment.

But before quitting he must consider the following :

1) **The present situation is similar to the situation prevailing during 2000-2004.** Markets touched 5924 on 14<sup>th</sup> Feb 2000 then fell nearly 56% to 2600. Thereafter it touched 6009 level on 24<sup>th</sup> Nov 04. **The value of Rs. 1 lac which the investor invested on 14<sup>th</sup> Feb 2000 in Franklin India Prima Fund was then Rs. 256670 after a period of 5 yrs. This shows how long term outlook helps generating wealth.** He must learn from the above example that **History repeats itself.**

2) Secondly he must look in to the reasons behind the current downturn in the markets. **The markets are down not because Indian economy is in a bad shape. The markets are down due to the global financial crisis.** And it is not that only Indian economy has affected. All the developed economies have affected severely. The economy of US is the worst hit because that was the epicenter of financial crisis.

Developing countries like India have experienced a slow down and its GDP is expected to grow at 6.9%-7%. To stabilize the economy RBI and Government has taken several steps. Two fiscal stimulus packages have already been given. **Remember that, Indian economy is not export-driven but the growth is based purely on domestic demand. Once this crucial phase of adjustment will pass, Indian economy will bounce back faster than the other developing economies. Considering all this, he must restore his confidence in Indian Economy and should continue with his investment.**

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## Option 2 : Invest systematically through SIP for long-term

The second option an investor can opt is investing through SIP. SIP offers great benefits to the small investors. If an investor don't want to invest a lumpsum amount at one go but want to invest at regular intervals then it is possible through SIP. SIP is an arrangement where-in one can invest a particular amount on monthly, daily or quarterly basis. There are fixed SIP dates on which investment can be done. Through an SIP, one can avail the benefit of rupee cost averaging. The advantage of rupee cost averaging is that the net asset value (NAV) is averaged out, as one will be entering the fund at different NAVs, which may be higher or lower depending on the market condition.

Now let us see how SIP can be useful in wealth generation.

### Chart Showing Amount to be invested per month for getting a fixed amount at the end of particular time frame

If you want your investment to grow by Rs. 25 Lakhs then?				
At the	Chart Showing Amt. to be invested per month assuming various rates of return			
End of	9 % return	12 % return	15 % return	20 % return
3 Yrs	60,636	58,033	55,576	51,781
5 Yrs	33,213	30,825	28,623	25,328
7 Yrs	21,605	19,410	17,438	14,593
10 Yrs	13,083	11,159	9,505	7,261
15 Yrs	6,770	5,253	4,056	2,617
20 Yrs	3,885	2,718	1,884	1,010
25 Yrs	2,347	1,469	907	399

If you want your investment to grow by Rs. 50 Lakhs then?				
At the	Chart Showing Amt. to be invested per month assuming various rates of return			
End of	9 % return	12 % return	15 % return	20 % return
3 Yrs	121,272	116,065	111,152	103,562
5 Yrs	66,426	61,650	57,246	50,657
7 Yrs	43,209	38,819	34,877	29,186
<b>10 Yrs</b>	<b>26,166</b>	22,318	19,010	<b>14,522</b>
15 Yrs	13,540	10,506	8,112	5,233
20 Yrs	7,771	5,436	3,768	2,019
25 Yrs	4,693	2,937	1,814	799

If you want your investment to grow by Rs. 75 Lakhs then?				
At the	Chart Showing Amt. to be invested per month assuming various rates of return			
End of	9 % return	12 % return	15 % return	20 % return
3 Yrs	181,908	174,098	166,728	155,343
5 Yrs	99,639	92,474	85,89	75,985
7 Yrs	64,814	58,229	52,315	43,779
10 Yrs	39,249	33,477	28,515	21,783
15 Yrs	20,310	15,759	12,168	7,850
20 Yrs	11,656	8,153	5,652	3,029
25 Yrs	7,040	4,406	2,721	1,198

If you want your investment to grow by Rs. 1 Crore then?				
At the	Chart Showing Amt. to be invested per month assuming various rates of return			
End of	9 % return	12 % return	15 % return	20 % return
3 Yrs	242,544	232,120	222,304	207,124
5 Yrs	132,852	123,299	114,492	101,313
7 Yrs	86,418	77,639	69,754	58,372
10 Yrs	52,332	44,636	38,020	29,044
15 Yrs	27,080	21,011	16,224	10,466
20 Yrs	15,541	10,871	7,535	4,038
25 Yrs	9,387	5,875	3,628	1,597

There are 4 tables given above. All the four tables indicates how much amount an investor requires for investment on monthly basis to meet his target amount considering various rates of return.

The above tables summarises the SIP amount to be invested per month for getting Rs. 25 lacs, Rs. 50 lacs, Rs. 75 lacs and Rs. 1 Cr. at the end of 3 yrs, 5 yrs., 7 yrs., 10 yrs, 15 yrs, 20 yrs and 25 yrs. Here, assumed rates of return play a very important role. For calculating the SIP amount, 9%, 12%, 15% and 20% expected rate of returns from Sensex have been assumed.

Let's assume an investor requires **Rs. 50 lacs after 10 yrs** to fund his sons' higher studies. The investor **expects 9% rate of return** from his investment for 10 yrs. The amount required to be invested per month to meet the target amount of Rs. 50 lacs after 10 yrs is Rs. 26,166 which is highlighted in the table.

Similarly, if he is very bullish on economy and expects his investments to grow by 20% for the next 10 yrs then to meet Rs. 50 lacs target, he must invest Rs. 14,522 per month for next 10 yrs.

Disclaimer: The amount mentioned in the above tables are calculated using compounding calculator at the assumed rates of return. These amounts are only indicative and don't suggest any guarantee. It depends wholly on the expected rate of return of the investor. If the expected rate of return changes, so is the amount required per month.