

INVESTING SIMPLIFIED



Index Investing. Sensible Investing

Wealth creation through investment in equity



Regular income can only help us to lead a normal hand to mouth existence. With the rising cost of living, it has become tough to maintain the living standard unless one finds an extra ethical source of income. Gone are the days of investing in gold, fixed deposits of banks and post office savings scheme. The real returns (inflation adjusted returns), in such investments are meager or sometimes negative. Real estate offers a good scope for high returns, but it needs huge investment and it is illiquid. Yet equity can be scary, since the equity market seems complex.



Blade companies... Return on Investment” v/s “Return of Investment”

Beware of such companies. Understand their ulterior motive and never yield to their bogus promises. Instead of looking forward to “Return on Investment”, here it is the case of worrying about “Return of Investment”.

Simple. It is proven that prudent investment in equity is a wonderful way to create wealth. All one needs is discipline in investment, patience and little a planning. No one plans to fail, but most of us fail to plan. More true when it comes to investment.

Where will my money yield more money?

OK, what is the proof that my money will grow in equity investment?

Believing is knowing... See for yourself. Value of ₹ One lakh invested in equity:

Year of Investment Company	Appreciated value as on 31.10.2010		
	Reliance ₹	ITC ₹	Tata Steel ₹
1990 (Invested ₹ 1 Lakh)	33,00,000	42,00,000	5,00,000
1995 (Invested ₹ 1 Lakh)	14,00,000	12,00,000	3,00,000
2000 (Invested ₹ 1 Lakh)	8,00,000	6,00,000	11,00,000

Moral: Selection of good companies and reasonably ample duration will yield better returns.

(Source - www.bseindia.com)



What is the guarantee that I will not lose my money in equity investment?

Correct. Unless one has a good knowledge of equity market, chances of losing money cannot be ruled out.

Then, what should I do now?

Mutual Funds can do the job for you. Mutual funds float many schemes for different types of investors. Schemes can be classified depending on their risk and return. High return is always associated with risk. Remember, a ship is safe when it is anchored in the harbour but it is not meant for that, it has to sail in the mid sea. The biggest risk is not taking any risk.



I am averse to risk... but I want to get good returns...!!!

Simple! Index Funds of Mutual Funds invest only in the shares comprising the Index in the same weightage. Companies comprising the Index are cherry picked by experts in the field. Your money is invested in the Index companies only.

Tell me more about Index funds...

Equity Funds of Mutual Funds are of two types viz., Active Funds and Passive Funds. In an Active Fund, the Fund Manager, based on the equity research reports, decides which scrips are to be bought or sold. He also decides the timing of buy and sell. Sometimes he decides to keep part of the corpus as cash, if the market is not favorable for investment. So, to a large extent, the returns are linked to performance of the Fund Manager. No doubt such funds can give better returns but the caliber of the Fund Manager is vital in determining the returns. On the other hand, Passive Funds do not give any freedom to the Fund Manager, as the corpus has to be invested only in Index scrips.

ACTIVE PASSIVE
FUNDS FUNDS

In India, we have two prominent indices of two leading Stock Exchanges. The Sensex, that consists of 30 largest and most actively traded stocks, representative of various sectors, on the Bombay Stock Exchange and S&P CNX Nifty, a well diversified Index constituted by stocks of 50 large companies listed on the National Stock Exchange of India. The stock market Index is the barometer of the stock market at any point of time, which gives an idea about the market position. The Index is constituted by scrips selected in terms of liquidity, corporate governance, market capitalisation etc.

What constitutes an Index...?

So, Index funds deploy its funds only in shares that constitute the Index...?

895.63	1459.38	0.29	▲	0.02%
1749.23	2536.12	-4.56	▼	-0.02%
258.36	895.25	-0.21	▼	-0.02%
1857.95	128.36	0.01	▲	0.01%
846.37	4442.23	2.56	▲	0.18%
1284.64	859.28	1.25	▲	0.09%
2564.58	258.63	4.85	▲	0.25%
1857.44	894.27	-0.20	▼	-0.01%
658.12	1683.85	8.66	▲	0.41%
1654.32	895.83	2.67	▲	0.02%
756.23	1857.95	9.25	▲	0.05%
1421.15	846.37	3.57	▲	0.03%
1418.11	1284.64	7.23	▲	0.10%
	2564.58	4.28	▲	0.13%
	1857.44	1.28	▲	0.02%
	1457.42	1.84	▲	0.02%

Absolutely true. Since a readymade portfolio is available in the form of Index scrips, with best companies selected across industries, it makes the Fund Manager's job easier. Index Funds' corpus is invested only in the scrips comprised in the Index, that too in the same weightage as assigned in the Index. Simply, the portfolio of an Index fund will replicate the Index.



Does it mean, investment in an Index Fund is risk-free?

No. But the risk is lesser compared to diversified equity schemes or direct equity investment. History has proved that every bull run has overtaken the previous peaks. A look at the BSE Sensex value over the years proves the point: 1991 - 982, 1992 - 3080, 1994 - 4588, 1999 - 5005, 2003 - 5838, 2005 - 8634, 2006 - 12042, 2007 - 14090, 2007 - 19837, 2007 - 20286, 2010 - 20800. (Source - www.bseindia.com)

It looks pretty interesting.... Can I invest in diversified equity schemes also?



Sure. It depends on the risk appetite of an individual. High risk always gives scope for high returns.



I am not sure as to how much I should invest in equity related schemes...

First avoid impulsive investment. Have a proper plan. Study the market. And if you're still not able to make a decision, join a Systematic Investment Plan (SIP). If you are new to equity investing, SIP is the easiest option.

Wow!!!!...
What is SIP...?

Equity investment is based on a "Buy Low, Sell High" concept... It is easier said but difficult to track the ups and downs of the equity market... To average out the ups and downs, one should invest a fixed sum every month by choosing a particular date... The ups and downs in such a case will be evened out over a long period.

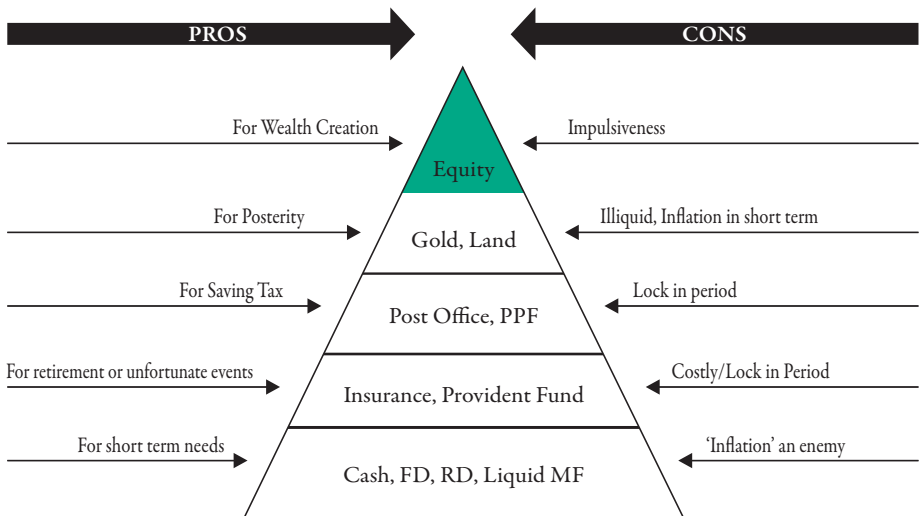




Let me know the pitfalls in the investment...

Everything has pros and cons. Investments are not an exception. But one can win over the negative side by disciplined investment.

Only equity investments can tackle the enemy - *inflation*



Fortune is at the top of the pyramid.

But impulsiveness is a common enemy – it can destroy even savings that are invested.
Therefore, be disciplined, avoid impulsiveness, and invest for the long term.

Try to be the elephant



Don't try to be the bull



Happy Investing...

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