

Simple strategies for small investors



The investor who does not have a rich pile of money must look around for mutual fund products that cost little but give good returns.

With mutual funds wooing the small investor, a lot of schemes are coming into the market. How does a small investor turn rich with new products, novel schemes, ideal funds, trackers and paper perusal?

THE ARRAY

Salary Funder: A salaried individual? You can use a Salary Advantage mutual fund, to invest a little part of monthly earnings. The interesting part is that no minimum balance is required. A small amount from your salary is first invested in a liquid fund. Thereafter, the sum goes into growth or vision fund schemes. The amount keeps growing. On each day, the salaried man earns a little.

The zero: A zero balance folio scheme permits fast entry into a scheme. A folio number is given by the registrar. Documents are filled only later. With a zero balance, the investor gets a folio number.

Direct entry: A small investor who can't carry forward investing for long can choose a Direct Investment product. He can move from gold to plain mutual schemes to exotic funds, whenever wanted; a fixed sum of Rs.5,000 a month has to be deposited, while he can court a Gold ETF or low-cost MFs, according to his wallet.

Smart stepping: A Smart Stepper allows a small investor to invest small amounts at higher unit levels and larger sums at lower ones. The money invested in liquid or debt plans goes on flowing to equity. Thus, investment remains stable and returns are high.

Alpha aimer: An alpha scheme enables small investor to gather profits, too. The fund holds two different stocks of one company. When the price of one goes up, the fund buys more and sells the other, whose price is going down. For example, if 'cars' goes up, the fund buys 10 per cent more and sells five per cent of 'pharma', which is going down, and 15 per cent returns are generated.

Daily zoom: A Zoom pack empowers small investors to transfer money from liquid funds to equity, on a daily basis. When the market is fluctuating, they avoid shifting. Thus, investors get protected from volatility.

Floater interest: Interest rates keep going up and down, which may hit hard. A MIP Floater adjusts an MF to risks. When interest rates go up, returns on the floater go up. If interest rates

fall, the returns fall. The small investor does not have to struggle with interest figures. The MF floater adjusts returns so that he does not suffer.

Accumulate: Bothersome exit load? Try right of accumulation option. An investor can avail of discounted or waived exit load, by investing a pre-decided amount for some time. The only condition is that units should be held on, not sold during the discounting cycle period.

KNOW THIS

Many small investors think they have to stay put in an mutual fund scheme for a long time. Now, new products allow an investor to place cash for six months or even less. Hence, it's easy to make a quick buck.

Affordable units are offered by some mutual funds, down to just Rs 500.

The common investor should stay away from sector funds, thematic ones or speciality mutual funds. Index funds carry least risk. For the elderly, liquid funds are alright. It's very easy to exit from these fund schemes, as it takes one day.

Which mutual funds have low charges? Index funds and fund of funds require little management expertise and, hence, investors find they have lesser charges. To learn about charges and expense ratio, the investor should see the prospectus in March and September every year.

How does a small investor want profits 7 dividends or does he wish to go for dividend reinvestment or would he settle for bonus? This query baffles many. If he's investing in an equity fund for less than one year, dividend or reinvestment of dividend is a prudent choice. The tax goes down. But, if he has chosen a debt fund, the small investor must opt for bonus. The capital gains tax is lowered and dividend distribution tax is avoided.

MINUTE TRACKING

As a small investor has to find the weekly performance of a scheme, he needs a microscopic tracking tool. A trailing return tells only half the story. It indicates how the fund performed in the past. The small investor must use a rolling return method. Take an example. A small investor puts earnings into a scheme from March 3-10, and finds the trailing return is 0.05 per cent, but is this a correct picture? No.

The rolling return looks for consistency. Under it, all past weekly returns are added and the average arrived at. The rolling return, say, shows 0.08 per cent, on calculation. Here, it means the performance of the fund (0.05 per cent) has been worse than the average performance (0.08 per cent).

DIG THROUGH DOCUMENTS

Small investors must study the fine print, when choosing an MF. Very often, funds talk of assured return. Is it mentioned in the offer document. Another point: does the fund assure return for one year or less? The time frame must be mentioned, or else the scheme may give assured return for a few months.

A mutual fund may state that profits are rising; find if taxes have been paid. The balance sheet would give the answer. Does the mutual fund have cash? Look up the current account. Some of them might announce about fixed deposits in banks. Check if interest from bank fixed deposits is appearing in the account statement.

Technology is coming to the aid of the small investor in a big way. The mobile digital platforms remove unnecessary layers of brokers and distributors. One mutual fund has set up a special cell phone, only for investor work.

From recurring investment facilities like in-bank recurring deposits to anytime mutual fund investment cards akin to bank debit cards, the small investor can have his pick. All in all, it is possible for him or her to squirrel away earnings and gather big nuts, from mutual funds.