Wealth Insignia

MONTHLY FINANCIAL NEWSLETTER 'BY THE FAUJIS. FOR THE FAUJIS.'

- **Financial Micro Bytes**
- **Top Clients Queries of the Month**
- **HFI - Media Features**
- **Sneak Peak into HFI**

HUM FAUJI
OUR VALUES. YOUR TRUST.

By the Faujis. For the Faujis.

RISK MANAGEMENT IN A BOOMING MARKET: CRUCIAL ASPECTS YOU CANNOT OVERLOOK

In the midst of a market rally, the allure of high returns can be irresistible for investors. However, the surge in stock prices also brings about increased risks that should not be overlooked. Successful investing is not just about chasing profits but actually more about managing risks effectively. Here, we'll discuss the critical aspects of risk management that every investor should consider in a booming market.

Diversification: The Foundation of a Robust Portfolio

Diversifying your investment portfolio is a timeless strategy, and its importance only amplifies during periods of market exuberance. In a booming market, certain sectors may be disproportionately driving gains, creating vulnerability if those sectors experience a downturn. By spreading your investments across different asset classes, sectors, and geographies, you can mitigate the impact of a potential market correction.

Reassessing Risk Tolerance: Aligning Investments with Personal Goals

As the market surges, it's essential for investors to reassess their risk tolerance. Aligning your investment strategy with your risk tolerance ensures that you can stay committed to your long-term goals without succumbing to emotional decision-making during market volatility.

Regular Portfolio Reviews: Adapting to Changing Market Conditions

In a rapidly changing market, periodic portfolio reviews are crucial. Regularly assessing your investments allows you to rebalance your portfolio, ensuring that your asset allocation aligns with your financial objectives.

Setting Realistic Expectations: Managing Performance and Avoiding FOMO

During a market rally, the fear of missing out (FOMO) can lead investors to make impulsive decisions. Setting realistic expectations about investment returns is vital for avoiding emotional reactions to short-term market fluctuations.

Remember, the key to long-term success is to capture upswings while safeguarding against downturns. Consult a financial planner to tailor these strategies to your unique situation.

MF Alam, Sr. Research Analyst - Team Hum Fauji Initiatives

DEBT FUNDS SHOULD CONTINUE TO BE YOUR SAFE INVESTMENT MAINSTAY

Debt funds offer more than just tax benefits. Even with indexation benefits gone, their diversified potential, huge flexibility, and better returns make them a very potent safe investment avenue. Let's explore further.

Liquidity

Most debt funds are highly liquid, allowing investors to redeem their investments quickly and easily. This is in contrast to SCSS, which has a lock-in period of five years, and bank FDs, where you pay penalties for premature withdrawals.

Tax Efficiency

In bank FDs, you are taxed every year, while in debt funds you pay only when you redeem. Additionally, and this is a very huge one, investors can offset their capital losses on debt funds against their capital gains from other sources like real estate and stocks, and vice versa. Also, unlike bank FDs, no TDS is deducted from the debt funds.

Risk Profile and Market-to-Market

While bank FDs offer low risk, debt funds provide flexibility in tailoring risk exposure. Additionally, debt funds benefit from M2M accounting, which can provide an advantage in falling interest rate scenario as is happening now. Given that interest rates are currently at their peak and are expected to decline in the near future, debt funds are a more attractive investment option compared to bank FDs.

Higher Return Potential

Debt funds have the potential to generate higher returns than SCSS and FDs, especially in the long term. This is because debt funds invest in a diversified portfolio of fixed-income instruments, including corporate bonds, government securities, and money market instruments.

Systematic Withdrawal Plan (SWP)

The cherry on the cake is that you can take a monthly pension or income from debt MFs while saving up to 60-70% of the tax that you would otherwise pay from any other source including a government pension.

Debt funds have evolved from mere tax-saving tools to versatile financial instruments that offer stability, regular income, and diversification. By embracing this broader spectrum of benefits, investors can effectively achieve their financial goals and build a secure future.

Vishakha, Relationship Manager - Team Arjun, Hum Fauji Initiatives

WILL YOUR TOP-PERFORMING FUND ALWAYS REMAIN ON THE TOP ?

In the world of investing, it is tempting to chase after the top-performing mutual funds. After all, who wouldn't want to invest in a fund that is consistently beating the market?

However, it is important to remember that past performance is not necessarily indicative of future results. Look at the following:-

2015-17	2018-20	2016-18	2019-21	2017-19	2020-22
1	175	1	22	1	165
2	20	2	17	2	161
3	161	3	63	3	53
4	68	4	184	4	33
5	139	5	84	5	166
6	177	6	163	6	41
7	64	7	98	7	94
8	95	8	97	8	164
9	171	9	109	9	109
10	156	10	102	10	69
11	92	11	2	11	87
12	122	12	39	12	149
13	154	13	105	13	152
14	9	14	156	14	54
15	173	15	85	15	162
16	90	16	106	16	123
17	93	17	59	17	17
18	116	18	144	18	105
19	71	19	49	19	95
20	147	20	119	20	146
21	100	21	57	21	145
22	129	22	171	22	147
23	172	23	117	23	122
24	142	24	182	24	125
25	85	25	38	25	179
26	32	26	15	26	120
27	135	27	23	27	49
28	102	28	77	28	195
29	127	29	169	29	21
30	134	30	46	30	45

The number 1 fund of 2017-19 is currently ranked 165

As depicted in the above table, you can see that the top fund of 2017-19 is ranked at 165 in the year 2020-22.

Several reasons why the top-performing fund does not always remain on top:

- **Market sentiment is constantly changing.**
Market conditions can dramatically affect a fund's performance.

- **Fund managers are human and make mistakes.**
While fund managers strive to make sound investment decisions, they are not infallible. Wrong calls can lead to poor performance.

- **Funds can become too popular.**
When a fund becomes too popular, it can attract more money from investors. This influx of cash can increase the fund's size and holdings, making it more difficult for the fund manager to maintain the same level of performance.

Tips to avoid the trap of chasing top-performing funds:

- **Evaluate performance over multiple time periods.**
Don't just focus on recent performance.

- **Consider the fund's investment style.**
What types of investments does the fund invest in? Does the fund manager have a proven track record of success with this investment style?

- **Invest for the long term.**
Don't expect to get rich quickly by investing in top-performing funds. Focus on building a diversified portfolio and investing for the long term.

That is why it is very important that your portfolio should be reviewed at regular intervals and balanced if required. Is your current financial advisor doing that?

Avinash Kumar, Research Executive - Team Hum Fauji Initiatives

HOW TO INVEST IN YOUR CHILD'S EDUCATION?

Investing in your child's education is one of the most important financial decisions you will ever make. With the rapidly rising education cost, it becomes important to start planning early. Here are a few things to consider before starting your child's investment:

Choose the right investment products as per the time horizon

There are a variety of investment products available, so it's important to choose the ones that are right for your time horizon and risk tolerance.

Child's Age	Period	Time Available	Recommended Instruments
13-17 Years	Medium & Short Term	1 - 5 Years	Debt or Hybrid Fonds. Fixed Deposits if less than 2 years.
12 Years or lesser	Long Term	5+ Years	Equity-Oriented Mutual Fond, Sukanya Samriddhi Yojana(Girl Child)

Also, there are some specific children's gift funds that are designed exclusively to meet children's future financial needs, such as college costs and other expenses.

Tax–Efficient

Investment in your child's name can be tax-efficient as well. Till the child is a minor, any capital gains arising out of the investments from mutual funds would be taxable in your hands. But once the child becomes 18 years old, any capital gain would be taxed in the hands of the child only. So one can capitalize on this tax hack by investing in a child's name when the child is a minor and taking it out when he/she is 18 years old saving all or a substantial amount of tax.

Invest regularly

One of the best ways to grow your money is to invest regularly. This means setting up a systematic investment plan (SIP) so that a fixed amount is invested in your chosen investment product at regular intervals.

Seek professional advice

If you're not sure how to invest for your child's education, it's a good idea to seek professional advice from a financial planner. A financial planner can help you assess your financial situation and create a personalized investment plan.

Since the education costs are soaring, if you don't begin early enough, funding your children's higher education might get challenging. By investing wisely, you can help ensure that your children have the money needed to

Yogesh Gola, Relationship Manager - Team Advisory Desk

WHAT TO DO WITH THE MUTUAL FUNDS OF YOUR CHILD WHEN HE/SHE TURNS 18?

There are various investment options available to overcome this and investing in mutual funds is one of the best. We all know the benefits of investing in mutual funds but rarely do we know the steps required to be taken once your child attains the age of majority which we know as the **Minor to Major process.**

The guardian needs to apply for a change of status of the sole account holder from Minor to Major. By failing to do so, all future transactions would be suspended in the minor's account. The account can be operated only after completion of certain paperwork. Here is the process to be followed in this regard.

1 Apply for PAN

The applicant needs to obtain a PAN.

2 Open or update bank account

The applicant needs to open a new bank account as a major or update the existing one from minor to major status.

3 Register KYC

Next, the applicant needs to complete the mutual fund KYC process. It can be done online too.

4 Submit change of status form

Next, the applicant can fill up the minor attaining majority (MAM) form and submit it along with the following documents:

- Copy of PAN Card.
- Copy of KYC acknowledgment or a duly completed KYC form.
- A canceled Cheque leaf with the applicant's name printed on it or the applicant's latest Bank State ment/Passbook.
- Nomination form.
- Signature attestation by the banker in the prescribed format.
- A fresh SIP, STP, SWP mandate in the prescribed form if the applicant wants to continue the SIP, STP, SWP in the folio.

Pratibha, Financial Planner - Team Sukhoi

HOW BRUTAL HAVE THE BEAR MARKETS IN SMALL CAPS BEEN?

History repeats itself – since our childhood we all have heard this quote and the market proves it time and again.

In 2008 January, small cap index corrected 78% from its peak over the subsequent 14 months and it next touched its high in July 2016, only after 8 years. In the 2008 to 2009 crash, how many small cap stocks did not crash? A grand total of 1%! What are the odds that not only would you have held these stocks but that these would have comprised the majority of your portfolio?

In fact, 90% of small-caps were down more than 50% in this period.

The small-cap bull run of 2016-17 too didn't last long and corrected a 65% fall from the January 2018 high over 14 months. The level was crossed again only 3½ years later.

How about the 2018-20 small-cap collapse? 78% of stocks were down more than 50% and only 2% were up in that period.

Sr No	Start of the Crash	Lowest Point reached on	Next high on	No of Days to claw back	Max Drawdown(%)
1	08/01/2008	09/05/2009	28/07/2016	3124	77.50%
2	16/01/2018	24/05/2020	07/06/2021	1238	65.10%
3	11/05/2006	14/06/2006	10/11/2006	183	34.70%
4	18/01/2022	20/06/2022	21/08/2023	580	33.40%
5	05/01/2004	17/05/2004	21/09/2004	260	29.30%

Did the majority of small-cap stocks actually ever recover?

The small cap index generally changes 18-20% of its constituents every year. So, every 5 years, the Index is technically all-new. Therefore, even after eight years, the small-cap stocks that made the highs in 2008 never ever recovered – many just vanished from the face of the earth or became penny stocks. So, even if you had been patient enough to hold such individual stocks for eight years, you may not have recovered your money.

The lesson of the story

For the majority of the investors, small-cap stocks may be a landmine instead of the goldmine that they thought, unless they have built up the capacity for high-quality data gathering and research. But alas, most of them rely on Tips and Gyan on WhatsApp and YouTube.

Does it ring a bell for you on what happened in the stock markets last month?

Ujjwal Dubey, Associate Financial Planner - Team Prithvi

WHAT DID OUR CLIENTS ASK US LAST MONTH ?

Client

I invested a significant amount from my Retirement Corpus with you in the Equity: Debt allocation of 65:35 and one of my close friends also invested with you in 80:20 Equity: Debt allocation. I want to know the parameters that you considered for my investment planning and what returns should I expect from my investments.

Our Associate at HumFauji

There are many parameters that are considered for making an Investment Plan for every investor such as their age, risk appetite, cash flows, investment horizon, financial goals, and assets & liabilities. Therefore, customized investment planning is needed for any individual's case as the above factors cannot be the same for every investor. Infact, each one of our 3300+ investors has their own unique portfolio.

Considering their holistic asset allocation, if we feel that the client may require redemption from the portfolio managed by us in the short term of 0-2 years, we need to have that much amount invested in safe investments even if the client is an aggressive investor preferring Equity and some more risk. You see, the requirements/goals of the clients should not be compromised by a financial planner at any cost. Conversely, we try and convince even conservative clients to take some equity for their long-term goals or wealth creation as there cannot be growth in their portfolio if they do not take even small risks with their investible money.

Returns in any portfolio depend on the portfolio's asset allocation and how each asset class has performed over time. On a conservative note, we expect 12% of stabilized returns from the equity in a time span of 5-6 years and 6-7% from the Debt segment in the long run. Eg, a 65:35 Equity: Debt allocation will generally give an average of 10% returns in the long run. If we increase equity, the possibility of higher returns increases but the volatility of the portfolio also increases which can cause alarm amongst some investors. That is why scientifically evaluating the risk profile of each and every investor and regularly reviewing and balancing of portfolio of each and every client is the dharma of every conscientious financial advisor.

Associate Manager - Team Arjun

Question by our Client

Is investing in NPS a good investment avenue for me? I am a serving armed forces officer.

NPS is a closely regulated product specifically made for retirement saving and is meant for those who are not likely to get any pension from anywhere or will get a depleted pension to which more money needs to be added regularly if they are to maintain their lifestyle after retirement. So, this product is not designed for armed forces officers who will get a good pension on superannuation.

For most of the officers, the additional Rs 50,000 tax rebate as per the 'old tax regime' is a big attraction. But remember it just saves you a small tax of Rs 15,000 per year, or Rs 1250 per month, if you're in the 30% tax bracket. But a big amount of this money could get locked forever, giving you a tiny additional fixed pension (no DA increase there!) at a low rate of return. Additionally, since the Govt is anyway moving everybody to the new tax regime, this rebate will not apply if you too move to the new tax regime in a couple of years.

Please remember that any saving based on a current favourable tax structure is not really sustainable – tax laws keep changing all the time as just the past 3 years have shown.

If we look at NPS as an investment vehicle, then the only good part that we could find was its low expense ratio (or the cost of investing). But other many drawbacks make it a poor investment:

1. Cannot have more than one fund manager at any given time making it an 'all eggs in one basket' case.
2. Locked in till 60 years of age.
3. Pension is given as an annuity by a life insurance company which is notorious for low returns.
4. Tax inefficient pension – it is fully taxable.
5. If the total corpus is more than 5 Lakhs at the time of pension, at least 40% of it is locked for life.

So, look at the pros and cons very carefully if your decision to invest in NPS as an armed forces officer is based entirely on a small tax saving today!

Associate Manager - Team Sukhoi

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MEDIA FEATURES

Proudly sponsoring the Runveer 5.0 Marathon at Infantry School Mhow, Hum Fauji Initiatives extends its unwavering support to promote health, fitness, and the spirit of camaraderie among our brave soldiers.

India's household savings have recently reached a 50-year low, intensified by the upward surge in inflation impacting the cost of daily essentials. Coping with these challenges, our CEO, Col Sanjeev Govila (Retd), shares valuable insights in a recent article on managing runaway inflation, featured in 'MoneyControl.' In the article, he recommends practical tips such as cooking at home, ride-sharing, and trimming unnecessary subscription services to help individuals accumulate savings amidst the current economic climate. These simple yet effective strategies can make a significant difference in safeguarding day-to-day household budgets.

Check out the exclusive article here,
https://www.moneycontrol.com/news/business/personal-finance/indias-household-savings-hit-50-year-low-easy-tips-to-boost-your-savings-11866361.html

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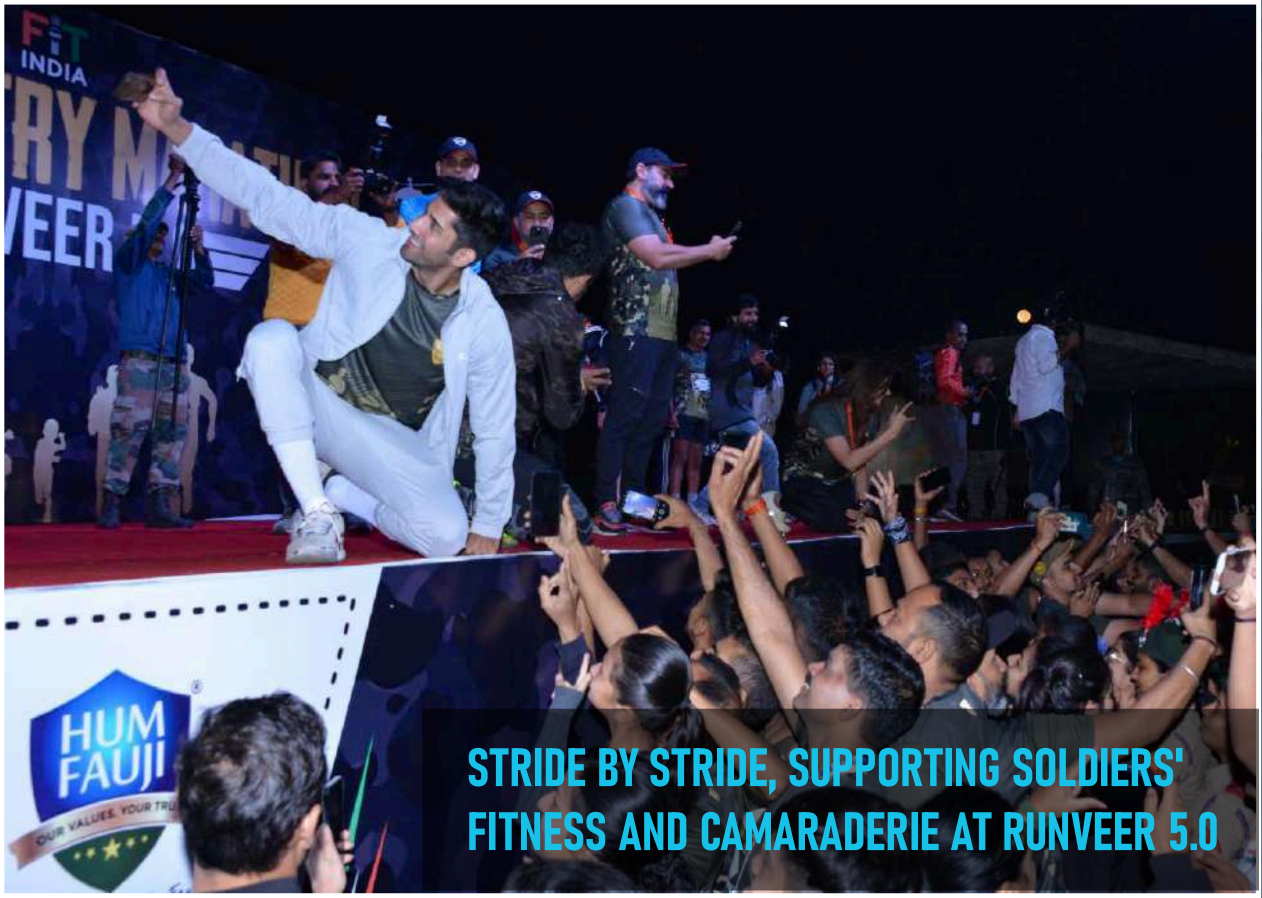
Unity in Action:
Hum Fauji's Outdoor Cricket Spectacle

The Cricket Outdoor Session was a symphony of energy, team spirit, and pure fun. As players seamlessly collaborated, strategised, and celebrated victories, team spirit soared, forging connections that stretched far beyond the pitch boundaries. This sneak peek captures the very essence of the enjoyable outdoor experience.



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