Capital SPROUT

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NEWSLETTER – MARCH 24

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BANK FDR V/s HYBRID (DYNAMIC ASSET ALLOCATION) FUND

The Chairman's Message

Greetings from Capital Sprout!

It gives me pleasure to share the March 24 issue of Capital Sprout's Wealth Bulletin. This month's bulletin is about comparing returns of fixed deposits of scheduled bank V/S some prominent hybrid (dynamic asset allocation) funds.

India's economic growth is projected to dip slightly to 6.2% in the current year from the anticipated expansion of 6.3% noted in the calendar year 2023, according to a report dated January 5, 2024, by the United Nations. Despite this marginal decline, India is poised to retain its position as the fastest-growing major economy globally.

Stock markets are mostly positively correlated with the economy of a country. An investor's choice of investment option within the available financial product is always a mirror reflecting the investor's values, fears, experience, and approaches.

The world is changing rapidly and the approach to the various investment products needs correction. The earlier mindset of focusing more on tax planning was appropriate when the tax rate was more than 60%. It can be a conservative approach in the current scenario if more focus is given to tax planning instead of system and business development. In the same way, the focus of giving more weightage to an investment in FDR requires correction.

I hope this edition of our Newsletter provides you helpful insight into making more return-generating investments, fostering a healthy money mindset, and ultimately leading you to a healthier relationship and money and all things investment.

Happy Reading!!

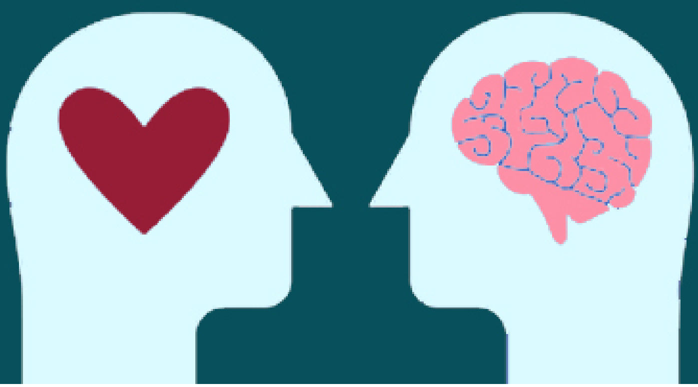
CA DR Rajesh Khandol

Investment Psychology

Financial outcomes are often driven by luck, independence of intelligence and effort. That is true to some extent. Financial success is not that difficult to achieve as it requires more soft skills than understanding the technicalities of a mathematical formula to calculate profit. In the world of finance, how you behave is more important than what you know. But investing is not a hard science. It’s a massive group of people making imperfect decisions with limited information about things that will have a massive impact on their well-being, which can make even smart people nervous, greedy and paranoid.

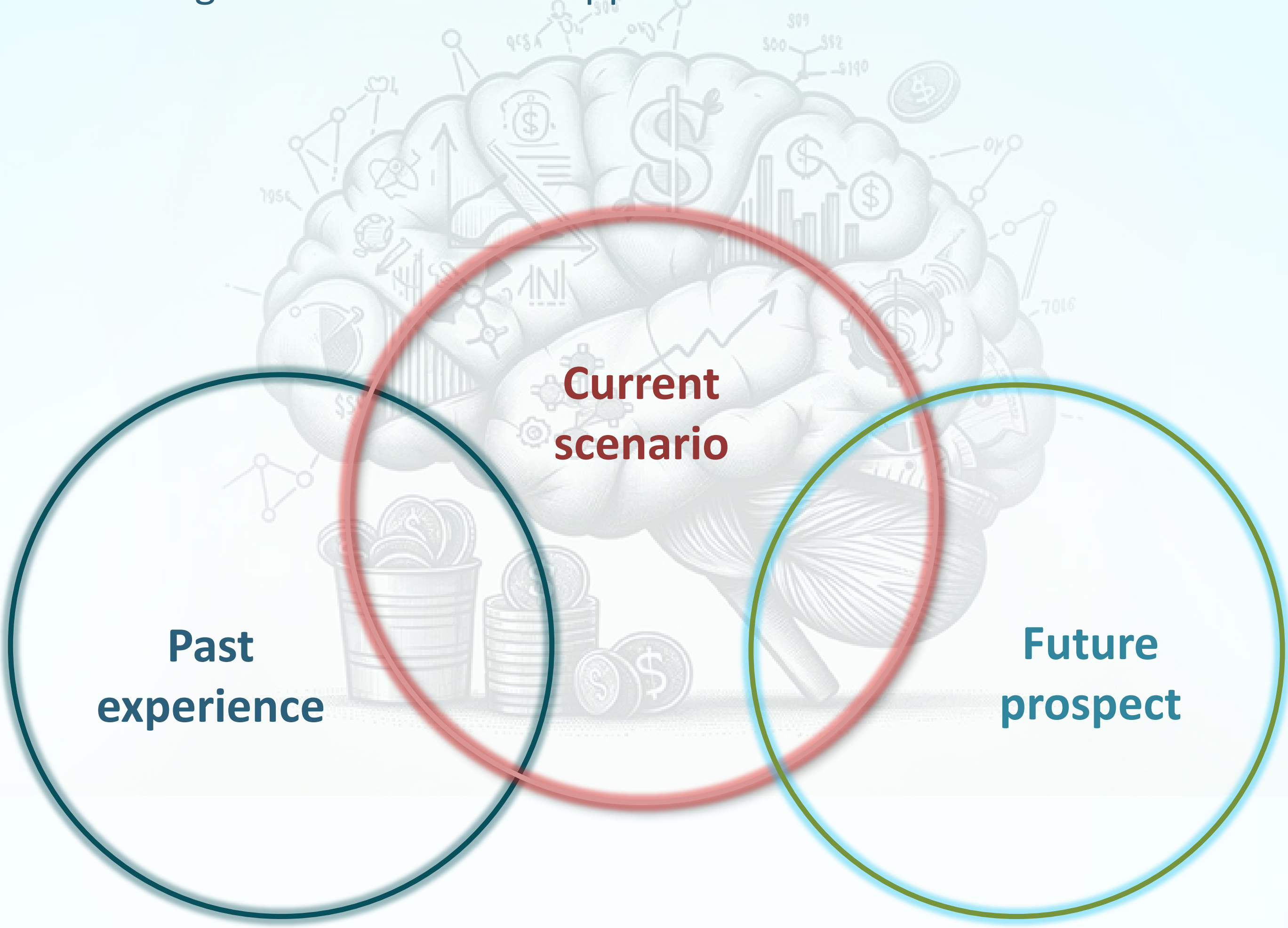
A genius who loses control of their emotions can be a financial disaster. The opposite is also true. Ordinary folks with no financial education can be wealthy if they have a handful of behavioral skills that have nothing to do with formal measures of intelligence.

Engineers can determine the cause of a bridge collapse because there’s agreement that if a certain amount of force is applied to a certain area, that area will break. Physics isn’t controversial. It’s guided by laws. Finance is different. It’s guided by people’s behaviors. And how I behave might make sense to me but look crazy to you.



In our diverse world, individuals hail from varied backgrounds and cultures that profoundly shape their outlooks on various aspects of life. Money and investment perceptions are no exception, molded by surroundings, circumstances, and past experiences. While some may attribute significant importance, say 80%, to their philosophies, in the realm of investment strategy, this may only carry a modest 10% weightage. A striking illustration lies in investors who commenced their journey during the years 1993-1998, a period marked by the Harshad Mehta case, possibly fostering a negative view of the stock market. Such initial impressions can unduly influence future investment decisions, yet they might be rooted in biases rather than objective analyses of current realities and facts.

In theory people should make investment decision based on their past experience and make the necessary correcting accordingly to the rapid changes taken place in the world. While most of the people choosing their investment product giving due weightage of first part. I.e. past experience but fails to give proper weightage of second part. People don’t change their investment approach with the current scenario.



Investment in fixed deposit of schedule bank V/S investment in hybrid (dynamic asset allocation) fund

We have gone through the bear face of stock market during the Harshad Mehta scam, Ketan Parekh scam, Lehman brothers scam and Covid 19 face. Traditionally our perception about the stock market is negative and people are not comfortable with volatility of the market. People are also not comfortable with the investment in hybrid balanced mutual fund where they invest 35% to 65% in equity shares and balance in fixed income securities accordingly to market conditions. The said approach can be easily seen from the following statistics.

Total investment **in fixed deposit** of schedule bank as on 23-3-24

202.05 Lakhs cr.

Total investment **in hybrid (dynamic asset allocation) fund** as on 28-2-24.

2.46 Lakhs cr.

5 year C.A.G.R returns of FDR of schedule banks v/s hybrid (dynamic asset allocation) fund

Financial year	5 year FDR interest rate of previous FY	5 year C.A.G.R return of Hybrid Funds			
		HDFC Balance Fund	ABSL Balance Fund	Nippon Balance Advantage	ICICI Balance Advantage
1-4-08 TO 31-3-2013	8.10%	6.99%	4.53%	8.94%	8.56%
1-4-09 TO 31-3-2014	7.25%	20.41%	14.75%	22.12%	15.67%
1-4-10 TO 31-3-2015	8.50%	12.11%	9.03%	13.90%	13.38%
1-4-11 TO 31-3-2016	8.75%	7.82%	7.90%	9.15%	14.65%
1-4-12 TO 31-3-2017	8.75%	13.26%	13.88%	15.55%	11.91%
1-4-13 TO 31-3-2018	8.80%	15.63%	13.31%	14.27%	8.10%
1-4-14 TO 31-3-2019	8.35%	15.43%	11.89%	13.07%	10.47%
1-4-15 TO 31-3-2020	7.15%	2.62%	4.69%	3.47%	11.26%
1-4-16 TO 31-3-2021	6.60%	13.47%	11.94%	12.13%	14.75%
1-4-17 TO 31-3-2022	6.50%	12.36%	8.87%	9.46%	14.04%
1-4-18 TO 31-3-2023	6.75%	17.54%	11.40%	11.30%	13.36%
Average	**7.77%**	**12.51%**	**10.20%**	**12.12%**	**12.38%**
Income tax	**-2.59%**	**-1.25%**	**-1.02%**	**-1.21%**	**-1.24%**
Post-tax return in %	**5.18%**	**11.26%**	**9.18%**	**10.91%**	**11.14%**
AUM as on 28-2-24 in cr.		**78,759.07**	**7035.80**	**7650.93**	**55,229.33**

Presumed income tax rate of @33.34% in F.D.R & 10% in hybrid balance funds.

Notes:

1. Domestic F.D.R rates for the five years are taken from data of RBI.

2. Returns for the period of 1-4-15 to 1-4-20 were lower due to the exceptional impact on the stock market during the period of Covid 19.

3. There are many hybrid (dynamic asset allocation) funds but some of them are not in existence in 2008-09 and some of them are not from major asset management companies (AMC). We have considered only a major fund where the AUM of the funds are significant and they are from prominent AMC.

4. Tata balanced advantage fund, Kotak balanced advantage fund and a few other hybrids (dynamic asset allocation) funds were not in existence in the year 2008-09 and hence not considered for comparison.

5. Here we have taken the 5-year C.A.G.R returns data of hybrid (dynamic asset allocation) funds. The entire object is to compare the long-term investment strategy and hence, a comparison of 5-year FD rates with 5-year C.A.G.R returns of respective funds is more appropriate.

6. It is seen from the table that the post-tax return of hybrid (dynamic asset allocation) funds is much higher than the FDR returns in most of the financial year.

Comparison of returns of fixed deposit of banks V/s C.A.G.R return of hybrid funds

Financial year	FDR interest rate of previous FY for the respective period	C.A.G.R return of Hybrid Funds for the respective period			
		HDFC Balance Fund	ABSL Balance Fund	Nippon Balance Advantage	ICICI Balance Advantage
1-4-20 to 31-3-24 Four Year	5.30%	32.59%	19.49%	19.08%	21.38%
1-4-21 to 31-3-24 Three Year	5.25%	24.15%	11.54%	12.42%	13.35%
1-4-22 to 31-3-24 Two Year	5.45%	25.73%	12.1%	13.55%	14.03%
1-4-23 to 31-3-24 One Year	6.50%	39.52%	21.65%	24.12%	22.65%
Average	**5.63%**	**30.50%**	**16.20%**	**17.29%**	**17.85%**
Income tax	**-1.88%**	**-3.05%**	**-1.62%**	**-1.73%**	**-1.79%**
Post-tax return in %	**3.75%**	**27.45%**	**14.58%**	**15.56%**	**16.07%**

Presumed income tax rate of @33.34% in F.D.R & 10% in hybrid balance funds.

Notes:

1. C.A.G.R returns of 4 years, 3 years, 2 years, and 1 year are more lucrative.

2. Here we have considered the FD rates for the period of 4,3,2, & 1 year and the corresponding C.A.G.R return of a hybrid (dynamic asset allocation) fund of that period only.

(B) NRI Deposits

Comparison of returns of NRI FDR V/s CAGR return of hybrid funds

Investing in an NRI deposit is exempt u/s 10(4) (II) of the Income Tax Act. There's a common perception among NRIs that profits from mutual funds are taxable, which holds true. However, we've provided a comparison of post-tax returns between Fixed Deposit Receipts (FDR) and hybrid (dynamic asset allocation) funds.

Financial year	5 year FDR interest rate of previous FY	5 year C.A.G.R return of Hybrid Funds			
		HDFC Balance Fund	ABSL Balance Fund	Nippon Balance Advantage	ICICI Balance Advantage
1-4-12 TO 31-3-17	8.73%	13.26%	13.88%	15.55%	11.91%
1-4-13 TO 31-3-18	8.81%	15.63%	13.31%	14.27%	8.10%
1-4-14 TO 31-3-19	8.45%	15.43%	11.89%	13.07%	10.47%
1-4-15 TO 31-3-20	7.64%	2.62%	4.69%	3.47%	11.26%
1-4-16 TO 31-3-21	6.67%	13.47%	11.94%	12.13%	14.75%
1-4-17 TO 31-3-22	6.33%	12.36%	8.87%	9.46%	14.04%
1-4-18 TO 31-3-23	6.25%	17.54%	11.40%	11.30%	13.36%
Average	**7.55%**	**12.90%**	**10.85%**	**11.32%**	**11.98%**
Income tax	**0.00%**	**-1.29%**	**-1.09%**	**-1.13%**	**-1.20%**
Post-tax return in %	**7.55%**	**11.61%**	**9.77%**	**10.19%**	**10.79%**

Presumed income tax rate @0% in F.D.R & 10% in hybrid (dynamic asset allocation) fund.

Notes:

1. F.D.R rates for the five years are taken from data of RBI.

2. We have considered only hybrid (dynamic asset allocation) funds in existence during the year 2012-13. Tata balanced advantage fund, Kotak balance fund and a few other hybrid funds of prominent AMC were not in existence in the year 2012-13 and hence, not considered for comparison.

3. From the table it can be noted that the post-tax returns are higher than the FDR returns in most of the cases. The market was exceptionally lower as of 31-3-20 due to Covid 19 effect and hence, CAGR returns for the period of 1-4-15 to 31-3-20 cannot be considered for comparison.

Comparison of returns of NRI FDR V/s CAGR return of hybrid funds

C.A.G.R returns of NRI FDR of schedule banks V/S hybrid (dynamic asset allocation) funds for the recent years.

Financial year	FDR interest rate of previous FY for the respective period	C.A.G.R return of Hybrid Funds for the respective period			
		HDFC Balance Fund	ABSL Balance Fund	Nippon Balance Advantage	ICICI Balance Advantage
1-4-20 to 31-3-24 Four Year	5.35%	32.59%	19.49%	19.08%	21.38%
1-4-21 to 31-3-24 Three Year	5.60%	24.15%	11.54%	12.42%	13.35%
1-4-22 to 31-3-24 Two Year	6.25%	25.73%	12.1%	13.55%	14.03%
1-4-23 to 31-3-24 One Year	6.50%	39.52%	21.65%	24.12%	22.65%
Average	5.93%	30.50%	16.20%	17.29%	17.85%
Income tax	0.00%	-3.05%	-1.62%	-1.73%	-1.79%
Post-tax return in %	**5.93%**	**27.45%**	**14.58%**	**15.56%**	**16.07%**

Notes:

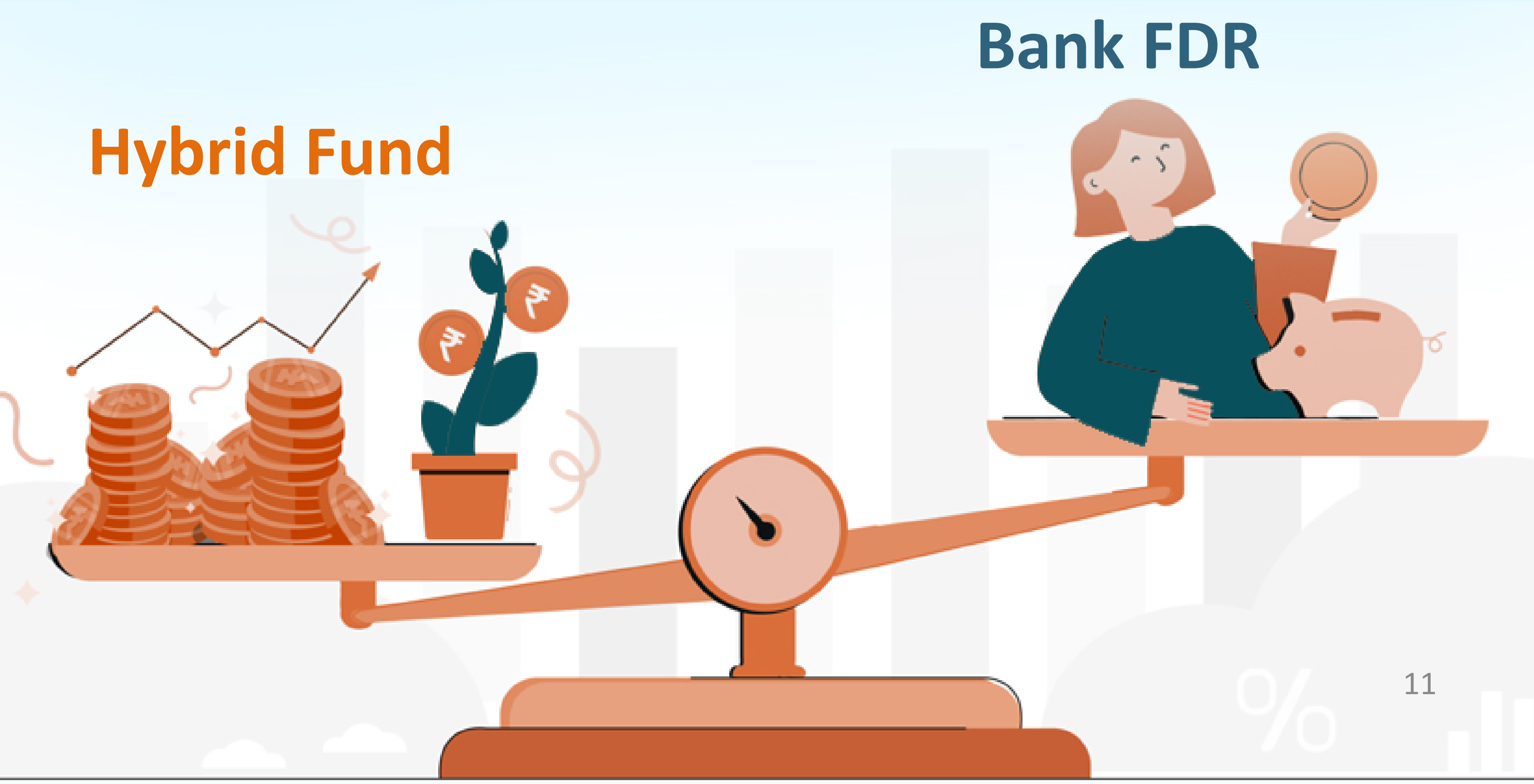
1. C.A.G.R returns of 4 years,3 years,2 years, and 1 year are more lucrative.

2. Here we have considered the FD rates for the period of 4,3,2, & 1 years and the corresponding C.A.G.R return of the hybrid (dynamic asset allocation) fund of that period.

Conclusion

In conclusion, the comparison between fixed deposits and hybrid mutual funds underscores the significant advantage that hybrid funds offer in terms of returns. The historical data indicates that the Compound Annual Growth Rate (CAGR) returns of hybrid funds surpass the returns from fixed deposits. This not only highlights the potential for higher profitability but also positions hybrid funds as a more favorable investment avenue for NRIs seeking to maximize their returns.

Moreover, beyond the scope of returns, it's crucial to consider the tax benefits associated with hybrid funds, particularly for domestic investors, opting for hybrid funds not only offers the prospect of better returns but also provides advantageous tax implications. As NRIs navigate the complexities of investment choices, the evidence suggests that allocating a portion of their portfolio to hybrid funds could lead to more favorable outcomes, both in terms of financial gains after the tax effect. Hence, embracing hybrid funds emerges as a prudent strategy for NRIs aiming to optimize their investment portfolios in today's dynamic market landscape.



Performances

Equity Market

Indices	01st March, 2024	31st March, 2024	High	Low
BSE S&P SENSEX	72,606.31	73,651.35	74,245.17	71,674.42
NIFTY 50	22,048.30	22,326.90	22,526.60	21,710.20

Mutual Fund

AUM Data of Mutual Fund for the Month of March 2024

(INR. In Lakh Crore)

Particulars	AUM As On 29-02-2024	Fresh Fund Mobilize During March– 24	Redemption During March-24	AUM As On 31-03-2024
Total AUM of all mutual funds scheme	54.70	10.46	12.03	53.13
AUM of equity oriented (growth) schemes	23.26	0.53	0.30	23.49

Source: Association of Mutual Fund of India (AMFI)

Performances

SIP Contribution

(INR. In Crore)

Year	SIP Contribution	SIP AUM
March-2024	19,271	10,71,666

FII & DII Inflow/Outflow Position

FII's Buying in the month of March-24 is 0.03 Lakh.
DII's Buying in the month of March-24 is 0.56 Lakh.

Inflow/Outflow position in the month of March 2024

(INR. In Crore)

FII /DII	Gross Purchase	Gross Sale	Net
FII	3.65 Lakh	3.62 Lakh	0.03 Lakh
DII	2.46 Lakh	1.90 Lakh	0.56 Lakh