More Woman Power To You

An Investor Education Initiative
MIRAE ASSET
Mutual Fund

The Financial Behaviour of Women

'From a saver to an investor' embark on the journey.

Traditionally men have been the bread earners. Hence, matters of money have always been left to men starting from saving to investing. This pattern is slowly changing due to the rising participation of women in workforce. Women are now bread earners along with their male counterparts. In today's scenario an investor could mean both men and women, earning together or separately and having financial goals to meet. Let us try and understand how women invest.

Savers not Investors

Remember how your mother or grandmother always had some money saved in a corner of a cupboard? Even on low days, modest amounts of money would be there for necessities. This is how women have always treated money, as a resource on good days and bad days. The primary reason for such form of saving was for emergencies and unprecedented events.

Hence, women have primarily been savers. How do we then turn the traditional savers to investors? The key idea behind saving small pockets of money is that they can add up to become a substantial sum in the long run. With investment, also comes risk, the risk of losing the principal sum. To be able to convert the savers to investors, a plan has to be created which allows for investing without high risk. As potential investors they will have the assurance that their money is safe and also probably increasing without the dangers of risk.

Long Term Planning & Goal Driven

Research on women and investing patterns clearly shows that women invest for the long haul. They are not impulsive investors and usually do not redeem unless they have reached their financial goal. The goal could be saving for retirement or higher education, either ways women tend to be goal driven investors rather than their male counterparts. Women are primarily long term investors with a fixed goal to meet. Hence, this trait of long term planning should be taken into consideration when making financial plans catered to women.

This is proven by Warwick Business School in their research which showed that return on investment for women were on an average about 1.2% higher than men.

Source: Advisorkhoj, 31st Dec, 2019

Careful risk takers

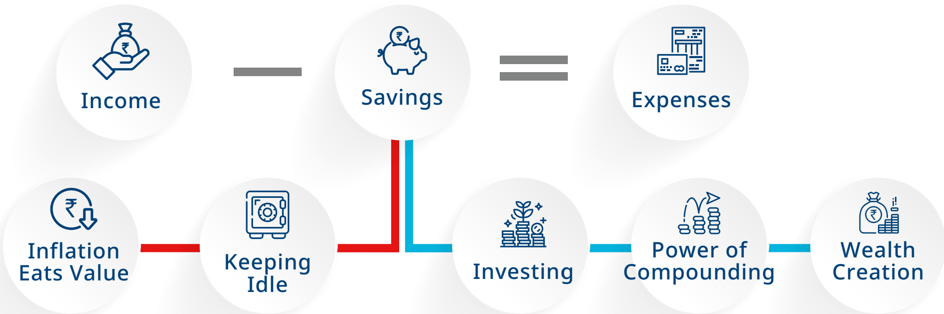
Women from a young age are urged by parents or elders in the family to be more cautious than men. Therefore, a relatively cautious nature gets ingrained in the financial habits of women. Women generally do not tend to make impulsive buy / sell investment decisions in volatile markets. They want to understand the risk of an instrument well and see if it matches with their risk capacity. This gives rise to the perception that women have low to moderate risk. Women can have high risk appetites according to their financial situation.

Simply saving is not enough - Start Investing

Aim to achieve goals faster with investments than savings.

The perception that women are bigger spenders than men is wrong. Women usually make small ticket purchases, while men tend to make big ticket purchases, albeit less frequently than women, but may result in longer term liabilities e.g. down payment for property, automobiles, expensive electronic gadgets etc. While household savings is extremely important both for families' and nation's progress, simply saving money is not enough to meet your families' aspirations - you need to invest.

Savings ≠ Investments

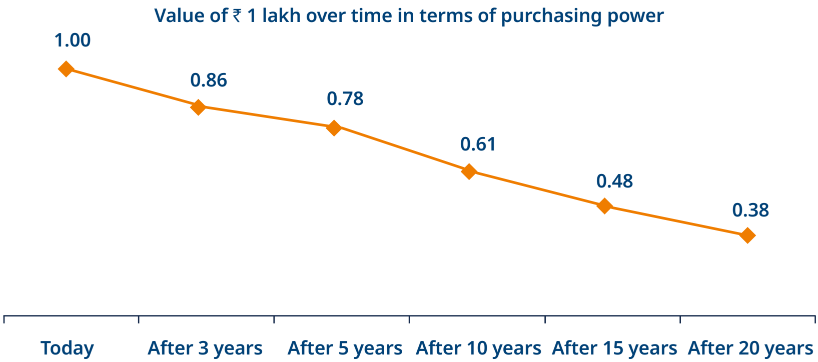


> **"Do not save what is left after spending, spend what is left after saving".**
> **- Warren Buffet**

Why saving is not enough?

- Inflation erodes the purchasing power of money in the long term. For example, the value of Rs 1 lakh saving today will be lower in terms of purchasing power 3 years from now and will progressively decline over time (please see the chart below).

Illustration



- Unless your money grows at a rate faster than inflation, you will see net worth erosion instead of growth. This has very important financial planning implications. To meet your financial goals, your money needs to grow at a faster rate than the goal inflation, e.g. higher education cost for your children
- If you keep your money in bank account or even in traditional instruments, the post-tax returns on your investment may not keep up with inflation. For example, **if you are getting 6.5 - 7% interest rate on your traditional instruments, your post tax return usually is 4.2 - 4.5% p.a.** (assuming that you are in the highest tax bracket). This may be lower than the inflation rate of your financial goals. Simply saving money is therefore, not enough.
- Women live longer than men. As per World Health Organization, average longevity for women is 70.3 years versus 67.4 years for men $. **Women need to mitigate the risk of outliving their savings with prudent investments.**
  $ - Dated 31st Dec, 2019
- Risk and returns are interrelated. You need to take more risks and aim to get higher returns. The amount of risk you can take depends on your risk appetite and investment needs. For your short term goals, you cannot afford to take too much risk but for your medium to long term goals your risk capacity should be higher, because a longer term goal horizon gives your investments sufficient time to recover from short term market volatility.
- Different types of investment products have different risk return profiles. You should always invest according to you investment needs and risk appetite.

What is investing?

Investing is how you seek to grow your money for long term financial goals. Saving money and aiming to grow your investments is not investing. In order to meet your long term financial goals you need to invest in assets which generate sufficient returns in the long term. It is important for you to note that, real wealth is created when purchasing power of your investment in the future is more than the purchasing power of your investment today. In other words, your investment returns should be higher than the rate of inflation. Risk free returns on a post-tax basis struggle to keep pace with inflation over long periods. Therefore, it is important to invest in the right instrument in order to meet your financial goal.

How is wealth created – Invest in the long term

The amount of wealth you will accumulate over a period of time depends mostly on 3 factors:

1. How much you invest?
2. The rate of return on your investment
3. How long you remain invested?

For the mathematically inclined, the wealth creation formula is = Invested Amount X (1 + ROI)n where ROI is the return on your investment (%) and n is the time for which you remain invested. Of the three factors determining wealth creation, you have limited influence on the rate of return other than investing in the right asset.

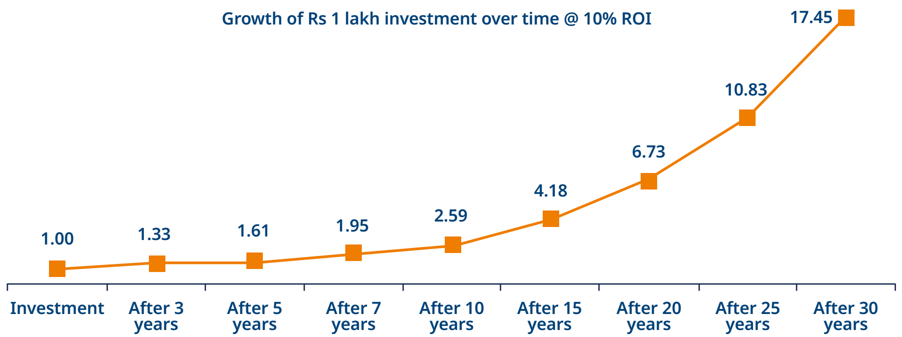
You have substantial control over the other two factors i.e. how much to invest and how long to remain invested. Needless to say, the more you invest, higher will be your wealth creation. However, depending on financial situation and stage of life, the amount you can invest is constrained by how much you can save after meeting all essential expenses.

The third factor, how long you remain invested is largely in your control (barring unforeseen circumstances) - the longer your investment horizon higher is your wealth accumulation. This factor, investment horizon or period, is the most powerful factor in the wealth creation formula because its power is exponential.

Power of compounding

Compounding is basically interest earned on interest or profit earned on profit. Money which remains invested compounds in value. Profits grow the investment value and you earn even more profits as the investment value increases over time. Over a long investment horizon the original investment amount is only a small percentage of the total investment value; profits on profits constitute the major part of the investment value. The power of compounding can be quite effective for early starters - please see the chart below. You can see that your wealth is not growing linearly but exponentially over time. This is power of compounding.

Illustration



What do you need to do to leverage the power of compounding? The answer is very simple. You need to start saving and investing from the early stages of your career. Even if your income is low in early career stages, you have less financial obligations compared to later stages of life when you have a family to take care of and more importantly, you give your investments the vital ingredient they need to meet your long term financial goals – time.

Financial Goals and Investments

You should invest according to your financial goals, risk appetite and liquidity needs.

Instrument	Returns	Risk
Bank FDs	Assured	Low
PPF	Assured	Low
Property	Market Linked	Medium to High
Gold	Market Linked	Medium
Pension Plans	Market Linked	Medium to High
Direct Equities (Stocks)	Market Linked	High
Mutual Funds	Market Linked	Low to High

The above table is for comparison purpose only. There can be no guarantee of returns

Mutual Funds are one of the ideal investment options

You should invest according to your financial goals, risk appetite and liquidity needs. Different financial instruments have different risk and liquidity profiles. Mutual funds are one the most versatile investments and can offer one-stop solution for different investment needs e.g. short term, medium term, long term, low risk, moderate risk, high risk etc.

Why are mutual funds one of the ideal investment options for women?

- **Mutual funds are affordable:** Research shows that women are better savers than men. With mutual funds you can start investing from your regular savings and not wait for big one-time cash-flows (e.g. annual bonus, maturity proceeds of other traditional investments) to make investments. Investments in mutual funds can start at as low as Rs 500. You can start investing early from your savings and gradually increase your investments as your family's income and savings go up.
- **Diversification reduces risk:** With mutual funds, you can diversify across companies, sectors, assets classes and geographies. Through diversification you can reduce portfolio risk across different market conditions and investment cycles. Diversification not only lowers risk, it can help you get risk adjusted returns over a long investment horizon.
- **Address variety of investment needs and risk appetites:** We have different investment needs depending on our individual / family needs and financial situations. Young working women or women in double income families will have higher risk appetites, while single mothers or women whose spouses are unable to work due to medical or some other reasons will have low risk appetite. Mutual funds offer a plethora of options across equity, debt, hybrid and solutions oriented schemes which can address a wide variety of investment needs and risk appetites.
- **Mutual funds are professionally managed:** Usually people may not have sufficient time for following the stock market regularly, corporate news, earnings release, stock recommendations etc. Working women usually have to devote a lot more time than their spouses to their families. Mutual funds are professionally managed by experienced fund managers. Expertise of a fund manager may help you achieve better performance, without you having to spend a lot of time.
- **High liquidity:** Liquidity is an important consideration in investment planning. Sometimes even if you are planning to invest for the long term, you may want to have the flexibility of withdrawing your money at short notice due to some unforeseen needs. If your money is locked up for years, then you do not have that flexibility. Investments in open ended mutual funds can be redeemed on any business day.
- **Tax efficiency:** With proper planning, mutual funds can be highly tax efficient. We will discuss this in more details later in this article. You should invest according to your tax situation and consult with a financial advisor if required.

Different Types of Mutual Funds

There are 3 broad categories of mutual funds

- **Equity funds:** invest primarily in equity or equity related securities. Investors need to have high risk appetites for these funds. These funds are suitable for your long term financial goals.
- **Hybrid funds:** invest in both equity and debt securities. Investors need to have moderate to moderately high risk appetites for these funds. However, these funds are less volatile than equity funds.
- **Debt funds:** invest in debt and money market. These funds can be suitable for a wide range of risk appetites ranging from very low risk to moderate risk. They are also suitable for a wide range of investment tenures ranging from a few days, few months to many years depending on your investment needs. Each of these broad fund categories have several sub-categories with different risk / return characteristics, depending on the type of instrument and asset mix they invest in.

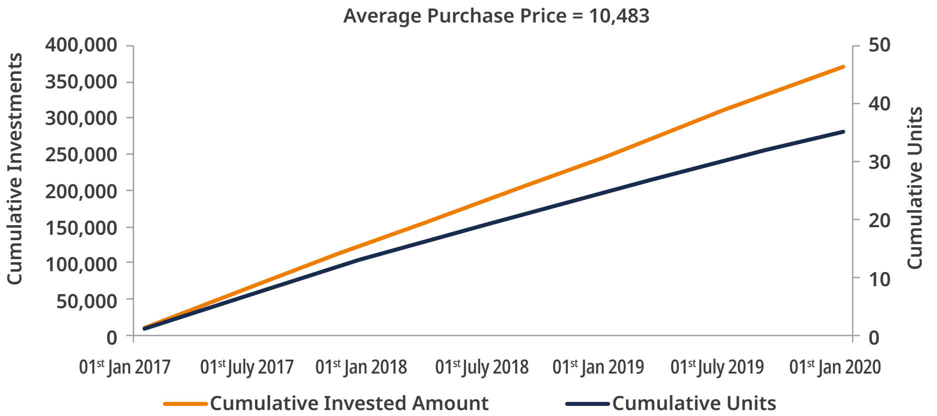
Systematic Investment Plan - one of the ideal ways for goal based investing

Systematic Investment Plan (SIP) is a mutual fund investment plan where an investor can invest a fixed amount in a mutual fund scheme of his / her choice at a regular frequency (weekly, fortnightly, monthly etc). Through a bank ECS mandate, the SIP amount (chosen by the investor) will automatically get debited from the bank every month (or any other interval specified by the investor) and will be used to purchase units of a mutual fund scheme selected by the investor. The number of units purchased will depend on the Net Asset Value (NAV) of the scheme on the SIP date.

Some of the benefits of SIP

- **One of the Ideal ways for salaried and young investors:** You do not need to commit large sums of money upfront. You can invest a portion of your regular monthly savings in mutual funds for your long term financial goals. You can start your SIP with even Rs 500 a month. It is especially advantageous for young investors because they can keep investing through SIP for very long periods
- **Disciplined Investing:** SIP makes your investment process mechanical and not based on emotions like greed or fear, both of which are harmful to your interests. Disciplined investing can give much results in the long run
- **Highly convenient:** You do not need to check market levels and do paperwork each time you want to invest. Through a one-time application or registration you can put your financial planning on auto-pilot mode.

- **Averaging:** Through SIP you buy at different price points (both low and high). This is known as Rupee cost averaging of purchase price. Rupee cost averaging usually lowers your acquisition costs during bear markets and gives potential returns in the long term. The chart below shows how rupee cost averaging Works. Let us assume you started investing in Nifty 50 with Rs 10,000 monthly SIP on 1st January 2017. Till 1st January 2020, you would have invested Rs 360,000 (Rs 10,000 X 12 months X 3 years). The chart below shows how many Nifty units you would have accumulated through SIP over this period. You would have accumulated 35 units at an average price of Rs 10,483 while Nifty on 1st January was 12,185. Your profit per unit is around Rs 1,700. This is how rupee cost averaging works.



Source: National stock exchange historical data, 31st Dec, 2019

CONCLUSION: In this booklet we discussed that saving money may not be sufficient to meet the aspirations you have for yourself and your family. We also disccused the importance of investing and wealth creation. If you have not started saving for your long term goals, you should start thinking about financial planning seriously. You should educate yourself about different investment options, their risk return profiles and consult a financial advisor for helping you in the wealth creation journey.

The age old adage, early bird catches the worm is very appropriate as far as investing is concerned. Start investing for your long term aspirations and financial security.

Please consult your financial advisor before investing.

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Mutual Fund

An investor education initiative by Mirae Asset Mutual Fund.

All Mutual Fund investors have to go through a one-time KYC (Know Your Customer) process. Investors should deal only with Registered Mutual Funds (RMF). For further information on KYC, RMFs and procedure to lodge a complaint in case of any grievance, you may refer the Knowledge Center section available on the website of Mirae Asset Mutual Fund.

Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.

Email Us
customercare@miraeasset.com

Call Us
1800-2090-777 (Toll Free)
Mon-Sat: 9 a.m. to 6 p.m.

Internet
www.miraeassetmf.co.in

Twitter
@MiraeAsset_IN

Facebook
MiraeAssetIN

Contact your financial advisor for details