HDFC MUTUAL FUND
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INVEST-WISE

An Investor Education and Awareness Initiative from HDFC Mutual Fund

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ADVERTORIAL

An investor can choose to make an investment in mutual fund schemes through lumpsum or by investing specific amount regularly. Even for regular investments there are various ways in which you can choose to transact viz:

CHOOSE YOUR MODE TO INVEST IN MFs

Mutual Funds offer investors various ways in which they can transact and choose from the various plans/options depending on their needs

SIP (SYSTEMATIC INVESTMENT PLAN)

1 In this method, you invest a fixed sum regularly in a scheme, regardless of market conditions. Over a long term, you end up buying more units when the markets are down and fewer when the markets are up. Thus you have automatically bought lower when the markets are up. This is a good affordable method to invest as you set aside a monthly amount to meet your goals.

STP (SYSTEMATIC TRANSFER PLAN)

2 An STP is a regular transfer from one scheme to another under the same fund house. Its like an SIP, the only difference being the money here is coming from another scheme. Investors frequently use STPs when they have a lumpsum to invest in an equity scheme, but want to do it in installments. The way to do it is to put a lump sum in a debt scheme and then give instructions to transfer a fixed amount into the chosen equity scheme at regular intervals. It proves better than keeping lumpsum money in savings bank account.

SWP (SYSTEMATIC WITHDRAWAL PLAN)

3 These are regular redemptions from a scheme. Investors can either redeem a fixed number of units, a fixed amount or all returns above a certain base level. This is mostly used to get a regular income by retirees or investors allocating money for a fixed recurring expense every month. It also helps fight extreme volatility closer to a planned redemption date.

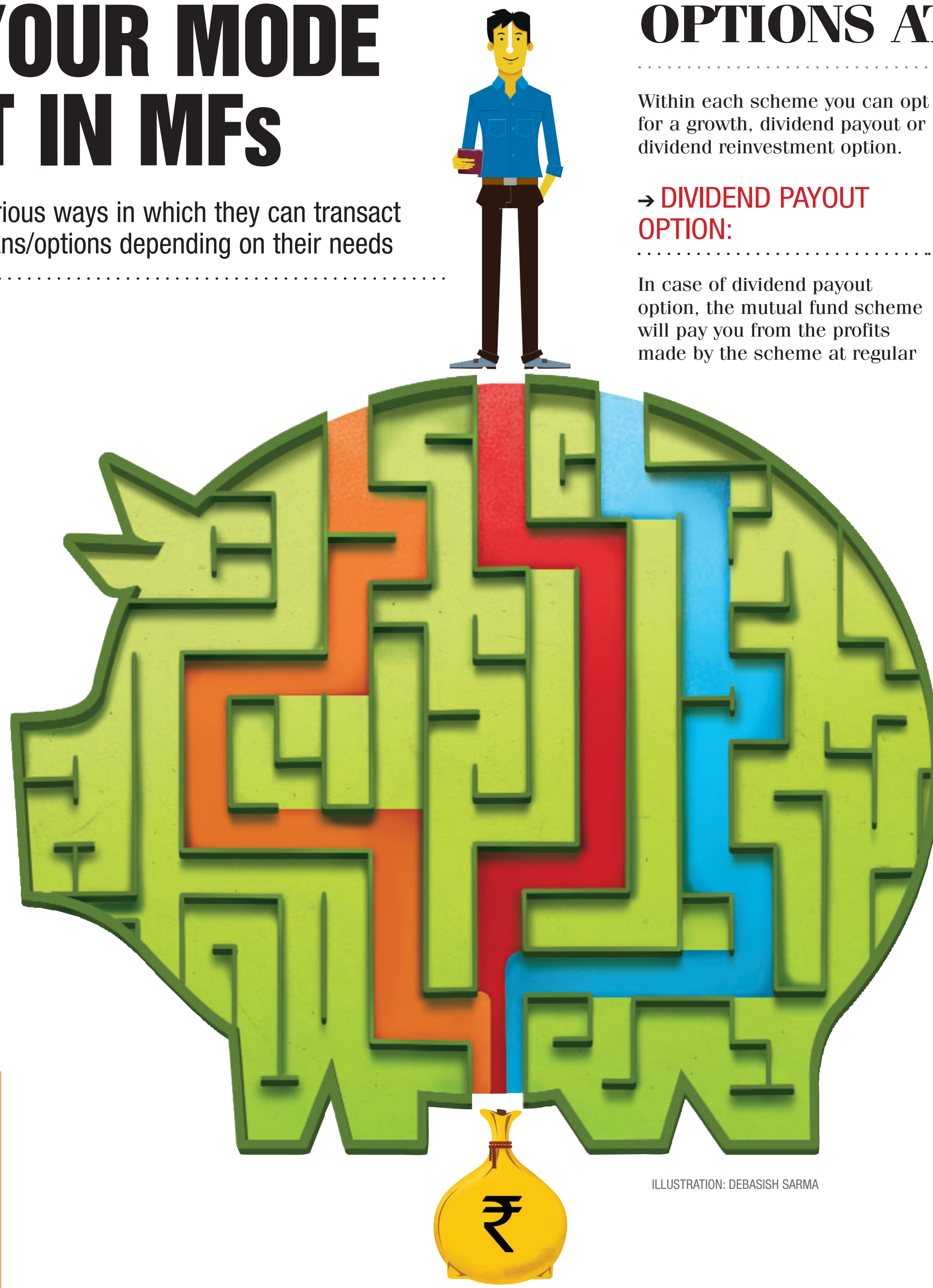

ILLUSTRATION: DEBASISH SARMA

>> An investor can make transactions in any mutual fund scheme through various methods like SIP, STP and SWP.

OPTIONS AT A SCHEME LEVEL

Within each scheme you can opt for a growth, dividend payout or dividend reinvestment option.

→ DIVIDEND PAYOUT OPTION:

In case of dividend payout option, the mutual fund scheme will pay you from the profits made by the scheme at regular periods (this could be quarterly, half-yearly or yearly). But, dividends are not guaranteed i.e. the scheme might declare a dividend or not. When a scheme declares dividend, this dividend gets deducted from the NAV (Net Asset Value) of the scheme and is paid to the investor. For instance: If the NAV of a scheme is ₹ 20 and the scheme declared a 10% dividend (₹ 1 on a face value of ₹ 10 per unit), the NAV will go down by ₹ 1 (plus applicable taxes if any) after paying the dividend. Thus, in dividend payout, the NAV of the scheme falls after the dividend is paid. You receive the dividend in your bank account and the NAV goes down to reflect the impact of the dividend paid. Use the dividend option if you need regular income to meet your cash flows.

→ DIVIDEND REINVESTMENT OPTION:

Here the dividend amount is not paid to the investor but is used to buy more units of the scheme by the fund house. In this case also, the NAV of the scheme declines after the dividend is paid. In the case of equity funds, there is no difference in dividend reinvestment and growth options because equity funds neither impose DDT nor do they attract long-term capital gains tax. However in debt funds it makes a difference. Dividends from debt funds are subject to a dividend distribution tax (DDT) of 28.325 per cent for individuals/HUF. Every time the scheme distributes dividends, it first deducts DDT out of the distributable dividend and pays you the rest. Under the dividend re-investment option, your scheme first declares a dividend and then immediately re-invests it in the same scheme at that day's net asset value (NAV). There is no exit load on units allotted on dividend reinvestment.

→ GROWTH OPTION:

In growth option, the scheme does not pay any dividend, and the NAV continues to grow. Therefore an investor receives nothing in the bank account and there is nothing to re-invest. Whatever gains are made by selling any scheme's holdings are invested again into the scheme. This gain can be seen in the NAV which rises over time. The number of units with the investor also remains the same.

→ TAX IMPACT:

It is also important to consider the tax impact in addition to the returns that you may receive on your investment; be it through growth, dividend payout or dividend reinvestment, as the post tax returns will differ. This is so because the tax treatment is different for long term and short term holding period. The tax treatment also differs for equity funds and debt funds. While equity funds and balanced funds are eligible for tax benefits on long term capital gains after one year. Units of debt oriented funds need to be held for three years to be eligible for tax benefits on long term capital gains.

Note: Information given herein is as per the prevailing tax laws, which are subject to change. In view of individual nature of tax consequences, investors should consult their professional tax advisor.

TO KNOW MORE, CONTACT YOUR FINANCIAL ADVISOR TODAY OR WRITE TO US AT **investoreducation@hdfcfund.com**

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MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.