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# Ways to invest in Equity

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# Direct investing in Stocks

There are 2 ways to directly invest in stock market:

1) **Primary Market:** - This market is for first time issue of securities, it is further divided into:

- Initial Public Offering (IPO)
- Follow-on Public Offering (FPO)
- Right Issue & Bonus Issue

2) **Secondary Market:** - In this market you can buy/sell securities already listed on a stock exchange

# Indirect Investing through Mutual Funds

- MF is an investment fund, managed by professional, that pools money from various investors to purchase securities

- What is NAV? MF issues units against the invested amount known as Net Asset value (NAV). NAV is simply the weighted average price of the asset owned by the scheme

- Investors can sell MF units at the day ends NAV & not on real time-time basis like stocks

There are 2 ways to invest in MF:

1) Direct Plan, i.e., investing without Distributor/Agent
2) Indirect Plan, i.e., investing through Distributor/Agent

# Indirect investing through Mutual Funds

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- SEBI allows MF to charge to investors operating expenses such as sales & marketing, administrative expenses, investment management fees, transaction cost, etc.
- What is Total Expense Ratio (TER) ? TER is calculated as %age of scheme's average NAV & is very important parameter before selecting any MF. SEBI has set following upper limits on TER:

| AUM | Equity funds as % of daily NAV | Debt funds as % of daily NAV |
|---|---|---|
| First ₹500 cr. | 2.25% | 2.00% |
| Next ₹250 cr. | 2.00% | 1.75% |
| Next ₹1250 cr. | 1.75% | 1.50% |
| Next ₹3K cr. | 1.60% | 1.35% |
| Next ₹5K cr. | 1.50% | 1.25% |
| Next ₹40K cr. | red of 0.05% for every increase of ₹5K cr. | Same as Equity funds |
| Above ₹50K cr. | 1.05% | 0.80% |

# Types of Mutual Funds

| S.No. | Basis | Types |
|---|---|---|
| 1 | Organization Structure | Open-ended, Close-ended |
| 2 | Management Style | Active, Passive |
| 3 | Investment Objective | Growth, Income, Liquidity |
| 4 | Portfolio | Equity, Debt, Hybrid |
| 5 | Solution Oriented | Retirement Benefit, Child Welfare |
| 6 | Others | Funds of Funds, Gold ETF |

# Indirect Investing through ETFs

- Exchange Traded funds (ETFs) are a collection of investment that tracks an index, a commodity, bonds, or a basket of assets like an index fund
- ETFs are managed much like passive index funds, & have lower fees than actively managed MF with higher daily liquidity
- ETFs combines the feature of Mutual Funds & stocks. It is traded at stock exchanges & provides benefit of diversification

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# Indirect Investing through PMS

PMS is a professional financial service where skilled portfolio manager manage equity portfolio of investors. In PMS investors get the ability to tailor a portfolio as per their investment needs & financial goals

PMS are classified into 2 categories:

1) **Discretionary PMS:** Portfolio Manger is in-charge of making all the investment decisions without having to consult the Investor

2) **Non-Discretionary PMS:** Here, Fund Manager acts in advisory capacity by suggesting suitable investments, final decision to invest in any security lies with the investor

# Difference b/w PMS & MF

| Parameter | PMS | Mutual Fund |
|---|---|---|
| Investment Requirement | Rs. 50 Lakhs | •Lump Sump – Rs. 5,000 (generally)<br>•SIP – Rs. 1,000 (generally) |
| Demat Account | •A separate Demat account, as well as a different bank account is needed.<br>•Investors own shares in their name | •Not needed, units can be held in physical form<br>•Investor owns units of the scheme.<br>•Shares are in the name of the mutual fund rather than the investors. |
| Fees | High level of performance fees and low levels of fixed management fees | Higher Fixed Management Fees capped by SEBI |
| Portfolio | Higher churn of securities to achieve better returns | More stable stock portfolios |
| Risk | Less regulated by SEBI and involves higher risk | Highly regulated and involves lower risk |

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# THANK YOU

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