5 POWERFUL CONCEPTS EVERY INVESTOR SHOULD KNOW!

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Concept #1

Performance rotates

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
International 45.70	Small-Cap 62.90	Credit Risk 10.00	G Sec 15.00	Small-Cap 59.60	Gold 8.40	International 31.80	Small-Cap 30.80	Small-Cap 62.80	Gold 11.30
Large-Cap 9.00	Mid-Cap 54.70	Corporate Bond 9.00	International 12.50	Mid-Cap 48.10	G-Sec 8.00	Gold 21.10	Gold 27.60	Mid-Cap 39.20	Credit Risk 5.20
Real Estate 7.50	Large-Cap 29.90	Mid-Cap 7.40	12.00	Large-Cap 27.90	Large-Cap 5.90	Large-Cap 12.60	International 19.00	International 29.10	Large-Cap 2.70
Credit Risk 7.00	G Sec 17.00	G Sec 7.00	Credit Risk 12.00	International 12.30	Corporate Bond 5.00	G-Sec 12.00	Mid-Cap 18.80	Large-Cap 22.00	Corporate Bond 2.70
Corporate Bond 6.00	Credit Risk 14.00	Small-Cap 6.10	Gold 10.90	Credit Risk 8.00	Credit Risk 5.00	Corporate Bond 10.00	Large-Cap 14.60	Credit Risk 8.60	T-Bill 2.50
T-Bill 5.50	International 13.60	T-Bill 5.40	Real Estate 9.60	Corporate Bond 7.00	Real Estate 4.80	Credit Risk 8.00	G-Sec 12.80	Corporate Bond 4.90	G-Sec 2.30
G Sec 2.00	Corporate Bond 13.00	Real Estate 4.50	Mid-Cap 8.00	Real Estate 6.40	T-Bill 4.10	T-Bill 4.20	Corporate Bond 12.30	Real Estate 3.10	Real Estate 1.40
Mid-Cap -5.70	Real Estate 11.90	International 4.20	T-Bill 4.70	Gold 6.00	International 2.40	Real Estate 4.20	Credit Risk 11.40	G-Sec 2.20	Mid-Cap -2.20
Small-Cap -9.70	T-Bill 5.70	Large-Cap -5.00	Large-Cap 1.90	T-Bill 4.00	Mid-Cap -13.40	Mid-Cap -4.00	T-Bill 3.10	T-Bill 2.00	Small-Cap -7.50
Gold -18.00	Gold 2.20	Gold -7.90	Small-Cap 1.80	G-Sec 2.00	Small-Cap -23.50	Small-Cap -9.00	Real Estate 1.20	Gold -2.70	International -10.00

SOURCE - MINT

Observation

If you notice, Small cap equity fund category was the worst performer in year 2016. It became the best performer in year 2017 & 2018, only to see itself at the bottom of the chart in the year 2018 & 2019. However, they bounced back again to the top position in the year 2020 & 2021. One can also notice that while equities deliver better returns in the long term, they may not deliver every year. In 4 of the last 10 years, fixed income and gold outperformed equity oriented schemes (2015,2016, 2020, and 2022).

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Concept #2

Is it worth investing in a risky asset?

Many a times, an investor wants to experiment by investing a small percentage of his portfolio into a risky asset hoping for an extraordinary returns with an equal possibility of negative returns. Let's see how the portfolio returns are impacted under 3 scenarios.

Portfolio 1

Investment Amount : ₹10,00,000

Asset Class	Allocation	Return Assumed	Portfolio Value		
			3 years	5 years	10 years
Diversified Portfolio	100%	12%	₹14,04,928	₹17,62,342	₹31,05,848
Portfolio Expected Return : 12.00%					

Portfolio 2

Investment Amount : ₹10,00,000

Asset Class	Allocation	Return Assumed	Portfolio Value		
Diversified Portfolio	90%	12%	3 years	5 years	10 years
Risky Asset	10%	25%	₹14,54,419	₹18,67,022.	₹34,85,772
Portfolio Expected Return : 13.30%					

Portfolio 3

Investment Amount : ₹10,00,000

Asset Class	Allocation	Return Assumed	Portfolio Value		
Diversified Portfolio	90%	12%	3 years	5 years	10 years
Risky Asset	10%	-25%	₹12,70,238	₹14,89,849	₹22,19,650
Portfolio Expected Return : 8.30%					

Observation

In Scenario 1, the expected portfolio return is at 12% pa. In Scenario 2, if the risky asset outperforms, the portfilio yield goes up by 1.30% to 13.30%. However, in scenario 3, if the risky asset performs negatively, the portfolio return drops to 8.30%, a drop of 3.70% return per year. So, it may not be a great idea to do experimental investment into risky assets.

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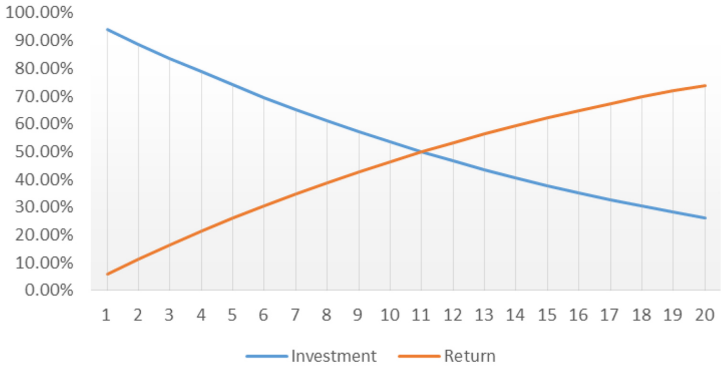
Concept #3

Savings matter more than returns

SIP : ₹10000					
Return : 12%					
Year	Total Investment	Investment Value	Total Return	Investment Percentage	Return Percentage
1	₹1,20,000	₹1,27,665	₹7,665	94.00%	6.00%
2	₹2,40,000	₹2,70,650	₹30,650	88.68%	11.32%
3	₹3,60,000	₹4,30,793	₹70,793	83.57%	16.43%
4	₹4,80,000	₹6,10,153	₹1,30,153	78.67%	21.33%
5	**₹6,00,000**	**₹8,11,036**	**₹2,11,036**	**73.98%**	**26.02%**
6	₹7,20,000	₹10,36,025	₹3,16,025	69.50%	30.50%
7	₹8,40,000	₹12,88,013	₹4,48,013	65.22%	34.78%
8	₹9,60,000	₹15,70,240	₹6,10,240	61.14%	38.86%
9	₹10,80,000	₹18,86,334	₹8,06,334	57.25%	42.75%
10	**₹12,00,000**	**₹22,40,359**	**₹10,40,359**	**53.56%**	**46.44%**
11	₹13,20,000	₹26,36,867	₹13,16,867	50.06%	49.94%
12	₹14,40,000	₹30,80,956	₹16,40,956	46.74%	53.26%
13	₹15,60,000	₹35,78,336	₹20,18,336	43.60%	56.40%
14	₹16,80,000	₹41,35,401	₹24,55,401	40.62%	59.38%
15	**₹18,00,000**	**₹47,59,314**	**₹29,59,314**	**37.82%**	**62.18%**
16	₹19,20,000	₹54,58,097	₹35,38,097	35.18%	64.82%
17	₹20,40,000	₹62,40,733	₹42,00,733	32.69%	67.31%
18	₹21,60,000	₹71,17,286	₹49,57,286	30.35%	69.65%
19	₹22,80,000	₹80,99,026	₹58,19,026	28.15%	71.85%
20	**₹24,00,000**	**₹91,98,574**	**₹67,98,574**	**26.09%**	**73.91%**

Observation:
Please notice in the above chart that even after 10 years your own capital is 53% of the total portfolio value.



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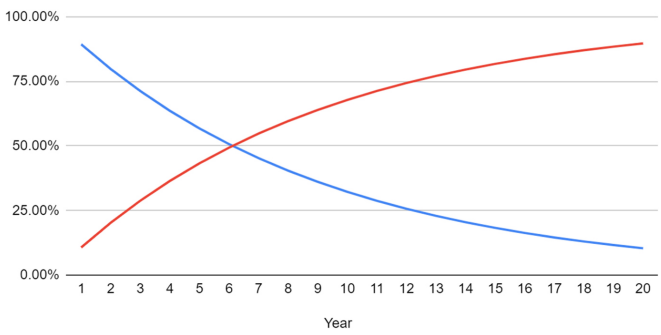
Concept #3 (Contd...)

Savings matter more than returns

Lumpum : ₹ 1,000,000				
Return : 12%				
Year	Investment Value	Total Return	Investment Percentage	Return Percentage
1	₹ 11,20,000	₹ 1,20,000	89.29%	10.71%
2	₹ 12,54,400	₹ 2,54,400	79.72%	20.28%
3	₹ 14,04,928	₹ 4,04,928	71.18%	28.82%
4	₹ 15,73,519	₹ 5,73,519	63.55%	36.45%
5	**₹ 17,62,341**	**₹ 7,62,341**	**56.74%**	**43.26%**
6	₹ 19,73,822	₹ 9,73,822	50.66%	49.34%
7	₹ 22,10,681	₹ 12,10,681	45.23%	54.77%
8	₹ 24,75,963	₹ 14,75,963	40.39%	59.61%
9	₹ 27,73,078	₹ 17,73,078	36.06%	63.94%
10	**₹ 31,05,848**	**₹ 21,05,848**	**32.20%**	**67.80%**
11	₹ 34,78,549	₹ 24,78,549	28.75%	71.25%
12	₹ 38,95,975	₹ 28,95,975	25.67%	74.33%
13	₹ 43,63,493	₹ 33,63,493	22.92%	77.08%
14	₹ 48,87,112	₹ 38,87,112	20.46%	79.54%
15	**₹ 54,73,565**	**₹ 44,73,565**	**18.27%**	**81.73%**
16	₹ 61,30,393	₹ 51,30,393	16.31%	83.69%
17	₹ 68,66,040	₹ 58,66,040	14.56%	85.44%
18	₹ 76,89,965	₹ 66,89,965	13.00%	87.00%
19	₹ 86,12,761	₹ 76,12,761	11.61%	88.39%
20	**₹ 96,46,293**	**₹ 86,46,293**	**10.37%**	**89.63%**

Observation
Please notice in the above chart that even after 5 years your own capital is 56% of the total portfolio value.



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Concept #4

Why property gives high returns

Many investors feel that property gives very high returns. Usually, they remember the cost price and the current value of the property. For eg. they will quote that a property they bought in 1979 for Rs.1 Lac is currently valued at Rs.1 Crore. Let's compare this with returns in BSE Sensex over the same period.

Property vs Sensex Returns

Asset	Investment Value	Investment Year	No. of Year	Current Value	Return
Property	₹100,000	1979	43	₹1,00,00,000	11.30%
Sensex	₹100,000	1979	43	₹5,89,03,988	15.60%

Report date 05/01/2023

Observation: Returns in property expressed in percentage terms comes to around 11.30% whereas investing the same amount in sensex would have fetched around 5.89 Crores (@15.30%)

Property gives high returns because the holding period is long. If one invests in equity oriented funds for long term, returns could be much more. The following table gives the returns generated by 4 equity funds that were launched in 1990s.

Fund Name	Inception Date	Return since Inception
Fund A	**01-Jan-1995**	**18.45%**
Fund B	**08-Oct-1995**	**21.80%**
Fund C	**01-Dec-1993**	**18.86%**
Fund D	**01-Dec-1993**	**19.20%**

Report date 05/01/2023

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Concept #5

There are two kinds of risk.

Price Volatility Risk

Capital Risk

Gold

It has price volatility risk in the short term but generally, over long term, the value goes up.

Equity Funds

It has high price volatility risk in the short term but generally, over long term, the value goes up.

Crypto / Penny Stocks

They have both high price volatility risk as well as capital risk.

Observation:
Ensure you have no exposure in assets that can leave you with permanent capital loss.

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Mutual Fund Investments are subject to market risks, please read the offer related documents carefully

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