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Course correction for your MFs

Assess performance of existing funds, and complete formalities for a smooth year

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The beginning of a financial year is always a good time to start investing, if you haven't done it already. Or even if you have been investing, it's never too late to have a relook at your portfolio. Here's how you should work your mutual fund (MF) investments for 2016-17.

A portfolio review

Ideally, invest for a goal. But what if your investments go astray? If you haven't been satisfied with your MF investments' progress, the start of the year is a good time to review.

If your funds have underperformed, check for the weak point. Is it a depressed economy that is causing equity markets to go down or has your fund manager slipped? Take the returns of equity funds (we took large-, mid-, small- and multi-cap funds) in the past five calendar years, 2011 to 2015. In 2011, they lost 24%, and then gained 31%, 6%, 45% and 2%, respectively, the following years. Although they have gained, on an average, in all of the past four years, check out the range in their performances. So far this year, they have lost over 3%, already.

But take a closer look. The true test of how a scheme has performed is to check its returns versus its benchmark. In calendar years of 2013, 2014 and 2015, 57%, 92% and 78% of equity funds outperformed their benchmark indices, according to data by Value Research. The high figure of 92% for the year of 2014 was because equity markets rallied on the back of the new government that was elected at the Centre. Now take a look at long-term performances—91% and 82% equity funds have outperformed their benchmarks over the past 5-year and 10-year time periods, respectively, as on 30 March 2016.

"You have to look at the economic situation also. If you have invested in diversified equity funds and equity markets have not cooperated, you might need to wait 5-7 years before you judge the fund's performance. That is also because our economic cycles are now becoming longer," said Nisreen Mamaji, a certified financial planner, and founder, Moneyworks Financial Advisors.

One should not look at just the immediate performance; look at it over a period of time. "If you had seen the past returns as on April 2015, it would have looked good. But if you check past returns as on April 2016, the situation looks bad," said Nikhil Naik, chief growth officer, Naikwealth Planners Pvt. Ltd.

Complete KYC, Fatca

If you are an existing MF investor, you would have already fulfilled the know-your-client (KYC) requirements. But effective 2016, there is an additional requirement—Foreign Account Tax Compliance Act (Fatca).

This Act was passed in the US and aims at accounting for people's incomes earned in other countries, if the same people file their income tax returns in the US, or are residents of the US or financially connected to it or have any tax residency there.

What it means is that you have to give an undertaking to your MF (and to other financial institutions) that you are not a resident of the US.

The fund house will ask you about your country of birth, the country in which you live, and whether you pay taxes in any country apart from India. All MFs are collecting this information. As per the rules, you cannot invest in MFs unless you provide these details.

"Fatca has to be updated with registrar and transfer (R&T) agents. If you are a do-it-yourself investor, you can go to the website of the R&T agent of the fund where you have invested. You need not invest afresh to be able to update Fatca details," said Kiran Telang, a Mumbai-based Securities and Exchange Board of India-registered investment adviser. Remember, Fatca details have to be updated for all the folios that you have.

If you haven’t done your KYC, then you cannot do it on a stand-alone basis. You need to invest in MFs to be able to do your MF-related KYC. Only then, your KYC form will go as part of your first MF application.

Complete nominations

If you haven’t nominated anyone in your MF holdings, do that now. Most financial planners suggest having a second and/or third holder in your folios. But since you cannot add an additional holder in your existing folios, the next best thing to do is to nominate.

“Most investments that I see of first-time clients have only a single holding. That is bad because if the first holder dies, then there is lots of paperwork to be done to transmit the units to the successor. The process is tedious,” said Steven Fernandes, a Mumbai-based certified financial planner.

This usually happens when investors are approached by aggressive distributors, who visit them with an investment proposal and investors sign and give the cheque, he said, instead of taking the form home to get signatures.

“Married couples should ensure that when they invest, they do so in ‘either or survivor’ mode,” said Fernandes.

Start an SIP in ELSS

Assuming you have your life insurance in place, if you have dependents, and you are underexposed to equities, you should invest in an equity-linked saving scheme (ELSS), which has a three-year lock-in.

“Assess how much you need to invest in an ELSS in a particular year to avail the section 80C tax deductions and then do a SIP (systematic investment plan) for about nine months. This is to ensure that you finish your annual ELSS requirements by about January, which is when most employers ask for tax deduction investment proofs,” said Vishal Dhawan, founder and chief executive officer, Plan Ahead Wealth Advisors.

A realignment and suitable additions or subtractions will ensure that your MF portfolio functions smoothly and more effectively.