

Direct Plans VS FundsIndia.com

WHY FUNDSINDIA CONTINUES TO
BE THE SMARTEST WAY TO INVEST
IN MUTUAL FUNDS

Introduction



Investors in India need to now contend with a choice when it comes to their mutual fund investments. Recent SEBI regulations have made it cheaper to invest directly with Asset Management Companies (AMCs) as compared to investing using an investment service such as FundsIndia.

The cheaper cost comes in the form of a lower expense ratio (the fee charged by mutual fund companies for managing investors' money, expressed as a percentage of the investment) for schemes available directly from the AMCs. In the case of equity funds, the difference in expense ratio is about 60-70 basis points (one percentage equals 100 basis points). In the case of debt or liquid funds, the difference is about 30-40 basis points.

Does this cheaper alternative mean that investors are better off investing directly through the AMCs? This paper examines this question from two perspectives:

- A quantitative or numerical perspective – does going direct really save money and enhance the returns of a mutual fund portfolio for a regular investor?
- A qualitative perspective – what are the service and convenience-related differences between the two approaches?

Time and again consumers are faced with a choice between a cheap product and a better product. More often than not, the cheaper alternative ends up to be the more expensive of the choices in the long run. This is true all the more for long-term choices such as mutual fund investments where a family's future financial security is at stake.

This white paper has been created with the aim of helping investors around the country make an informed decision on this crucial issue.

At FundsIndia, we continue to assure you the very best of our services!

Regards,

Srikanth Meenakshi
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About FundsIndia.com: FundsIndia is an online investment service, specializing in mutual fund investments. With no transaction or account fees, investors are free to invest in any scheme from 40 different mutual fund companies. Qualified, un-biased advisory services complement a powerful, easy-to-use, convenient online platform that offers many value-added services such as Flexi-SIP, Step-up SIP and more. FundsIndia also offers fixed deposits, direct equity investments, and NPS account services.

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Aggregation across AMCs and Single Point of Service

Did you know?

An investor would need to invest in funds from different AMCs to construct a good portfolio. If an investor would invest directly with the AMCs, he or she would need to keep track of multiple application forms and statements.

A good investment portfolio would need to have funds across different asset classes and categories. It would need to have equity funds, debt funds, and in some cases, even gold funds. Within these asset classes, there are different categories – large-cap funds, mid-cap funds, balanced funds, short-term debt funds, liquid funds, etc.

No single AMC has the best funds in each of these categories. An investor would need to invest in funds from different AMCs to construct a good portfolio. If an investor would invest directly with the AMCs, he / she would need to keep track of multiple application forms and statements. Even if done online, every website would have a different login process and interface. Also, maintaining a single view would need to be done in a completely different website, which will have no information about the transactions unless the investor provides them.



With FundsIndia, all these hassles are non-existent. An investor will have one login ID, one uniform interface and process, no paperwork, and the convenience of handling an up-to-date investment account.

Needless to say, when making an investment is this easy, it increases the chances of an investor not missing out on a rewarding investment opportunity. For example, an investor can use our services to park their surplus money in liquid funds. He / she can then redeem their investment whenever they need it at the click of a button. It also reduces the risk of holding on to an underperforming investment, and practically eliminates the possibility of inconsistent information across folios. Not only are the investment and redemption processes faster, so are our services. If an email ID needs to be updated, there is no need to write to every fund company – just a single request would do. Even adding or changing a bank account can be done with a single request, as opposed to one request per AMC.

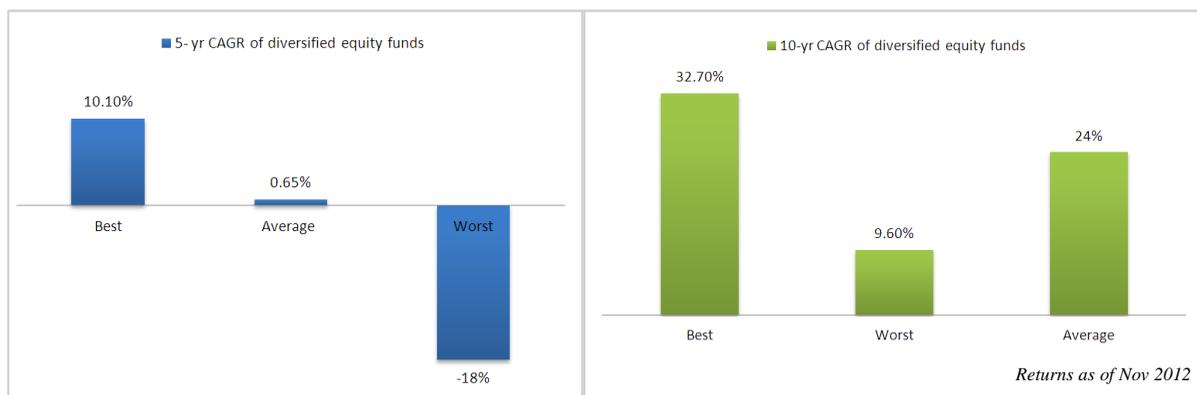
Advisory Services

A typical mutual fund investor needs about 6-10 schemes in his / her portfolio. There are more than 1200 schemes in the market. A majority of these schemes, especially stock market schemes, perform worse than their benchmarks. According to the recent annual CRISIL report, more than half of the equity schemes have underperformed their benchmarks for the three and five year periods. A wrong fund choice may result in an investor's portfolio not keeping pace with inflation and also falling short of his / her investment goals.

Hence, it is important that an investor chooses good funds while constructing his / her portfolio. Good funds refer to those funds that have been managed well, and have turned in good performances year after year consistently. It is important to ensure that an investor's portfolio fits the purpose of investment. To start with, it can be the time frame of investment and the risk measure. If not, even good, well-managed funds will not serve the purpose of the investment portfolio.

It is very easy to make mistakes while choosing funds. In our experience, we have found that investors are prone to:

- Choosing good but high-risk funds for short-term investments.
- Chasing returns by choosing funds based on their most recent performance.
- Choosing funds based on external influences – friends' advices, advertisements, etc.



At FundsIndia, we make sure that you have a portfolio that fits your investment purpose - and we make it incredibly easy for you to do so. We provide a variety of ways to build sound portfolios:

1. The always accessible 'FundsIndia Select Funds' – A researched list of consistently performing funds across different categories.
2. Pre-packaged portfolios for all seasons, all reasons – Long-term, short-term, high-risk, low-risk, beginner, advanced, tax-saving, and so on! You name it, and there will be a portfolio for it!
3. SIP portfolio designer – Our highly sophisticated customized SIP portfolio designer helps build a portfolio that is tailored for your requirements.
4. Periodic and unbiased research reports – FundsIndia's research team delivers unbiased reports about the universe of funds and investments, that you can use to sharpen your portfolio and keep it current.

On-demand Portfolio Review

Did you know?

Investing directly with AMCs will put the onus of portfolio reviews entirely on the investor. It makes it easy to forget, easy to skip, and at the end of the day, a costly omission.

A mutual fund portfolio is not a static entity. It needs to be reviewed periodically to ensure that the chosen funds still deserve a place in it. A fund that was performing well at the time of selection might no longer be doing well. Economic and interest rate cycles influence fund choices. Fund managers come and go. Industry cycles could determine where to invest and where not to. New fund arrivals might merit a place in some situations.

This is not to say that a portfolio needs to be churned periodically to keep up with changes. However, it definitely needs to be reviewed to ensure that the purpose of the portfolio continues to be met. A good portfolio review will address three things:

1. Current state of the portfolio – Asset class distribution, performance, and so on.
2. Arithmetic of the plan – If the portfolio is targeting the financial goal it is aimed for.
3. Fund review – Whether or not, the funds in the portfolio continue to merit a place in it.

Without these reviews, a portfolio will remain stagnant and might fail to meet its objectives. Needless to say, for a regular investor who is probably a professional in his / her own field, such reviews can be tedious and time consuming.

Investing directly with AMCs will put the onus on such reviews entirely on the investor. It makes it easy to forget, easy to skip, and, at the end of the day, a costly omission.

FundsIndia makes it very easy to do these reviews. In fact, an investor can do this at any time he / she chooses to do so. There are two flavours of reviews:



Portfolio Review

It takes into account the time frame, financial goal, and risk of the investor. It covers all aspects – qualitative and quantitative – and comes up with actionable recommendations.



Portfolio X-ray

It gives an in-depth view of the holdings and the overlaps between different schemes. Thus, it provides a snapshot view of the current state.

Innovative Value-added Services

Investors can gain real returns from their portfolio not just by choosing good funds, reviewing periodically, and rebalancing on schedule. They can also benefit by adopting innovative methods of investing. However, often, these innovative methods are hard to implement – they are not easy to understand, or to put into practice without expert help.

For example, it is well-known and established that a particular method of investing called value-averaging investment plan (VIP) provides a higher internal rate of return for investments as compared to regular systematic investment plans (SIPs). Studies using Indian mutual funds have shown the performance improvement could be as high as 1.9% extra per year.

So what is this value-averaging method? It is simply investing a different amount of money every month based on how a scheme or market performed in the previous month. If the market did poorly, more money is invested, and vice-versa. However, putting it into practice may be a tough task as it requires maintaining spreadsheets and carefully calculating the amount to be invested every month.

FundsIndia makes it easy by offering a VIP programme on every single equity fund on the platform. This system will take care of all the calculations and investments, and the investor can just sit back and enjoy the extra returns!

The screenshot shows the FundsIndia website interface. At the top, there is a navigation bar with 'FundsIndia' and links for 'My Account', 'Mutual Funds', 'Equities', 'Deposits', 'NPS', and 'IPO/NCD'. Below this is the FundsIndia logo and tagline 'Enriching India, one investor at a time'. A left sidebar contains a 'MUTUAL FUND' section with links: 'Back to MF Summary', 'Invest / Redeem / Switch', 'Systematic Plans', 'Current SIPs', 'VIP / VTP', 'Reports', 'Trigger', 'Easy Transfer', 'Watch List - MF', 'Scheme Explorer Beta', 'Manage Accounts', and 'Commission Disclosure'. The main content area is titled 'SIP Calculators' and features two sections: 'Regular SIP' and 'Portfolio SIP'. Each section includes a brief description and two buttons: 'Set up a [type] SIP >' and 'View existing SIPs >'. The 'Regular SIP' section explains that users can select one or more schemes, dates, amounts, bank accounts, and installments. The 'Portfolio SIP' section explains that users can invest in a diversified portfolio of different schemes. Below these is a 'Step-up SIP' section, which explains that users can gradually increase their SIP amount over time.

There are other such “value-added” services available on FundsIndia that are not available directly with AMCs or elsewhere. A quick snap shot of such services has been provided below:

- Access to all the Mutual Fund companies under a single platform
- Track and manage your investments in real time and with a click of your mouse
- Innovative SIPs that make your money work just as hard as you do
- Access Triggers, Reports and Statements online
- Prudent customer support that you can communicate through phone, SMS and Email

SIPs page in FundsIndia.com

Aggregation across Products

Did you know?

By investing directly with fund houses, not only are an investor’s mutual fund investments fragmented across different places, their overall investment portfolio gets distributed across many service providers.

At FundsIndia, we understand that mutual funds are the most effective and efficient way of saving for the common investor. That is the reason why we have made it the chief offering on our website.

However, we also understand that mutual funds alone might not suffice for every investor. Some might need the assurance of guaranteed returns like that offered by a fixed deposit product. Others might want to enter into direct equity investing in the stock market or ETFs. Some might want to use the National Pension System for the purpose of saving for their retirement.

This is the reason why we have created a complete investment platform that enables investors to invest in any type of investment product, and have a single, unified view in a single online location.

So, by investing directly with fund houses, not only are an investor’s mutual fund investments fragmented across different places, their overall investment portfolio gets distributed across many service providers.

“I had started investing with FundsIndia's mutual fund account. Now, I have started availing their other services like NPS, and Demat and Trading account. I thank them for the services offered so far.”

—Vipul , Mumbai

The screenshot shows the FundsIndia website interface. At the top is a navigation bar with links: FundsIndia, My Account, Mutual Funds, Equities, Deposits, NPS, IPO/NCD, Insurance, and Downloads. Below the navigation bar is the FundsIndia logo and tagline. The main content area is titled 'Account Snapshot' and includes a tabbed interface with 'Summary', 'Mutual Funds', 'Stocks', 'Fixed Deposits', and 'Bonds'. To the right of the tabs, market indices are shown: BSE : 20,054.98 ▼ -48.37 (-0.24%) and NSE : 6,069.05 ▼ -5.75 (-0.09%). Below this is a table summarizing investment types and their latest values.

Investment type	Latest value (₹)
Mutual Funds	7,42,649.04
Total (₹)	7,42,649.04

With FundsIndia, all the investments of an investor are aggregated in one place to ensure that they are all working together towards overall wealth building.

Aggregation of Family Accounts

No investor is an island. Especially in India, investors rarely invest by themselves. They often manage investments in the names of their spouses, kids, parents, and in some cases, even siblings. How can one manage all these different investments if they are all scattered across different accounts in different companies?



At FundsIndia, we were the pioneers in recognizing this fact which led us to build a system that provides the ability to manage a family's investments using a single login ID. What more? One can even invest jointly with different members of the family or with minor accounts, all under the same login account.

This tremendous convenience brings all the family's investments under one umbrella – which means no more losing sight of any transactions anywhere!

After all, a family that invests together builds wealth together!

Mobile Services

Increasingly, consumers in India are moving towards accessing their financial accounts using mobile devices. FundsIndia was among the first investment service providers in the country to realize it when we launched our mobile portfolio access two years ago. It does not even require a smart-phone for accessing one's portfolio – just a simple missed call from a regular mobile phone is sufficient to get the current snapshot of your portfolio delivered as an SMS to the investor's mobile phone!

Now, as more and more people are migrating to data enabled smart phones, the potential for using mobile phones for a wider range of operations have opened up. A handful of mutual funds have realized this and have started offering mobile access to their services. FundsIndia has launched a mobile application as well, offering access to all the mutual fund services and information using a single application. Now, investors have to consider between these two options:

1. Installing a separate application from each and every mutual fund company on their phone and learning different interfaces to use them.
2. Using the mobile version of FundsIndia to access all mutual fund companies, including the AMCs that do not provide mobile access, using the same uniform interface.



“FundsIndia is doing a great job with their online investment platform. Transacting with them is always a pleasure and I appreciate their services!

Keep it up!”
- Ankur , Haryana

The right choice is obvious – with FundsIndia's mobile application, one can track their account, invest, redeem, setup an SIP, do a switch, and more across all the AMCs!

Market opportunities for investments come unannounced. With the always available mobile app in their pocket, now investors can be more prepared than ever before to take advantage of these from wherever they are!

Summary

Investors should not lose sight of the long-term inefficiencies and loss of real returns that are likely to happen if they pursue savings of a fraction of a percentage point in their investments.

AMCs are very good at managing assets. That is their primary function and they have built their enterprises around that core expertise. However, with the number of investment choices available in the market, and the different ways an investor can invest in these choices, asset management capability alone cannot determine where to invest or how to invest. Both performance and convenience of investing will suffer if such an approach is adopted.

“I do not want to invest anywhere except on the FundsIndia platform. It is addictive!”

To summarize, here are the differences between investing directly and through a service such as FundsIndia:

—Vinay, Bangalore

Service	Direct with AMCs	FundsIndia.com
Value-averaging investing	A few AMCs for some equity schemes	All equity schemes in all AMCs
Flexi SIP	One AMC (paper-based process)	Any SIP can be Flexi SIP – fully online
Portfolio SIP (across AMC funds)	Not possible	Yes
Step-up SIP	Not available	Yes
Alert SIP (No ECS mandate)	Not available	Yes
Triggers (for timing your investments and redemptions)	Some AMCs	Across all AMC schemes

Investors should not lose sight of the long-term inefficiencies and loss of real returns that are likely to happen if they pursue savings of a fraction of a percentage point in their investments.

Considering these, we have no hesitation in saying that FundsIndia continues to be the “smartest way to invest in mutual funds and more!”