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THE WORLDONOMICS TIMES

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DECODING THE LABYRINTH: WORLDONOMICS TIMES JULY EDITION UNVEILS THE NUANCES OF A SHIFTING GLOBAL LANDSCAPE

The global economy, a complex and ever-evolving labyrinth, presents both challenges and opportunities for nations and individuals alike. In this dynamic landscape, Worldonomics Times serves as your trusted guide, offering insightful analysis and expert perspectives through its July publication.

A Multifaceted Approach to Economic Understanding:

Worldonomics Times distinguishes itself by providing a holistic view of the economic sphere. From the sweeping trends of macroeconomics to the intricacies of specific sectors, readers gain valuable knowledge from articles penned by renowned economists and industry leaders. Whether you seek to understand how geopolitical tensions impact financial markets or explore the potential disruptions of Web3 technologies, Worldonomics Times equips you with the information you need to navigate this intricate system.

Spotlight on the Latest: Central Banks and Cryptocurrencies:

The July edition places a particular focus on the evolving relationship between central banks and cryptocurrencies. As digital assets continue to gain traction, central banks around the world are grappling with how to regulate and integrate them into the existing financial ecosystem. Worldonomics Times delves into this critical discussion, exploring potential policy approaches, the risks and opportunities associated with cryptocurrencies, and their impact on monetary policy.

Beyond the Headlines: A Spectrum of Economic Issues:

Of course, Worldonomics Times goes beyond this single topic. The publication continues to shed light on technological advancements and their profound impact on society. Articles explore the transformative potential of artificial intelligence, blockchain, and the metaverse, while also considering the ethical considerations surrounding these developments.

Championing Social Justice and Equality:

Worldonomics Times remains a platform for fostering meaningful dialogue on social issues. Articles delve into critical topics like gender equality, racial justice, LGBTQ+ rights, and the ongoing struggle to address socio-economic disparities. These pieces not only highlight the challenges faced by marginalized communities but also propose solutions for building a more just and inclusive world.

Sustainability: Charting a Course for a Greener Future:

The fight against climate change and the pursuit of sustainable development remain at the forefront of Worldonomics Times' focus. Articles showcase advancements in renewable energy technologies, innovative green practices, and the global push towards a low-carbon economy. The publication continues to explore the synergy between technology and sustainability, analyzing the rise of green hydrogen, sustainable infrastructure projects, and the role of circular economy principles.

Education: The Cornerstone of Progress:

Recognizing the critical role of education in a knowledge-based economy, Worldonomics Times continues to advocate for lifelong learning. Articles explore innovative pedagogical approaches, the effective integration of technology in education, the growing importance of vocational training, and the democratizing power of online learning platforms. The publication emphasizes the importance of empowering individuals through continuous skill development and knowledge acquisition.

Sandeep Kumar

EDITOR-IN-CHIEF

Worldonomics Times

CONSTRUCT A BALANCED PORTFOLIO BASED ON YOUR RISK CAPACITY

The significant changes in investment activity in India, the hefty addition of new demat accounts every year for the last three years, and the infusion of money in the capital market by the retail investors through the mutual funds Systematic Investment Plan (SIP) route (which allows investors to invest a fixed amount regularly in mutual funds) shows the sign of development of our country. The average GST collection was ₹1.51 lakh crore in FY 23 and ₹1.68 lakh crore in FY 24, reflecting an impressive growth of 11.26%. Additionally, the collection of GST surpassed ₹2 lakh crore in April '24, and the current account deficit narrowed to 0.70% of GDP in the financial year 2023-24, underscoring India's growth story. Recently, the Reserve Bank of India (RBI) announced a record dividend of ₹2.11 trillion to the government of India for the financial year 2023-24, significantly contributing to the nation's remarkable economic progress.

With Indian Inc.'s improving profit margin and the economy's robust growth, Analysts believe that India's Stock markets are on an upward trajectory for the next couple of years. However, many of us still deposit in banks' Fixed Deposit Receipts (FDRs) and hesitate to invest in equity (such as stocks) and equity-related products (such as mutual funds and exchange-traded funds). Is it that our conservative minds tend to impulse us not to think about equity investing, or do we still lack awareness and knowledge about these investments? This is a crucial question for all of us. Let's explore a few investment options, considering risk, return, and tax implications.

Criteria for selecting an Investment Product:

Generally, investors tend to look at investments only from the perspective of generating maximum returns for the money they are investing in a product. Due to the advancement of technology, different asset classes are available for investors in the financial markets. It may be bank fixed deposit, stock, mutual funds, government schemes, gold, e-gold, & gold bonds, Bonds & debentures, ULIP, real assets, etc. Each investment avenue has its advantages and disadvantages. Most investment avenues have a certain degree of risk, such as business risks, currency risks, operational risks, inflation risks, default risks, interest rate risks, political risks, market risks, etc.

Understanding the relationship between risk and return is crucial. If your investment return is not comparatively associated with risk, then the investment may not fulfill your financial goals. With this viewpoint, investors should often analyze the risk and returns of the investment products, develop a strategy before making an investment decision, and set financial goals.

However, the investor should evaluate investment products (equity, debt, and hybrid products) and consider the criteria of an investment, such as consistent returns, asset diversification, tax efficiency, security, and risk, when making the investment decision.

Various investment avenues are available in the market, with different risks and returns. Your choice of investment avenues depends on your financial goals, risk tolerance capacity, investment horizon, and overall financial situation.

Investment of Asset Classes:

1. Fixed Deposit:

Fixed deposit is an investment scheme offered by Banks, Non-Banking Financial Companies (NBFCs), and Corporations. An investor deposits a sum of money with a bank or Non-banking Finance company for a fixed period, typically ranging from a few days (seven days) to several years(ten years). During this period, the investor earns interest on the deposited amount at a fixed rate. The depositor can withdraw the money before the Fixed Deposit maturity date. If the depositor withdraws the money before the maturity date, the bank deducts a certain percentage as a penalty. The interest rate and premature withdrawal charges vary from bank to bank. The tenure of FDRs and interest rate gives investors the power to choose the best option for their needs.

However, the interest rates on FDs are fixed and guaranteed, providing a secure and low-risk investment option. The return of bank fixed deposits is not tax-efficient. Depositors must pay income tax on an accrual basis based on their tax slab. Compared to other investment products, the return rate of a fixed deposit is always lower.

Table-1

Understand the post-tax return on Bank Fixed Deposit investments

Year	Principal (₹)	Annual Interest ** (₹)	Maturity Value (₹)	Tax Amount (₹)	Post Tax Income (₹)
1	1,00,000	7,000	1,07,000	2,184	4,816
2	2,07,000	14,490	2,21,490	4,521	9,969
3	3,21,490	22,504	3,43,994	7,021	15,483
4	4,43,994	31,080	4,75,074	9,697	21,383
5	5,75,074	40,255	6,15,329	12,560	27,696
6	7,15,329	50,073	7,65,402	15,623	34,450
7	8,65,402	60,578	9,25,980	18,900	41,678
8	10,25,980	71,819	10,97,799	22,407	49,411
9	11,97,799	83,846	12,81,645	26,160	57,686
10	13,81,645	96,715	**14,78,360**	30,175	66,540
	Total	4,78,360		1,49,248	3,29,112

****This is for illustration purposes only. The actual return will vary from year to year of each SIP amount based on the actual interest rate.**

All bank deposits, including savings, fixed, current, and recurring deposits up to a maximum of ₹ 5,00,000 (Rupees Five Lakhs) for both principal and interest held by a depositor, are insured by the Deposit Insurance and Credit Guarantee Corporation (DICGC) in the same right and same capacity as on the date of liquidation/cancellation of the bank's license, etc. This guarantee by the DICGC encourages individuals to make bank-fixed deposits.

Let us consider an example of how a bank's fixed deposit generates income. Suppose a conservative investor has chosen to invest solely in bank fixed deposits for his children's higher education.

If he invests ₹100,000 in a Bank Fixed Deposit (FDR) at the beginning of each financial year, similar to a Systematic Investment Plan (SIP) for ten years, his total investment will be ₹10 lakhs. If that investment grew by an average of 7.00% (current interest rate) a year, it would be worth ₹ 14.78 lakhs after ten years by assuming that the interest rate remained the same throughout the ten years.

Considering the investor's marginal tax rate, assuming 30.00%, plus a 4% education cess, the depositor's post-tax return after one year will be 4.81%. With the current inflation rate at 6% per annum, the inflation-adjusted return will be negative at 1.19%.

If the investor ignores the tax treatment in the above example, the inflation-adjusted return would be only 0.94% annually, considering the bank deposit rate is 7% and the inflation rate is 6%. According to the table provided, for an investment of ₹10,00,000, the net income after ten years will be ₹3,29,112.

On the contrary, when investing in bank fixed deposits, consider the risk of inflation and interest rates, as these factors may decrease the actual value of assets.

2. Equity Mutual Fund:

Mutual funds are an excellent investment option. They pool money from multiple investors to invest in a diverse portfolio of assets such as shares, debentures, bonds, government securities, commodities, and short-term securities like treasury bills, commercial papers, promissory notes, and certificates of deposit. Mutual funds investment diversifies the investor's portfolio and reduces risk. This diversification helps spread the risk and potentially increase returns.

Mutual funds also help an investor build a good portfolio mix due to their various categories of funds, such as large-cap, multi-cap, mid-cap, hybrid, and debt mutual funds. It's important to note that equity funds have a greater risk of capital loss than hybrid/diversified funds.

Table-2

Projected returns of various investment vehicles

Instruments	SIP per Year (₹)	Return Per Year(%)	Total Investment (₹)	Return* (₹)	Maturity Amount (₹)	Tax Amount (₹)	Tax adjusted Return (₹)
FDR	1,00,000	7.00	10,00,000	4,78,360	14,78,360	1,49,248	3,29,112
Conservative Hybrid Mutual funds	1,00,000	9.50	10,00,000	7,03,852	17,03,852	2,19,602	4,84,250
Equity Mutual Funds- large cap	1,00,000	12.00	10,00,000	9,65,458	19,65,458	86,545	8,78,913
Equity Mutual Funds- Small & Mid Cap	1,00,000	16.00	10,00,000	14,73,290	24,73,290	1,37,329	13,35,961

*** Bank FDR return is guaranteed, and mutual Fund Schemes are not guaranteed. Mutual fund return is subject to market risks.**

****This is for illustration purposes only. The actual return will vary from year to year based on the actual interest rate and return.**

Mutual funds offer the option to invest through a Systematic Investment Plan (SIP), ensuring disciplined investment regardless of market volatility. This strategy allows investors to average their costs through market cycles and build a significant corpus to achieve their goals without taking on excessive risk in the long run.

A mutual fund is the best option for investing in long-term goals as it has several advantages: It is less risky than equity, highly operational, transparent, and user-friendly. Additionally, it is subject to strict regulations, has lower costs and high liquidity, and is more secure than other investment products while being tax efficient. Mutual funds also spread investors' money across different asset classes, providing consistent returns over the long term.

Let's compare with an example of a SIP investment of ₹100000 and the returns of different investment Avenues.

This analysis of various investment options exhibits tax-adjusted returns of a yearly SIP investment of ₹100,000, which helps an investor to estimate and finalize financial goals.

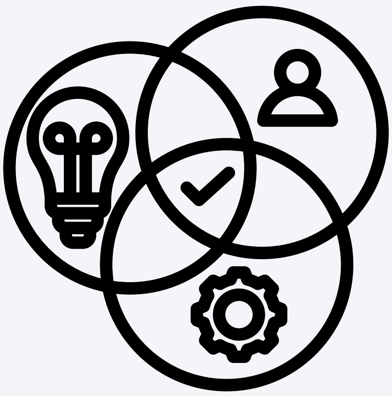
For instance, if an investor regularly invests ₹100,000 annually at the start of each financial year into a bank fixed deposit, after ten years, he/she will receive ₹14.78 lakhs, assuming a 7% annual rate of return. However, conservative hybrid and equity mutual funds have historically offered better long-term returns than bank fixed deposits.

On the other hand, if he invests it in conservative hybrid mutual funds (75% debt instruments & 25% equity) after the same period, he will get ₹17.03 lakhs.

Conversely, if investors make a Systematic Investment Plan (SIP) of ₹1,00,000 per annum in an equity large-cap fund; after ten years, they will get ₹19.65 lakhs, assuming a rate of return of 12% per annum. Also, the same amount of yearly SIP with small and mid-cap mutual funds will create a corpus of ₹24.73 lakhs, assuming a rate of return of 16% per annum.

The tax rate for FDR and conservative hybrid products is the same as per the Income Tax Act. However, the long-term capital gains rate for equity mutual funds is 10% over a certain threshold amount, i.e. ₹1,00,000 in a Financial Year.

Based on a pensioner's perspective, a conservative hybrid mutual fund offers better benefits than a bank FDR due to its higher returns and tax implications upon redemption only. It is essential to carefully assess the returns and tax considerations when selecting investment products.



The above corpus can only be achieved by following disciplined approaches, regardless of market volatility. Investing through SIP ensures disciplined investment, irrespective of market volatility. This helps investors average their costs through market cycles and build a substantial corpus to attain their goals without taking excessive long-term risks.

Equity has the potential to deliver strong returns with lower downside risk in the long term compared to debt instruments such as bonds, debentures, and govt. securities. Hence, equity and equity-related investments should consistently deliver decent returns in the long run without worrying about daily market volatility, ideally for more than five years.

Change your mindset and analyze the current economic data while preparing investment goals and selecting investment products. The data shows that Investors have injected a net of ₹43,435 crore into Mutual Fund schemes through SIPs in the first five months of the calendar year 2024, compared to ₹ 36,121 crore in the same period last year. Following the third term of the BJP coalition governments at the center, market sentiment seems robust due to India's relatively improved macroeconomic forecasts. Furthermore, the possibility of a rate cut in FY 2024-25 and higher inflows of FII also boost the capital market.

Risk Analysis of Mutual Funds:

An investor should make an investment strategy based on risk-tolerance capacity. Risk tolerance capacities differ from person to person based on age and income. Investors generally focus only on the fund's returns, irrespective of risk. However, it is very important to consider the risk aspect of the investment since risk and returns are two sides of the same coin. Popular ratios to measure risk in mutual funds are standard deviation, Beta, Sharpe Ratio, Treynor's Ratio, and alpha.

Fortunately, reliable tools like standard deviation, Beta, Sharpe Ratio, Treynor's Ratio, and alpha can be used to evaluate a mutual fund's performance, risk, and returns. Understanding risk and volatility can help you choose a better mutual fund within the same sector/category.

Consider the concentration percentage when choosing a mutual fund. The percentages of the top holdings indicate the fund's potential returns. Investing in large-cap, multi-cap, and diversified equity mutual fund schemes is better than mid-cap and small-cap funds.

3. Debt fund:

A debt fund may invest in short-term or long-term bonds, securitized products, and money market instruments. It is a fully secured investment that gives a fixed return over some time to the investor with minimum risk. All government instruments present no risk. Debt funds seek to protect investors' capital while generating regular income. They carry risks such as credit risk, interest rate risk, and liquidity risk. The lower risk of Debt funds can provide a sense of security for conservative investors.

Debt mutual funds have many categories: liquid funds, short-term debt funds, ultra-short-term debt funds, gilt debt funds, fixed maturity plans, and long-term debt funds.

4. Exchange-traded Funds (ETFs):

ETFs are similar to mutual funds, but they are passive funds that invest in securities of an index and commodities. They offer diversification and liquidity and are often more cost-effective than traditional mutual funds. Investing in precious metals like gold and silver can be achieved through physical ownership or ETFs.

Key Strategy to Protect Your Investment from Frauds:

- Conduct due diligence before investing
- Be cautious of investment promises offering high returns
- Take your own time for a decision and avoid salesman pressure tactics
- Beware of unsolicited offers received through e-mails, social media platforms,
- Examine the regulatory authorities' framework of your investment scheme and
- Consult a Financial Advisor before investing.
- Beware of promises of high returns in a short time. Fraudsters aim to deceive investors and cause financial losses. Always think carefully before investing.

Summary:

With ongoing structural reforms and changes in the business ecosystem, along with continuous efforts by the government to accelerate growth across sectors, industries related to Manufacturing and energy, including hydropower and renewable energy, are poised to become the cornerstones of India's economic development.

India aims to achieve developed economy status by 2047, with a 20% share of the manufacturing sector focusing on sustaining a growth rate of 7-7.5% by 2030.

In the long term, equities tend to provide strong returns with lower downside risk compared to debt instruments like bonds, debentures, and government securities. It's advisable to consider investing in equities with a long-term perspective, ideally over five years, with an expected 12–15 percent return.

For stable and safe investments, you can select PPF, Bank Fixed deposit, and debt instruments such as RBI taxable bonds, National Savings Certificate (NSC), Senior Citizen Savings Scheme (SCSC), Kishan Vikash Patra (KVP), and Sukanya Samridhi Yojana (SSY) account. It has been proven that a small amount invested regularly over the long term creates a good corpus for the investor.

Fixed deposits and conservative hybrid debt mutual funds are good options for pensioners in the 10% and 20% tax brackets. However, fixed deposits do not provide positive returns in the long run due to post-tax and post-inflation factors. The pensioner can use a Systematic Withdrawal Plan (SWP) from conservative hybrid mutual funds and fixed deposits for regular monthly income.

Based on your risk tolerance, you can create a balanced portfolio with various asset classes, such as equities, debt, commodities (gold and silver), and real estate. Diversification helps spread risk and potentially increases long-term returns.

Disclaimer:

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