

**YOU COULD BE LOSING THOUSANDS/LAKHS OF YOUR
HARD EARNED MONEY IN MUTUAL FUNDS INSPITE OF GOOD RETURNS.**

If you don't believe it, Read on...

Effective 1 January 2013, all asset management companies (AMCs) launched "Direct Plans" for all their open-ended MF schemes, a move which was made mandatory by the capital markets regulator, Securities and Exchange Board of India (SEBI).

A "Direct Plan" is what you buy directly from the mutual fund company, whereas a "Regular Plan" is what you buy through a broker or distributor (intermediary). In a regular plan, the mutual fund company pays commission to the intermediary. This is then recovered as an expense from your investment. In mutual fund speak, the expense ratio is higher for a regular plan.

The stock portfolio, Fund Manager etc. are same for both the plans. The difference is in the Total Expense Ratio (TER). Whenever an investor invests in Mutual Funds he has to bear a cost every year which is called TER (Total Expense Ratio) of Mutual funds.. TER consists of 2 main components

- (i) The AMC Fund Management Fees
- (ii) Distributor Charges (Commission)

In Direct Plan of any Mutual Funds the Distributor Charges (Commission) is not included and hence the TER is less than that of the Regular Plan of the same Mutual Fund. As per SEBI Circular Dtd. June 05, 2018 (available on SEBI website)

'AMCs shall prominently disclose on a daily basis, the TER (scheme-wise, date-wise) of all schemes under a separate head – "Total Expense Ratio of Mutual Fund Schemes" on their website and on the website of AMFI...'

The TER data from AMFI (Association of Mutual Funds in India) website for some of the Funds is as follows :

Fund Name		Total Expense Ratio (TER) (as on 15.04.19)		Difference
Type	Name	Regular Plan (%)	Direct Plan (%)	Regular-Direct (%)
Equity	SBI Blue Chip	1.99	1.09	0.90
	Axis Blue Chip Fund	2.11	0.76	1.35
	L&T Midcap Fund	1.89	0.92	0.97
Debt	ABSL Low Duration	1.23	0.38	0.85
	HDFC Credit Risk Debt	1.45	0.99	0.46
Hybrid	Axis Equity Hybrid	2.26	0.58	1.68

(You can check the difference in the Expense ratio of Direct and Regular Plans for the Mutual Funds in which you are invested on the AMFI website)

As can be seen from above that there is difference in the amount deducted from your investment in a Regular Plan vi-a-vis a Direct Plan of the same Fund. The difference ranges from about 0.3% to 1.6% which is applicable every year on the total corpus as commission till you are invested. Though this % may prima facie appear to be very small, let us see the affect in absolute terms taking into consideration the compounding effect over a long period as normally the Mutual funds are invested for Long Terms.

Case I (Equity Fund) Investment Period : 10 Years

	Lumpsum (Rs 70 Lakhs)	Lump sum (Rs. 1 Cr)	SIP Monthly (Rs. 50000/month)
Amount	70,00,000	1,00,00,000	50,000
Annual Returns (CAGR) (Assumed)	13%	13%	13%
Commission Expense (Regular Plan) (Assumed)	0.9%	0.9%	0.9%
Net Return (Regular Plan)	12.1%	12.1%	12.1%
Fund Amount without Commission	2,37,61,971	3,39,45,675	1,23,34,032
Fund Amount with Commission	2,19,35,834	3,13,36,906	1,16,86,371
Net Commission (Regular Plan)	18,26,137	26,08,769	6,47,661
Commission Expense as %	8.32%	8.32%	5.54%
Per month Estimation (Approx)	15,200/month	21,700/month	5,400/month

Net Commission is the approximate Amount you pay as commission to your Distributor by investing in Regular plans. **The amount becomes substantial over a period of time as it gets calculated on the total corpus. This loss can be avoided by investing through Direct Plans.**

Case II (Debt Fund): Investment Period : 10 Years

	Lumpsum (Rs 70 Lakhs)	Lump sum (Rs. 1 Cr)	SIP Monthly (Rs. 50000/month)
Amount	70,00,000	1,00,00,000	50,000
Annual Returns (CAGR) (Assumed)	8%	8%	8%
Commission Expense (Regular Plan) (Assumed)	0.65%	0.65%	0.65%
Net Return (Regular Plan)	7.35%	7.35%	7.35%
Fund Amount without Commission	1,51,12,475	2,15,89,250	92,08,283
Fund Amount with Commission	1,42,27,170	2,03,24,529	88,76,995
Net Commission (Regular Plan)	8,85,305	12,64,721	3,31,243
Commission Expense as %	6.22%	6.22%	3.73%
Per month Estimation (Approx)	7,300/month	10,500/month	2,750/month

This high commissions was the reason that that SEBI mandated Mutual Funds to introduce Direct Plans in 2013. SEBI has time and again cautioned Public to deal with only SEBI registered investment advisors and research analysts through Press releases.

SEBI registered Investor Advisors (RIA) tend to undertake your Risk profiling and your Financial Goals into consideration before providing a holistic financial plan with recommendation of the proper Mutual Funds for investment (Direct Plans only)

A word of caution...

It may not be recommended to invest in Direct Plans without help of Professional advice until you understand different Mutual Funds with their associated Risk-Rewards, your Risk Profile and your Financial goal based Time horizons for investment.

P.S.

Food For Thought

When we have any Physical Health issue, whom should we contact :

- (i) A Pharmacist who knows about the medicines and sells them
- (ii) A Doctor who advises you for Free but gets compensated by the commissions
- (iii) A Qualified, Certified and Registered Doctor who charges a Fee and provides unbiased and trustworthy advice.

Don't you think we need to have a similar approach for our Financial Health?