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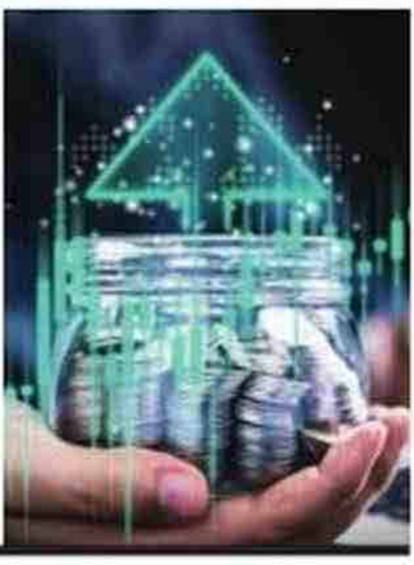
IN THE CLASSROOM

Staggering Equity MF Investments Through Systematic Transfer Plans

With elections around the corner and volatility in equities likely to be high, money managers believe investors should stagger their investments into equity mutual fund schemes. Fund houses offer various options for staggered investments such as a daily, weekly or monthly systematic transfer plan (STP) from a debt-oriented scheme like a liquid fund or ultra-short-term fund to the chosen equity fund.



WHEN SHOULD AN INVESTOR OPT FOR A SYSTEMATIC TRANSFER PLAN (STP)?

Investors who believe that the long-term earnings growth story is intact, but fear high volatility in the markets due to events such as elections or valuations being slightly ahead of fundamentals can use STPs. Typically such investors have lump sum money and want to invest in equity mutual funds, but in a staggered manner, and simultaneously earn a small return by investing in liquid/ultra short-term schemes.

HOW DOES IT WORK?

An investor looking to invest say ₹1 lakh into an equity fund using STP will have to first choose the liquid or ultra-short-term fund and make an investment there. Once that is done, choose an equity scheme and decide on the amount to be transferred along with the frequency of transfer and set up the STP. Both the source and the destination schemes should be from the same fund house. Most fund houses have a daily, weekly or monthly option to transfer money. For example, an investor can decide to transfer ₹2,500 every week to an equity fund or even something like ₹10,000 every month. Mutual fund investment portals too allow you to set these up entirely online.

HOW CAN YOU START YOUR STP?

Once an investor has chosen an equity mutual fund scheme to invest in, they can stagger their investment using the systematic transfer plan (STP). To use this method, investors can put in a lump sum amount in the source scheme (typically liquid or ultra-short-term fund) and transfer a predefined amount into the destination equity scheme. Typically when markets run up fast and trade at all-time highs, investors put lump sum amounts into a liquid/ultra-short-term fund and transfer it to an equity fund, over 6-12 months. Investors could even use a daily, weekly or monthly STP depending on their comfort levels.

WHAT ARE ITS PROS AND CONS?

STPs work well when the markets are range-bound or correct over the next year, but are likely to do well over a 3-5 year period. On the other hand, if the markets continue to surge, an STP may not be beneficial. The big benefit of using an STP is that till the time the money remains invested in a liquid/ultra-short-term fund, it earns extra returns of 6.5-7.0%, which is higher than a savings bank account. An STP also helps in averaging out the cost of investment by purchasing fewer units at a higher NAV and more at a lower price.

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