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MONTHLY NEWSLETTER

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Mutual Fund Recategorization - How it can impact your Investments & Future Goals?

Ever wondered why you are getting the name change and category change Emails from your fund house? Let's have a look!

Last month, based on the instructions of the Securities & Exchange Board of India (SEBI), mutual fund houses recategorised their schemes.

What does mutual fund (MF) reclassification mean for you and how does it impact you?

Not all mutual funds have changed. Funds that have seen changes are classified into three levels — funds that simply changed the name; funds that have changed the category; and funds that have wound up and merged with another fund.

According to sources, of all the funds that have seen changes, around 50%-60% have only changed names. For instance, ICICI Prudential Balanced Fund is now ICICI Prudential Equity and Debt Fund. The characteristic remains the same. Around 20%-30% of the mutual funds have seen a change in investment style. The remaining funds have either wound up their schemes and merged with another scheme. The third type of change is in 5%-10% funds—you have scheme A and scheme B, where scheme B dies and merges with scheme A. It doesn't have a big impact on scheme A, but there is a huge impact on scheme B. The entire MF industry is undergoing this overhaul and it is not complete yet.

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Mutual Fund Recategorization

What is its impact?
Let me sum it up for you in three points:

- The good news is that there are very few scheme mergers. There is a lot of change in categories but a good number of these are simply recategorization that is, reclassifying into SEBI's new categories without any change in strategy. Similarly, there are name changes just to resonate the category heading. These are minor changes in fundamental attributes that will have little or no impact on the fund strategy and performance. So, most of you are unlikely to be impacted and none of these need to worry you.

- The not so good news is that some funds are likely to undergo a change in strategy. But you will have to wait for all the announcements to see if you must rebalance your overall category allocation. For example, if your midcap fund has become a large and mid-cap fund then would the return potential go down is something that needs to be assessed.

- Now for the bad news: choosing funds, especially if you are a do-it-yourself investor, is going to be tricky and challenging, for the next year or two. There is a good chance that past performance can mislead you.

As far as you are concerned:

- Do not be in a hurry to exit and re-enter funds at this stage. Wait for funds to settle into their new categories.
- Be wary of going merely by the ratings offered by various websites (unless they clearly state what their new methodology is), if comparison is done with new peers based on past data.
- It is better to check your choice of funds with your advisor to ensure you are not comparing funds whose past record is not comparable.
- When it comes to reviewing your funds, stick to comparing the fund with its respective benchmark and check if the fund is able to deliver 2-3 percentage points more than the benchmark in the case of equity. Avoid hasty decisions to exit or enter based on returns alone, without knowing whether the fund will fit you in its new avatar.

Summing it up in the next 3 years some of the Mutual Funds won't outperform its benchmark. **So let's say if you have planned these investments to achieve your Goals of Child's marriage or Education or your Retirement the entire plan can go for a toss.** So now is the best time to review your Mutual Fund investments and seek the guidance of a good Advisor whether to continue to invest in Mutual Funds or opt for Portfolio Management Services (PMS) which has liberal regulations vis~a~vis Mutual Funds.

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Did you know?

JET AIRWAYS

The share price of Jet Airways in Jan 2018 was Rs. 870/- whereas just in six month it has come down to Rs.303/- in July 2018, that's a huge loss of 65%.

P.S - It's advisable, if it is a good company it does not mean that it will continue to remain the same, every industry has its own cycle and its your skill to identify such trend changes which can create or destroy your wealth.

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Mehta Fincon Business Model Highlighted in MFRT Magazine

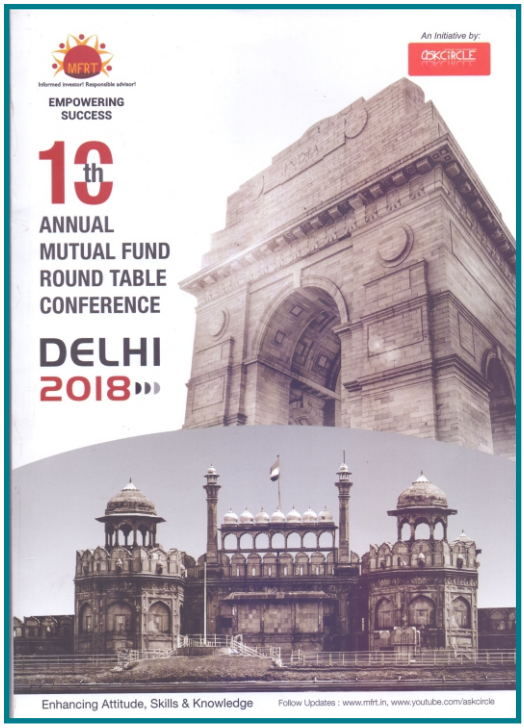
"If you take care of your employees, they will take care of your clients"

"We at Mehta Fincon services Ltd. are an Employee Centric organization. In every organization, company's culture and its team plays the vital role. Hence it is very necessary to keep the team highly motivated, satisfied and positive. In our industry we face lot of challenges in hiring and in retaining the employees. By keeping the work culture vibrant we can overcome this challenge.

By treating your team like a family, they become more dedicated and firm in their roles. Office is like a second home for them which give them a sense of unity.

We are in the city like Surat trying to adopt the work culture of top MNCs like Google, Face book, Mantra, etc… With our PHD formula i.e. Passion, Heart & Desire, we have made our company a second home for our employees and driven the mission to make our company a Great Place to Work.

Changing all the traditional methods of work and adopting the trending culture of MNCs for our company, we have reformed our Workplace and now it's your time to do the same bring a reform within your Work culture.



Visit of Mr Sunil Subramaniam, MD & CEO of Sundaram Asset Management Company @ our new Office

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