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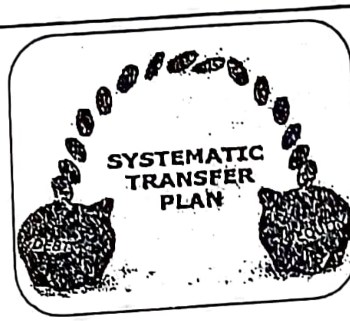
SYSTEMATIC TRANSFER PLAN (STP) IN MUTUAL FUND INVESTMENTS



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ABSTRACT

STP means transferring funds from one mutual fund to another. Investors are becoming more and more wary about making lump-sum investments because of potential risks. This is why financial experts recommend Systematic Transfer Plans to mitigate risks. Now almost every investor is familiar with Systematic Investment Plan (SIP). While SIP is the transfer of funds from savings to a mutual fund plan that's STP, STP means transferring funds from one mutual fund to another. This is a smart strategy to stagger your investment over a specific term to reduce risks and balance returns. For instance, if you invest 'systematically' in equities, you can earn risk-free returns even during volatile market scenarios.

INTRODUCTION:

STP is a smart strategy to stagger your investment over a specific term to reduce risks and balance returns. For instance, if you invest 'systematically' in equities, you can earn risk-free returns even during volatile market scenarios. Here, an AMC permits you to put a lump sum in one fund, and transfer a fixed amount to another scheme regularly. The former fund is called source scheme or transferor scheme, and the latter is called target scheme or destination scheme.

The Main Objective of the Study:

1. To get knowledge about the concept of systematic Investment Plan (STP).

METHODOLOGY:

This paper written is based only on secondary data. Data collection has been done through secondary source. The data has been taken from books, reports and articles published and unpublished.

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How to start a Systematic Transfer Plan

STP is an effective tool in mutual funds to average your investment over a specific period. To decide on whether one should do an STP or lump-sum depends on three factors – an investor's current allocation to equities, the risk profile of investor and finally the market view.

For instance, to invest Rs. 1 lakh in an equity fund using STP, you must first select either an ultra short-term fund or a liquid fund. After that, decide on a fixed amount that you want to transfer daily, weekly, monthly or quarterly. Hence, if you choose to transfer Rs. 20,000 every three months, it will take five quarters (15 months) to complete the investment. Earlier, fund house allowed only debt fund to equity fund transfer within the same company. Now thanks to the digital wave, you can ever transfer from an equity fund of one AMC to that of another

Features of a Systematic Transfer Plan

- **Minimum Investment**

  There is no standard minimum investment amount to invest in the source fund. However, some AMCs insist on a minimum amount of Rs. 12,000 in their systematic transfer plans.

- **Entry & Exit load**

  To apply for an STP, you need to do at least six capital transfers from one mutual fund to another. While you are free from entry load, SEBI allows fund houses to charge exit load up to 2%. The AMC calculates exit load based on investment tenure and fund type.

- **Disciplined & Lucrative**

  Systematic Transfer Plan (STP) enables a disciplined and planned transfer of funds between two mutual fund schemes. In most cases, investors initiate an STP from a dept fund to an equity fund.

- **Taxation on STPs**

  While an STP is a good strategy, you should be aware of the tax implications and exit loads on the transfer. Every transfer from one fund to another is considered as a redemption and fresh investment. This redemption is usually taxable. The money transferred within the first 3 years from a debt fund is subject to short-term capital gains tax (STCG). But even with this tax aspect, the returns earned would be higher than those in a bank account.

How investors benefit from STP

- **Scope for higher returns**

  If you opt for STP instead, you tend to generate higher returns. It is because for an STP, you will be initially investing the lump sum in a debt fund like a liquid fund. Liquid fund is known to yield higher returns in the range of 7% to 9% as compared to the mere 4% returns earned in a saving bank account.

- **Earning steady returns**

  The returns you earn via STP are pretty reliable. This is because the amount in source fund (debt fund) generates interest until you transfer the entire amount.

- **Managing risks**

  An STP can also be used to move from a risky asset class to a less risky asset class. For instance, say, you initiated an SIP for 30 years into an equity fund towards retirement planning. As you approach your retirement, you can initiate an STP to prevent loss of fund value. Here, you instruct the fund house to ransfer a fixed amount from the equity fund to a debt fund. In this way, by the time you retire, you would iave moved the entire accumulated corpus to a safer haven.

- Averaging of rupee cost

Systematic Transfer Plans averages out the expense ratio by buying lesser units at higher NAV and more units at a lower cost. As your money gets transferred from the one fund to another, the fund manager would keep purchasing additional units systematically. Hence, you will get the benefit of rupee-cost averaging i.e. the per-unit cost of investment will fall gradually.

- Re-balancing portfolio

Your portfolio should strike a balance between debts and equities. An STP re-balances the Portfolio by moving investments from debt to equity funds or vice versa.

Who should opt for STPs?

STP is a great choice for those who seek to invest in a lump sum, but don't want to invest them together. This could be because they are risk averse and do not want to get tangled in the market volatility. They may also be wary of equities as a rule. Such investors can opt to place their money in a liquid or debt fund. When this money gets transferred to an equity fund, you get the fixed returns from the debt funds as well as potential returns from the equity scheme.

Types of Systematic Transfer Plans

- Fixed STP

Here, the amount to transfer periodically is fixed. The investor can decide on this amount as per his financial goal and apply for the same.

- Capital Appreciation

For this kind of STP, only the capital appreciated is transferred from source fund to the destination fund and the capital part remains safe.

- Flexi STP

Like the name suggests, Flexi STP is flexible. This means you can choose to transfer different amount from the source fund to the target fund. Investors generally choose the amount as per the market rate fluctuations. For instance, of the Net Asset Value of the destination fund dips, you can increase the amount and vice versa.

Things to remember when investing via STP

- Go for STP only if you have a lump sum amount to invest which you might not need to exit in immediate future.
- Though the fund house decides the minimum investment, you need to make at least 6 STPs as per the SEBI guideline.
- STP is one of the most reliable risk-reducing strategies an investor can adopt. However, they cannot eradicate risks. You can also expect a reduction in returns if the market is low.
- This method requires discipline. Suppose, if you opt out of a plan just because you panicked at a sudden market fluctuation or change in the rates, it will only defeat the purpose.
- Always keep an eye on the underlying assets and their phases. For instance, it would be rash to transfer capital, when the market is moving to peak.

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In short, STP is a useful strategy to manage risks without affecting your returns greatly. Now, Clear Tax Save offers you handpicked funds from the top fund houses. If you want to invest through systematic transfer plan, you can choose one of the plans that suit your requirements. Start investing.

CONCLUSION:

It is a method of investing in mutual funds. Under Systematic Transfer Plan (STP) method of investing an investor transfers a fixed amount of money from one category of fund to another in a fixed interval-usually from a debt fund to an equity fund. Suppose you have received a lump-sum amount from asset sale or a big bonus and want to invest in equity mutual funds. In this case, financial experts advice investing through Systematic Transfer Plan (STP) because it helps protect investor's lump-sum money from market volatility as equity funds are linked to the performance of stock markets.

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