

SIP

## Apple or orange?

Investing through AMC or broker depends on cost and convenience

Systematic investment plans (SIPs) have become popular with investors. The SIP method is convenient for those who receive regular cash flows and do not have a lumpsum amount to invest. A fixed amount is set aside to buy units at regular intervals, which can be a month, quarter or a fortnight. It is now widely accepted that investing through SIP eliminates some risks such as volatility in the equity markets. It also has other benefits such as averaging of cost of acquisition of units.

Earlier, investors had to depend on their mutual fund advisor or agent. But now they can choose from other options like stock brokers and asset management company (AMC) to invest in mutual funds.

The biggest advantage of buying mutual funds from a stock broker is that the units of the mutual funds are credited in the investor's demat account. Thus, he can track them along with his holdings of shares and bonds. Also, if the investor needs to update any information like address and contact number, he can merely revise the information in his demat account. The same information will be updated for all the funds he holds in his demat account.

Apart from this advantage, other aspects like facility of placing order on phone or internet, too, makes it a hassle-free process. Also, payment can be done after the units are purchased, if the broker so permits. Brokers can offer their expertise and help client in choosing the best among the available options. Brokers are also in a position to offer a wide number of funds from different AMCs.

If an investor wants to go through an AMC, he will be allotted units in electronic format but not in a demat form. Investors have to keep track of all different folios he has created with different AMCs. Investors can get a consolidated



Brokers give consolidated statement

account statement for all the funds held from the registrar to the AMC. Otherwise, investors have to update information with separate applications for each folio held. Investors will have to visit the AMC's office to redeem the units. Buying and selling units of multiple AMCs, thus, can be come cumbersome.

Another drawback is the AMC will offer schemes only from its own basket. This is a serious limitation as an AMC may have a well performing fund in a specific category but may not have so in other categories. Also, investors have to pay the entire subscription upfront before the units are allotted by the AMC.

In spite of these pitfalls investing through an AMC has some advantages.



An AMC's basket of schemes may be limited

The major advantage is the cost involved. With the decision of the Securities and Exchange Board of India to abolish entry load, AMCs now allot investors units bought from the entire amount invested. A broker, on the other hand, will charge brokerage on the transaction value. This will increase the cost per unit for the investor. For SIPs, AMCs make sure that the account of the investor is debited on a regular basis for the period specified by the investor. This is done with the help of ECS facility. Thus, with a little initial paper work, the investor will not have to depend on his memory to buy units every month.

If an investor has to start an SIP with a stock broker he has to pay brokerage. The broker will also charge his fees at the time of redemption. The brokerage may not be very high and may not pinch when the market is performing well. But the cost can affect investors adversely when the market is not performing well. Also, for investments in funds where the returns are traditionally low, transacting through a broker may wipe out most of the gains from the investment. A liquid fund is a perfect example.

But tracking the investments becomes easy as the investor can review the portfolio by taking a consolidated holding statement from the broker.

Investors who are cost-conscious should opt to transact through AMCs. Investors who do not mind paying a premium for convenience can choose a stock broker.

—Rahul Mantri