

▶ avenue for investing compared to equities or equity mutual funds, but they also provide tax benefits, beating most fixed-income products in terms of post-tax yield. FMPs also offer the benefit of ‘double-indexation’, wherein returns on FMPs with tenure of more than one year are eligible for inflation indexation. However, these are slightly riskier than FDs as returns are only indicative and not guaranteed.

**Long-term Infrastructure Bonds:**

Long-term infrastructure bonds are the newest fixed income instruments to have hit the market. They are an ideal low-risk investment with tax savings. The returns offered are more or less similar to those offered by FDs and they provide the benefit of tax

exemption under Section 80CCF. There is an additional tax-saving avenue in government-approved long-term infrastructure bonds that are eligible for a deduction of up to



Rs20,000 from the annual income, in addition to the existing Rs1 lakh limit.

**Corporate FDs:** Corporate FDs and bank FDs are similar in that they have fixed tenures and the same tax treatment. Although

corporate FDs offer better returns than bank FDs, they are riskier as they are unsecured. Investors need to be careful while investing in corporate FDs—consider only those companies that have sound fundamentals and a reliable management.

**Debt Mutual Funds:** Fixed income mutual funds are also a viable alternative to bank FDs. These invest in debt instruments like government securities, bonds and corporate debentures. They offer more liquidity as an investor can exit anytime he chooses. They also tend to perform better than bank FDs in the long run, providing safety of capital at the same time. Liquid funds, income funds, gilt funds and hybrid funds are a few types of debt mutual funds. ■

**Stock Shastra #2**

**Buy a Wonderful Business, Not Just a Stock!**

While buying a great stock for the long term, remember that what you are seeking to buy is a tiny part of a wonderful business. Because, over a long term, the stock price is driven primarily by the earnings capacity of the business. However, finding such a wonderful business at the right price is not always possible, especially during such euphoric times. So, how do you find a wonderful business? Raymond Moses from MoneyWorks4me.com says, “A wonderful business is the one which has done well in the past and will continue to grow consistently in the future. It has three main characteristics—an excellent financial track record, a sustainable competitive advantage, and respectable management. An

excellent track record is proof of its successful past, whereas a sustainable moat and respectable management will drive growth in the future.”

**Excellent Track Record:** A company has an excellent financial track record if it has performed very well over a period of 10 years—which usually covers a full economic cycle. A business does not do well over a 10-year period just by accident. Past performance does not



guarantee future performance but it gives enough clues for the future.

**Sustainable Competitive Edge:** A company which is financially healthy will most likely have a competitive advantage. This helps

the company survive in tough times and helps earn consistent profits. It is important to understand whether this advantage can be sustained in the long run. For instance, Colgate’s competitive advantage is its brand which is known all over the country.

**Respectable Management:** The most important thing that you need to look into is the management. What if a company has an excellent track record, a strong competitive edge, but has a management that was arrested for mismanagement of funds or some fraud? Hence, the business must also have a good, credible leader and management who drive the growth of the company. Investing in such a wonderful business will not only ensure high returns but also minimise your risk considerably.

*Condensed from the Stock Shastra series – an educational initiative of www.MoneyWorks4me.com*

