INVESTING

Rising retail accounts: How mutual funds can benefit by serving curated schemes

Synopsis

Retail broking accounts in India touched the 100-million mark in August 2022, despite the ongoing market volatility. With this sizeable increase in retail participation the mutual fund industry should, therefore, prepare for the upcoming blitzkrieg of interest and create specific products targeted at investors.

India is undergoing a transition. The way people interact with each other, spend, and invest is changing. Today, an increasing number of people are gravitating towards financial investments instead of putting money in physical assets. This trend is underscored by a sharp increase in **retail** broking accounts in the country.

According to data shared by depository firms National Securities Depository Limited (NSDL) and Central Depository Services (CDSL), retail broking accounts in India touched the 100 million milestone in August 2022. This rise comes despite the ongoing volatility in the stock market, indicating a robust retail interest in financial market participation. It also comes after the pandemic, which saw the demat accounts doubling from 41 million in March 2020, to the current number.

What's triggering investments?

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Inarguably, there are myriad factors that have fuelled this surge, ranging from the performance of the stock market and enhanced awareness about the importance of **investing** to growing risk appetite among the millennials. Also, post-demonestisation and a high level of digitalisation, real estate, which has traditionally been India's favourite asset class for **investment**, has lost favour. The interest has now shifted to stock-based investments.

Other aspects triggering this phenomenon include a steady rise in disposable incomes as well as an interest in trading that can be traced back to consistent work-from-home. With more time on their hands, and a keen eye on the progress of the market, the millennial and Gen Z tribe is making headway in the investment arena.

According to a recent survey by Motley Fool conducted abroad, 30% of individuals belonging to the Gen Z and millennial category own stock options, as against 18% from previous generations. The recent spurt in IPOs can also be credited with prompting retail interest, with 17 of the 22 listings seen in 2022 trading above their issue price.

How mutual funds can help

While there has been a sizeable increase on the retail investment, will this activity, in turn, enable the mutual fund industry? There is no doubt that investors today have increased awareness about the opportunities offered by equities. They also have an enhanced appetite for the comparatively riskier asset class. However, after having spent some time in the market, retail investors will realise that stocks are extremely volatile. They will also notice that a few, concentrated stocks rally aggressively for a time and then change with cycles, thereby making it difficult for them to consistently track and profit from the markets.

Despite these conundrums, retail investors will witness robust returns on these select stocks and realise that, to make it big, they need to invest in actively researched products, while being supported by experienced and qualified professionals who can pick long-term winners. And it will be at this juncture that investors, who have tasted the exhilaration of equities through retail broking, will turn towards mutual fund investments, in their quest for sustainable growth where exposures will be diversified across direct equity and mutual funds representing experienced stock-picking of passive investing.

Mutual funds are an excellent means for retail investors to participate in the growth of the economy, that too without taking on the added pressure of consistent market research and tracking. Further, with the enormous variety of options available, investors across categories can turn towards this avenue and begin investing with as little as INR500.

Another factor in the equation revolves around the possibility of investing in mutual funds in the dematerialised form, with exchange-traded funds (ETFs) being a major beneficiary. According to a report by Morningstar India, the total number of ETFs have grown by 57% between February 2020 and 2022, with the underlying assets under management witnessing a rise of 117% in the surveyed period.

As a low-cost investment option capable of offering robust returns, especially in the long term, ETFs are a branch of mutual funds that are poised to enjoy strong attention from retail investors keen on supplementing their equity-focused portfolio with a choice of mutual fund schemes.

Creating wealth in the long term

Some indicators are already pointing to investors focusing more on mutual funds on a broader scale with SIPs inflows reaching over INR1.24 lakh crore in the 2021-22, a jump of 30% from the preceding fiscal, suggesting growing popularity of the route among retail investors to generate long-term wealth. Mutual fund SIP contribution has seen over two-fold rise during the five years, again pointing to maturing of the Indian investor.

A similar evolution in investment products can be seen even in fixed income where online debt broking platforms will gradually ensure use of retail broking accounts for investments into secondary market debt. There will be a corresponding increase in usage of mutual funds for smart investment strategies through passive debt index funds with an entire range of smart debt funds, seeking to improve returns for investors over conventional deposits.

This market is still in early stages but will follow a similar path as the industry moves forward from its currently very early stage of evolution.

Going ahead, this interplay between retail equity investment and mutual funds is set to rise, in tandem with continued investor maturity and widening mutual fund horizons. The mutual fund industry should, therefore, prepare for the upcoming blitzkrieg of interest and create curated schemes targeted at retail investors.

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