STP (Systematic Transfer Plan) In Mutual Fund

STP is an acronym for Systematic Transfer Plan and is a feature that's offered by many mutual fund houses. Opting for STP allows an investor to transfer a specific amount of money from one mutual fund to another. The transfer of funds from the source mutual fund to the target mutual fund can either be done through a swift single transaction or slowly over a specified period.

There are two types of STP:

Fixed STP:

In this type, a fixed amount is transferred at regular intervals from the source scheme to the target scheme. This helps investors maintain a disciplined approach to investing and reduces the impact of market volatility.

Capital Appreciation STP:

In this type, only the capital appreciation (profits) generated in the source scheme is transferred to the target scheme. The principal amount remains invested in the source scheme. This strategy is often used when an investor wants to protect the principal amount while capturing any gains.
STP can be a strategic tool for investors looking to benefit from market opportunities, especially when they have a lump sum amount to invest but prefer to spread the investment over time. It's important for investors to understand the terms and conditions, charges, and other details associated with STP before opting for it. Additionally, the performance of both the source and target schemes should be considered in making an informed decision about implementing a Systematic Transfer Plan.

How Does STP in Mutual Funds Work?

Systematic Transfer Plan (STP) in mutual funds is a strategy that allows investors to transfer a predetermined amount of money systematically from one mutual fund scheme to another within the same fund house. This example illustrates how STP works:

Initial Investment:

You initially invest Rs. 50,000 in an equity mutual fund.

Change in Financial Goals:

After 10 years, your risk tolerance decreases, and you prefer the steady returns of debt instruments over the potential volatility of equities. Your equity investment has grown to Rs. 1,20,000.

Decision to Switch:

To align your investment with your changed priorities, you decide to switch from the equity fund to a debt fund. Instead of making a lump-sum switch, you choose STP.

Systematic Transfer Plan (STP):

You opt for a Systematic Transfer Plan, where you decide to transfer Rs. 10,000 each month from the equity fund to a debt fund within the same mutual fund house.

Monthly Transfers:

Over the next 12 months, Rs. 10,000 is transferred each month from the equity fund to the debt fund. This process continues until the entire investment value, including any new gains, is seamlessly transferred to the debt fund.

What are the Benefits of STP?

There are plenty of reasons why you should opt for a Systematic Transfer Plan to switch between two mutual funds. Here’s a quick overview of a few of them.

1. Helps you Rebalance the Portfolio

Portfolio rebalancing is an important activity that every investor needs to do periodically. This allows you to ensure that you meet your financial goals and objectives. By opting for STP in mutual funds, you can accomplish portfolio rebalancing effortlessly and in a hassle-free manner.

2. Lowers Overall Cost of Investment

If you opt for a Systematic Transfer Plan where you slowly transfer a fixed sum of money from the source mutual fund to the target mutual fund over a certain period, rupee cost averaging kicks in, reducing the overall cost of your investment.

3. Helps Maximize Returns

The equity market moves cyclically with periods of bullish and bearish activities. During bullish periods, you can switch from debt funds to equity funds using the STP in mutual funds option. On the contrary, during bearish periods, you can switch from equity funds to debt funds. This allows you to leverage market swings to your advantage and help you maximize returns.

4. Brings About Stability

Continuing with the previous point, the STP feature can be used to stay protected from market downsides. For instance, if the market is going through a tumultuous phase, you can use the Systematic Transfer Plan to switch to debt funds temporarily till the bearish phase passes. Once it does, you can choose to switch back to equity funds. Doing so brings about some stability to your portfolio.

Conclusion

With this, you must now be thoroughly aware of the concept of STP in mutual funds. Now, if you're planning on using this feature, you should know that STP is viewed as a redemption and therefore attracts capital gains tax. So, this is something that you would need to account for when using a Systematic Transfer Plan.

Kindly go through this website to get more information about insurnace policies and investment plans: https://www.tulsiwealth.com/STP-systematic-transfer-plan-in-mutual-fund.php

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