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# Untapped Potential of ELSS Mutual Fund – Risk and Return Analysis

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## Abstract

*Very few investment tools are available in India which has the capability of beating the rate of inflation. As per World Bank data average inflation of India (CPI) in last 20 years is 7.25%. If investors in India are not identifying investment tools which can beat inflation then value of investment will get eroded. In this research paper an attempt is made to evaluate the performance of ELSS mutual funds on the basis of returns compared to benchmark returns. For this purpose, risk adjusted performance measures suggested by R square, Treynor and Sharpe are used. Also standard deviation and beta are calculated for selected scheme to measure risk and volatility. This study observes that, selected ELSS shows double digit return and outperforms the benchmark return under all category. It can be concluded that, ELSS mutual funds have performed better than their respect to volatility. ELSS funds are good options as they provide tax benefits under section 80C and also have capability of beating rate of inflation.*

**Key Words:** ELSS, Investment, Mutual Funds, Returns

## I. Introduction

People usually get confused with the term called saving and investment. Approach of saving and investment depends on how the money is utilized. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or will be sold at a higher price for a profit. (Investopedia, 2017). All kinds of investments have some form of risk, such as investment in equities, property, and even fixed interest securities which are subject to risk such as market risk, credit risk or liquidity risk, etc.

## II. Importance of Investments

Investment is one of the most important aspects of financial planning. The aim is to make sure that the money earned by investor does not lie around being unproductive. Investing in various financial products lends growth to any financial portfolio. One thing that is absolutely clear is that any amount of money is sure to lose its value with each passing day. This is because the value of say Rs.10000 will not be the same 5-10 years down the line as it is today. Hence, it is imperative for investor to realize that savings alone cannot address the future financial needs. Any investor or common man must ensure that savings grows as well which should beat inflation. Mentioned below are some of the most important reasons for investing money.

- Investment in various financial instruments ensures steady growth, instead of just lying in bank account
- Sudden medical emergencies may cause financial crisis. Investments creates a cushion against unforeseen events
- Investments not only create wealth but can also be the source of income. Dividends, rental income etc provides additional flow of money for investor.
- Tax saving although a secondary objective but very important aspect of financial planning which can be easily achieved through judicious choice of financial instrument. Long term capital gain tax is not applicable in Equity and Equity related instruments.
- Inflation not only robs purchasing power but also erodes capital. Best way to beat inflation is to invest in those financial instruments which offer returns higher than rate of inflation. Investment helps in fighting inflation very effectively.

- Investments provide financial security in long term. It helps in building a corpus which may lead to a certain amount of cash flow for future needs.
- Financial goals like buying home, children education, marriage etc can be planned and fulfilled by making intelligent and relevant investments.
- Diversification of the portfolio as per the investment objective will avoid unnecessary and unproductive risk. Investment in India is generally done in fixed deposits of Banks and Post office, Bonds, real estate, stocks, cash, precious metals, bullion, commodity etc.

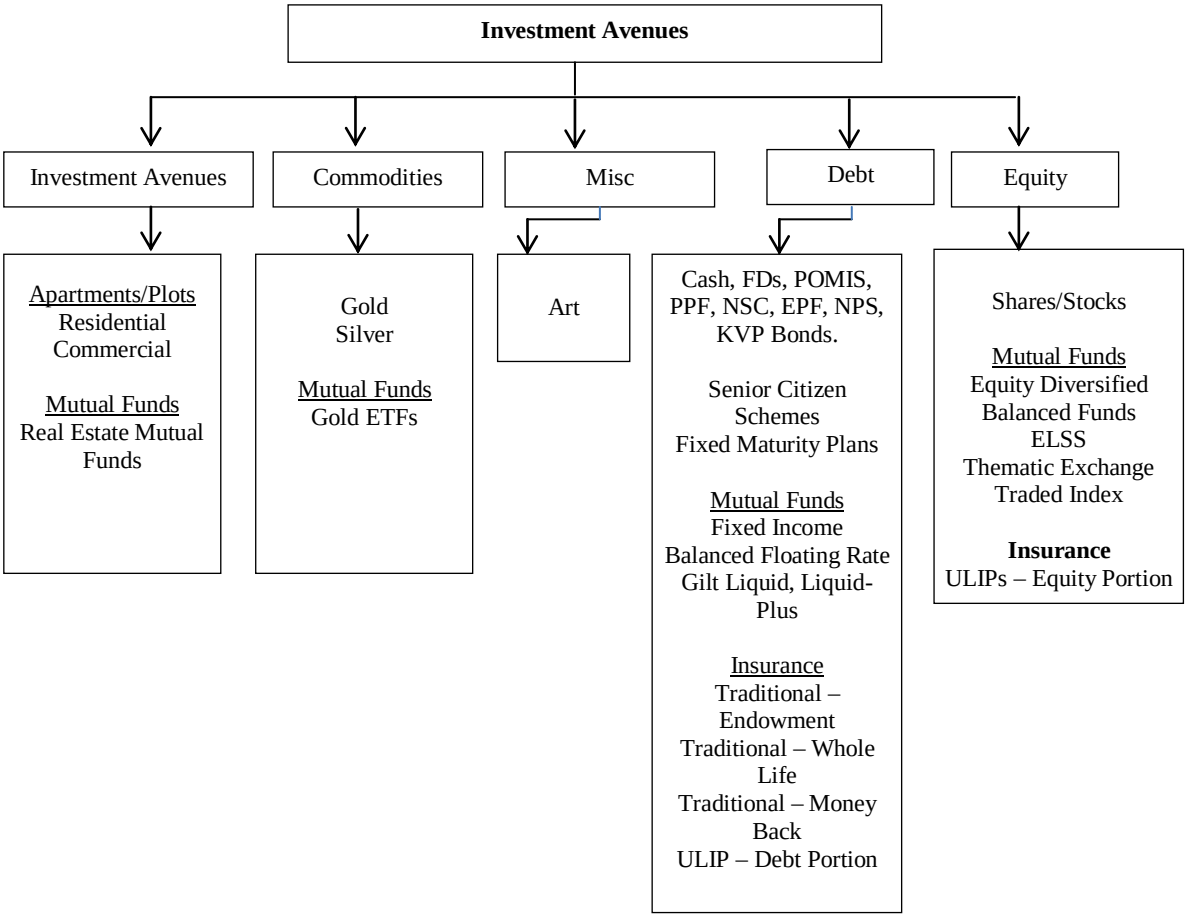


**Figure:** Various Investment Avenues

**Source:** Wealthwisher.com

**Rate of Inflation**

As per table 1 , it is clear that average inflation rate consumer price index (CPI) in India of last 20 years is 7.25%. Biggest issue is how many of above mentioned instruments can beat this and deliver handsome returns to their investors. Most likely real estate, commodities or equity can generate returns over and above 7.25% but then it involves very high risk. In India Small investors are generally risk averse. Also investment in real estate may require big amount which may not be possible for them. Investment in direct equity requires deep knowledge of the subject which again may not be possible retail investors. Mutual funds can address these issues, where investors can invest their money and can expect returns which can beat inflation.

**Table 1: Average Inflation India (CPI) - By Year**

| Year | CPI in % | Year | CPI in % |
|---|---|---|---|
| 2016 | 6.00 | 2006 | 5.79 |
| 2015 | 5.88 | 2005 | 4.25 |
| 2014 | 6.37 | 2004 | 3.77 |
| 2013 | 10.92 | 2003 | 3.81 |
| 2012 | 9.30 | 2002 | 4.31 |
| 2011 | 8.87 | 2001 | 3.77 |
| 2010 | 12.11 | 2000 | 4.02 |
| 2009 | 10.83 | 1999 | 4.84 |
| 2008 | 8.32 | 1998 | 13.17 |
| 2007 | 6.39 | 1997 | 7.25 |
| **Average Inflation CPI last 20 years :7.25%** | | | |

**Source:** World bank

**About Mutual Funds**

Mutual fund is a trust in which investors with a common goal, pool their savings and create a corpus which on behalf of investor invests their money. Fund managers based on specific scheme objectives invest money and manage fund professionally. Mutual Fund Scheme is essentially a diversified portfolio of financial instruments which include equities, debentures / bonds or money market instruments. (Sankaran, 2012).

Mutual funds can be classified as open ended that is available for subscription all through the year and close ended which has a stipulated maturity period, which generally ranges from 3 to 15 years. Equity linked saving scheme (ELSS) is opened for subscription but has a locking period of 3 years from the date of subscription.

**Types of Mutual Funds**

Mutual fund schemes may be classified on the basis of their structure and their investment objective.

***A. By Structure***

1. Open-ended Funds

   An Open-ended Fund is one that is available for subscription all through the year.

2. Close-ended Funds

   It has a stipulated maturity period, which generally ranges from 3 to 15 years. The fund is open for subscription only during a particular period. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the Stock Exchanges, if they are listed. (Sankaran, 2012).

***B. By Investment Objective***

1. Equity Funds

   Growth schemes normally invest in Stocks and Shares and objective is to provide capital appreciation over medium to long term. Investors with long term outlook like to invest in such schemes. (Sankaran, 2012)

2. Income Funds

   Fund managers of income funds invest money in bonds, corporate debentures, company deposits, commercial papers etc. aim to provide standard and stable income to investors. Risk factor are typically lower than equity fund. (Sankaran, 2012)

3. Balanced Funds

   Balanced Funds investments are mix of equity and debt. There are two types of balanced funds such as equity oriented where portion of equity may be above 60% and debt oriented where major portion of money is invested in debt securities. Investors can expect safety, income and modest capital appreciation from these funds. (Sankaran, 2012)

4. Money Market Funds

   Money Market Funds are debt funds invested in short-term instruments such as Treasury Bills, Certificates of Deposit, Commercial Paper and Inter-Bank Call Money. If investors wish to park their money for short term

these funds are appropriate. These may give higher returns than savings account. (Sankaran, 2012).

***C. Other Equity Related Schemes***

1. Index Schemes
   Index Funds imitate the performance of a particular index like BSE's Sensex or NSE's Nifty.
2. Sectoral Schemes
   Funds which invest exclusively in specified sector(s) like consumer goods, Infrastructure, Oil and Gas, Banking etc. are known as sectoral funds. These schemes bear higher risk as compared to diversified equity schemes. (Sankaran, 2012)
3. Tax Saving Schemes
   Equity Linked Saving Scheme (ELSS) are tax saving mutual funds, which primarily invest in equities and equity-related instruments. ELSS funds come with a lock-in period of 3 years, the lowest among all Section 80C products. In terms of taxation, ELSS comes under the EEE (exempt-exempt-exempt) category. It is not just their investment amount, even their dividend income and maturity proceeds are entirely tax free.(Business Today,2017)

## III. Literature Review

Patel and Patel (2012) explored behavioural pattern of investment among the salaried people working in private sector in Mumbai. This research aims to study and understand the behavioural pattern with respect to the perception of an individual related to various investment alternatives. The paper titled "A Study of Investment Perspective of Salaried People (Private Sector) in Mumbai" also aims to provide an insight into factors considered important for investment decision. The study helps in understanding the various issues related to investment faced by salaried people in Mumbai.

Srivastav and Saxena (2012) in their research paper "Investment Trend Now and Then: A Survey Based Study of Moradabad (U.P.)" attempts to investigate the awareness level for various investment and also compares the investment trend now from 20 years back. The data used in the study comprises of both Primary and Secondary data. Majority of the respondents are risk averse and do not like to invest in instruments like derivatives, equities and prefer safe returns. Bank deposits, post office deposits, are preferred by many respondents. As per the study the awareness level of investors for newer financial instruments is poor.

Palanivelu and Chandrakumar (2013) conducted research in Tamil Nadu on preferred investment avenues of salaried class. This research paper not only identifies the preferred investment avenues which are popular among the salaried class but also concludes that the awareness level of investor towards new investment instrument is quite poor. People generally prefer old methods of investing and traditional instruments which include Bank and Post office FDs, Gold and Life insurance.

Pandian and Thangadurai (2013) in their research study of investors preference towards various investment avenues conducted in Dehradun identified awareness level of the investors about various investment options. This study also provides suitable suggestions to promote the investment. The researcher has opined that most of the investors prefer bank deposits followed by gold investment.

Nayak, M. K. (2010) analysed the difference between the various demographic variable and investor's knowledge of grievances. The study indicated that professionals and servicemen being more educated are expected to be more rational in their investment decisions, whereas business man are willing to take more risk and are instinctively investment-minded.

Murugan, V. G. (2012) observed the socio-economic profile of respondents, their perceptions and behaviour in respect to various investment options available in India. The findings concluded that majority of the investors generally have limited information about the developments in the securities market and their awareness level is too poor. Also that in vectors is not so keen in investing in mutual funds

Puneet Bhushan and Yajulu Medury (2013) analysed that women likes traditional investment options which can deliver guaranteed returns. They like to take less risk and prefer Bank FDs and Post office deposits. Researcher has observed significant gender differences occur in investment preferences for health insurance, fixed deposits and market investments among employees.

Bhuvaneswari .C (2007) studied the major aspects that add towards investor's perception for ELSS mutual Funds. Liquidity, Rate of Return and Market share are main criteria which influence investment decision of investor for ELSS

Kaur (2012) analysed the performance of 18 ELSS funds with growth and dividend option. Returns of schemes was compared to benchmark index returns employing Sharpe, Treynor, Jensen and Fama's measures for the period 2005 to 2010. The study concluded that growth option performed better compared to dividend. It was further observed that majority of the schemes underperformed the benchmark index.

Seema Sharma (2014) explored the perception of investors towards ELSS mutual funds. It was concluded that there is a positive relationship between service quality, perceived value and customer loyalty. This study also tries to find out the part of behavioral aspect, as the attributes used in the research explain the human (investor) psychology during the financial investment being executed in the financial market.

Maluand Deo (2015) in their research work analysed various investment patterns of ELSS mutual fund . On the basis of considered parameters for high return and risk Asix Long Term Equity and Reliance Tax Saver fund suits comfortably to majority of investors. Investors who expects stable returns and less volatility should subscribe to BNP Paribas Tax Saver fund.

Dr. Namita Srivastava (2014) investigated the factors which affects the performance of ELSS funds. Researcher further examined the nature of relationship of risk and return. Study concluded that few schemes were able to generate better return than risk free counterparts but some funds are unable to outperform their benchmark . This study revealed that efficient management, diversification of fund investment, stock market trends and movement plays an significant role in defining ELSS fund performance.

Dr. Rupeet Kaur (2012) analysed the comparative performance of ELSS mutual funds with growth and dividend options in India. A sample of 18 schemes had been selected and evaluated on the basis of monthly returns compared to their respective benchmark. It was concluded that majority of funds with growth option performed better on the basis of Sharpe, Treynor and Jensen measures. R2 measure suggest, that all schemes are well diversified which lowered the unsystematic risk. Volatility of dividend schemes is more than the growth schemes.

Santhi and Gurunathan (2010) examined the risk-adjusted returns of ELSS mutual funds in india. Analyzing and comparing the performance of the funds return with its respective benchmark, study revealed that all ELSS funds are volatile. Volatility of some funds may be more than their respective benchmark. Researcher concluded that awareness of investors' and their knowledge of market and mutual

funds will help them to attain their expected return from ELSS mutual funds.

Lilly and Anusuya (2014) evaluated the performance of 49 ELSS schemes for the period between April 2008 to March 2013. It is observed that returns of ELSS scheme of LIC Nomura MF has outperformed. The performance of the sample schemes was assessed using Sharpe ratio, Treynor ratio, Sortino ratio and Jensen's Alpha Measure.

## IV. Research Methodology

**Research Objectives**

This research work is undertaken with the following objectives:

1. To examine the performance of ELSS funds and returns it can generate in medium to long term.
2. To study the relationship between average asset under management (AAUM) and returns that of the ELSS schemes.
3. To study the relationship between expense ratio (ER) and returns of the ELSS schemes
4. To evaluate the performance of schemes using Sharpe, Treynor, R-Square, Beta and Standard deviation.

Paper evaluates the performance of equity linked saving scheme (ELSS) mutual funds in India. 5 Schemes having average asset under management (AAUM) of at least 1000 crores are selected using random sampling method. Selected funds have performance history of 10 years or more. The daily closing data of NAVs of the equity diversified mutual funds are collected from Association of Mutual Funds in India AMFI's website as on 25 January 2017. Ratio calculations, risk adjusted measure and correlation analysis are used to evaluate the performance of the selected funds.

**Hypothesis:**

Ho: There is no significant relation between average asset under management and returns

Ho: There is no significant relation between expense ratio of fund and its returns

**CAGR**

The compound annual growth rate (CAGR) has been used to measure return growth over long term which may include many time periods. It is the growth rate that starts from the initial value to the ending value which has been compounding over the time period.

The formula for CAGR is: multiple

$$CAGR = (EV / BV)^{1/n} - 1$$

Where:

EV = Investment's ending value

BV = Investment's beginning value

n = Number of periods (months, years, etc.)

Although average annual return is generally used to measure returns for mutual funds, CAGR is a better way of calculating return over time. Average annual return model overlook the effects of compounding and it can overestimate the growth value of an investment. In CAGR calculation it takes into account the geometric average that means, consistent rate at which the investment would have grown if the investment had compounded at the same rate each year.

Sharpe Ratio is the excess return over risk free return (usually return from treasury bills or government securities) divided by the standard deviation. It lets us know the funds performance vis-a vis the risk taken by it. Higher Sharpe Ratio is preferred and considered good. The Sharpe ratio named after William Forsyth Sharpe is also known as Reward-to-Variability ratio.

**Computation:**

**SR = (Total Return – Risk Free Rate) / Standard Deviation of Fund**

**Treynor Ratio**

Treynor ratio is the surplus return generated by a fund over and above the risk free return (government bond yield). Only difference with sharpe ratio is that this ratio uses beta as a measure of volatility. The ratio is named after Jack L. Treynor, also known as reward-to-volatility ratio. Like Sharpe ratio, higher Treynor is considered good for the portfolio under analysis

**Computation:**

$$\mathbf{T = \frac{r_i - r_f}{\beta_i}}$$

Where,

T=Treynor ratio, $r_i$ =Portfolio's return, $r_f$ =risk free rate, $B_{i's}$ = Portfolio's beta

**Standard Deviation**

Standard deviation (SD) measures the volatility the fund's returns in relation to its average.

**Computation:**

**Standard Deviation (SD) = Square root of Variance (V)**

**Variance = (Sum of squared difference between each monthly return and its mean / number of monthly return data – 1)**

**R-Squared**

R-Squared measures the correlation of the portfolio's returns to the benchmark's returns. relationship between a portfolio and its benchmark. A high R-squared, between 85% and 100%, indicates the fund's performance patterns have been in line with the index. A fund with a low R-squared, at 70% or less, indicates the security does not act much like the index. A higher R-squared value indicates a more useful beta figure (Investopedia, 2017)

**Computation:**

R-Squared = Square of Correlation

Formula for Correlation:

$$\mathbf{Correlation\ x, y} = \frac{\mathbf{Covariance\ between\ Index\ and\ Portfolio}}{\mathbf{Standard\ deviation\ of\ Portfolio} \times \mathbf{Standard\ Deviation\ of\ Index}}$$

**Beta**

Beta calculates a fund's volatility vis-a-vis its benchmark. Beta, also known as the "beta coefficient," is a measure of the systematic risk, of a security or a portfolio in comparison to the market or benchmark as a whole. Beta computes the trend of an investment's return to respond to swings in the market.

A beta of 1.0 indicates that the investment's price will move in lock-step with the market. A beta of less than 1.0 show that the portfolio will be less volatile than the benchmark, and, correspondingly, a beta of more than 1.0 means that the investment's price will be more volatile than the market (Investopedia,2017)

**Computation:**

**Beta = (Standard Deviation of Fund / Standard Deviation of Fund ) X R-Square**

## V. Data Analysis

**Table 2 ELSS Tax Saving Schemes**

| Fund / Benchmarks | AAUM | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Rs. Crore | Expense Ratio | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | Since Launch | Launch Date |
| | | | CAGR Returns in % as on 25 January 2017 | | | | | | |
| HDFC Taxsaver Fund | 5179 | 2.17 | 27.21 | 20.05 | 15.51 | 12.10 | 11.26 | 26.88 | 31-Mar-96 |
| Reliance Tax Saver Fund | 5871 | 2.00 | 21.97 | 27.93 | 21.18 | 15.82 | 12.79 | 15.36 | 21-Sep-05 |
| SBI Magnum Taxgain Scheme | 4720 | 2.01 | 16.67 | 18.25 | 16.64 | 11.28 | 9.86 | 17.04 | 31-Mar-93 |
| L&T Tax Advantage Fund | 1753 | 2.13 | 23.74 | 20.45 | 16.25 | 13.36 | 12.70 | 14.31 | 27-Feb-06 |
| Sundaram Taxsaver | 1280 | 2.48 | 23.75 | 20.60 | 15.99 | 10.66 | 11.17 | 17.83 | 22-Nov-99 |
| Birla Sun Life Tax Relief 96 | 2433 | 2.29 | 16.82 | 23.19 | 19.99 | 12.37 | 10.76 | 25.50 | 29-Mar-96 |
| Franklin India Taxshield Fund | 2377 | 2.48 | 17.18 | 21.88 | 18.07 | 14.74 | 13.33 | 24.00 | 10-Apr-99 |
| HDFC Long Term Advantage Fund | 1223 | 2.30 | 26.52 | 18.86 | 16.87 | 13.22 | 10.97 | 22.80 | 02-Jan-01 |
| ICICI Prudential Long Term Equity Fund | 3561 | 2.31 | 15.76 | 19.98 | 18.17 | 13.57 | 12.13 | 21.47 | 19-Aug-99 |
| | | | | | | | | | |
| Mean | 3155 | 2.24 | 21.07 | 21.24 | 17.63 | 13.01 | 11.66 | 20.58 | |
| | | | | | | | | | |
| **S&P BSE Sensex Index** | | | **13.16** | **9.43** | **10.15** | **7.42** | **6.85** | | |
| **Nifty 50 Index** | | | **15.69** | **11.12** | **10.76** | **8.03** | **7.56** | | |
| **BSE 200** | | | **18.41** | **14.24** | **12.29** | **8.38** | **8.05** | | |

Table 2 represents 9 ELSS funds with performance history of at least 10 years. All funds have average AUM size of more than 1000 crores. ELSS investment is eligible for tax benefit under section 80 C. Investments are locked in for 3 Years. Expense ratio (ER) is very important element and it states how much you pay a fund in percentage term every year to manage your money. It may severely impact returns if a fund struggles to beat its bench mark. The average expense ratio of these funds is 2.24. From the above table it is quite evident that ER of selected funds are well within acceptable limits except of Sundaram tax saver and Franklin Tax shield fund whose ER is slightly on higher side. Despite high ER Sundaram Tax saver and Franklin India Tax Shield has outperformed benchmark under all categories. Not only these funds gave double digit returns in last 3,5 and 10 years period but also outperformed index. These two funds have beaten the mean returns.

**Table 3**

| Funds | ELSS Tax Saving Funds - Risk and Volatility Measures | | | | |
|---|---|---|---|---|---|
| | Sharpe ratio | Treynor ratio | R-Squared | Standard deviation | Beta |
| HDFC Taxsaver Fund | 0.87 | 13.48 | 88.33 | 18.70 | 1.21 |
| Reliance Tax Saver Fund | 1.06 | 17.34 | 83.86 | 21.78 | 1.37 |
| SBI Magnum Taxgain Scheme | 0.94 | 14.45 | 93.56 | 15.00 | 0.99 |
| LandT Tax Advantage Fund | 1.08 | 17.03 | 92.74 | 14.98 | 0.99 |
| Sundaram Taxsaver | 0.99 | 15.19 | 93.56 | 17.13 | 1.14 |
| Birla Sun Life Tax Relief 96 | 1.22 | 20.04 | 87.66 | 15.21 | 0.97 |
| Franklin India Taxshield Fund | 1.23 | 19.78 | 90.59 | 14.12 | 0.92 |
| HDFC Long Term Advantage Fund | 0.99 | 15.44 | 92.01 | 14.78 | 0.97 |
| ICICI Prudential Long Term Equity Fund | 1.02 | 16.29 | 87.43 | 15.8 | 1.01 |
| Mean | 1.04 | 16.56 | 89.97 | 16.39 | 1.06 |
| BSE 200 | 1.02 | 16.23 | 88.80 | 15.93 | 1.03 |

Table 3 represents risk and volatility measures of ELSS tax saving funds of last 3 years. Except HDFC tax saver, other funds have Sharpe ratio on higher side which is also quite evident in their returns. Birla Sunlife Tax Relief 96 and Franklin India Tax shield has significantly higher Sharpe Ratio thus generating better returns over risk free returns which is evident from table 3. Majority of funds have Treynor ratio close to its benchmark. Franklin India Tax shield and Birla Sunlife Tax relief 96 maintain healthy Treynor ratio which means fund had generated better risk adjusted returns which is reflecting in their performance. R-Square of all funds except Reliance is excellent and well above Index. Standard deviation of Reliance tax saver is high resulting in high volatility. SD of majority of funds are below its benchmark. Beta of HDFC tax saver and Reliance Tax saver is quite high compared to its benchmark. High beta funds tend to be more volatile if Markets are on roller coaster ride which makes investments riskier and returns higher. ELSS funds have been performing well in past and it is one of the best available options for tax saving in India. After close analysis Franklin India Tax shield and Birla Sunlife Tax relief funds can be recommended to small investor for investment which will not only will save their Tax but will also generate good returns that can beat inflation.

## VI. Correlation Analysis and Hypothesis Testing

It is widely perceived that large AAUM of fund may lead to low returns. Correlation analysis was applied between AAUM and 1,3,5 and 10 years returns.

**Table 4: Pearson Correlation Analysis**

| AAUM and 1 Year Return | | AAUM and 3 Year Return | | AAUM and 5 Year Return | | AAUM and 10 Year Return | |
|---|---|---|---|---|---|---|---|
| **Correlation** | **P value** | **Correlation** | **P value** | **Correlation** | **P value** | **Correlation** | **P value** |
| -0.117 | 0.765 | 0.383 | 0.309 | 0.316 | 0.408 | -0.014 | 0.971 |

From the correlation table, it can be seen that the correlation coefficient (r) between AAUM and 1 year and 10 year return negative, indicating a no correlation. Weak correlation is observed in 3 and 5 year return tenure. In all categories P value is above .05% therefore null hypothesis is accepted which means there is no relation in AAUM size and return performance of mutual fund.

**Table 5: Pearson Analysis**

| ER and 1 Year Return | | ER and 3 Year Return | | ER and 5 Year Return | | ER and 10 Year Return | |
|---|---|---|---|---|---|---|---|
| **Correlation** | **P value** | **Correlation** | **P value** | **Correlation** | **P value** | **Correlation** | **P value** |
| -0.074 | 0.85 | -0.213 | 0.583 | -0.184 | 0.635 | 0.177 | 0.649 |

From table 5 It can be easily inferred that there is no correlation between Expense Ratio (ER) and returns under all category.

At 5% significance level all p values are above .05% that means Null hypothesis is accepted. It can be safely interpreted that there is no relation between expense ratio and returns.

## VII. Conclusion

From the above extensive data analysis it is evident that selected ELSS mutual funds scheme are generating higher average returns as compare to the market, though the standard deviation is little higher in some case. Study examined 9 schemes of ELSS with AAUM above 1000 Crores and performance history of 10 years or more. ELSS tax saving schemes did quite well in last 3 years and outperformed its benchmark and gave average returns of 21% CAGR. As long term capital gain tax is nil in equity

investments (after one year from the date of investment) ELSS funds have proved to be an excellent investment opportunity under section 80 C of income tax act, where investors not only get tax benefit but also create wealth in medium to long term investment. Regardless of stellar performance still ELSS mutual funds are not very popular among small investors.

Three basic reasons why ELSS funds are better than other tax-saving investments and small investor must have in their portfolio.

1. Higher returns over the long-term
   ELSS funds invest in stocks, and from above discussion it can be said that small investor can expect return over and above 10% CAGR and also they are best placed to earn inflation-beating returns. Equity is an asset class that holds the capacity to beat inflation. So post tax returns are very handsome if we compare from any other investment tools.
2. Lowest lock-in period
   Traditional tax-saving investments have long lock-in periods, ELSS funds come with a lock-in of only 3 years. In comparison, bank tax saving FDs has 5 years, PPF has a lock-in of 15 years and NPS requires you to stay invested till you retire. The 3-year lock-in of ELSS funds is a major advantage here. Investor's money doesn't get blocked for long periods.
3. Other Advantages of ELSS
   The dividend funds fetch gains during the lock-in period and the dividends on equity investments are tax free. The ELSS maturity amount is tax free. Investor can invest lump-sum amount and also through systematic investment plan where investor can invest as low as Rs 500/month.

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