Vol.:2, Issue:8

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PunjiTimes

January - February, 2018

INVEST IN INVESTING

Disciplined Investing

A method to madness


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From the Editor's Desk

The markets have been consistently pushing the highs. This is, quite understandably, leading to much excitement and anxiety related to timing, valuations, and asset allocation among investors. However, let this not deter your investment discipline. On the contrary, it is in times such as these, when the powerful benefits of a disciplined investment approach become apparent.

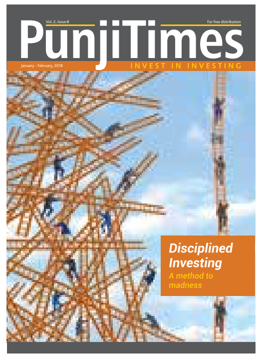
If one can maintain steady investment discipline with a focus on one's investment objectives, then the ships of rupee cost averaging and compounding will rid one of the need to time the market. Re-balancing your portfolio and maintaining your asset allocation strategy is also something you should look at, lest your investments over-expose you to market forces.

This issue contains editorials on topics such as different kinds of mutual funds and their place in your portfolio, the thumb rule for portfolio rebalancing, dynamic asset allocation and more. There is also a special feature on Exchange Traded Funds and expert analysis on the markets.

Wishing a Happy New Year to all our readers. Hope you enjoy reading this issue.

Best,

Tushar Goyal
Editor-in-Chief



Punji (*noun / Hindi*) - **Capital** *meaning, wealth in the form of money or other assets owned by a person or organization or available for a purpose such as starting a company or investing.*

Disclaimer

PunjiTimes
INVEST IN INVESTING

VOLUME: 2

ISSUE: January-February, 2018

PERIODICITY: Bi-Monthly

RNI: DELENG/2017/72098

PUBLISHER: Parveen Neb

EDITOR-IN-CHIEF: Tushar Goyal

WEBSITE: www.meripunji.com

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Meri Punji IMF Private Limited
(Formerly known as P S Management Solutions Pvt. Ltd.)
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New Delhi-110016

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DESIGNED BY:
Silenttpartners
www.silenttpartners.com

PRINTED AT:
Ess Pee Printers
1/12 and 13 DSIDC Shed, Tigri,
New Delhi-110062

PUBLISHED BY:
Meri Punji IMF Private Limited
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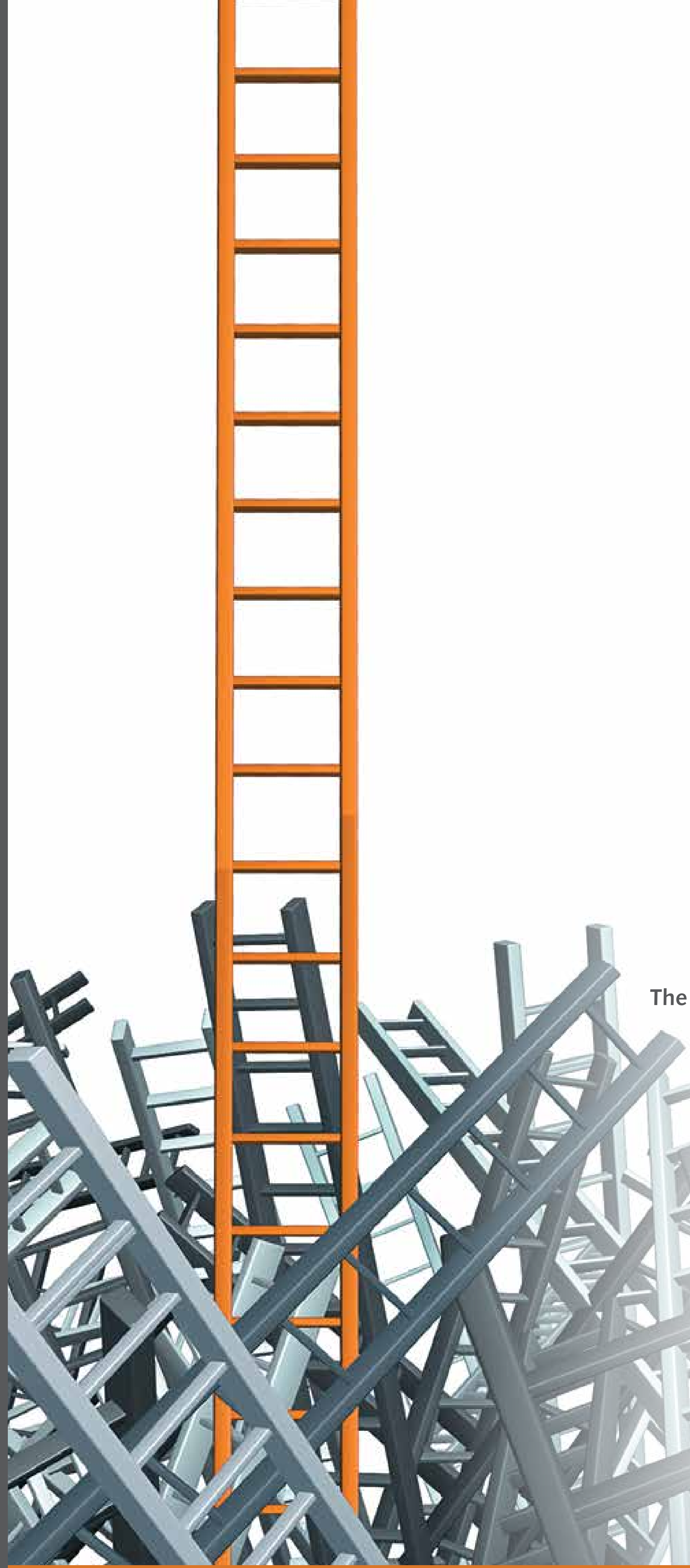

January-February, 2018

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10 Resolutions for FINANCIAL FREEDOM in 2018

1 START THINKING SHORT-TERM

While thinking about the long haul is important, a short-term financial plan helps you chalk out a more practical approach to your finances. Set achievable goals for the next 1-3 years and draw out a plan for realising them. Use your year to inch towards those objectives by saving and investing accordingly.

2 COVER YOUR FAMILY

Life may be unpredictable but that doesn't have to interfere with your plans. Make sure you and your family are adequately covered for life as well as health issues and get insured against an uncertain future by purchasing a life and health cover. An insurance cover will go a long way in assuring stability in the event of an unforeseen tragedy. Explore the various life and health insurance options in the market and choose one that best fits your goals.

3 GET A TERM INSURANCE

If you are the primary breadwinner of your family and have also taken debt on, lose no time in applying for a term insurance on your life. It will protect your family from the ramifications of debt, should anything happen to you. While it's difficult to envision worst-case scenarios, especially if things are hunky-dory, it's best to be prepared for the worst. The last thing you want is a debt-ridden existence for your family if you aren't around.

4 DON'T RETIRE FROM YOUR LIFESTYLE

Dreaming big may be exciting but when it comes to managing finances, a sustainable long-term plan is a must to support your goals. If you wish to live on your own terms even post retirement, you need to start planning early. You can only achieve this when your current active income through your salary or business profits becomes equal to your passive income generated by your investments. Make smart investments to avoid making lifestyle downgrades once you retire.

5

CLEVER ASSET ALLOCATION

Because markets are volatile and unpredictable, you must be smart with your asset allocation to minimise risk and maximise results. It is imperative you understand market and economic conditions before making an investment. Proactively gauge the market and keep rethinking your asset allocation strategy in light of new economic developments. Engage a financial advisor for devising the optimal strategy.

6

TAX-EFFICIENT REBALANCING

Rebalancing your portfolio periodically is important to optimise returns in line with changing market conditions. But at the same time, be mindful of maintaining tax efficiency, or the rebalancing may eat into your returns and negate the positives of rebalancing.

7

DISCIPLINE IS KEY

Inculcate discipline into your saving and investing regime. This goes a long way in optimising long-term returns. SIPs are a great point to get started and are extremely helpful in infusing discipline into saving.

8

GET SMART

Different people you meet will dispense different investment advice. Don't rely on hearsay to make your investment decisions. Do your own research and consult a professional to help you make smart investment choices. Remember, there are no absolute good investment decisions. Tailor them to meet your financial goals.

9

PLAN FOR AN EMERGENCY EXIT

Don't let optimism keep you from saving for a rainy day. Have an emergency fund with liquid investments or those that can be easily liquidated on short notice. This is important to ensure your funds aren't locked into investments that are not liquid when you need them the most.

10

KEEP UP WITH THE TIMES

The entire world is going digital, and so is finance. Don't get left behind. Keep up with the latest digital trends and banking compliances. Activate net banking and mobile banking for greater convenience. Leverage finance's digital offerings to get more from your investments ■

Creating
A Balanced Portfolio

Putting together a portfolio of investments is like preparing a balanced meal; every item must offer a unique set of nutrients that complements the others. Investment portfolios work the same way.

Here we show you how to design a successful portfolio of investments that work together to help you reach your goals.

HAVE A BLUEPRINT

Just as putting together a balanced diet begins with a recipe in place, you need a pattern for your portfolio. The recipe guides on the ingredients, proportions, and method to prepare a final dish.

The best starting point is to think about why you're investing in the first place. Maybe you're investing for retirement, for your child's education or marriage, or for the down payment of a home. Get specific. How much money will you need for each goal? How much time do you have?

When you figure out how long you'll be investing (your time horizon), you can come to terms with how much of your investment can be put at risk. The closer your goal, the less you can afford to lose, so the focus should be more on preserving what you've made rather than on generating additional gains. The more time on your side, the more should be the tilt towards equity.

DECIDE ON AN ASSET ALLOCATION

The heavy lifting of any financial plan starts well before individual investment selection. In other words, sensible portfolio construction must commence with asset allocation. Some financial experts believe that determining your asset allocation is the most important decision that you'll make with respect to your investments – that it is even more important than your individual investments.

So how do you decide how much should find its way into hybrid, debt and equity?

One rule of thumb is to use your age as a guide. For instance, if you're 33 years old, put 33% of your portfolio into debt funds and bonds and the rest into equity funds. But like all thumb rules, it has its limitations. Some investors might find that figure conservative. Others might find that it's too aggressive for their particular goal.

For instance, a 23-year-old girl who has just got her first job may be saving Rs. 2,000 every month for her retirement. In that case, the entire amount can be invested in a diversified equity fund. However, another 23-year-old may be focused only on the down payment for a home within the span of two years. In that case, the money should go into a fixed deposit or a short – term debt fund.

So go back to the recipe to make a decision. The more time on your side, the greater the potential exposure to equity.

DISCOVER WHAT YOU ALREADY OWN

Maybe you can name all of your mutual fund investments off the top of your head and detail how each one performed last week. Good for you. But can you explain how they work together? Which are your core mutual fund investments? Are you diversified? Do you have a lot of overlap? You must be able to answer those questions before you can see how (or even if) your portfolio fits your pattern.

To figure out exactly what you own, you could note down all your mutual fund investments on a spreadsheet and calculate how much you have in various assets.

Use Morningstar's Instant X-Ray to help you discover your portfolio's asset mix, style – box breakdown, sector weightings, and so on and so forth.

BRING IT ALL TOGETHER

Now that you know what you have, it's time to find out whether your current mutual fund portfolio fits your recipe.

Begin by checking your mutual fund portfolio's asset allocation. If that doesn't match the mutual fund asset allocation you laid out in your blueprint, shift assets among funds and stocks to tailor the mix.

You could also weed out redundant investments. If you have three large – cap growth funds, for example, they probably aren't all equally good. But before you sell, ensure that you have held the units for at least a year to avoid short –term capital gains tax.

Most importantly, ensure that your portfolio includes core holdings, those investments on which you are relying on most to help you meet your goals. Core investments should be the biggest part of portfolio and should provide a foundation to build upon ■

Contributed by
Axis Mutual Fund

A MUTUAL FUND for Every Season

While the advantageousness of mutual funds in meeting both short and long-term financial goals can't be emphasised enough, most investors' understanding of different fund categories remains limited. The term, more often than not, brings to mind equity-focused funds. However, mutual fund investing isn't subject to a single defining category; instead, it weaves several different asset classes together to give rise to an investment class with wide-ranging functions.

Because each investor differs in risk profile, financial needs, income level etc., there is no standard fund offering that suits everyone. Each mutual fund category comes with its own set of benefits, and together they lead the way for building a solid, diversified portfolio that promises to take care of varying financial goals.

Debt Funds

Debt funds are the safest investing bet. They are ideal for achieving short-term goals for which an investor holds capital but there is some time before the actual spending occurs. Instead of keeping it lying idle, the money can be invested in a debt fund without any risk to capital (as opposed to equity).

Conservative investors can also park long-term funds in debt funds when instead of significant capital appreciation, safety of capital is the objective. Debt funds are the most suitable for individuals and institutions with a low-risk appetite or those looking for a safe avenue to park their funds, such as NGOs and RWAs.

Balanced Funds

Balanced funds are hybrid schemes that typically lie on the safe-moderate spectrum of risk. They usually comprise of >65% equity investments, with the remaining going to debt or money-market securities. Because of this mix, fund volatility is limited to a great degree with a potential for long-term wealth creation. Investors thus enjoy returns of both asset classes – equity and debt.

Balanced funds are ideal for medium-to-long-term goals over a period of 3-5 years and provide capital appreciation apart from safety of capital. When the market fluctuates, the portfolio gets rebalanced according to the mandated ratio of debt and equity.

Diversified Equity Funds

Diversified equity funds invest in stocks across market capitalisations and sectors, thus ensuring that the portfolio is insulated from the negative performance of a particular sector, increasing the possibility of making a sustainable return. Thus, the biggest advantage of such schemes is that an investor gets a diversified portfolio which significantly lowers capital risk. Since these schemes invest in equity, they can be volatile over the short term.

These funds target medium-to-long-term capital appreciation and are ideal for investors with a moderate-to-high risk profile and an investment horizon of 3-5 years. An expectation of about 15% annual return is reasonable over the long-term.

Apart from diversification, there is also the added advantage of long-term capital gains (over a period of more than 1 year) which are tax-free. The dividends received from diversified equity funds are also tax-free.

Liquid Funds

Liquid Funds are short-term schemes that can serve as an alternative to a savings bank account, with high safety of capital. They invest primarily in money market instruments with a residual maturity of <91 days such as treasury bills, certificates of deposits, commercial papers, term deposits etc.; the aim being to provide investors with an adequate return without compromising on the liquidity of the investment.

While a liquid fund's primary objective isn't wealth creation, it can be used much like a savings bank account for regular expenses. Liquidity is high, with redemption amount credited to your bank account in just one day.

Liquid funds can also be treated as emergency funds. While experts suggest having 6-9 months of expenses as emergency funds, we sometimes hold excess cash in our savings bank account in the wait for a suitable investment opportunity or because we might not know what to do with the surplus. Thus, for investors that aren't sure when they will require the surplus, liquid funds are a better option than your savings bank account in terms of return on investment – they give pre-tax returns of 8 - 9% compared to the 4 - 6% offered by savings bank accounts.

They are also tax-efficient compared to savings bank accounts and make for a good investment option for individuals and corporates alike.

While there are diverse mutual fund categories, investors must build their portfolio based on their individual profiles, requirements, and goals. Mutual fund investments carry market risk, therefore selecting schemes should always be a careful, analytical exercise. To find out more about fund categories and suitability, consult a mutual fund advisor or a financial planner ■

Rebalance your Portfolio

Having a well-rounded portfolio is not enough. Over time, the changes in the market value of different asset classes result in a change in their original weights in the portfolio. This creates the need for rebalancing one's portfolio to keep it aligned with one's risk and return strategy.

Because the asset mix originally devised by the investor changes due to differing returns among asset classes, the risk associated with the portfolio changes of a change in asset allocation. Moreover, since mutual funds see their Net Asset Value (NAV) change daily, the debt-to-equity ratio of portfolios can change considerably over even a quarter. Rebalancing is the process of selling and buying securities in one's portfolio to set each asset class back to its original proportion. Additionally, if an investor finds their risk appetite has changed over time, they can rebalance their portfolio to accommodate a new asset allocation strategy by readjusting the proportion of different kinds of securities.

For instance, let's assume Anuj has Rs. 1 lakh to invest in securities. He decides to invest 50% in bonds, 10% in a money-market fund and 40% in an equity fund. At the end of the year, Anuj finds that the stock market has outperformed the bond and money markets leading to a considerable increase in the NAV of the equity fund. This has resulted in a change in the portfolio's asset allocation. An increase in the percentage invested in equity funds means a decrease in the percentage invested in bonds and the money-market fund. Let us assume, Anuj's Rs. 40,000 investment in the equity fund sees a return of 40% and grows to Rs. 56,000, bonds suffer and realize a loss of 4%, while the money-market fund sees a modest increase of 5%. The overall return on her portfolio is 14.5% but the portfolio is now more equity-heavy - 56% as opposed to the initial 40%. While he could leave the portfolio as is, this could be risky in the long run due to the stock market being volatile relatively.

Portfolio rebalancing is central to following a disciplined investment strategy. It means deciding on a debt-to-equity ratio in line with your long-term financial goals and sticking to that ratio. Thus, a periodic review of one's portfolio is necessary to maintain the pre-determined ratio by buying and selling units of debt or equity, as may be required.

Although it requires customization according to individual investing styles and horizons, the widely-accepted thumb rule in this regard goes as follows: "The ideal percentage of equity in your portfolio should be the number arrived at by subtracting your age from 100". Thus, for a 25 year old, the ideal equity proportion is 75%.

Applying this thumb rule, the ideal age-wise debt to equity ratio is provided below. The rationale being, the older you are, higher the percentage of debt in your portfolio in order to minimise risk. Conversely, the younger you are, higher the percentage of equity in your portfolio due to higher risk appetite and longer time horizon for investment.

Age Group	Equity Portion	Debt Portion
Young adult	~ 80%	~ 20%
30s	~ 60%	~ 40%
40s	~ 50%	~ 50%
50s	~ 20%	~ 80%
60s/Post-retirement	nil	100%

Portfolio rebalancing at regular intervals helps minimise downside risks associated with your investment assets while ensuring your asset allocation remains stable. It helps investors stick to the original investing plan regardless of how the market performs and thus move closer to achieving their goals ■

Advantages of portfolio rebalancing

Risk-reward balance

The primary objective of asset allocation is maintaining a delicate balance between risk and reward. Naturally, the performance of different asset classes varies, potentially causing one's risk profile to become skewed towards towards a single one. For instance, if your initial asset allocation was 65% in stocks and 35% in bonds, a stock market rally may leave your portfolio invested 75% in stocks and 25% in bonds. While this may be positive news as long as the rally continues, a market correction could see your portfolio take a hit.

Disciplined investing

Portfolio rebalancing imposes a certain discipline into an investor's investment practice in that it encourages them to sell a portion of the better performing asset class and put more money into the underperforming ones. This practice makes sense if we keep in perspective that performance varies with time and rebalancing help reduce investors' reliance on their instincts, some of which may result in a loss.

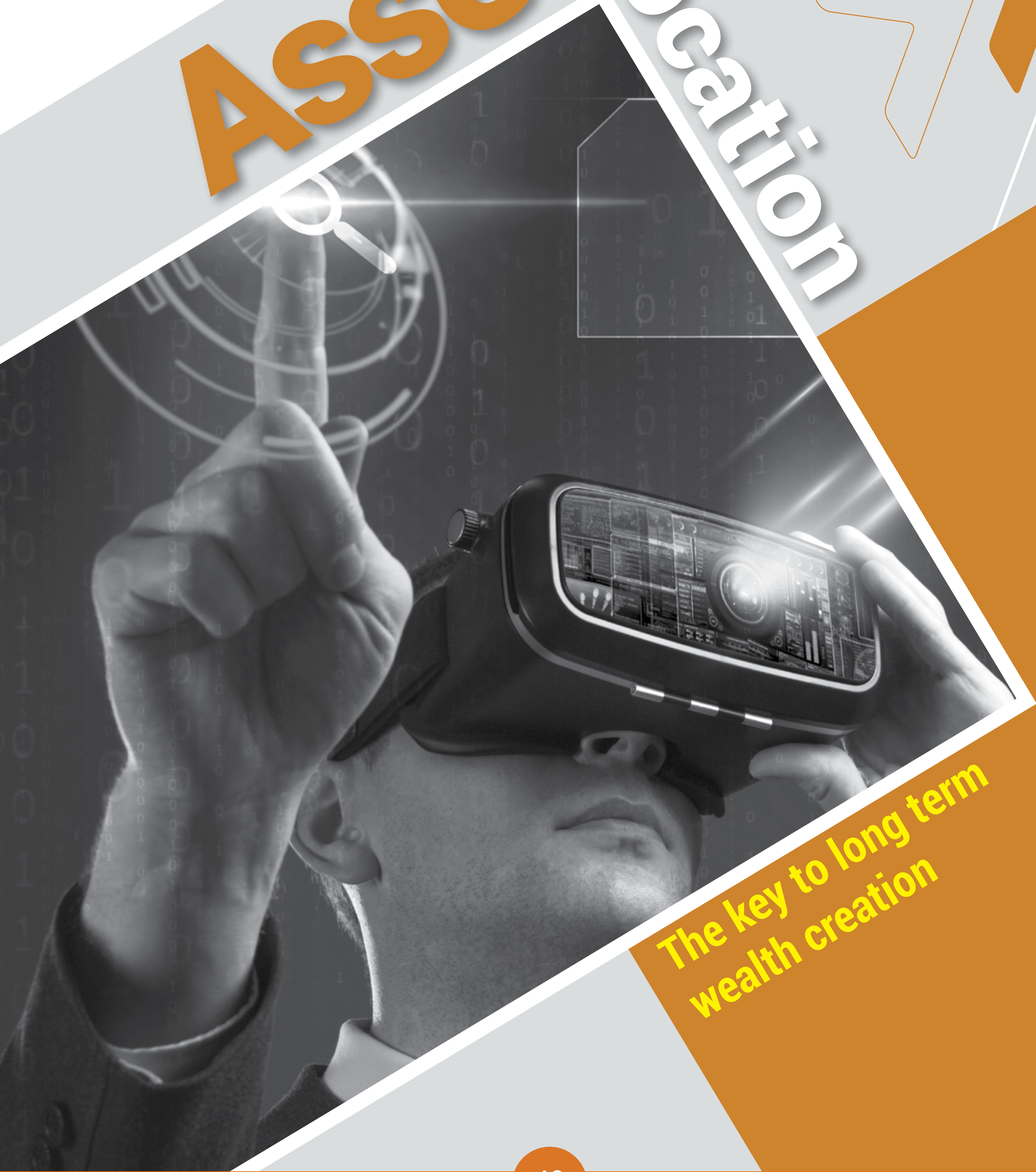
Portfolio review

While rebalancing, investors should also conduct a complete review of their portfolio including a review of individual holdings and the relevance and effectiveness of their investment strategy. This review ideally goes hand-in-hand with the rebalancing exercise.

Commitment to financial plan

Rebalancing also helps investors remain committed to their original financial plans that contain a clear investment strategy, a target asset allocation and risk tolerance. Periodic rebalancing exercises are crucial to maintaining the pre-determined asset allocation level in line with an investor's personal financial plan.

Asset Allocation



The key to long term wealth creation

Reigning over greed and sticking to one's asset allocation is the key determinant in the current market

Investing in the stock market can be challenging for not just new but also seasoned investors. First, investors need to understand if the markets are overvalued or undervalued. Second, investing in equity vs. debt or shifting from one asset class to the other can prove to be tricky since markets are inherently dynamic in nature. Considering these challenges, retail investors must look to achieve the ideal debt-to-equity ratio based on market conditions.

Presently, markets are steadily heading north given the momentum of inflows being driven by positive market sentiment and other factors like government reforms, improving Ease of Doing Business rankings, ratings upgrade and better macro fundamentals, to name a few.

In such a market scenario, it is often difficult for investors to take investment calls. This is because a certain section is likely to be driven by greed to increase their holdings in a rising market, while some may be driven by fear to play the waiting game for a market correction, which could lead to an unpleasant investing experience.

ASSET ALLOCATION IS THE ANSWER

Asset allocation is a technique which can help investors maintain self-discipline and keep emotions at bay when making investing decisions. This not only makes sure that investors avoid following the crowd but also helps to invest in a proportionate and a disciplined manner. With the help of a financial advisor, an investor can target an appropriate asset allocation and stick with it. And for an investor who needs an investment option with inbuilt exposure to both the asset classes, dynamic asset allocation funds is the category of funds to choose from.

A DYNAMIC PORTFOLIO REBALANCING

Dynamic asset allocation funds use the 'buy low and sell high' methodology to invest in equities. This essentially means profits are booked when the market peaks and the exposure to debt is increased, and vice versa. Such type of funds may use varying market metrics to decide on the market valuations. One such parameter is price-to-book ratio. On any day, if the book value falls below a specified level, the fund house may allocate more money towards the same, analysing fundamentals and future potential, thereby giving the investor an optimal asset allocation. Having an asset allocation strategy with lower and upper limits for each security type helps in countering the inherently volatile nature of financial markets and prevents an investor from going overboard while investing in a particular asset class. This arrangement also helps keep sentiments away by creating a method that is based on data rather than instincts.

ADVANTAGES OF ASSET ALLOCATION PRODUCTS

Dynamic asset allocation gives an investor the best of both worlds (debt and equity) while limiting the effect of market volatility. These products are especially useful for first time investors, who are sceptical of equities due to the volatile nature of the markets. Also, these funds enjoy equity tax benefits. So, if an investor's holding period is more than a year, then there will be no tax incurred on capital gains. Otherwise the gains are subject to short term capital-gains tax. So, in effect, dynamic asset allocation funds help investors make the most of market volatility while keeping asset allocation in check in a tax-efficient fashion ■

Contributed by
ICICI Prudential Mutual Fund

All you need to know about

Exchange Traded Funds

For the uninitiated, direct exposure to stock markets and mutual funds investments are two vastly different, unrelated investment routes. Exchange Traded Funds (ETFs) bring these two together to give rise to a relatively safe and diverse financial instrument.

ETFs, or Exchange Traded Funds, are listed mutual funds that are traded in the stock market much like common shares. This means that ETFs can be easily purchased, sold, or transferred through a stock exchange. However, they are passively managed with no involvement of a fund manager to oversee stock selection. Instead, the fund scheme tracks a benchmark index and aims to reflect its performance, the stock selection happening automatically.

An ETF is thus essentially a basket of stocks that reflects the composition of an index such as Nifty or Sensex, its trading value based on the net asset value of the underlying stocks. To put it simply, it is a mutual fund one can buy and sell at its prevailing price, in real-time, throughout the day.

ETFs work on the concept of indirect ownership – the mutual fund owns the underlying assets such as bonds, gold bars, futures, stocks, foreign currency etc. and the attendant indirect ownership is divided into shares. While the ETF shareholders may not have any claim on the assets, they make their share of profits through the dividends they receive or the interest they earn. Furthermore, in case of the liquidation of the fund, shareholders also receive residual value.

The different types of ETFs include:

- **Equity**
- **Debt**
- **Commodity**
- **Overseas Equity**

WHY ETFs ARE A GOOD INVESTMENT AVENUE

Diversification

Diversification is one of the central tenets of an investor's strategy. ETFs are useful to that end since they offer ample opportunity to diversify one's investment portfolio into different securities. For instance, equity ETFs based on broad market indices are typically exposed to various sectors.

Flexibility

ETFs are essentially mutual funds that can be traded in real-time. Investors can sell or purchase units at the prevailing market price on a given day. They can sell short, use stop-loss, buy on margin or use a limit order. Thus, unlike mutual fund schemes that lock capital in for a certain period of time, ETFs offer the flexibility of trading daily, making for an attractive investment opportunity.

Low costs

Another big advantage ETFs enjoy over mutual funds is the low expense ratio. Moreover, there is no minimum required deposit and one can purchase even a single share. Since ETFs may only be sold to or purchased from an authorised broker, fund manager costs are also bypassed; the investor need only pay the commission on an order.

Reliable

ETFs are a reliable investment option since they eliminate the possibility of poor security selection by a fund manager. Additionally, the benchmark indices are formulated through exhaustive research and data collected over the years and are periodically rebalanced. ETFs also declare their portfolio regularly on a daily basis, which ensures a great amount of transparency.

Tax Efficient

Current tax laws grant immunity to ETF investment returns for over a year. This is so because unlike mutual funds, capital gains generated due to sales are not passed on to the shareholders. On the other hand, fixed income investments and gold ETFs attract a 20% tax (for over 3 years), taking inflation through indexation into account. Thus, tax efficiency coupled with low management and transaction costs make ETFs a sound investment.

A LOW-COST INVESTMENT ALTERNATIVE

ETFs have opened a whole world of retail and institutional investment opportunities to the market. They enable investors to gain broad exposure to different sectors with relative ease and at a lower cost than many other forms of investing. Investors also stand to gain exposure to a global stock market through ETFs; they also feature a great degree of flexibility and liquidity, making for a truly promising investment opportunity ■

Expert Speak

> Growth rate indicates that the lag effects of demonetisation and GST transition are largely behind us.

Sensex and Nifty have continued to trade in a range over the past 2-3 months. The market is expectedly taking a breather here. The PE levels are in the early 20s while earnings growth is yet to pick up, making the pause necessary.

Having said that, the Indian investor has shown some remarkable patience in this rally. They know that deep and structural shifts have happened over the past 2-3 years. And like a bitter but necessary medicine, it has a bad taste but will lead to long-term well-being.

At the risk of repetition, the Jandhan-Aadhar-Mobile (JAM) trio has delivered subsidies more efficiently. This will lead to financial inclusion, poverty alleviation, reduced social and health crises, long-term and better rural productivity. The demonetisation - remonetisation exercise, while painful initially, had a purpose: to jolt idle cash into the mainstream and leave a formal trail of the money-flow. This activity led to a significant CASA growth in the banking sector, activated tax trail, and stimulated financialisation of savings.

Likewise, GST reforms saw 29 states and 7 union territories voluntarily merge most of their indirect tax guidelines into one. Some say this was the biggest tax treaty since the formation of EU. GST has truly turned India into a single economic unit. The result is increased tax compliance, efficient flow of goods and services and better working capital management. On the other hand, the IBC code and the concurrent bank recapitalisation have energised the credit cycle and laid the rules for future borrowing practices.

The results are on their way. Commercial vehicles sales is showing demand momentum already. Many companies are reporting higher capacity utilisation levels. Railway freight offtake has seen strong growth since July 2017. Coal and steel sectors too are showing impressive performance over the last couple of months. All these are indicative of the high GDP levels that may be fast approaching.

> The investors while remaining enthusiastic about growth, must keep the allocation strategy, time horizon and investment objective in mind. It is vital that investors spread their risks and obtain a long-term horizon.

The GDP growth rate of 6.3% for September quarter also supports this view. This growth rate indicates that the lag effects of demonetisation and GST transition are largely behind us. The next few quarter numbers may be even more upbeat. This is possible for two good reasons. One is that the growth has actually picked steam. The other is that the low base effect of Dec-16 will give an optical uptick. In both circumstances, the markets would find relief and reason for optimism.

But there are also some issues that need addressing. CPI inflation is on the rise (though still within comfort zone). The fiscal payoff from low oil prices too seems to be tapering out for now. Some are seeing this as ground for a hawkish oncoming stance by RBI. I say, this has made growth all the more imperative. Especially with a slew of elections lined up this month, the next year and the big one in 2019.

Against this backdrop, growth and prosperity would be a vital political necessity for continued reform momentum.

Having said that, we believe that the vegetable and HRA led inflation increase is transient. We may see inflation rise for some more months, but the longer term structural trend is downward. More so, when India is keen to improve its credit rating, it will want to reduce its cost of borrowing over a period of time.

Against this backdrop, the investors while remaining enthusiastic about growth, must keep the allocation strategy, time horizon and investment objective in mind. It is vital that investors spread their risks and obtain a long-term horizon. SIP/STP based investing can be very useful tools for investors in the present scenario. Thematically, the infrastructure space may prove to be a wealth creator in the long run.

EQUITY VIEW

2017 – The Year of Reforms

2017 can clearly be termed as the 'Year of Reforms'. Reform measures such as GST (Goods and Services Tax), Benami Transactions (Prohibition) Act, the Insolvency and Bankruptcy Code (IBC), large banking sector recapitalisation and schemes like Direct Benefit Transfer (DBT) were some of the major initiatives of the year.

The year started with the economy grappling with the after effects of demonetisation. This was followed by the implementation of GST, which is by far the biggest tax reform that the country has seen. While there has been some temporary disruption in activity on account of GST, we do believe that supportive global growth, strong consumption demand (including revival in rural demand) and improving corporate profitability would spur growth in 2018. The recently concluded Q2FY18 quarterly earnings season bodes well for the outlook on corporate earnings growth. After a significant period of time, the pace of downward revision in earnings has moderated, giving confidence to growth and ROE (Return on Equity) outlook for FY19.

At present, policy uncertainty is low. However, there are many state-level elections in India over the next 12 months and a general election in 2019 which one needs to bear in mind. Global disruptions, including a sharp rise in oil prices, tightening of liquidity at a faster than envisaged pace and geo-political developments remain the key risks to our constructive outlook on equity markets.

Moody's India Rating Upgrade

Ratings agency Moody's upgraded India's sovereign rating to Baa2 from Baa3. The pace of reform initiatives in the country continues to remain strong and the Moody's sovereign ratings upgrade is a recognition of the same. India's improving growth outlook, stable financing base for Government debt and steady reforms agenda including GST implementation, bankruptcy reforms and large scale bank recapitalisation, were the key factors behind the sovereign rating upgrade. The rating upgrade improves the outlook for net foreign flows into India and would provide confidence to foreign investors. This would over the medium-term help accelerate the pace of foreign institutional inflows into the equity markets. We however do note that India is at BBB- (a notch below Moody's) by both S&P and Fitch.

Amendment to the Bankruptcy Act

The Government through an Ordinance has amended the Bankruptcy Act, which hereby prevents promoters who are wilful defaulters from bidding for their own assets. It also debars those who have accounts classified as NPLs (Non Performing Loans) for one year or more and are unable to settle before the submission of a resolution plan. Most cases referred to NCLT (National Company Law Tribunal) under the Bankruptcy Code so far are NPLs and they have been so for more than one year. Hence, in most cases promoters will not be allowed to bid for their own assets.

DEBT OUTLOOK

- The RBI has made the future course of interest rates dependent on inflation trajectory and GDP growth
- The government is running fiscal, with no room for error. Therefore market may remain on the tenterhooks. This may keep bond yields range-bound, till clarity emerges either way
- CPI data was around market expectation of 3.5% while the Core was at 4.6%. However, we expect the CPI to be around 4.5% by March- 2018. This is close to the RBI target
- While we agree that the CPI is rising, it isn't doing so at an alarming level. The market is running way ahead, despite the fact that the real rates remain high vis-a-vis 10-years bond yields (even after assuming 4.5% full year inflation)
- The GDP data was neutral. However, it will be extremely difficult to achieve RBI target of 6.7% GDP for the full year without any fiscal or monetary support. The RBI is likely to acknowledge this in the MPC
- The 10yr benchmark is on the way out. Therefore we need to watch 6.6 8 G Sec 203 1(security) which will trade in the band of 7%-7.15% in the near term
- In a nutshell, all eyes are on the RBI MPC and fiscal clarity
- We believe fiscal will be maintained at 3.2% however clarity will emerge by end of December
- We expect RBI to be neutral and market has priced in potential negatives
- The corporate bond 18- 36 month yields are expected to remain stable and the curve will remain steep ■

Nilesh Shah,
Managing Director,
Kotak Mutual Fund

FAQs

ETFs vs Index schemes

PARTICULARS	ETF	INDEX SCHEME
Intraday Trading	Possible	Not possible
Investment/Redemption Decision	Buy/sell decisions can happen at real-time NAV/market price through stock exchanges or through AMCs	Investment/redemption decisions are taken at day-end NAV
Liquidity	Can be purchased or redeemed on exchanges or through AMCs	Can be purchased or redeemed only through AMCs
Cost Effectiveness	Each investor bears his or her own brokerage cost at the time of investment or redemption and other investors are not affected by this	A group of investors bear brokerage costs every time an investment or redemption takes place in the scheme. This can impact long-term returns of investors.
Unit Holding Format	Compulsorily in the demat	Physical or demat form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THE SAME PAGE
AS YOUR KIDS ABOUT
THEIR FUTURE?
#DoYourHomework
Your kids may be cooking up a different dream than what you had in mind. With innumerable career options, kids today can choose to become whatever they want to, while you do your homework and be financially prepared for their future.
To know more, connect with your Financial Advisor or visit www.DoYourHomework.in
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Mutual Fund investments are subject to market risks, read all scheme related documents carefully. An investor education initiative by Axis Mutual Fund. Statutory Details: Axis Mutual Fund has been established as a Trust under the Indian Trusts Act, 1882, sponsored by Axis Bank Ltd. (liability restricted to ₹1 lakh). Trustee: Axis Mutual Fund Trustee Ltd. Investment Manager: Axis Asset Management Co. Ltd. (the AMC). Risk Factors: Axis Bank Ltd. is not liable or responsible for any loss or shortfall resulting from the operation of the scheme.


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Mutual fund investments are subject to market risks, read all scheme related documents carefully.