Vol.:3, Issue:15

Price: ₹ 50/-

# PunjiTimes

INVEST IN INVESTING

March-April, 2019

## Investment strategy

the risk and reward dance

# FORM-IV

**PunjiTimes**
INVEST IN INVESTING

| | | | |
|---|---|---|---|
| 1. | Place of Publication | : | 203, Siddhartha Chambers, Kalu Sarai, Hauz Khas, New Delhi- 110016 |
| 2. | Periodicity of its Publication | : | Bi-Monthly |
| 3. | Printer's Name | : | Ess Pee Printers |
| | Nationality | : | -----N.a--------- |
| | Address | : | 1/12&13, DSIDC Shed, Tigri, New Delhi- 110062 |
| 4. | Publisher's Name | : | Meri Punji IMF Private Limited |
| | Nationality | : | ------N.a-------- |
| | Address | : | 203, Siddhartha Chambers, Kalu Sarai, Hauz Khas, New Delhi - 110016 |
| 5. | Editor's Name | : | Tushar Goyal |
| | Nationality | : | Indian |
| | Address | : | C-163, Ground Floor, Sarvodaya Enclave, New Delhi- 110016 |

6. Name and Addresses of individuals who own the newspaper/magazine and partners or shareholders holding More than one per cent of the total capital.

| S.No. | Name of the Shareholders | Residential Address | % Share Holding |
|---|---|---|---|
| 1. | Anil K Goyal | C-163, Sarvodya Enclave, New Delhi- 17 | 50 % |
| 2. | Uma Rani Goyal | C-163, Sarvodya Enclave, New Delhi- 17 | 45 % |
| 3. | Tarun Goyal | C-163, Sarvodya Enclave, New Delhi- 17 | 5 % |
| | | Total | 100 % |

We, hereby declare that the particulars given above are true to the best of my knowledge and belief.

Signature of Publisher
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Sd/-
**SONIKA BHARATI**
DIRECTOR
DIN02915283

Dated: 18/02/2019
Place: New Delhi


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## From the Editor's Desk

Investing in today's complex financial and socio-economic landscape requires not only proper due diligence but also keeping the bigger picture in mind. As an investor, some important questions you need to ask yourself are:

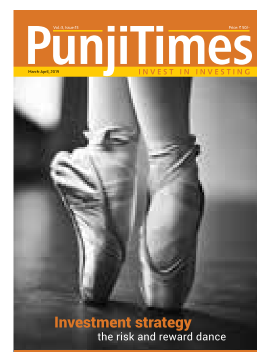
- Am I maximizing my returns?
- Is my risk under an acceptable level?
- Which are my high-yielding investments?
- Do I have adequate insurance for me and my family?
- Do I have adequate liquid funds if I were to need them?

When you ask yourself these questions, it becomes apparent that it's not only important to diversify your investment portfolio but also to optimize your fund allocation between risk mitigating and reward-earning assets. While reward-earning investments can be found in equities, mutual funds etc., risk mitigation assets refer to insurances, Mediclaim etc. However, some strategies and assets may fall under both categories. For example, SIP is a strategy to invest in equity but also mitigate the risk of timing the market while maximizing returns by averaging the cost of acquisition.

This issue, we are going to revisit some key editorials from previous issues such as term insurance, balanced funds, portfolio rebalancing while also looking at the present stock market and developments in the corporate governance realm.

Best,

**Team Meri Punji**

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**PunjiTimes**
INVEST IN INVESTING

VOLUME: 3

ISSUE: March-April, 2019

PERIODICITY: Bi-Monthly

RNI: DELENG/2017/72098

PUBLISHER: Meri Punji IMF Pvt. Ltd.

EDITOR-IN-CHIEF: Tushar Goyal

WEBSITE: www.meripunji.com

EDITORIAL OFFICE:
Meri Punji IMF Private Limited
(Formerly known as P S Management Solutions Pvt. Ltd.)
203, Siddharth Chambers, Hauz Khas,
Kalu Sarai, (Adj. Azad Apts.)
New Delhi-110016

EMAIL: info@meripunji.com



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CONTENT SUPPORT:
Anil K Goyal & Associates
www.akgassociates.com

Ukti Language Services
www.ukti.co.in

DESIGNED BY:
Silenttpartners Inc.
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
(Formerly known as P S Management Solutions Pvt. Ltd.)
203, Siddharth Chambers, Hauz Khas,
Kalu Sarai, (Adj. Azad Apts.)
New Delhi-110016

"Printed by Ess Pee Printers, published by Meri Punji IMF Private Limited on behalf of Meri Punji IMF Private Limited and printed at 1/12 & 13 DSIDC Shed, Tigri, New Delhi- 110062 and published at 203, Siddhartha Chambers, Kalu Sarai, Hauz Khas, New Delhi-110016. Editor- Tushar Goyal.

Meri Punji IMF Private Limited does not take responsibility for returning unsolicited publication material.


March-April, 2019

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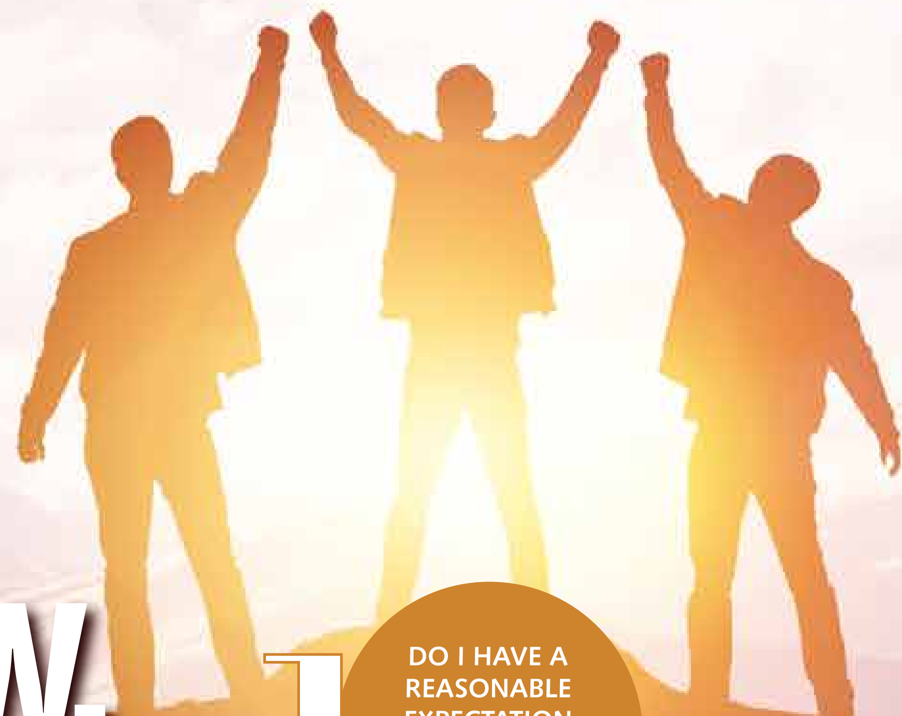

# How much are you willing to RISK?

> "Successful investing is about managing risk, not avoiding it"

## 1 DO I HAVE A REASONABLE EXPECTATION OF THE RETURNS FROM THIS INVESTMENT?

While investments are made with the expectation of a future return, the inherent risk involved does not guarantee one. An expectation of unusually high or infeasible returns can muddle your vision and an accurate assessment of risk. Thus, it is best to be reasonable and rational when you set out a projection of the future returns.

## 2 WHAT IS THE WORST CASE SCENARIO? AM I COMFORTABLE WITH IT?

Risk refers to the possibility that anything can go wrong with your investment. Having a Plan B is advisable since downsides are possible.

## 3 WILL I BE JEOPARDIZING MY FINANCIAL COMMITMENTS IN CASE OF A WORST CASE SCENARIO?

Have a sense of the magnitude of capital at stake and limit your downside by committing an amount that will not wreak havoc on your other financial commitments.

## 4 WHAT IS THE SOURCE OF MY FUNDS? AM I INVESTING SURPLUS FUNDS?

Be cognizant of the source of your funds since this will help you undertake a level of risk in line with your objectives. Investment out of borrowed funds may expose you to more risk than you may want to undertake.

## 5 WHAT IS MY TIME HORIZON?

Time horizon is another important factor to take into account while taking risk. The longer your time horizon, the better it is for your investments. There is a higher level of risk involved when you have limited time.

## RISK AND REWARDS

A central idea in finance is the direct relationship between risk and reward. While some may incorrectly believe that higher of risk leads to higher reward, a higher degree of risk only paves the way for a higher **potential** reward. Developing a financially sound portfolio requires striking the right balance between risk and potential reward.

## APPROPRIATE DEGREE OF RISK

Benjamin Graham famously said, **"Successful investing is about managing risk, not avoiding it"**. Risk is an inherent part of investing, however, the presence of risk should not serve to deter you from investing. The only caveat is that risk warrants caution. Hence, you need to assess your risk-taking ability and assume only as much risk as your resources and constraints allow.

## RISK APPETITE

When you think of 'risk', do you think:

- loss
- uncertainty
- opportunity
- excitement

If it is the first, you fall into the 'risk averse' category. If it is the second, then you have a moderate risk-taking ability. If risk sounds like an opportunity to you, then you have a moderate to high risk appetite and if it absolutely excites you, then you are a 'risk lover'.

An important question to ask is are you willing to tolerate greater volatility for potentially higher returns, or do you place more emphasis on stability, with less risk? Before making an investment decision, ask yourself these five questions to determine whether the investment is aligned with your risk comfort level.

## FINAL THOUGHTS

Understanding how risk averse you are can help you take suitable investment decisions for yourself. A good way to manage risk is to diversify; this allows you to dip your feet into high-risk-high-potential-reward investments while having a safety net of stable investments to fall back on ■

# 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 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 on 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 helps 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.

# Systematic Vs Lump Sum INVESTMENT

## MAKE THE RIGHT INVESTMENT CHOICE

Even as the concept of Systematic Investment Plans (SIP) gains currency, investors are often confronted with the age old choice between systematic and lump sum investing. A pertinent question remains – which of the two results in higher future returns? That it's fair to compare the approaches is a matter of some debate. While investors will come across literature arguing in favour of one against the other, making the right investment choice ultimately rests on understanding the difference between the two.

A major difference is in the cash flows – an investor with money at hand will be comfortable investing a lump sum amount, whereas in case of an SIP, the investor may not possess a lump sum amount but expects a regular income in the future. For a person with not enough lump sum amount, investing at a go is infeasible. Similarly, for someone with an uncertain future income, SIPs remain out of question.

### IS A SYSTEMATIC INVESTMENT PLAN RIGHT FOR YOU?

An SIP offers investors convenience in terms of distributing their investment over several years such that they do not have to part with lump sums to make it work. In fact, investments through this route can be automated such that a fixed sum is debited from the bank account each month.

The SIP route is best suited for young investors, who may want to start as small as Rs. 500 per month, thus allowing them a flavour of investing even at a small scale. It is also suitable for individuals with a regular income and surplus. SIPs offer the flexibility to continue investments even when a month is missed or there is an additional investment because of excess surplus.

SIPs are also useful in determining the exact amount an investor must set aside to achieve long-term financial objectives.

### SHOULD YOU OPT FOR LUMP SUM INVESTING?

The lump sum mode allows individuals with a large corpus to invest at a go, ensuring money does not lie idle in a bank account. Thus, lump sum investing is ideal for seasoned investors who have generated large sums which they wish to reinvest at once. Individuals with uncertain income but substantial cash flow may also prefer to invest via lump sum. This allows them to stay invested despite erratic cash flows, aiding them during lean times when they can withdraw from the lump sum using a Systematic Withdrawal Plan. Here, they aren't required to redeem the entire corpus but only a stipulated amount at a time while the rest of it keeps earning returns.

### THE HYBRID OPTION

A third, hybrid option is also available wherein investors can opt for a liquid fund with a Systematic Transfer Plan (STP). Say, an investor has a lump sum amount but is not confident about timing the market. They also doesn't want their funds to lie idle in a bank account generating a paltry return. In such a case, they can invest the lump sum in a short-term, liquid fund and do a STP into their desired mutual fund scheme. Here, a fixed amount is transferred from a liquid fund to another fund – equity, balanced fund etc.

By investing in this manner, firstly, the investor doesn't let funds sit idle and earns an interest higher than the bank rate. Secondly, the investor also enjoys the benefits of rupee cost averaging by buying less or more units depending on the price.

### MAKE A SMART INVESTMENT DECISION

Investors must ultimately choose a method that works for them based on their income, cash flow and financial goals. Those with a regular income can safely invest in a SIP and those with a lump sum amount but not sure about market timing can opt for the hybrid route.

Moreover, investors don't need to limit themselves to a definitive mode. They can invest in a SIP if they have a regular income and boost their portfolio by investing through lump sum whenever they have a surplus. For those with a large surplus and a low risk appetite, an STP can offer the best of both worlds. Make an informed choice by consulting your advisor or financial planner ■

# SECURE YOUR FAMILY'S FINANCIAL FUTURE WITH TERM INSURANCE

Term insurance is a type of insurance that is availed for a fixed term (number of years) like 10 years, 20 years, 30 years.

Modern lifestyles have made us more susceptible to diseases and accidents than ever before. The immense stress that comes with them exposes us to several health risks. It is thus imperative to secure your family's financial future in the event of your death. If you happen to be the sole breadwinner, ensuring cash flow in the family doesn't stop post your death becomes even more important. A term insurance ensures your family's sustenance post death at the same standard of living.

## WHAT IS TERM INSURANCE?

Term insurance is a type of insurance that is availed for a fixed term (number of years). During that term, if the assured dies, the nominee gets the sum assured, which is a lump sum. If not, the premium paid is not recoverable. Now, there's a new variant in the market where the family is paid the assured's last-drawn salary till the remaining age of the assured out of 58 years. This is to ensure continuity of cash flows for the family.

Term insurance policies are offered for various terms like 10 years, 20 years, 30 years. Most of these policies have a built-in feature to convert to permanent life insurance policies, irrespective of the health conditions of the policyholder. Unlike other types of life insurance policies, a term insurance policy is less expensive since it does not have any cash value.

## WHY DO YOU NEED TERM INSURANCE?

Term insurance is generally overlooked compared to other insurance products due to the mistaken belief that such plans do not offer any additional benefits besides the sum assured on the policyholder's demise. However, there are several advantages of buying a term insurance policy:

- **Financial security for loved ones:** Term insurance plans help build a financial safety net for the policyholder's dependents in the event of their demise. It is a way to ensure your family continues leading a comfortable life in the case of the assured's untimely death. Moreover, outstanding debts can put your family under financial crisis. Term insurance provides a safety shield against such outstanding debts
- **High life cover:** Term insurance provides the highest life cover at a low cost. Since there is investment element involved, you get the highest coverage (death benefit) at an affordable rate of premium
- **Riders:** Term plans can be enhanced through the use of riders that offer extra protection, which are available at a nominal cost. Some riders available under term plans are - accidental death benefit, critical illness, partial or permanent disability, waiver of premium, etc.
- **Flexible payment options:** Term insurance policies offer flexible premium payment options - limited pay, single pay or regular pay. In the case of limited or regular pay - premiums can be paid either monthly, quarterly, half-yearly, or annually
- **Tax benefits:** The premiums paid towards a term plan are eligible for tax benefits under Section 80(C) of the Income Tax Act. The death benefit received by the nominee is also eligible for tax deductions under Section 10(D)

## WHAT IS TERM RETURN OF PREMIUM?

Term insurance also comes with an option to have the premium returned if the life insured survives. This is called a Term Return of Premium (TROP) plan, a standard term life insurance plans with a slight variation. On survival, policyholders are returned the total amount of premiums paid by them during the policy tenure, excluding tax. This is especially important during the golden years of earning and is also sometimes used to equalise the inheritance between the legal heirs. Say, a person has one house worth Rs. 4 crores and two children. In his will, he can leave the house to one child and take a term insurance for Rs. 4 crores with the other as a nominee. This way, settling the inheritance becomes easy without the need to dispose of the asset.

## PURCHASING A TERM INSURANCE

There are several benefits of a term insurance, foremost among them being the financial security of your family. According to experts, a sufficient cover is 10 times your annual income. Please note, an inadequate cover defeats the purpose of being insured. Additionally, it is also important you review your insurance cover and identify areas that can be eliminated, so that you are not over-insured ■

# Build a secure future with a HOME LOAN

Buying a home they can truly call their own is a dream most people nurture. When it comes to actually realising the dream, careful planning surrounding the layout, budget, prospective builders and various other factors is required, often in discussion with the family members involved. Post these discussions, one typically requires financing to buy the house of their choice. This type of financing is popularly known as a home loan.

## WHAT IS A HOME LOAN?

Individuals who wish to purchase or construct a house typically secure a home loan. A home loan is a loan offered by a bank or a housing finance company with the property mortgaged to the lender as security till repayment. Normally, the home loan is repaid in equated monthly instalments (EMIs).

## WHAT IS THE MAXIMUM AMOUNT I CAN BORROW?

The loan amount will normally depend on the income level of the borrower (which is used to determine their EMI payment capacity) and their credit score. Typically, the maximum loan offered is up to 90% of the house cost, provided the requisite conditions are met.

## WHAT ARE THE DIFFERENT TYPES OF LOAN RATES?

Interest rates for home loans are of two types - fixed or floating. Depending on the requirement and profile of the borrower, the lender can choose to offer either a fixed or a floating rate or a mix of the two.

The fixed loan rate comes at a pre-determined interest rate for a fixed period, post which it is subject to a floating rate. A floating rate, however, changes during its tenure in accordance with the reference rate it is tied to, which in turn depends on economic conditions.

## WHAT TAX BENEFITS DO HOME LOANS OFFER?

A home loan comes with a variety of Income Tax benefits, which can be broadly categorised into three parts –

1. Under Section 24 of the Income Tax Act (1961), a borrower can claim a deduction of Rs. 2 lakhs on the interest paid if the property is self-occupied.
2. Under Section 80C of the Income Tax Act (1961), a borrower can claim a deduction of Rs. 1.5 lakhs on the principal repayment for a self-occupied property. This amount is inclusive of PPF deposits, insurance premiums, ELSS mutual funds, fixed deposits etc.
3. Under section 80EE, Rs. 50,000 can be claimed as "interest on home loan" if the home loan has been availed FY 2016-17 onwards, the value of the house is less than Rs. 50 lakhs, the loan amount is less than Rs. 35 lakhs and the borrower doesn't own any other property on the date of loan sanction. The good news is, this deduction is over and above the Rs. 2 lakhs limit under Section 24.

## WHAT OTHER BENEFITS DOES A HOME LOAN OFFER?

The benefits of a home loan aren't limited to tax savings; it offers a host of other benefits.

### A good investment

Because property prices appreciate over time, a home proves to be a good long-term investment, providing a substantial return on investment if held over a long period. Moreover, owning your house is a much better deal than living in a rented property as the rent can often equal the EMI of the house.

### Helps you build a credit history

When you pay your EMIs on time, it demonstrates your creditworthiness to other lenders, thus helping you build a positive credit history. An enhancement in your credit score simplifies the process of securing future loans for education, personal use, vehicle etc.

### Your property works as a retirement plan

Often times, people aren't able to build a retirement corpus while they're still employed, owing to unforeseen expenses and unfavourable circumstances. To meet financial needs later on in life, you don't need to sell your property. Instead, you can turn your existing home into a retirement corpus through a reverse mortgage loan, even as you enjoy the benefits of occupying it.

While every major expense in life should not see you running to the bank for a loan, taking a home loan is a different ball game. With a home loan, not only do you enjoy tax benefits but you also have a safe place you can call yours, do up the way you want, and most importantly, build an asset that acts as a cushion against financial volatility after retirement ■

# PERFECT FIT

## Do Balanced Funds & SWP Make for the Perfect Fit?

In previous issues, we have looked at how a Systematic Withdrawal Plan (SWP) can be effective for investors seeking a fixed income. It allows investors to withdraw a requisite amount from their corpus at regular intervals. Much like a Systematic Investment Plan (SIP), an SWP offers the benefits of eliminating the need to time the market and rupee-cost averaging. In the case of an SIP, rupee-cost averaging ensures that an individual is buying more shares of an investment at times when the market is low and vice versa. With an SWP, it means that more units will be withdrawn from the fund to maintain the same cash flow.

But which underlying fund proves to be the best option for an SWP? Let's look at SWPs in greater detail to understand this.

### DEBT VS. EQUITY

An SWP can be invested in either debt or equity. Let's look at this from the perspective of an investor seeking moderate risk and above average returns. Although equity funds are lucrative due to the potential superior returns, there is high risk due to the volatility quotient. Debt funds are a good option since the range of returns is predictable. However, there is a third category of funds that investors may consider-balanced funds.

### A BALANCED OPTION

Balanced funds are a type of scheme wherein funds are invested in both equities and debt. The generally accepted ratio is 65% in equities and 35% in debt, although it may vary for different funds. Balanced funds are an ideal option for investors looking for fixed returns (moderate risk profile) assured from debt funds but also for capital appreciation (ensured by equities) without putting their investment at too much risk. Hence, balanced funds provide the best of both worlds. Moreover, if you compare the balanced funds returns with Nifty returns over the past couple of years, it is clear that they've performed better than the index.

### HOW ARE BALANCED FUNDS SUITABLE FOR SWPs?

Let's revisit the concept of rupee-cost averaging. Any correction in the market leads to a decline in the value of mutual fund investments due to a fall in the net asset value (NAV). Unlike SIPs, this may not be a desirable situation in the case of SWPs. The fall in NAV is a double whammy since it means that a higher number of units would need to be redeemed in order to meet the SWP cash flows (fixed by the investor). If the fund is volatile, a long period or heavy market correction can cause significant depletion of the investor's corpus. This downside risk gets minimised when the underlying is a balanced fund, thanks to the asset allocation. Although a bear market may see a balanced mutual fund's NAV decline, it will not be as sharp as in the case of an equity mutual fund. Hence, the fund will suffer lower depletion. The recovery of the fund from this point will also be faster when the market corrects itself or gets bullish.

### TAKING A BALANCED APPROACH TO SWPs

We saw how a Systematic Withdrawal Plan from a balanced fund can be useful in not only generating a regular fixed income but also for a capital appreciation of the still invested amount. A balanced fund saves the investor from excess depletion in case of equity and also leads to faster recovery when market turns north. While we haven't considered the impact of exit load and STCG on SWP, investors should be mindful of these when setting up their SWPs; SWP withdrawals should begin after the exit load and the STCG period.

Investors looking for regular income from their mutual fund investments are advised to consult their financial advisor to understand the suitability of an SWP from a balanced mutual fund ■

# Corporate Governance Issues & Equity Markets

Markets are often spooked by governance issues as far as corporates and listed companies are concerned. Corporate Governance is one of the more important variables in determining valuation multiples stocks trade at and why some companies trade at a premium to their peer group at similar growth rates.

## A few examples:

HDFC Bank has traded at a premium to most NBFCs and banks for its high ethical standards and robust corporate governance.

When one thinks of the Tata Group, what immediately comes to mind is high standards of ethics, fairness, governance, and compliance the conglomerate observes. Little wonder that most Tata Group companies command a premium to their peer groups, even if financial performance is mediocre.

Infosys was also, for a very long time, held in high esteem until the promoter group stepped back from day-to-day responsibilities. When Infosys became an independent board run/managed company with professional management, the premium valuation multiples it once commanded fell in line with other technology companies. It is no longer perceived as the same Infosys that was once revered in the minds of people.

Similarly, Reliance Group, Adani, and Vedanta Group bring different thoughts in the minds of market participants. While each of them is a leader in its sphere of business and has delivered sustained growth rates across economic and business cycles, it isn't held in the same regard as a Tata Group or Infosys.

We look at some of the examples of not-so-popular companies that are leading names in their sphere of business, and have suffered severe jolts due to corporate governance issues in the past couple of years.

### YES BANK

Over the past 15 years that Yes bank has been in the public domain, doubts have been raised by several market participants about its credibility, notwithstanding the 20+% growth rates Yes bank delivered quarter after quarter, year after year, with very low non-performing assets (NPA). Even the sharpest financial minds have not been able to find any corporate wrongdoing. And yet, Yes Bank has always suffered from a perception problem. Between 2015-18, several issues of the quality of the accounting came to light, important being huge divergences in their own accounting standards and the RBI's in recognition of NPAs. Compounding the problem were disputes between the two promoters' families and the RBI's refusal to grant an extension to Mr. Rana Kapoor as the Chairman and Managing Director. It was not just a normal extension turned down, but RBI's scathing remarks against the senior management such as "absence of culture of compliance" that were particularly distressing. The years of doubts that market participants had in their minds, finally came true. In 2018, Yes bank corrected by ~60% from its peak.

### DHFL

DHFL is another company that has suffered from a perception issue for more than 10 years, despite its "Triple A" credit rating and consistent growth year after year. The stock was a rank underperformer among Housing Finance Companies (HFC) and Non-Banking Finance Companies (NBFC). The valuation multiples DHFL traded at were a significant discount not just to established HFCs/NBFCs but even new entrants that were yet to establish themselves. Here, too, the sharpest financial minds weren't able to find any corporate wrongdoing except express unqualified opinions based on negative bias.

The liquidity tightening for the NBFCs and HFCs from October 2018 onwards increased the cost of borrowings for DHFL. Although DHFL hasn't defaulted on any commitment, credit rating has been revised downwards. The stock went into a sharp downward spiral, declining more than 80%, from the high of Rs.690 to Rs.110 by February 2019. The management did and continues to do everything to convince financial market participants of all being well at the company but very few seem to be buying the story.

### ICICI Bank / AXIS BANK

Similar stories exist for ICICI and Axis Bank. Both have been rank underperformers compared to other private banks during the monster in the bull market during 2013-2017. The valuation multiples they traded at were and continue to be at a steep discount to other private banks. One of the reasons for the underperformance and low valuation is a lack-lustre financial performance with mounting NPAs. But that is only one side of the story. On multiple occasions, practically every quarter, for almost 3 years, (2015-18), both banks guided the financial market participants with statements implying "the worst is behind us, things will improve from next quarter", only to see the performance in the subsequent quarters being even worse. Both seemed to be digging themselves deeper into their problems.

There could be two possibilities. First, the senior management genuinely believed their own numbers and statements, which meant they were not fully apprised of the magnitude of the NPA problem. Alternatively, the management knew of the magnitude of the problem but deliberately misguided markets and portrayed a positive picture to the point of their statements losing all credibility.

In the case of ICICI Bank, the ex-Managing Director and CEO, Chanda Kochhar, was sent on forced leave and subsequently fired for conflict of interest and charges of wrongdoing in sanctioning of large loans to selected corporate houses. Shikha Sharma, MD and CEO of Axis bank was indirectly asked by RBI to be replaced.

With new leaders at the helm of both banks, the perception has dramatically improved. The Q3 FY2018-19 results of the banks are not only a sharp improvement but the quality of disclosures and accounting standards has also improved significantly as regards recognition and disclosure of NPAs. Needless to say, the stock prices of both banks have outperformed those of other private banks in the past six months and faith seems to have been re-established. Both are classic cases of corporate governance gone all wrong, to serious measures taken to improve and correct the wrongs of the past ■

**Vivek Mavani**
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# Expert Speak

The interim Union Budget is behind us now, and the elections ahead of us. Pre-budget, the markets were jittery about the measures that the government could take, and the hole that the fiscal deficit would leave. But to the government's credit, the fiscal deficit has been kept largely in check.

The budget has provided for direct income support to the farmers on the one hand, and an income tax rebate to middle-class taxpayers at the other. Solely from a financial standpoint, this dual income support to both rural and urban consumers may see an uptick in FMCG demand. While this may lead to some money circulation, present low inflation levels offer much headroom.

The market focus will now shift to the upcoming monetary policy. At the minimum, the market expects a benign policy stance by the RBI. However, a rate cut cannot be ruled out given the change in guard at the governor's post. Given the low inflation, high real interest rates (around 300 bps), and trust deficit in the NBFC sector, the case for rate cut exists. Having said that, the RBI may find it difficult to make a sudden shift from 2nd gear to immediate reverse (rate).

In this context, a benign stance with guidance for a future rate action would help soften the market mood. Also, the debt market is also looking forward to governments borrowing liability and issuance calendar. The pressure of the off-budget borrowing size is playing on investors' mind. The monetary policy statement may help in resolving these concerns.

Currently, the credit market is also concerned about the rumours floating regarding the viability of some HFC(s). On our part, we have done our due diligence and have obtained sufficient confidence in the serviceability of exposures. We believe that the business model of these HFC(s) is robust and is supported by sustainable cash flow. At that, (at least in our case) the exposure to their issuances is of around 3-9 month maturities. This limits our credit and duration risk exposure. Having said that, the wide credit spreads presently available seem quite attractive for an 18-24 month horizon for aggressive credit investors.

From the equity market standpoint, the outlook surrounding the elections and the post-election polity has become crucial. For now, there is much wariness in the market about the upcoming general elections which may cause some volatility in the short term. Post elections, the market may be willing to pay a premium for political stability. Other than that, the FII flows into Indian markets may also affect market trends. Eventually, it is the outlook on the earnings growth which will drive the market sentiment for much of 2019.

Taking a longer-term view, the finance minister has stated that the Indian economy may reach the US$ 5 trillion mark in five years, and hit US$ 10 trillion in the next 8 years. In other words, if things go well, India would be adding US$ 8 trillion to its GDP in the next 13 years. That, I believe, is a lot of growth opportunity. How much you make out of this opportunity will depend on the quality of your investment decisions and perhaps a slice of luck.

For now, an investor that is currently overweight on equities as an asset class can choose to invest through SIP in equities, or deploy the lump sum into a BAF strategy. This mitigates risks effectively without losing out on a sudden change in upward momentum ■

**Nilesh Shah**,
Managing Director, Kotak Mutual Fund

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