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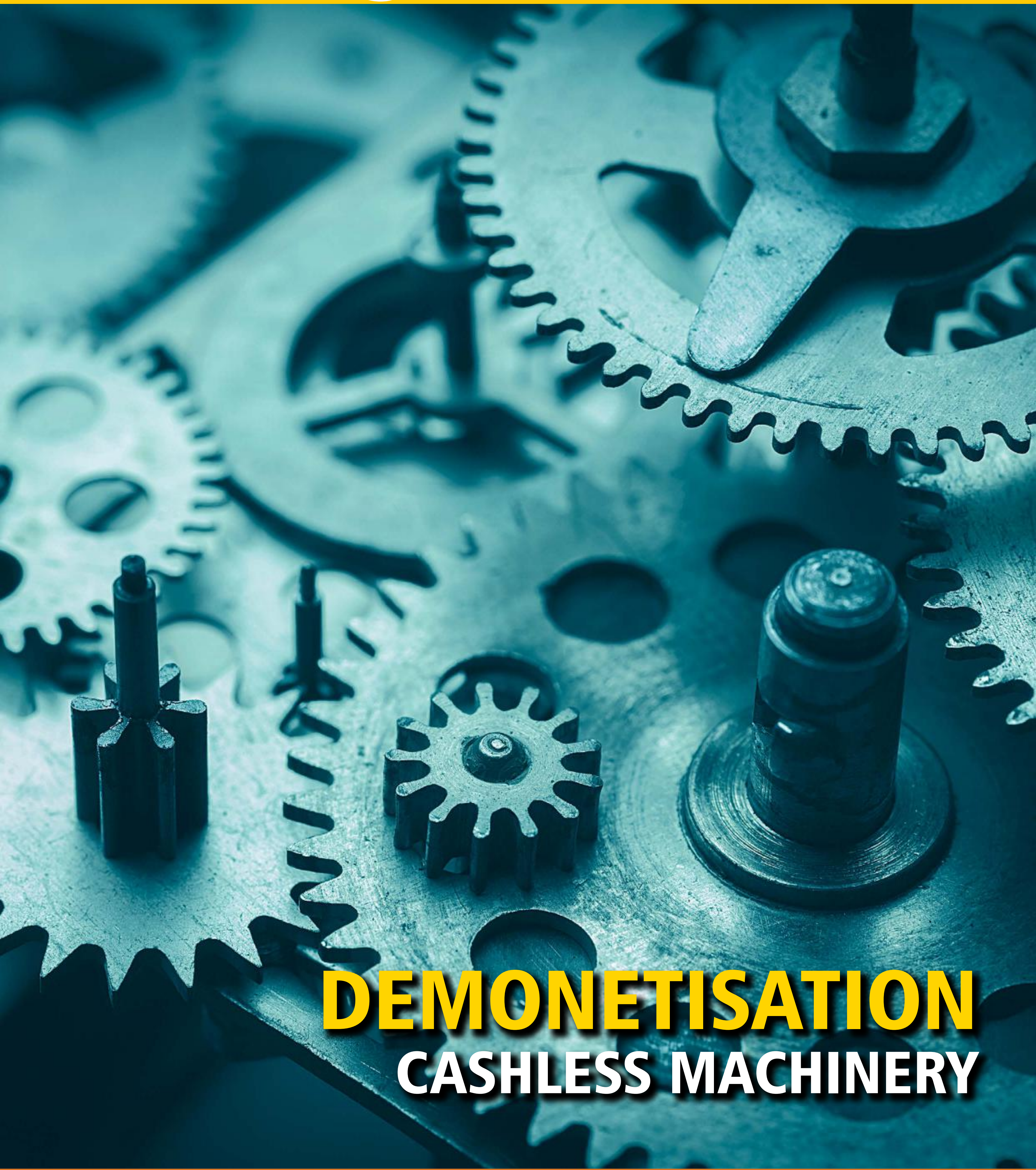
January- February 2017

PunjiTimes

INVEST IN INVESTING



DEMONETISATION
CASHLESS MACHINERY

From the Editor's Desk

First of all, a very Happy New Year to you! It's that time of the year when we reflect on the past year and make resolutions for the coming year. Do you remember the clarity you felt when you made resolutions this year?

Clarity comes when we know our goals. Once we know where we want to be, it is easy to chalk out a plan to get there. Making a plan, of course, means making choices. Several 'choices' will get you to our destination but you get to choose which one is 'right for you'.

The key feature this month is about the importance of creating a diversified investment portfolio and the periodic review and correction of the portfolio, also known as, rebalancing. After all, planning is only as good as it is consistently applied (just like your resolutions).

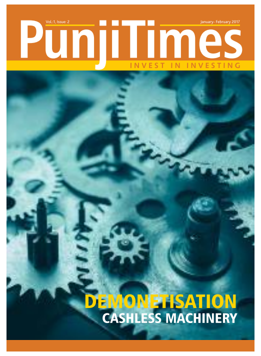
Inside, you will also find the views of industry experts on the much talked about demonetisation and it's impact on the Indian economy in order to get a holistic perspective on the investment environment.

Hope you find this issue as informative and exciting as the last. Thanks to everyone who has contributed towards this issue. Enjoy your copy!

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.*

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Kalu Sarai, (Adj. Azad Apts.)
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EMAIL: info@meripunji.com

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10 RESOLUTIONS FOR A FINANCIALLY BRIGHTER 2017

A new year inevitably means a clean state for most of us – be it weight loss goals, an end to procrastination or overhauling finances. So here are 10 resolutions for a financially brighter 2017!

01

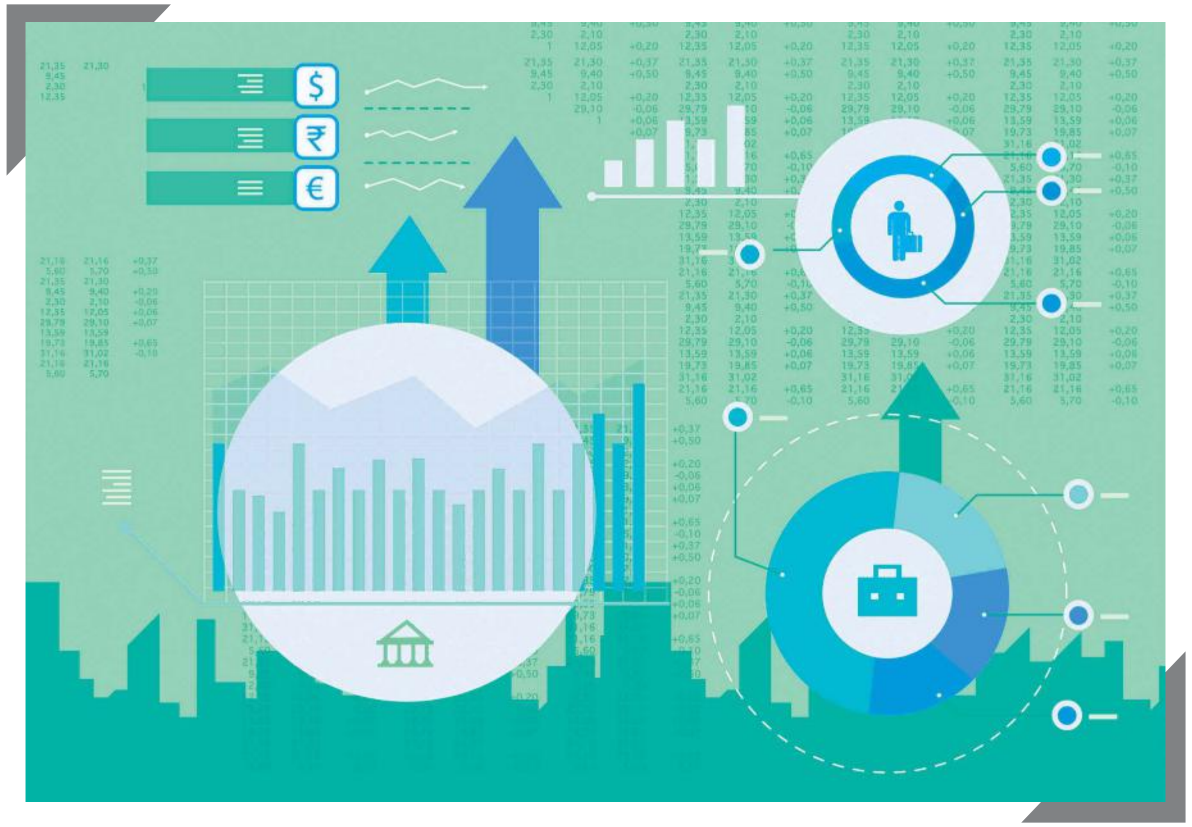
First things first

Assessing your current situation is the first step towards a financially secure future. Review the previous year's spending and identify the pain points – what didn't work for you vs. what did. An MS-Excel worksheet can come in handy to review your assets and liabilities and help you come up with a plan detailing the areas you need to focus on to make your finances work for you.

02

Budget it out

Once you have assessed last year's spending, focus on a budget for 2017. A good place to start would be tracking your daily expenses for a month to determine where you are actually spending your money. Make necessary adjustments, take a fresh look at things and prepare a budget for 2017 based on your monthly expenses. Make provisions for big spends and don't let overspending become a habit. A budget helps you make saving and spending decisions efficiently and asset allocation is smoother once you know where your money goes.



03

Don't make it taxing

The importance of doing your taxes on time can't be stressed enough. This helps you to avoid chaos near the deadline so keep your papers in order find yourself in a better financial situation in 2017.

04

Free the clutter up

Do a review of all the checking, credit and other accounts that are lying dormant. Close accounts that you no longer use and avoid paying unnecessary fees for the same.

05

Review the portfolio

A new year makes for the perfect time to review and rebalance your portfolio. If you missed out on this step last year, start 2017 with assessing your asset allocation and changing what is required to keep your investments aligned with your long-term financial goals. You can leverage the several online tools or even bring in a financial advisor if you are not sure you'd be able to do the task on your own.

06

When in debt, repay

While not all debt is bad, some of it can be done away with. Most of us have various kinds of debt on our books – education loans, car loans, home loans, credit-card balances, all of whose monthly payments steal a big chunk of our income. Systematically repay high-interest debt before anything else and renegotiate existing debt for lower interest debt. Consider paying more than the minimum amount on a monthly basis.

07

Planning for the future

Building a retirement fund is supremely important in saving for the future. Whatever be your age or mode of saving, use the new year as motivation to reassess your retirement goals and check if you are following through. If you have just started saving and are in your 20s, earmark 10-15% percent of your annual salary. In your 30s, look at 15-25% and in your 40s, 25-35%.

08

Insuring against mishaps

Review your insurances and include essentials such as life, car, health, homeowner etc. Ensure you have adequate insurance coverage in these departments. You might then want to look at other forms of insurance for security purposes such as term and disability insurance. Discontinue the insurance policies that don't serve your interests anymore.

09

Charity begins with you

Make it a habit to donate money for charity. Giving helps you realize the value of money. Give some money to charity to help others and also yourself.

10

Investment is the key

The most important tenet here is to invest more this new year. Instead of putting expenditures first, make provisions for savings before anything else, and always keep in mind: Spending = Earning – Saving. More importantly, identify your long-term financial goals, where you see yourself and how much money is a comfortable cushion against mishaps. Then invest your savings regularly and intelligently and let your money work for you

The perfect recipe

A good recipe is created when the unique flavours of different ingredients are combined in the right proportion to create a mouth watering dish. Likewise, a good investment portfolio is created when investment is diversified into various asset classes, each contributing to the portfolio in a unique way. The result is an investment portfolio that is aligned with the investor's goals.

Why do you need to create a portfolio? - Minimise risk? Maximise reward? We're sure you've heard of the phrase "don't put all your eggs in one basket". Well, it holds true when it comes to your investments too. Investing all your money into one asset exposes you to a lot more risk than if you diversify your investment into various asset classes with different risks and rewards. This helps in two most basic ways.

First, if one asset class under performs or fails, the rest of your investment will remain unaffected and secure. That is why when creating a portfolio, it important to have unrelated assets whose performances do not affect one another.

Second, you can take higher risk to earn greater reward with one asset class while being assured of safety of capital in another asset class. This is a classic debt-equity dialogue. Debt provides safety of capital with low assured returns while equity provides higher returns but with greater risks. By creating a portfolio that has both debt and equity you can have the best of both worlds. The equity portion of your portfolio can provide you high returns while the debt portion can provide assured minimum returns and safety of capital. This way you can decide how much risk you want to take.

In light of the above benefits of diversification, mutual funds have become one of the essential ingredients for constructing a balanced investment portfolio, one with promising returns with acceptable level of risk. Considering one's investment objectives, risk appetite, investment horizon etc., Investors can choose from a range of mutual fund schemes and align their investment with their financial goals. Following are some popular categories of mutual funds to choose from, based on maturity period of the investment:

OPEN-ENDED

Under this scheme, investors can buy or sell fund units at any given point in time, without having to wait for a fixed maturity date to liquidate their investment.

Debt/Income – These funds invest a major part of their capital into corporate bonds, government securities, debentures and other debt instruments. These are relatively low-risk investments as compared to equity funds and are ideal for investors looking for a steady stream of income in the medium-to-long term.

Money Market/Liquid: These funds invest in short-term money market instruments and thus provide high liquidity. This is the best category for investors looking to park their surplus funds in highly liquid short-term instruments, which provide reasonable returns. It is ideal for institutional and corporate investors that invest their funds for very short periods, sometimes as short as a day.

Equity/Growth: The most popular category amongst retail investors, equity funds are high-risk investments in the short-term but offer the possibility of capital appreciation over the medium to long term. Their returns are linked to the stock market and are ideal for investors looking at a long-term investment horizon. These include:

- **Index Scheme** where the portfolio replicates the movements of a benchmarked index.
- **Sectoral Scheme** which invest in specific sectors or capital market segments such as small, mid and large caps.
- **Tax Saving schemes** which offer tax savings to the investors in addition to investment.

Balanced: This scheme provides investors with income at regular intervals, by investing in both equity and debt. This category is ideal for cautiously aggressive investors that are looking for both growth in portfolio and a steady income over the medium-to-long-term.

CLOSE-ENDED

These schemes have a pre-determined maturity period, effectively locking investor capital in for a fixed duration. Moreover, investors can only make investments during the initial launch period called the New Fund Offer (NFO) period.

Capital Protection: This scheme aims to safeguard the principal amount while earning reasonable returns by investing in high-quality fixed income instruments with only a marginal exposure to equities.

Fixed Maturity Plans: These are mutual fund schemes with a defined maturity period, comprising of debt instruments maturing in line with the scheme. Earnings are in the form of interest on the portfolio securities. These funds are generally managed passively with no active debt trading of the securities in the portfolio.

INTERVAL

These funds are a combination of open and close-ended schemes that allow investors to trade fund units at fixed intervals.

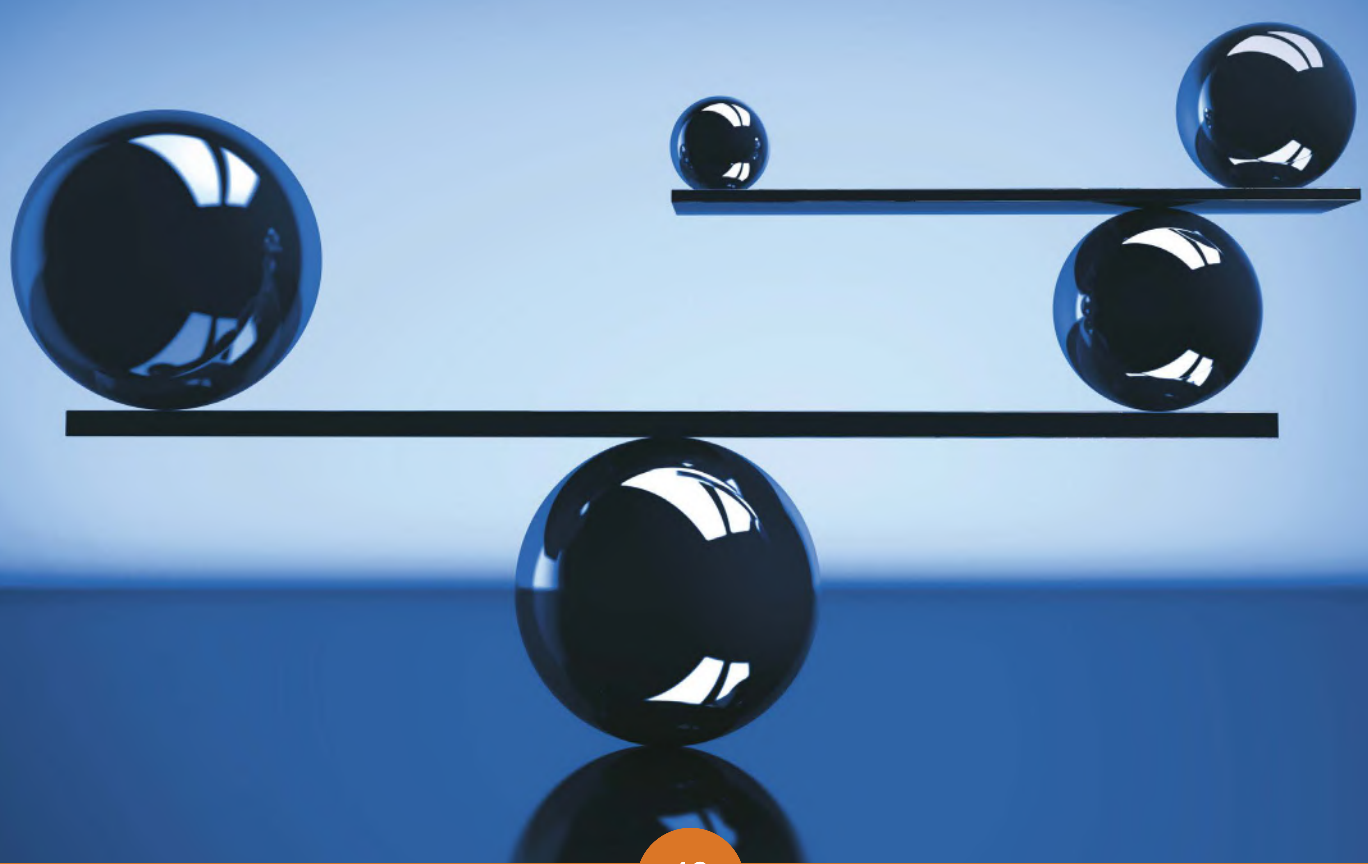
EXCHANGE TRADED FUNDS (ETFS):

These funds track an index or a basket of commodities/assets very closely but trade like shares of a company on the stock exchange. Backed by the physical commodity, they largely invest in currencies, stocks and precious metals. Unlike other categories of mutual funds, ETFs give investors the flexibility to trade on the stock market throughout the day, without assuming the inherent risk of holding actual stocks.

Thus, when looking to build an investment portfolio, keep your goals, income, risk appetite and time horizon in perspective to pick the right ingredients. A good mix helps in minimizing risk by way of diversification and optimizing return

The balancing act

Rebalancing is the process of selling and buying securities in one's portfolio to set each asset class back to its original proportion. Mutual funds see their Net Asset Value (NAV) change daily due to which the debt-to-equity ratio of portfolios can change considerably over a year or even over a quarter. Additionally, an investor's risk appetite may change over time. Accordingly, he can rebalance his portfolio to accommodate a new asset allocation strategy by readjusting the proportion of different kinds of securities.

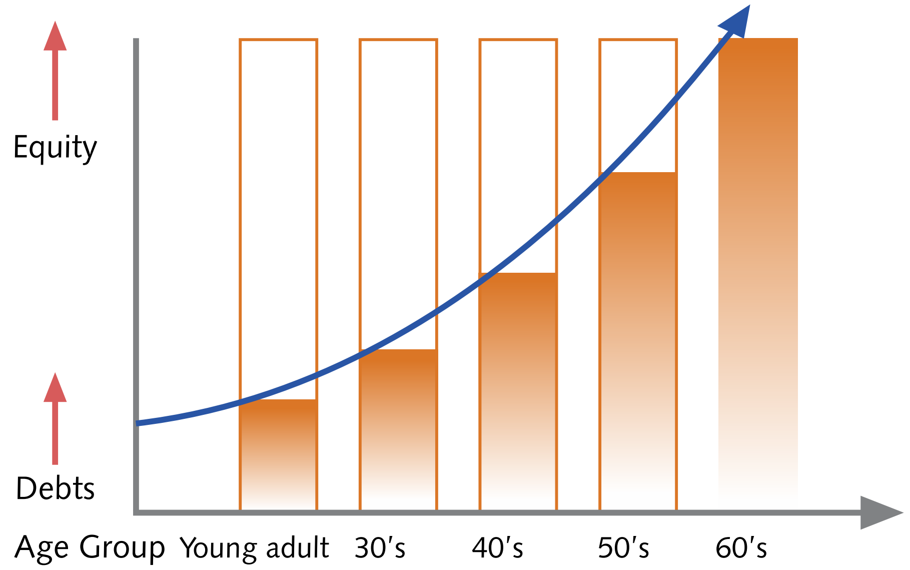


Portfolio rebalancing is central to following a disciplined investment strategy. It means deciding on a debt to equity ratio for your portfolio that is in line with your long-term financial goals and sticking to that ratio. Thus, a periodic review of one's portfolio is necessary to maintain the pre-determined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

THUMB RULE

"The ideal percentage of equity in your portfolio should be the number arrived at by subtracting your age from 100".

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.



Once you have an asset allocation strategy in place, the next important step is rebalancing your portfolio periodically. 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 aligned with one's risk and return strategy.

For instance, let's assume Sanya has Rs. 100,000 to invest in securities. She decides to invest 50% in bonds, 10% in a money-market fund and 40% in an equity fund. At the end of the year, Sanya 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 money-market fund. Let us assume, Sanya'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 she could leave the portfolio as is, this could be risky in the long run due to the stock market being the most volatile relatively.

Hence, the asset mix originally devised by the investor can change due to differing returns among asset classes, resuting in a change in the risk associated with the portfolio.

ADVANTAGES OF REBALANCING

Risk-reward balance

The primary objective of asset allocation is maintaining a balance between risk and reward. Naturally, the performance of different asset classes vary, potentially causing one's risk profile to become skewed towards an asset class.

Disciplined investing

Portfolio rebalancing imposes a certain discipline into one's investment practice and helps reduce one's reliance on instincts. To counter the inherently volatile nature of financial markets, investors should have a clear asset allocation strategy with lower and upper limits for each security type. A breach of these limits should then call for a review and rebalancing of the portfolio.

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.

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

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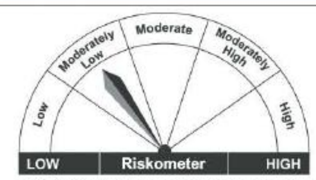


Investors understand that their principal will be at Moderately Low risk

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

READING between the lines

While most people look at the demonetisation only from the prism of unearthing Black Money, one should take a nuanced view and see the benefits from a medium to long-term perspective and how this single step can lead to the transformation of India.

INCREASE IN GDP – ABSOLUTE AS WELL AS RATE OF GROWTH

It is common knowledge that India has a huge cash economy including the informal economy that operates outside the banking channels. Different estimates have suggested this cash economy to be anywhere between 50-100% of formal GDP. Post the demonetisation, large number of businesses which earlier operated on cash and which either did not report their real earnings or operated below the radar will eventually move to the formal way of doing business and disclosing their real incomes. Thus, the difference between the cash economy and real economy will narrow in the next 2-5 years, resulting in a significantly higher GDP, both in terms of its absolute size and its rate of growth.

RISE IN TAX COLLECTIONS TO DRAMATICALLY BOOST GOVERNMENT REVENUE

Large number of people have come out and deposited their cash hoards. Many of them operated below the tax radar, either by not filing income tax returns or disclosing lower incomes. Presently, the number of people filing income tax returns is just about 15% of the number of people holding a PAN Card. A large number of these people, all these years who earned in cash and incurred expenses (including business expenses) in cash, will be forced to disclose their real incomes and start filing income tax returns going forward. Consequently, the Tax to GDP will significantly jump from current ~16% of GDP.

REDUCTION OF FISCAL DEFICIT

Improvement of Tax to GDP ratio along with a sharp jump in GDP would result in a sharp reduction in fiscal deficit. Numerator (deficit) would reduce due to higher tax collections and denominator would increase due to increase in GDP. A considerably lower fiscal deficit would mean lower inflation and lower interest rates for an extended period of time.

GREATER TRANSPARENCY IN BUSINESSES

Many people have had to step out of their comfort zone and are learning new ways of doing business through banking channels. They are discovering the ease of doing business through cheques, bank transfers, digital wallets, debit/credit cards, etc. Further, the implementation of Goods and Services Tax (GST) would also bring large number of small/mid-sized businesses under the tax net. All this together would bring about a huge degree of transparency in businesses operating at every level. Economically speaking, greater transparency in business leads to better price discovery and lowers intermediation costs, thus, benefiting the whole economy with lower prices and inflation.

EXPLOSIVE GROWTH IN BANKING AND FINANCIAL SERVICES SECTOR

In a country with 60% unbanked population, creating an environment that supports the shift from a cash based economy to one that uses banking channels, will require opening tens of thousands of bank branches and millions of bank accounts. This will ensure huge growth opportunities in the Banking and Financial Services space in every sphere from deposit mobilization to loans of every kind as well as a wide variety of financial services/products. Millions of jobs will also be created as a result to cater to this boom especially in places far away from the big cities.

IMPROVEMENT IN INDIA'S CREDIT RATING, MORE FDI

Over the next 12-24 months, as the above factors play out in form of optically high growth rates, buoyancy in tax revenues, lower deficits, lower inflation, lower interest rates and a robust banking and financial sector, the credit rating of India is bound to be revised upwards. This will complete a virtuous cycle of lower interest rates reinforced by better credit ratings. This will also attract large doses of foreign investment into India as liquidity in the global financial system chases higher growth rates/opportunities.

CONSUMER SPENDING WILL TAKE A HIT IN THE SHORT-TERM

Consumer spending will remain low for the next few months due to limited availability of cash in the hands of the people. As the people adjust to new ways of doing business (eg. PAN card disclosures for high value transactions, lower usage of cash in day to day lives), sectors such as jewelry, real estate, hotels/hospitality, weddings (along with the ancillary goods and services that accompany expensive weddings) would take a hit. This could hurt employment in the informal sectors including construction ■

Vivek Mavani

Vivek Mavani is a SEBI Registered Investment Advisor based in Mumbai.

What next?

market outlook post demonetisation

De-monetisation undertaken by the Indian government is a radical break from the past. By any measure of assessment, it has imposed a high cost on holding cash and has incentivised banking transactions

Around 14 lakh crore that is held in old Rs 500/- and Rs 1000/- notes, it is estimated that already around 10 lakh crore has flowed into banking system as people scramble to exchange their notes, and/or deposit their money in the banks. To suck out surfeit liquidity from the banking system, RBI stepped in by increasing CRR to 100% for incremental inflows between 16th Sept to 11th Nov 2016.

It is possible that in the near term, the cash crunch may cause reduction in general consumption. In the similar period, the inflow of funds into the banking system did put downward pressure on the interest rates, but the CRR measure has acted to temper the slide and yields have inched up.

However, banks are slashing their deposit rates, yet the surge of inflows won't abate. These funds invariable will find allocation in bond market(once the CRR measure abates) in absence of the credit offtake. Thus, the interest rates in the economy will go down further.

On the other hand, the decline in cash based consumption, will lead to moderation, and even reduction in prices. This will provide further room for rate reduction for RBI in the times to come. More importantly, it is estimated that a sizeable portion of cash may choose not to reveal itself to the banking system. This portion of cash will get extinguished. Such extinguished notes will act as reduction in liability in RBI's balance sheet. This will make a sizeable proportion of funds available for RBI to either pay-out to the government, or to pay-out towards the existing liabilities. In both circumstances, the borrowing pressure in the system may come down. This too will add to the pressure to reduce interest rates in the economy.

From the debt management perspective, the demonetisation has created a strong bullish overhang within the system that will begin to manifest itself in the medium term. Thus, investors can look at maintaining their allocation in the duration funds and also allocate at price dips (spike in yields), if the opportunity presents itself.

We believe that the interest rates in the system may come down sooner and with a surprise, making a circumspect investor lose out on the bulk of the opportunity. Thus, debt investors seeking to make some capital gains while protecting most of their capital, can look at investing in well managed duration funds with a 12-18 month investment horizon.

For such investors who do not want to take exposure to interest rate related volatility, they can look at investing in STP funds with a six month plus time horizon.

The additional perspective is that the decline in cash based consumption is expected to hit demand in sectors(in the short to medium term) where cash transaction in value and volume are high. As a consequence, sectors such as real estate, construction materials, consumer discretionaries, gems and jewellery etc may face decline in revenue and income. This may also have spill over effect on other dependent sectors. As a consequence, we believe that we may see moderation in these sectors and in the GDP in this, and in the next quarter.

However, as the decline in currency circulation leads to reduction in prices, and as the interest rates decline, we may witness a triad of affordable capital, affordable raw materials (land and machinery) and already cheap labour. This creates a strong ground for genuine entrepreneurship-led growth in the medium to long-term. Thus, in we may see a 'V' shaped recovery as the formal economy begins to grow on the surplus and cheap availability of factors of production while government provides demand fillip.

In the interim period, we may see volatility in the equity market due to disinflationary effect of demonetisation, the possible rate hike by US Fed, and due to the looming Italian debt crisis.

For an equity investor, they are advised to invest gradually in the equity market through SIP. This will help them average the cost of investment and also tide over the short-term volatility in this period while also position themselves for long-term growth. They may also invest a portion of their capital opportunistically on the market dips.

Investors unwilling to take a high exposure in equities may invest in balance fund which limits the equity exposure to the extent of around 65-70% of the portfolio. Thus the debt component in the balance fund acts as an anchor while the equity component gives growth upside. Of course the equity risk remains, but it is far reduced (and so is equity's growth potential).

In the closing, we are transitioning through a very critical phase in modern India's economic history. The demonetisation, and the ability of the population to transition to a relatively cashless payment systems (as a fallout of demonetisation) will determine the pace, the direction, and the extent of growth the Indian economy will take ■

Ms. Lakshmi Iyer
CIO Debt and Head Product
Kotak Mutual fund

Fund update

Axis Focused 25 Fund

THREE KEY IMPACTS OF CURRENCY DEMONETISATION

Improving banking liquidity

Flush of liquidity expected in the system, which would bring down the need for RBI to do OMOs as we get into the year-end

Positive shock to fiscal position

As tax revenues pick up through illegitimate money getting surrendered (which will now be taxed.)

Potential positive disinflationary impact

This will depend on how this transition takes place. If smooth, then the impact would be relatively less. Potential for rate cut increases as well as overall bond yields expected to come down

IMPACT ON THE MARKETS

Significant long-term positive as formal economy prospers and government's tax income improves significantly.

However, the economic momentum will slow down at least for the current quarter.

From our portfolio perspective we are well positioned due to the quality bias and the stocks that we own.

Good monsoons should help boost rural incomes and consequently consumption.

Over the medium-term earnings should start reflecting the improvement in the growth environment and has the potential to run ahead of nominal economic growth as the cycle strengthens.

PORTFOLIO POSITIONING AND STRATEGY

Axis Focus 25 fund targets a growth biased strategy by investing in a compact portfolio of high conviction ideas while maintaining prudent diversification and portfolio risk. The manager looks at three broad buckets while constructing the portfolio.

The core portfolio (around 50-60%) is allocated to steady compounders – companies that have the ability to generate steady growth year on year over the medium term (3-5 years). These companies are expected to generate reasonable returns while having low volatility.

Around 20-25% allocation is made into companies that have a cyclical tailwind with an 18-24 month horizon. These companies provide the prospect of generating alpha for the portfolio.

The third bucket (around 20-25%) consists of companies that are participating in emerging themes or offer innovative ideas that will allow them to generate break-out growth going forward. These stocks can add significant wealth to the portfolio over the long-term.

The strategy has been designed such that the portfolio can deliver reasonable risk adjusted performance over market cycles.

PERFORMANCE SUMMARY AND PORTFOLIO UPDATE

Over the last one year the fund has returned 7.79% as against the benchmark returns of 4.42%. The top sectors that have helped in performance are Information Technology, Finance and Autos and Logistics. The key detractors in performance have been the (Oil and Gas) and (Capital Goods, Engineering and Construction). In Information Technology sector, the fund has benefited by its underweight allocation relative to the benchmark. Stock selection helped performance with key non-benchmark holdings such as Bajaj finance, Motherson Sumi and Shree Cements ■

Contributed by **Axis Mutual Fund**

EXPERT SPEAK

> "Value investing is buying low and selling high. Buying low often is easier said than done. It requires one to often go contrary to market direction and take a stance that others are not following."

VALUE-INVESTING IS THE ART AND SCIENCE OF LOOKING FOR BARGAINS

At the heart of value investing lies buying equities at distressed or discounted prices

Anyone of us would like a deal that is worth significantly less than its true price. When you go scouting for the next gadget, you invariably look at the discount section. The higher the discount, the better is the bargain. Value investing in the stock market is similar to shopping for discounts. The core of value investing is buying equity assets at discounted prices.

In stock markets, investors sometimes hurriedly sell stocks for varied reasons which could range from meeting obligations or because they are making other tactical shifts in their portfolios. During such times, stock prices fall drastically as there are more sellers than buyers. We often see this phenomenon taking place when there is a bad news or when the economy or industry starts to see some hurdles.

So what is the value investing mantra? Simply put, value investing is buying low and selling high. Buying low often is easier said than done. It requires one to often go contrary to market direction and take a stance that others are not following.

In the equity markets, value investing comes into play when there is a lot of bad news or when some big sellers are simply trying to head out of the door. For instance, in late 2015 and early 2016, we witnessed sell-off by foreign institutional investors that pulled down the share prices of large-cap stocks to bargain levels. Sure, profit growth in large-caps has slowed a bit, but not enough to warrant such selling. It's because of such stock market anomalies and sharp movements that value investing comes into play.

LOOKING AT RELATIVE VALUE

There are two occasions when there is value in the market. First, in the event a segment gets overpriced as compared to another segment, then the latter becomes relatively less expensive. For example, when mid-caps turn more expensive compared to large-caps, there is a higher relative value in large-caps. Second instance of absolute value is when we see heavy selling all across the market.

Such a situation occurred back in 2008 after the Lehman crisis which bought stocks to drop-dead inexpensive levels. In this scenario, almost the entire market experiences what you can call a 'value buying' moment.

Value investing is also about looking for stocks whose prices have dipped compared to their historical performance or their book values because the market is, well, bad. It involves selecting stocks that are not popular at the moment but that have the potential to turn around or recover and do well over time because the economy or the prospects of the industry or company improves over time.

However, very often investors can find it daunting to follow value investing. The fact that a stock or sector may fall or remain at lower levels till it recovers haunts investors from buying these stocks. It also requires significant understanding of the company to be able to distinguish those companies that can recover in the course of time.

PUTTING IN ADEQUATE RESEARCH

Value investing requires a strict understanding of low and high value periods, and what are the constituents of value. As the market is constantly on the move, the value pockets are constantly shifting from one sector or stock to another. In 2007, oil and gas and metals were expensive sectors. In the present day, there is relatively more value in them and they are less expensive.

One has to therefore keep an eye on the market to find the spots of value. Market gurus opine that value investing means being a contrarian – with a calculator. It requires identifying stocks that are beaten down, and analyzing the reasons for this setback. One also has to see whether the company can recover or see an expansion in its business in the future. So assessing whether the setback is temporary and where it's placed in the economic cycle becomes paramount.

Value investing also requires patience. An economic cycle or a change in the business dynamics of a company could take a while to recover, which could sometimes be as long as a few years. However, rich rewards can be earned if one gives enough time for the seeds to flower ■

Nimesh Shah
MD and CEO
ICICI Prudential Mutual Fund

FAQ

Expenses of a mutual fund

WHAT ARE THE EXPENSES OF A MUTUAL FUND?

An asset management Company incurs several direct and indirect expenses for managing its mutual funds such as:

- Costs of investment management and advisory fees,
- Sales or agent commissions and ongoing service fees,
- Legal and audit fees,
- Registrar and transfer agent fees,
- Fund administration expenses,
- Marketing and selling expenses,etc

WHAT IS ENTRY AND EXIT LOAD?

Entry Load is a charge levied at the time of purchase of mutual fund units. At present, mutual funds cannot charge entry load.

Exit Load is the differential amount between the price at which mutual fund buys back the units and the NAV. The mutual fund may charge 0.5% - 3% of the NAV as exit load depending on the holding period.

WHAT ARE TRANSACTION CHARGES?

Since August 2011, SEBI has allowed AMCs to charge a one-time transaction fee when the money is invested. For new investors AMCs charge Rs. 150/- and for existing investors Rs. 100/-. This is applicable for the investments of over Rs. 10,000/- only.

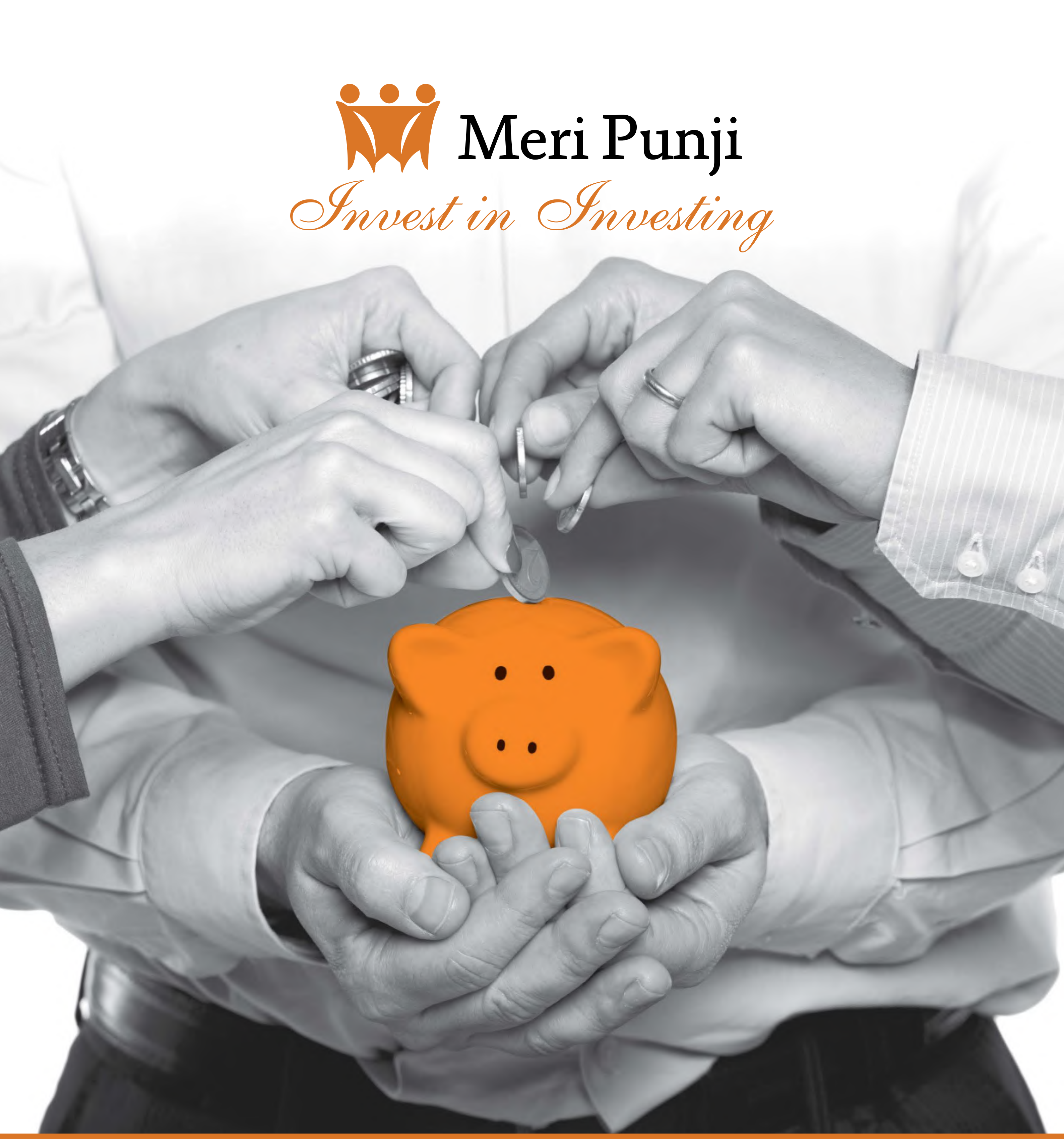
In case of Systematic Investment Plans (SIPs), a transaction charge of Rs. 100 will be levied where the commitment towards the SIP is more than Rs. 10000. This charge is payable in four equal installments starting from the second to the fifth installment.

WHAT IS TOTAL EXPENSE RATIO (TER)?

The total expense ratio is the per-unit cost incurred to run and operate a scheme. The NAV of a mutual fund scheme is calculated as – assets less liabilities including TER, and hence a lower TER results in higher returns and vice versa ■

SEBI regulates the expenses that a mutual fund can charge to a scheme. The current TER ceilings are as follows:

Average weekly net assets	Equity Schemes (%)	Debt Schemes (%)
First ₹100 Crore	2.50	2.25
First ₹ 300 Crore	2.25	2.00
First ₹ 300 Crore	2.00	1.75
On the balance assets	1.75	1.50



Every individual is unique and so are his or her investment needs. Investment planning must always be aligned with one's goals. Hence, our approach is to help you chalk out an investment strategy that is best fit for 'you'.

We see ourselves as educators rather than advisors. Our endeavor is to build awareness about the various kinds of investment products in the market. After all, an informed decision is always a better decision.

To connect with us, please use any of the following:

Info@meripunji.com
203, Siddharth Chambers, Hauz Khas, Kalu Sarai, (Adj. Azad Apts.), New Delhi - 110016

www.meripunji.com