



OCTOBER 2016

# I-CAN MONTHLY NEWSLETTER

# MONTHLY NEWSLETTER – OCTOBER

## 2016

### Market Update

<b>Sensex : Down 1.7%</b>	
<b>Nifty : Down 1.5%</b>	
Best performing sector: Oil & Gas (2.8%)	Worst performing sector: Power (-5.2%)
Best performing Global index: Russian RTS (4.3%)	Worst performing Global index: Shanghai Composite (-2.6%)
Indian Rupee: 0.6%	Gold price: 0.37%

The biggest headwind affecting the Indian equity markets towards the end of September was the growing tension between India and Pakistan. Almost 10 days after the Uri attack carried out by Pakistan, India carried out surgical strikes on terrorists in Pakistan Occupied Kashmir. This was a first of its kind attack and the Indian stock markets fell heavily on the development. The other factor which had a negative effect on the Indian markets earlier in the month was weak global sentiment. The U.S. markets were volatile ahead of the first US Presidential debate.

Foreign Institutional Investors (FIIs) pumped in Rs. 10,443 crore into the equity markets and Rs. 9,789 crore in the debt markets last month. There was a slight easing in retail inflation (CPI) which came in at 5.05% in August after increasing for 4 consecutive months. However, the upward trend continued in the wholesale prices (WPI) which reached a 2-year high of

3.74% in August. The economic activity indicators measured by Purchasing Managers Index (PMI) looked positive. Services PMI was at a 3.5 year high at 54.7 points against 51.9 in July. The Manufacturing PMI rose to 52.6 from July's 51.8. A reading above 50 indicates expansion.

Fund raising in the country has seen a huge pick up. Money raised from initial public offerings (IPOs) in the first half of FY17 touched a 9-year high at Rs 17,283 crore, according to data from Prime Data. Indian companies raised a whopping Rs 71,165 crore through private placement of corporate debt securities or bonds in August -- highest in 16 months. There has also been a series of Non Convertible Debenture (NCDs) issues in the market this year. There is also a trend of growing popularity of mutual funds and Portfolio Management Services (PMS) among retail and HNI investors.

#### Reforms:

- The government has notified the Monetary Policy Committee (MPC) which will meet at least 4 times in the year and take decisions regarding monetary policy and interest rates. The three outside members selected are Chetan Ghate, a professor at Indian Statistical Institute; Pami Dua, director at Delhi School of Economics (DSE); and

Ravindra Dholakia, professor at Indian Institute of Management, Ahmedabad.

- The Cabinet on 21 September approved the merger of the Railway and General Budgets from 2017-18, ending a 92-year-old colonial tradition. It also cleared abolishing the classification of Plan and non-Plan expenditure in the Budget and agreed in-principle to advancing its presentation in Parliament from the last working day in February.
- The Securities and Exchange Board of India (SEBI) has allowed commodity exchanges to introduce trading in options.
- In the World Economic Forum (WEF) Global Competitiveness index India jumped 16 places to rank to 39. It's been two straight years of improved ranking for India.
- The Centre plans closure of 17 sick public sector units (PSUs), of which four are already under liquidation.
- Due to concerns regarding the shrinking trade surplus in services, the government is working on a number of reforms to play to the country's core strengths of technology, leisure travel and medical tourism.
- The government is readying a massive crackdown on black money once the Income Declaration Scheme, which

gives offenders one last chance to come clean, ends on September 30.

- The Union Cabinet approved the formation of the GST Council. The council would be responsible for deciding on rates and preparing a model Bill for implementation of the new tax regime.
- Banks can now sell their stressed assets to other lenders, non-banking financial companies and financial institutions in addition to distressed-asset buyers, a move the RBI said will speed up the resolution of bank bad loans.
- After the first version of Jeevan Pramaan (digital life certificate) was launched in 2014 by PM Narendra Modi, the Centre is now looking to further simplify the process for senior citizens to get their pensions.

On the global front, the US Federal Reserve kept rates unchanged. It is expected to hike rates in December. The International Monetary Fund warned that central banks are struggling to beat back deflationary forces and that governments need to spend to help them succeed. WTO has cut 2016 world trade growth forecast to 1.7%. This marked the first time in 15 years that international commerce was expected to lag the growth of the world economy.

## Why should investments have a long time horizon?

Time plays a vital role in choosing an investment strategy. Fluctuating markets reflect promising returns and many of the individuals get attracted by the short term numbers showing higher gains. In short term, markets are generally volatile, whereas in long run, investments exhibit a stable behavior which enables the investors to design a strategy. The investment objective differs from person to person but the main objective of any investor is to earn profit, therefore every investor should opt for long term investments because such investments fetch more benefits compared to the short term investments.

There are various benefits of Long Term Investments

### **Mitigation of Volatility**

Markets in short term are volatile while in the long term the markets are predictable, based on the past performance. Although the past performance does not guarantee future returns or reflect the future performance but it exhibits a stable behavior of the investors in the long term.

### **Law of Averaging**

Short term investments are lump-sum investments based on market volatility and therefore have an equal upside and downside risk whereas the long term investments could be averaged off. If there is a wrong investment call taken by an individual, and in case of mutual funds if one has invested a lump sum amount at a higher level of the markets once

can average out the cost to lower level by investing systematically over a long period of time.

### **Tax Concessions**

Another benefit of long term investments is that one would pay less taxes. Our government encourages long term investments by not taxing any returns derived from the investments over the long term i.e. over and above a period of one year. The long term capital gains tax is tax free in case of equity and equity oriented mutual funds. Dividend received from equity oriented mutual funds are also tax free without any limit whereas dividend received from equity stocks are tax free upto Rs. 10 Lakhs in the hands of the shareholder. The government also encourages investors to invest in debt funds by providing tax benefits in long term debt funds i.e. investors who hold debt funds for a period over and above 3 years.

### **High Risk High Returns**

Different asset classes have different risks associated with it. Higher is the risk higher is the return. Assets with higher short term volatility, as in case of stocks, tend to have higher returns over the long term period than the less volatile assets such as money market instruments.

### **Retirement Planning, Accumulation of Wealth, Guaranteed returns & Steady Returns.**

All these benefits can be easily achieved by planning long term investments, whereas short

term investments do not involve these benefits and involve higher risk.

### **Conclusion**

The longer one stays invested, the lower is the risk of losing funds. Long term investments ensure consistency against speculative gains. One could also opt for a mix of long term and

short term investments. All the short term goals that are invested for a shorter horizon could be invested in conservative asset classes such as bank deposits liquid funds and short term debt funds etc. whereas for the long term goals where the time horizon for the investors is long the investor should opt for equity oriented investments even though it is risky.

### Did you know?

If Rio gold medals were calculated as a ratio of the country's population, the Bahamas would be in the first place.

### Cartoon of the Month



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