

MONTHLY NEWSLETTER – DECEMBER 2015

MARKET UPDATE

Sensex : Down 1.92%	
Nifty : Down 1.62%	
Best performing sector: Consumer Durables (5.00%)	Worst performing sector: Health Care (-9.79%)
Best performing global index: Germany DAX (4.90%)	Worst performing global index: Hong Kong Hang Seng (-2.84%)
Indian Rupee: -2.1%	Gold price: -5.05%

It was a rough month for the Indian stock markets. The headline indices fell. A major setback was BJP's defeat in Bihar elections. That has raised concerns on the government's ability to push reforms. For years, equity mutual funds (MFs) were the poor cousins of the stock markets as foreign institutional investors (FIIs) always poured more money into direct equities. FIIs have been net sellers in the month of November with a net outflow of Rs 7,073 crore from equity and outflow of Rs. 3,752 crore from debt markets. However, it is interesting to note that equity MF investors are overshadowing their overseas peers, having pumped nearly 3 times more funds into equity schemes in the current year than FIIs. Equity MFs have seen net inflows of Rs 80,580 crore so far in 2015 (till October) - the highest on record. On the other hand, gold ETFs witnessed a net outflow of Rs 489 crore in the first seven months (April-October) of the ongoing fiscal year.

The Nikkei Manufacturing Purchasing Managers' Index (PMI), compiled by Markit, fell to 50.7 in October from September's 51.2. This is the slowest growth in 22 months. The Reserve Bank of India's (RBI) governor, Raghuram Rajan, said the economy was being hampered by a drop in public and private investments but held out hope that strong foreign capital flows would help rectify this weakness. India's services sector activity touched an eight-month high in October driven by a significant rise in new business orders even as growth in manufacturing output eased, a Nikkei survey said. The Nikkei Business Activity index climbed to 53.2 in October, from 51.3 in September, as fresh orders expanded at a solid pace and were most pronounced since February. Analysts expect a recovery in consumption will help swing the economy out of its extended slump on implementation of the Seventh Pay Commission's recommendations. 50 lakh serving government employees and 52 lakh pensioners are likely to benefit. A positive indication is that for the sixth straight quarter in a row, India led the global consumer confidence index with a score of 131.

General wholesale prices fell in October for 12th month in a row by 3.81 per cent, official data released on Monday show. It was back in 1975-76 that there was Wholesale Price Index (WPI)-based deflation for a full year. It was in October 2014 that inflation was last seen, at

1.66 per cent. Exports contracted 17.53 per cent to \$21.35 billion in October, against \$25.89 billion in October 2014.

The latest edition of the Bank of America Merrill-Lynch Fund Managers' survey dated 17 November showed global investors have gone back to being "neutral" on the Indian markets compared to the overweight position that they had held since October 2014. This shows that some concerns have emerged in the short term. However, many investors are still optimistic about India from a long term perspective. The World Economic Forum has said India is positioned much more favourably than China in terms of growth in the coming years.

On the global front, weakness in China continues. China's services sector, which has been one of the few bright spots in the economy, also showed signs of cooling last month, expanding at its slowest pace in nearly seven years. Japan slipped into its fourth technical recession in five years as the GDP shrank an annual 0.8 percent in July-September after a 0.7 percent contraction in the prior quarter.

Important reforms announced last month:

- SEBI plans to offer sops for green bonds; might propose incentives for companies to issue them. Green bonds invest in environment-friendly projects
- SEBI is likely to introduce a sectoral cap and a single-company exposure limit for investments in corporate bonds by fixed income mutual fund (MF)
- The government is working on a new start-up policy that will focus on manufacturing, seek to promote innovation, and also offer tax incentives to small unlisted start-ups.

- Government contemplates tax incentives to boost housing: In order to spur investment in the housing sector, the government is considering to provide tax incentives for certain projects to ensure 'Housing for All' by 2022.
- Other reforms: A compensatory tolling/annuity scheme that could help 34 under-construction highway projects to be completed, four new railway projects with a combined cost of R8,351 crore in eastern India to unclog transportation of minerals, a redefined interest subsidy scheme to boost exports and production-linked subsidy for cane farmers.
- The Centre has imposed a Swachh Bharat cess of 0.5 per cent on all services that currently incur service tax. This levy, which will be effective from November 15, translates into a tax of 50 paise on every Rs. 100 worth of taxable services. The proceeds from this cess will be used for Swachh Bharat initiatives
- The government has eased FDI norms for 15 sectors, including defence, broadcasting, construction and retail.
- The government on 7 November hiked excise duty on petrol by Rs 1.60 per litre and the same on diesel by 40 paise a litre to mop up additional revenue to meet budgetary targets.
- Petrol price was hiked on 15 November by 36 paise a litre, while that of diesel by 87 paise per litre in line with firming global rates. This is the first hike in petrol price in five months and the third in diesel rates since October.

- The Cabinet also took a step closer to the mega disinvestment of the year — it approved a 10% stake sale in Coal India (CIL), a stake sale that could fetch about Rs 20,000 crore to the exchequer
- The Reserve Bank of India (RBI) has allowed foreign portfolio investors (FPIs) to buy bonds that are either partly or fully in default, a move that gives existing investors an exit option and boosts the fledgling distress bond market in the country.

- After cracking down on unaccounted money stashed abroad by Indians, the government is now working to curb domestic flow of black money, by plugging gaps in regulations.

The markets will be influenced by the Winter session of Parliament which will end on 23rd December. Also all eyes are set on the FOMC meeting on 15-16 December'15 - There is a strong case for raising interest rates when Federal Reserve policymakers meet next month.



Make Financial Resolutions To Start Your New Year

Did you make New Year's resolutions this year? More often than not, the list begins with healthy eating habits, waking up early and exercising, reading often, eating out less and other such resolves to improve our overall health and lifestyle. Considering that the most common topics are health and finances, there's a pretty good chance that at least one of them involves a financial goal. We offer some fresh New Year resolutions to help you get your finances in order and put funds to good use.

Here are some ways to make sure that you at least keep your financial ones:

- 1) Set SMART goals:** When we set a vague goal like "save more money" or a seemingly insurmountable one like "pay off all debt," we've already set ourselves down the path to failure. Instead, you want your goal to be SMART: specific, measurable, attainable, realistic, and time-sensitive. Instead of "save more money," a SMART goal might be to save an extra Rs 50,000 for emergencies by the end of the year. Focus on the goal actually helps to improve the outcome of the behavior.
- 2) Save (more) toward retirement:** Even setting aside (or increasing your plan contribution) a little bit can make a major difference down the road. To find a plan that's right for you, ask your employer or a financial adviser for guidance. Through your bank and/or employer, set up automatic contributions to your retirement plan.
- 3) Rebalance your Investment Portfolio:** The previous year was no different from any other year: some sectors over-performed and some sectors under-performed. Chances are that the sectors that did the best last year may not enjoy a repeat performance this year. By rebalancing your portfolio to its original or updated asset allocation, you take steps to lock in gains from the sectors with the best returns and purchase shares in the sectors that have lagged behind last year's leaders.

- 4) **Look for tax-advantaged ways to save:** Financial planning is generally taken up during the financial year end and clubbed with tax planning. You must look for look for tax-advantaged ways to save your money.

- 5) **Automate your saving:** This is the most important step because you can have the perfect goals, the perfect plan, the perfect account, and the perfect investments but they won't mean anything without actual savings. By automating your savings, you make sure that they take priority vs. saving whatever you have left at the end of the month. You can do this by payroll deduction or automatic transfer from your bank account.

- 6) **Review your insurance policies:** As you move through your career, your insurance policies need to continue to change. Give some thought as to how much protection you need and compare it to the coverage you currently have through your employer's benefit package.

- 7) **Pay Down Your Credit Cards:** If you owe money on your credit cards, determine how much you can realistically afford to pay off during the year. For best results, try not to charge additional purchases on those cards while you're trying to pay down what you owe. If you have high interest credit card balances, consider whether it would be more beneficial to pay off those high interest debts or to add to your savings.

Be cautious about setting too many or unrealistic financial goals. Otherwise, you may be unable to accomplish any of them. Take this opportunity to restate your financial resolutions simply and clearly for the New Year. It may be a good idea to maintain a checklist to keep track of how you are doing throughout the year, so that you can make any necessary modifications. Consider meeting with your financial advisor to review the goals and objectives that you have established. And if you can do these things, it shall be a very prosperous and happy 2016 indeed...!!!



Personal Accident Insurance Policy - Need of the Day



Accidents are the fact of life. Chances of mishaps happening to ourselves seem almost remote but they could happen at a time when you least expect it. The probability of you met with an accident in India or abroad is very high. In such situation it is utmost important to ensure that your family doesn't have to face additional burden of managing their day-to-day basic needs. A Good Personal Accident Insurance will give you peace of mind that will tide you through, if you meet with any big or small mishap, you may have to undertake significant financial expenditure to get the care that you require.

A personal accident policy is a critical component in the investment plan of person who has dependents to support; whether it is children or aged parents, provides compensation in case of death and also bodily injury, total/partial disability or dismemberment caused due to an accident. However to be covered under this policy, the injury must have occurred due to an external, violent means.

The personal accident insurance is a flexible policy that can be adjusted according to your needs and budget, Nowadays, wide range of accident insurance providers offer the option of customizing the policy depending on specific events.

Definition: This is a contractual agreement between an insurance provider and policy holder. The insurance provider agrees to pay the policy holder a monthly income should they be unable to continue working due to an accident. In return for this, the policy holder will pay the insurance provider a monthly premium.

Types of personal accident insurance:

- **Business travel accident insurance:** This type of insurance covers employees during business travel.
- **Household members' personal accident insurance:** This type of insurance covers all members of households; spouses, children & other members of household.
- **Personal accident insurance for members of hunting and fishing organization:** This insurance may include: insurance for members of sports organizations, professional sports competitors & participants in sports races and competition.
- **Personal accident insurance for pilots, cabin crew members & passengers:** Insurance is available for; professionals & sport pilots, military pilots, passengers.

- **Personal accident insurance for members of cultural associations:** Insurance is available for; professional members of cultural associations.
- **Personal accident insurance for children, pupils & students:** This insurance is available for; children, pupils and students.
- **Personal accident insurance for students staying abroad:** This insurance is available for individuals and groups who travel abroad for work experience through authorized legal entities.

What benefits should I expect?

- A simple personal accident policy pays a set cash sum on death.
- On other benefits, there may be a cash sum, a monthly income or a mixture of the two. Monthly income is limited to a set number of months.
- Most also include a cash sum for Total Permanent Disablement. This is where you are not going to get better.
- Then there are frequently specific items where you get payment for injuries which result in
 - Total loss of speech, hearing or sight
 - Total loss of or use of a hand or foot
 - Less frequent are specific higher benefits for catastrophes which result in quadriplegia or paraplegia.
- Some policies go into great detail about the different benefits for each type of accident such as fracture or dislocation.
- Also common is Temporary Total Disablement. This is where you are seriously hurt but will get better.
- Other benefits may include Hospital Cash for every night you are in hospital.
- It is quite common for benefits to be double, treble or quadrupled for serious problems such as travel accident, accidental death, disappearance or exposure.
- Cost of specialist transport to get you to hospital
- You can be protected from accidental expenditure by this personal accident insurance and it will pay some lump sum amount for injury or death because of accident. Benefits depends on insurance company, there are some general benefits such as:
 - Other features are like 24/7 help line, counseling, rehabilitation.

Conclusion: Personal accident policy premiums are much lower in comparison to the term life insurance or health insurance premiums. Further in view of the misery and financial hardship of the surviving insured after the accident, taking a personal accident cover is a necessity.

AMC VIEWS

Equity Market Outlook – HDFC MF



Performance of global equity markets was mixed during November after recovering in October.

FII's sold \$1.07 billion in equities in India during November. The Rupee depreciated 2.1% versus the Dollar. Domestic Mutual funds continue to see healthy inflows. Equity mutual funds net inflows in October 2015 were Rs 6,005 crs. Total inflows so far in FY16 have been nearly Rs. 58,000 crs.

Commodities continued the weak trend.

India is one of the biggest beneficiaries of lower commodity prices especially crude oil. Further, low inflation, improving CAD and fiscal outlook and rising order backlogs in some key infrastructure related industries point to a steadily improving growth prospects of the economy, especially of the capex cycle. The policy direction is right and economy is making good progress on most fronts. Economy and equity markets appear to be in transition from consumption to capex. Improving margin outlook of corporates, likely lower interest rates, soft commodity prices and reasonable valuations lead to a positive outlook for equity markets over the medium to long term.

In our opinion therefore, there is merit in increasing allocation to equities (for those with a medium to long term view) in a phased manner and to stay invested. Further, given the sharp outperformance of midcaps, Largecap / Multicap Funds should be preferred for fresh investment in our opinion.



DEBT OUTLOOK – Kotak Mutual Fund

Long Term:

- 10 year yields are at pre-rate cut levels in September; we believe most of the negatives are priced in
- While RBI is still in accommodative mode and likely to cut further when space emerges and will keep ample liquidity in the market, 100 bps spread between 10 yr and overnight rates is very attractive
- With muted credit growth and high positive carry of ~100 basis points, we expect demand for G Sec to remain good. We expect 10 year to trend lower around 7.40% band by March 2016 as bulk of supply is behind us
- With inflation expected to fall well below the targeted 5% by Jan 2017 and RBI's indicated real interest rate of 1.5-2%, we expect further rate cut of 50 basis points in next 18 months.
- We would recommend duration funds with a 18 month view.

Short-Term:

- Yields in the 6 mths-2 year yields are down by 10-15 basis points as compared to 50 basis points rate cut by RBI. As liquidity eases and uncertainty reduces we expect short term rates to reduce by at least 25 basis points.
- As rate cut expectation increase on the back of declining inflation, we expect yield curve to flatten.

Did you know?

The first Credit Card was created because of the embarrassment of a man who had to pay for dinner but forgot his wallet.

Cartoon of the Month



Top Personal Finance News – November 2015

- 1) Long-term investments allow power of compounding to work: Mint
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- 2) You don't need a demat account for your mutual funds: Mint
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- 3) Getting married? 5 steps to a financially secure knot: Economic Times
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- 4) 13 charges on a home loan that you may not know: Economic Times
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- 5) Time to move towards alternative lending options: Financial Express
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- 6) All you need to know about loan against mutual funds: Financial Express
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