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Knowledge Initiative

Dear Patrons,

Greetings!

We are pleased to share our monthly newsletter **"Knowledge Initiative"** for July 2016.

We thank you for reading and acknowledging our newsletter every month. Knowledge Initiative Team is committed to bring to you more educative and informative articles.

We would very much appreciate your feedback which consistently helps us in improving and upgrading the contents.

Also send us your questions or queries related to any financial product.

The issue includes:

- Global Events…One After Another
- Consider Debt Funds Over Bank FD
- Gurgaon – The Wind is Blowing Strong
- Investment Opportunities in Real Estate
- SIP Returns in Top Equity Mutual Funds

Akhil Chugh

Warm Regards,

Akhil Chugh
Director

Global Events…One After Another

From the great 2008 recession to Europe sovereign debt crisis of 2011 to the Chinese slowdown, one after another major risk-off events have been driving the capital markets the world over. It goes without saying that the ultra-low interest rates have gone a long way in making the current environment so fragile. The latest event to take place is Brexit and its implications on the European Union, United Kingdom and the world economy is still unknown.

UK and European Union will take a couple of years at least to work out the separation, and we don't know what that process is because nobody has ever done it before. So it's the uncertainty that causes growth to slow, and the prospect of U.K. recession is not out of the question.

We do not feel Brexit will make any meaningful impact on the Indian economy. UK accounts for only 3.4% and 1.4% of India's merchandise exports and imports. Brexit will only change the terms of trade between UK and EU and not with India. Moreover, foreign direct investment (FDI) flow from UK to India is insignificant and stands at only UD$1bn in FY15 and US$0.8bn in FY16.

India's domestic factors are relatively strong with stable inflation, current account deficit (CAD) at 1.5%, fiscal deficit at 3.5. Uncertainty in EU is likely to strengthen USD and lower commodity prices. This will help reduce inflation and lower rates in India.

The table below states some of the global events that took place in last two decades, what has been their impact on the Indian stock markets and the returns one year after the event. In most of the occasions, the correction in the Indian stock markets was a good opportunity to invest for the long term investor. This is because in India, bulk of the demand, bulk of the growth is coming from local consumption and local investments and global developments have only a marginal impact on it.

Sensex Return (%)	Event Date	1 Day later	1 Year later
Asian Crisis	19th Aug 1997	-3.6	11.2
Pokharan II	13th May 1998	-4.1	8.6
9/11 - World Trade Centre	12th Sep 2001	-3.7	42.0
PIIGS Debt Crisis	27th Feb 2012	-2.7	20.3
US QE Tapering commenced	20th June 2013	-2.7	45.9

Source: Bloomberg

The Indian economy is making good progress and is on the right direction. The economy is witnessing transition from consumption to capex. Government has done high allocation to infrastructure and the outcome is expected to be strongly felt with Railways, Power Transmission and Distribution, Mining, Roads and Urban Infrastructure likely to lead growth. As the fundamentals of the Indian economy are improving, the outlook for the equity markets is positive over the medium to long term.

Consider Debt Funds Over Bank FD

We know equity as an asset class has a high potential to deliver good inflation beating returns over a period of time, but it is very important to allocate some portion of your portfolio to fixed income to make it less volatile in challenging times.

In fixed income, you can either go for a bank fixed deposit or a debt mutual fund. As the interest rates are headed southwards, bank fixed deposits are slowly and gradually becoming unattractive. In fixed deposits, interest is added to the income. The benefit of 20% indexation on long term capital gains in debt funds makes it a superior choice over fixed deposits. The table gives a comparison between 3-year FD and 3-year Debt Fund with 6% rate of inflation throughout the investment period. It clearly shows the net return in debt funds is 3% extra because of better interest rate and indexation benefit.

Tenor	Amount Invested	Rate of Interest / YTM	Investment Date	Redemption On	Redemption Amount	Inflation Index (FY 16-17)	Inflation Index (FY 19-20)*	Rate of Interest / YTM	Post Indexation Value	Gain / Loss	Tax (30%), CGT (20%)	Post Tax Amount	Post Tax CAGR
3 Years FD	100000	7.50%	01-Jul-16	01-Jul-19	124229	NA	NA	NA	NA	24229	7268	116961	5.36%
3 Years Debt Funds	100000	9%	01-Jul-16	01-Jul-19	129502	1125	1340	100000 *(1340/1125)	119100	10402	2080	127422	8.41%

***Estimated**

Debt funds have two popular strategies: Accrual and Duration. Accrual strategy can be considered as an excellent alternative to bank fixed deposits. These funds are meant for people who are conservative and are looking for stable interest over a period of time. The portfolio comprises of short to medium term debt instruments – corporate bonds and money market instruments. These funds are less volatile in nature as they have a buy and hold mandate. The fund manager delivers returns close to yield to maturity (YTM) or interest rate mentioned at the time of investing.

On the other hand, the focus of duration funds is to generate returns from the capital appreciation that occurs when interest rates decline. They are more actively managed by the fund management team and are meant for aggressive investors who want to take a call on the interest rate cycle. The portfolio has maximum exposure in government securities which is highly volatile in nature.

The biggest advantage of choosing accrual funds is that it works well in most interest-rate environments— falling, stable, and sometimes even rising. The capital depreciation in a bond portfolio focused on the accrual strategy tends to be much lower in a rising interest rate environment as compared to duration funds, which tend to decline steeply in such circumstances.

To conclude, debt funds scores high over bank fixed deposits in terms of better interest rate and tax efficient returns. If you are conservative and don't like volatility, go for accrual funds.

For more information on debt funds, contact us on mail@netbrokers.co.in

Gurgaon – The Wind is Blowing Strong

Gurgaon is an important realty market of the county and is known for the rapid growth with the presence of many multinational companies in the area. Overall, NCR has witnessed country's highest unsold inventory figures at almost 1,70,000 units. Gurgaon's contribution to this burden is only around 22,000 unsold units, but this is still uncomfortably high.

Buyers were waiting for prices to come down, while investors who bought properties in the previous boom cycle of 2009-10 did not want to commit more money with no clear returns. With the liquidity crisis brought on by high unsold inventories, developers began offering freebies, discounts and all kinds of schemes to lure buyers. The impact has been a visible and significant decline in prices by approximately 25 per cent. However, this has proved insufficient to catalyze a new demand boom. In other words, while Gurgaon's realty market favored developers in the period 2010-12, it is now clearly a buyers' market.

Despite the not insignificant challenges ahead, the future of Gurgaon's real estate market is positive and hopeful. With GDP growth of around 7.5 per cent, a once again robust economy will generate income for more and more people and most likely boost demand. Gurgaon is the hub of the service industry in NCR, and surrounding areas are becoming increasingly important in the manufacturing sector. The government's 'Make In India' initiative will ensure more industries, and this will directly result in increased housing demand.

Secondly, the RBI's rate cuts will start having an impact on bank's lending rates resulting in lower home loan rates and greater demand. Also, the government's initiatives of easing FDI in real estate will improve liquidity, meaning that developers will have more leg room for offering good deals to buyers.

Another important influencing factor is the Smart Cities project, for which Gurgaon is a strong contender. Its inclusion in this scheme will be a boon for its real estate sector.

Is it all wishful thinking? On the contrary — there is strong logic involved. The country's economic slowdown has troughed out, and the only way is up. The government has woken up to the fact that the real estate sector needs real help, and is making very favorable policy decisions.

For a city like Gurgaon that needs only a small amount of stimulus to get up and running again, the winds of change are blowing strong. The changes will not happen overnight, but 2016 will bring visible progress on the ground. As a result, real estate pricing trends in Gurgaon will also begin picking up again.

For end-users, this is the right time to buy property. But, before you take the plunge, don't forget to bargain for your dream home. From investment point of view, commercial properties are more appropriate.

Investment Opportunities in Real Estate

Indian retail real estate has become attractive again for global investor as private equity (PE) investment in this segment has reached $149 million in the first six months of 2016 and likely to break previous record of 2008, according to property consultant JLL.

Net Brokers presents to you lucrative options in Real Estate for July 2016:

Project	Type	BSP/Sq.ft	Cost
Vatika Seven Lamps, Vatika INXT, Sector- 82, Gurgaon	Residential	6300	85 Lacs onwards
Vatika Gurgaon 21, Vatika INXT, Sector- 83, Gurgaon	Residential	6200	81 Lacs onwards
Godrej 101, Sector 79, Gurgaon	Residential	5255	75 Lacs onwards
Mahagun Moderne, Sector- 78, Noida - Full Furnished - Ready to Move	Residential	5500	70 Lacs onwards
Civitech Sampriti, Sector 77, Noida - Ready to Move	Residential	5500	62 Lacs onwards
Sunworld Arista, Studio Apartments, Sector- 168, Noida Expressway- Fully Furnished	Residential	-	50 Lacs
DLF Prime Towers, Okhla Phase- 1, New Delhi	Commercial	14,500	1.27 Cr onwards
DLF Galleria, Mayur Vihar, New Delhi - Retail Shops	Commercial	12,000	1.16 Cr onwards
Vatika One On One- Sector 18, NH-8, Gurgaon- Assured Returns @ 10.50% p.a & First Lease Gurantee @ 9% p.a.	Commercial	17333	86.65 Lacs Onwards
Vatika Mindscapes, Mathura Road- Assured Returns @ 10.50% p.a & First Lease Gurantee @ 9% p.a.	Commercial	8800	44 Lacs onwards
Cyberwalk, Manesar, Gurgaon - Assured Returns @ 15% p.a & Assured Buyback	Commercial	6000	30 Lacs onwards

For more information on Real Estate Projects, contact us on mail@netbrokers.co.in

SIP Returns in Top Equity Mutual Funds

*** Returns as on 14th July, 2016**

Current Value & Yield (XIRR) %							
Scheme Name Monthly Investment: Rs 10,000	Category	Value & Return (3 Yr)		Value & Return (5 Yr)		Value & Return (10 Yr)	
Total Investment		360000	%	600000	%	1200000	%
Birla SL Frontline Equity Fund (G)	Large Cap	463,717	17.1	945,636	18.2	2,668,015	15.3
Invesco Business Leaders Fund (G)	Large Cap	455,200	15.8	898,993	16.2	NA	NA
ICICI Prudential Value Discovery (G)	Multi Cap	519,153	25.3	1,120,109	25.2	3,657,404	21.1
Franklin India High Growth Companies Fund (G)	Multi Cap	509,257	23.9	1,107,511	24.8	NA	NA
UTI - Mid Cap Fund (G)	Mid Cap	544,623	28.8	1,201,718	28.2	3,496,985	20.3
Franklin India Prima Fund (G)	Mid Cap	542,026	28.5	1,186,875	27.7	3,416,013	19.8
Franklin India Smaller Companies Fund (G)	Small Cap	575,395	33.0	1,324,819	32.3	3,840,401	22.0
DSP BlackRock Micro Cap Fund (G)	Small Cap	638,574	41.0	1,393,718	34.5	NA	NA
HDFC Balanced Fund (G)	Hybrid Equity	475,091	18.9	953,427	18.6	2,881,004	16.7
Tata Balanced Fund Plan (G)	Hybrid Equity	471,400	18.3	960,048	18.9	2,776,389	16.0
Axis Long Term Equity (G)	ELSS	492,514	21.4	1,077,615	23.6	NA	NA
Invesco Tax Plan (G)	ELSS	482,797	20.0	992,744	20.2	NA	NA

***Returns over 1 Year are compounded annualized**

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