



## Knowledge Initiative

Dear Patrons,

Greetings from Net Brokers!

We are pleased to share our monthly newsletter “**Knowledge Initiative**” for November 2014.

We thank you for reading and acknowledging our newsletter every month. Knowledge Initiative Team is committed to bring you more educative and informative articles in the Financial Year 2014-15.

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:

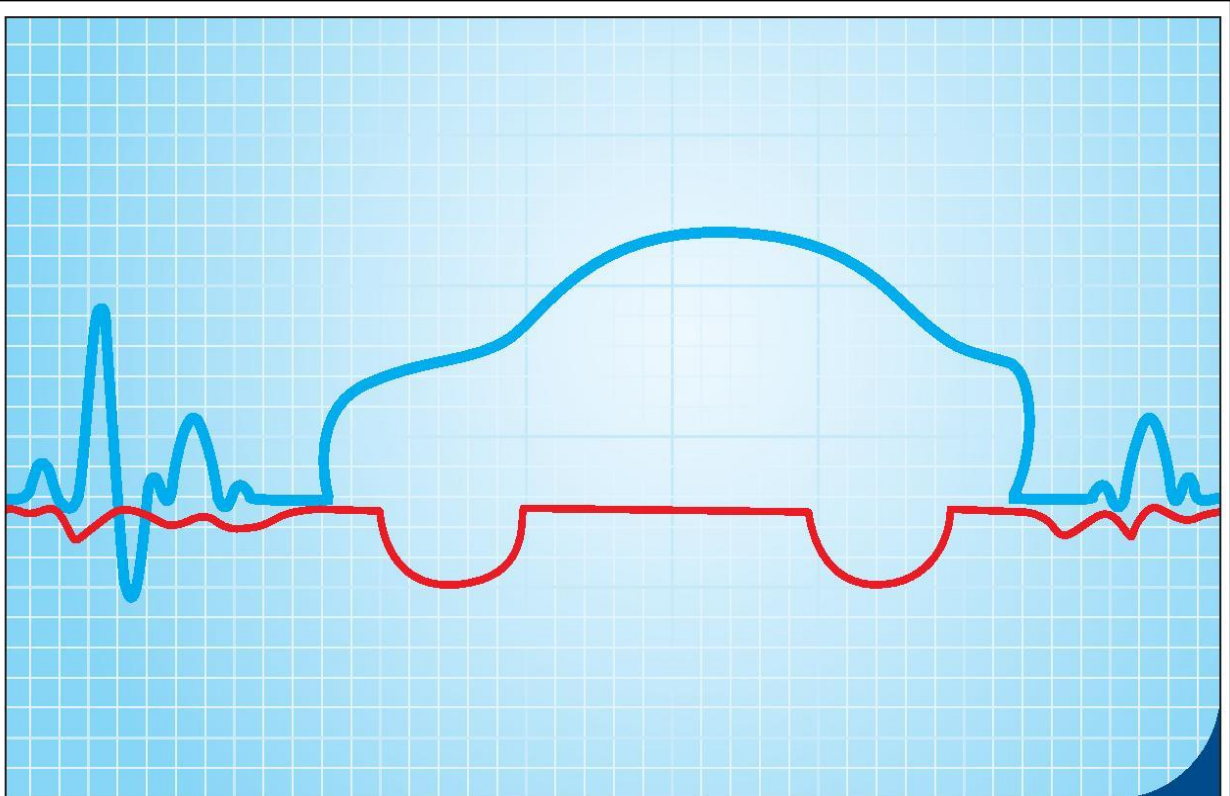
1. Top Reasons to Sell Your Fund
2. Ten Essential Steps for Young Couples
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6. Investment Opportunities in Real Estate



**Akhil Chugh**

Warm Regards,

**Akhil Chugh**  
Director



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## Top Reasons to Sell Your Fund

While selection of mutual fund schemes totally depends upon on an individual's choice, situations may arise when you have to offload some of these investments.

**Here are five of the most common situations a person may face:**

### 1. Change of Investment Goals

There is an objective to achieve a specific goal. But these goals are prone to change, as the objective changes from time to time. For example, Mr. X had invested in a balanced fund with an aim to have a family holiday within the next three years. His goal could be fulfilled with no efforts at his end. The company gives him a promotion and presents him with a family holiday; his yearly bonus gets used to spend on a family holiday. Now, that money accumulated with his three year investment can be channelized towards his retirement corpus, which means he could sell the fund and put the money in an equity fund.

### 2. Change in Time Horizon

Different kinds of investment are sought out with the time horizon considered. The nature of your retirement planning will call for an aggressive portfolio while you are young. And, as the person grows older, the exposure to equity reduces and an increase in hybrid or fixed income investments is seen. This can also change, if someone plans to retire five years early. The investments will have to be adjusted accordingly.

### 3. Mistakes May Happen

Sometimes, we invest in a fund which might not fit our risk appetite. The fund may be too volatile for you to handle. Don't wait – cut your losses and move on or sell the next time you see the fund rallies. This often happens with thematic or sectoral funds. Without understanding the nature of the fund and simply terming it as 'low risk' avenue of investment, we tend to make mistakes. Before, the mistake gets bigger and gives us sleepless nights, get rid of it.

### 4. Strategy Change

You may welcome change, but a fund could change its investment objective at any point of time. This may not be in line with your risk appetite and financial plan. Some funds do morph into different product overtime. A fund that was based on large caps may tilt towards having a complete mid-cap orientation. This may or may not suit your risk profile. A fund may legally change its scheme by merging into another. This can mean that the fund is taken over by another asset management

company, which believes in a totally different approach of investing. All these could call for you offloading that specific investment.

### **5. Under-performance**

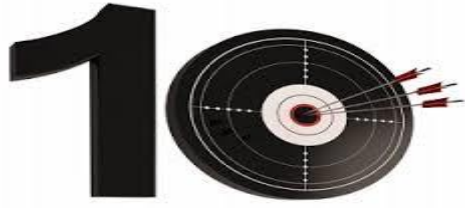
This is a serious issue because it could jeopardize your chances of meeting your financial goal. Although one year of underperformance may be nothing to worry about, it can get frustrating to watch your fund fall behind the competition for two or three years or more. Before cutting a fund loose, be sure that you're comparing your underperformer to an appropriate benchmark and relevant peers. Check to see whether the performance shortfall is a recent development or part of a sustained pattern of performance weakness.

For example, a below-average three-year ranking might actually result from just one off-year combined with two decent ones. It's a mistake to pull the plug on a fund based on short-term performance. In addition, you should conduct a thorough investigation of why the fund is lagging. Spend some time digging into whether the fund is merely undergoing a rough patch for its style or whether there's a more serious problem going on. All too often, investors bail out of struggling funds only to see performance rebound shortly thereafter. So check to see if the fund's manager is still in place, and that he is still employing the same strategy that brought your fund success in the past.

#### **Conclusion:**

***The above situations call for a regular review of your financial plan. At Net Brokers, we have a Portfolio Review System (PRS) in place, where our account managers conduct portfolio reviews on half yearly basis. Review does not always mean changes in portfolio, but to update the client on their investments, latest market developments and to ensure the portfolio is on track to meet the financial goals.***

***We always advice our clients to go for equity diversified funds. These funds tends to be less riskier than thematic or sectoral funds as the money is invested in 15-20 sectors, thereby reducing dependence on single or few sectors. The investment horizon should be minimum five years. Thematic or Sectoral funds are volatile in nature and carry high risk high returns. Exposure to such funds should be limited to 5 or 10% of the total portfolio.***



## Ten Essential Steps for Young Couples

A couple gets married at an average age of 26 – 28 years. It is a new life for them. Let's understand some steps of managing and creating wealth.

### **Joint Financial Decisions**

Both partners must sit together when it comes to money matters. The man must keep the wife informed about his investments in mutual funds, bonds, insurance policies and other avenues. Ensure you assign your wife as nominee or joint holder in all investments.

### **Splurging – A Big NO**

Let's not be impulsive in our buying, when we know the two incomes being clubbed is resulting in enough disposable money. Buy what you need and can afford within your budget. The car loan EMI should not exceed 10% of the total income. Make your savings before you spend your salary.

### **Retirement Planning – Just Do It**

Retirement planning is something that is ignored when you are young. Ideally, couple should save atleast 10% of their income as retirement savings. Extra cautious people can invest in PPF, but should not expect extraordinary returns. People who want to create wealth and have time on their side can start investing in equity funds through systematic investment plans (SIP).

### **Set Up an Emergency Fund**

The first mandate is to have an emergency fund. This has to be at least 2-3 months of your savings kept aside as an emergency fund. It is a good idea to have a joint account, so that both have access in case of emergency.

### **Buy Sufficient Life Cover**

Buy a life insurance cover big enough to replace your income as well as repay your outstanding loans. The cover should be 8-10 times your annual income plus debt obligations. A term insurance policy is the best form of life cover.

### **Appropriate Health Plan – A Must**

Medical insurance is a must. Get a family floater for at least 5 lacs, over and above the medical insurance provided by your employer. Buy a top-up plan to save costs.

### **The Right Investment Mix**

A young couple has the benefit of time and age is in their favor. Being too risk averse may not act in their direction of creating wealth overtime. Invest in equity funds because you are young. Age-based allocation is a good strategy. To arrive at the equity exposure in your portfolio, subtract your age from 100.

### **Say No to Debt**

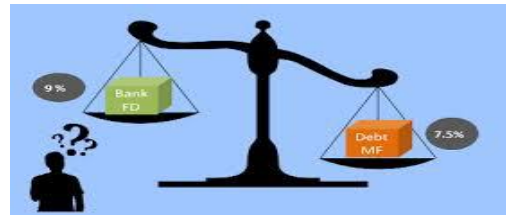
Credit cards or buying things on credit has become the biggest attraction for young couples in the recent times. Taking an exotic vacation or buying expensive gadgets on EMI's is the worst approach one can adopt. This leads them into a **Debt Trap** in a very short span. Even if you use a credit card, pay your total dues. Don't roll over or pay only the minimum amount due.

### **Buy Your Dream Home Only If EMI Is 40% of Income**

Buying a house lies at TOP priority for every individual who is young and started his professional career. Make sure you don't rush into. Do your due diligence on the property and understand the sentiments in the real estate market. If your EMI for the house is exceeding 40% of your net take home pay, it means you're exceeding your budget. Buy the house jointly, so that both can avail the tax benefits on home loan.

### **Child's Future is in Your Hands**

In an ideal scenario, a couple should start saving for their child one –two years in advance for pre and post delivery maternity expenses. There are still many employers in India which don't provide cover for maternity expenses to the female employees. Also, the couple must look at their children future planning – education and marriage. Investing at the time when the child is born is the perfect way of creating wealth for your child's bright future.



## Debt Fund Vs Fixed Deposit

The long term capital gains tax on debt funds, which recently been increased to 20% from 10%, made it unfavourable for the investors, who tilt their heads towards Fixed Deposits instead. Additionally, the term horizon has increased from 1 to 3 years, which means, the investor has to stay invested for a period of atleast 3 years to avail long-term benefits.

***Thus, this new regulation, active from 10<sup>th</sup> July 2014, threatens to make investing in debt funds at par with bank fixed deposits. So let's see whether this assumption on Debt Funds is true or not.***

**Fixed Deposit** rates have risen considerably over the last couple of years. Current rates hover around 9% depending on tenure. The spike in deposit is a natural outcome of the multiple interest rate hikes seen over the last couple of years. This trend is likely to reverse itself as and when central bank decides to cut interest rates to spur economic growth.

The benefit of investing in debt funds becomes clear by retaining 20% indexation on long term capital gains. From a layman's point of view, 3 years FD may seem better, but when indexation comes into play in case of Debt Funds, the game changes. Indexation reduces the overall tax liability of an individual, thereby resulting in better returns as compared to fixed deposits.

**Let's take an illustration showing Fixed Deposit and 3 year long Fixed Maturity Plan (FMP) with 7% rate of inflation throughout the investment period.**

|                                 | FIXED DEPOSIT | 3 YEAR FIXED MATURITY PLAN (FMP) |
|---------------------------------|---------------|----------------------------------|
| Investment Amount               | 100000        | 100000                           |
| Rate of Interest / YTM          | 9.25%         | 9.00%                            |
| Date of Investment              | 01-JUL -2014  | 01-JUL-2014                      |
| Date of redemption              | 30-JUN-2017   | 30-JUN-2017                      |
| Holding period                  | 36 Months     | 36 Months                        |
| Redemption Amount               | 130396        | 129503                           |
| Inflation Index FY 2014 – 2015* | NA            | 1024                             |
| Inflation Index FY 2017 – 2018* | NA            | 1255                             |
| Rate of Interest / YTM          | NA            | 100000 * 1255 /1024              |
| Post indexation Value           | NA            | 122559                           |
| Gain / Loss                     | 30396         | 6944                             |
| Tax (30%), CGT (20%)            | 9119          | 1389                             |
| Post – Tax Amount               | 121277        | 128114                           |

At a notional level, Fixed Deposits seem superior. But, FMPs are significantly better; the moment indexation comes into play. The only real roadblock, in the aftermath of this regulation is that you need to stay invested for 3 years instead of 1 year to avail indexation benefit. If you are an investor with a long term horizon, debt funds are still as relevant and as tax efficient as they were the day before the Union Budget announcement.

### **Way Forward**

The interest rates in India are near historical highs based on the past data. The recent fall in the global oil prices and strong domestic economic indicators have significantly improved India's Current Account Deficit (CAD) and Fiscal Deficit which has helped reduced the Consumer Price or Retail Inflation (CPI) to 5.52% in October. Going forward, the interest rates are likely to decline in next 6 – 8 months.

Yields on fixed income securities are expected to come down from current levels as and when RBI starts reducing rates. This is a good time to invest in Duration Funds like GILT and Long term Bond Funds with average maturity of 3-5 years or higher. Such funds have maximum exposure to government securities and are aggressive in nature. Longer the duration, higher would be mark to market returns. Investors with tax slab of 20% or more will benefit from indexation as well as higher capital gains. Given the interest rate scenario, duration funds are the funds where your money should be.

However if you are conservative and don't like volatility, go for accrual based income funds. These funds invest in corporate bonds and money market instruments like treasury bills, bank certificate of deposits and commercial papers. The average maturity of papers is 2-3 years. The fund manager deliver returns close to yield to maturity (YTM) or coupon rate mentioned at the time of investing.

As interest rates are expected to decline, fixed deposits should be completely avoided. Even with the current interest rate of 9%, fixed deposits deliver post tax returns of 6.21% and 7.2% for 30% and 20% tax bracket.



## Term Plan: A Must

A Term Plan is a type of life insurance that provides life cover to a person and ensures that his/her dependents are protected financially in case something unfortunate was to happen to that person. The plan offers adequate coverage at an affordable price. There is no maturity value or survival benefit in a term plan. Benefits can be offered through lump sum payment or regular income stream or a combination of both. How Term Insurance can help:

**Keeping us safe and secure:** A term insurance policy helps in securing the family's future in the absence of the bread earner. From taking care of the daily expenses, to other, more significant expenses like professional education for the children and their marriage, having a safety net helps!

**Maintaining living standards:** As your loved ones cope with your absence, they should not have the load of having to fend for themselves. A carefully selected term insurance policy would ensure that they continue to enjoy similar levels of comfort and maintain their living standards as they go on with life.

**Protecting against loans and liabilities:** Loans of any kind (especially the long term, financially intensive types) can put a fair amount of strain on the family in your absence. Having a term life policy in place that would cover the outstanding amount would help go a long way in taking the burden off their shoulders.

**Putting worries to rest:** Having a term life cover takes the guess-work out of the equation. You can enjoy total peace-of-mind, knowing well that the family would be taken care of even in the face of any eventuality.

**Offering Value-for-Money Coverage:** Term insurance plans are usually the most affordable form of life insurance as they come with lower premium rates for high value of life covers. For example, you could protect your loved ones to the tune of **Rs. 1 crore** for a premium of just **Rs. 7,400** per year. (For a healthy 30 year old non-smoker male with a policy term of 30 years).

**Buying Right:** Apart from price and convenience, there are certain critical factors that you should take into account like the financial standing of the prospect life insurer, the company's claim settlement process and settlement ratio, the service standards, customer base and reputation. Compare with available alternatives and choose the right type of coverage benefits that you would want for your family so that their various requirements are met, even when you are not around.

**How much is good enough?** The cover should be 8-10 times your annual income plus debt obligations. However, factors such as the number of dependents, key capital-intensive expenses planned in the future, outstanding loans & mortgages, etc. do have a bearing in deciding upon how much insurance one would need.

**For more information on Term Plans, contact us on [mail@netbrokers.co.in](mailto:mail@netbrokers.co.in)**



## Sohna Road: Growth Pole in New Gurgaon

Sohna Road has emerged as a prime residential location in the Gurgaon market. What makes this location an ideal destination for residential investment is its excellent connectivity with the emerging commercial hub, Golf Course Extension Road and National Highway 8. In the future, the area will be further connected to New Gurgaon through the Southern and Northern Peripheral Roads, which are also emerging residential and commercial destinations in Gurgaon.

This micro-market has an excellent mix of retail, commercial and residential properties. Developers, like Raheja, Unitech, Omaxe, CHD, Ansal, Parsvnath, Eldeco, Vipul, Gold Souk etc., have developed a number of residential, commercial and retail properties in this region. The area offers residential development in the form of group housing apartments, theme-based villas, duplexes and plotted developments. The road has plenty of operational malls, such as Omaxe, Ninex Mall, Galleria, and almost all of the civic amenities are in place, such as hospitals, hotels and schools.

Good ready-to-move-in options are available on this road in the price range of Rs 8,000-11,000 per sq ft. The area is still affordable compared to other locations, like MG Road and Golf Course Road. The under-construction projects are located in sectors along the Southern Peripheral Road, which is a 150-metre wide road connecting Golf Course Extension to NH-8 intersecting Sohna Road at Badshahpur.

Approximately 20,000 units are under construction in various sectors along this road. Apartments being developed in these micro-markets are typically 3-4 BHK of 1,500 to 3,000 sq ft. The under-construction properties are currently priced in the range of Rs 4,500-9,500, which is approximately 20-30 percent lower than the ready-to-move-in projects.

Sohna road is expected to pick up the pace as companies looking for affordable options in Gurgaon prefer this micro-market. A number of companies, like Cognizant, TNS Global, Software One, Huawei, Pfizer, Atos and Rockwell Automation, have leased large offices in this area, which will further boost the residential demand in this locality.

Until recently, the traffic congestion on Sohna Road was the major concern when considering investment in this area. However, with the road widening in place and construction of a 600 metre flyover at Subhash Chowk by Haryana Urban Development Authority, it is expected that smooth vehicular movement will be provided between Huda City Centre and Hero Honda Chowk on the Delhi-Gurgaon Expressway. Another flyover is likely to come up between the Southern Peripheral Road and Sohna Road intersection near Badshahpur, which will further provide a congestion-free ride on this road.

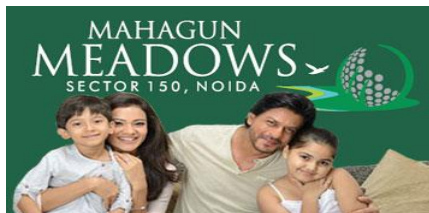
**For more information on Sohna Road Projects, contact us on [mail@netbrokers.co.in](mailto:mail@netbrokers.co.in)**

## Investment Opportunities in Real Estate

The budget 2014 has been quite favourable for the real estate sector. We believe that the new government will be able to formulate and revive the real estate sector growth in the coming years. We anticipate the real estate demand to increase by another 10 percent to 15 percent in the medium term and this will also give a boost to the other related industries.

Net Brokers presents to you lucrative options in the Real Estate for November 2014.

| Project   | Type        | BSP/sqft          | Cost               |
|---|-------------|-------------------|--------------------|
| <b>Mahagun Mantra - 2, Sector 10, Noida Extension</b>                                     | Residential | 2725              | 23 Lacs onwards    |
| <b>Sunworld Vedanta, Sector 22 D Yamuna Expressway - Assured Returns @ 12% p.a</b>        | Residential | 2990              | 27 Lacs onwards    |
| <b>Sunworld Arista, Sector 168, Noida Expressway - Assured Buyback, Returns @ 35% p.a</b> | Residential | -                 | 43.50 Lacs onwards |
| <b>Mahagun Medows, Sector 150, Noida Expressway</b>                                       | Residential | 4270              | 60.84 Lacs onwards |
| <b>ATS Pristine , Sector 150, Noida Expressway</b>  | Residential | 6200              | 1.08 Cr onwards    |
| <b>Countywalk - Plots , Dharuhera - Assured Buyback, Returns @ 15% p.a</b>                | Residential | 22000 per sq.yard | 50 Lacs onwards    |
| <b>Raheja Revanta, Sector 78, Gurgaon</b>   | Residential | 7675              | 1.20 Cr onwards    |
| <b>Cyberwalk, Manesar, Gurgaon - Assured Returns @ 12% p.a</b>                            | Commercial  | 6000              | 30 Lacs onwards    |
| <b>WTC Spire One, Noida - Assured Returns @ 12% p.a</b>                                   | Commercial  | 6800              | 30 Lacs onwards    |
| <b>Vatika One India Next, Sector 82 A Gurgaon , Assured Returns @ 10.5% p.a</b>           | Commercial  | 8667              | 43.33 Lacs onwards |



For more information on Real Estate Projects, contact us on [mail@netbrokers.co.in](mailto:mail@netbrokers.co.in)

## FIXED DEPOSITS

**Earn Assured Returns up to 11.95 % p.a.**

**Offered By Renowned Companies**

| S.No. | Company Name                                 | Period     |        |        | 3 Years Yield | Senior Citizen    |                 |
|-------|--|------------|--------|--------|---------------|-------------------|-----------------|
|       |  | 1 Year     | 2 Year | 3 Year | (In %)        | (additional Rate) | (Yield in %)    |
| 1     | DHFL<br>14 Months/ 40 Months                 | 9.75/ 9.85 |        |        | 9.87/11.06    | 0.40              | 10.28/<br>11.56 |
| 2     | Shriram Transport<br>Finance Unnati Deposits | 9.25       | 9.75   | 10.50  | 11.64         | 0.25              | 11.95           |
| 3     | Mahindra & Mahindra<br>Finance Ltd           | 9.25       | 9.75   | 10.00  | 11.03         | 0.25              | 11.34           |
| 4     | Bajaj Finance LTD                            | 9.25       | 9.40   | 9.65   | 10.61         | 0.25              | 11.52           |
| 5     | HDFC LTD                                     | 9.40       | 9.40   | 9.40   | 10.31         | 0.25              | 10.61           |

\* The rates of interest are applicable as on the data mentioned herein above. The rate may be revised at the sole discretion of the respective companies inviting the Fixed Deposits without Further Notice.



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