



**Akhil Chugh**

Director - Net Brokers

Dear Patrons,

Greetings!

We are pleased to share our monthly newsletter "Knowledge Initiative" for June 2019.

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.

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**Global situation and market sentiments post election:**

India is a fast growing economy and the equity investors look forward to being a part of the growth story. With BJP as the next government, Narendra Modi is all ready to set the stage of the market with positivity. Let's review the global situation and market sentiments.



2

**Myths about mid-cap and small-cap mutual funds:**

Mid cap and small have recently seen a rapid growth in AUM (Assets under management), but sadly are considered a highly risky product. Enlighten yourself with the reality now, by removing the general myths from our minds.



3

**Motor Insurance - Change your insurance provider / understanding increased insurance premium:**

If your car has been involved in a road accident and you wish to change your insurance provider? The increase in insurance cost has been seen over the past one year. Let's understand some typical situations of changing your insurance provider and the new rules of IR-DAI for increased insurance premium.



4

**Sip Returns:** Check the best performing funds in their respective categories.



## GLOBAL SITUATION AND MARKET SENTIMENTS POST ELECTION

India is a fast growing economy and the equity investors look forward to being a part of the growth story. With BJP as the next government, Narendra Modi is all ready to set the stage of the market with positivity. Investors both foreign and domestic want stable government, so that they have clarity on fiscal policy. The Modi Government in its previous term had initiated some important structural reforms in the economy like, GST implementation, Insolvency and Bankruptcy code, Real Estate Act, diesel price deregulation, opening more sectors to FDI etc. A stable NDA Government will ensure continuity of these reforms and also pave the way for other important structural reforms that will strengthen the Indian economy.

### STOCK VALUATIONS

The stock valuations have been in the middle, neither high nor low . The market shows a good scope of fundamental stocks picking up in the medium and long term with a stable, reformist government in power. With strong FII inflows seen, the new government is likely to continue the trend from hereon.

### US ECONOMY

It is seen that US will have a slowdown in current year 2019 viz-a-vie current year 2018. But a recession is not likely, which is good news. Though a measured slowdown in US and EU may be a good thing for emerging markets like India, it will attract more foreign inflows into the emerging markets.

### RUPPEE AND INTEREST RATE

Policy making with the new government should be to keep property and food inflation low. If inflation continues to remain low, then a low rate environment will be favourable for India in general.

### CRUDE OIL SCENARIO

Crude oil prices have come off from the peak levels seen in 2018 and even though it may continue to remain volatile, the current levels should not pose risks on the macroeconomic front. Inflation levels continue to remain benign and a stable crude oil price environment will further help on this front.

### EQUITIES

The current trend of low inflation, earnings growth improvement and reasonable valuation makes it a very good time for the long term investments in equities. Investors can also take the route of SIP (systematic investment plans) in mutual fund investments, which helps in wealth creation in the long term, thereby taking advantage of market fluctuations.

## MYTHS ABOUT MID-CAP AND SMALL-CAP FUNDS

Stocks are classified into large cap, mid cap and small cap, based on their market capitalisations. Investors understand the valuations of the company, based on their market capitalisation. Mid cap and small have recently seen a rapid growth in AUM (Assets under management), but sadly are considered a highly risky product. Let's understand the reality now, by removing the myths from our minds:

### A RISKY PROPOSITION

The clear cut difference between large cap and mid-cap/ small cap is understood by higher revenues or profits. But that doesn't imply stronger fundamentals.

High operating margins, free cash flows and high return on capital employed (ROCE) drives the EPS growth. There are many mid-cap companies that are often able to generate higher free cash flows and ROCE. Large cap companies are more capital intensive and hence have higher debt equity ratios, that eat away from the profits generated. On the contrary, mid-cap / small cap are less capital intensive, enjoying lower debt equity ratio and hence are able to generate higher profits.

### HIGH DIVIDEND YIELD STOCKS ARE BETTER

It would not be wise to buy madcap /small cap stocks by way of rumours to gain multi bagger returns. It can backfire the investor, as these stocks need to be bought at the right time and right price. This requires expertise of fund managers and professionals in the field. Hence, mid cap and small cap mutual funds is the best route for investing in these funds.

### MIDCAP / SMALLCAP WORK IN BULL MARKETS

Risk and volatility are always understood to be the same, by any investor. But, they're not. Volatility is the daily Net Asset Value (NAV) or price fluctuation of a fund. Risk is the probability of making a loss. Investors should understand that they will make a loss only if they redeem (sell) – if you are holding your investment, then all profits or losses are notional. Mid-cap funds are unreasonably taken as a risky and volatile product. But, one cannot generalise it. Some madcap companies have robust business models and strong balance sheets.

### INFERIOR PRODUCT

Mid-cap / small cap have huge potential in context of their growth. Instead of paying large dividends that benefits large shareholders most, why can't the companies reinvest the dividends into growth opportunities, where the investors can gain by way of capital appreciation in the long term. Dividend is not a very tax efficient way of getting returns.

### MULTI-BAGGER STOCKS IS THE APPROACH

Mid-cap and small cap outperform in bull markets and underperform in bear markets, is a myth continued for years now. One cannot time the movements in the markets. Hence, these products have be routed through skilled and professional mangers in a SIP approach. This benefits the investors to follow a disciplined approach and he gains from rupee cost averaging in the long run.

# MOTOR INSURANCE: CHANGE YOUR INSURANCE PROVIDER / UNDERSTANDING INCREASED INSURANCE PREMIUM

If your car has been involved in a road accident and you wish to change your insurance provider. Can one go ahead and do it? The answer is YES. An accident doesn't prevent you from changing your insurance provider. Let's understand the things one needs to consider or follow while doing so:

## PROCEDURE AND STEPS INVOLVED

- A. In order to cancel your current insurance, one must timely inform the current car insurance provider. The insurer will begin with the cancellation process and it may take 7 to 15 days.
- B. Some car insurance companies may require you to sign a document for policy cancellation. Whereas, some car insurance companies may require you to notify them on email. And some car insurance companies will ask you to give them a signed declaration to initiate policy cancellation. Once the request is approved, the insurer will confirm the process. You will also get to know about the due refund in the approval letter.
- C. The car insurer returns your car insurance certificate. It will be required while switching your insurer and to retain your No Claim Bonus.
- D. Check for any refund amount that the insurer has to pay you. If you have already paid the insurance premium for the policy term then you are likely to get a refund on the pro-rata basis.
- E. Simultaneously, apply for a new car insurance policy, while you are initiating a cancellation for your current policy. As a failure to do so may call for penalties, in case of accidental liabilities resulting in personal injuries or property damage, or you may need to pay an extra premium when buying a new policy.

Owning a car or bike has become costlier than before. This is thanks to the increase in insurance cost over the past year.

The Insurance Regulatory and Development Authority of India (IRDAI) has introduced two new sets of rules where the total outflow towards insurance has gone up.

## INCREASED INSURANCE PREMIUM

### RULE NUMBER 1

The first reason is because IRDAI has asked the insurers to offer only 3-year Motor Third Party insurance cover for cars and 5-year covers for two-wheelers. The premium has to be collected for the entire term (three years or five years as the case may be) at the time of getting insurance. This means instead of paying annual third-party premium, it has to be paid as a lump sum in the initial year and again only in the beginning of the fourth year.

The upfront payment rule will apply only for cars and two-wheelers if it is purchased after September 1, 2018. On older vehicles, the option to pay annual premium continues.

### RULE NUMBER 2

The second hit was the decision announced by IRDAI which increased the compulsory personal accident cover for owner driver under motor insurance policies from Rs 2 lakh to Rs 15 lakh. Earlier, personal accident cover (PAC) was capped at Rs 1 lakh for two-wheelers and Rs 2 lakh for private or commercial cars. The premium charged for two-wheelers and cars was Rs 50 and Rs 100 excluding the taxes, respectively.

Now, IRDAI has asked insurers to provide a minimum cover of Rs 15 lakh under PAC for owner-drivers for both two-wheelers and cars each at the premium rate of Rs 750 per annum for annual policy.

INVESTMENT		VALUE (3 Year)		VALUE (5 Year)		VALUE (10 Year)	
Monthly Investment @Rs 10,000		360000		600000		1200000	
SCHEME NAME	CATEGORY	RETURN	%	RETURN	%	RETURN	%
Mirae Asset Large Cap Fund (G)	Large Cap	433,502	12.5	839,716	13.4	2,788,811	16.1
Axis Bluechip Fund (G)	Large Cap	454,864	15.9	840,205	13.5	N/A	N/A
Kotak Equity Opportunities Fund (G)	Large & Midcap	411,048	8.8	789,062,	10.9	2,411,438	13.4
Mirae Asset Emerging Bluechip Fund (G)	Large & Midcap	430,399	12.0	893,922	16.0	N/A	N/A
HDFC Equity Fund (G)	Multi Cap	429,895	11.9	802,951	11.6	2,405,185	13.3
Kotak Standard Multicap Fund (G)	Multi Cap	428,115	11.6	831,155	13.0	N/A	N/A
Kotak Emerging Equity Fund (G)	Mid Cap	391,021	5.5	780,933	10.5	2,843,261	16.5
Axis Midcap Fund (G)	Mid Cap	427,789	11.6	797,818	11.4	N/A	N/A
Franklin India Smaller Companies Fund (G)	Small Cap	366,028	1.1	724,851	7.5	2,979,973	17.3
ICICI Pru Smallcap Fund (G)	Small Cap	376,762	3.0	696,104	5.9	2,139,346	11.1
Franklin India Focused Equity Fund (G)	Focused	422,955	10.8	799,523	11.5	2,824,617	16.3
Axis Focused 25 Fund (G)	Focused	435,514	12.8	845,32	13.7	N/A	N/A
Mirae Asset Hybrid Equity Fund (G)	Hybrid Equity	424,547	11.1	N/A	N/A	N/A	N/A
Kotak Equity Hybrid Fund (G)	Hybrid Equity	399,756	6.9	N/A	N/A	N/A	N/A
Axis Long Term Equity Fund (G)	ELSS	430,648	12.0	814,251	12.2	N/A	N/A
Mirae Asset Tax Saver Fund (G)	ELSS	440,463	13.6	N/A	N/A	N/A	N/A



**Net Brokers Private Limited;**

**Registered Office:** A-35, Shivalik, New Delhi -110017;

**Head Office:** 22, New Market, Malviya Nagar, New Delhi 110017

**Telephone:** +91-11-41881002. **Mobile:** +91-9311999924. **Fax:** +91-11-26676419;

**E-mail:** mail@netbrokers.co.in

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