I-CAN FINANCIAL SOLUTIONS

# I-CAN COMMUNIQUÉ

# APRIL 2018

# MONTHLY NEWSLETTER – APRIL 2018

I-CAN FINANCIAL SOLUTIONS

| Sensex : Down 3.6%<br>Nifty : Down 3.6% | |
|---|---|
| Best performing sector: Consumer Durables (5.1%) | Worst performing sector: Metal (-12%) |
| Best performing Global index: Seoul Composite (0.4%) | Worst performing Global index: Jakarta Composite (-6.2%) |
| Indian Rupee: 0% | Gold price: 1.2% |

The volatility and downfall in the Indian equity market continued in the month of March. While the equity markets witnessed negative returns last month, bond investors reaped gains because of the fall in the Indian 10-year G-sec yield by 32.7 basis points to 7.39%. The gold price in India increased by 1.2%.

The global markets and even the Indian stock market got negatively impacted by the ongoing trade war between the major economies – the United States of America and China. The US has imposed higher import duties on a variety of items like solar cells, washing machines, steel, aluminum etc. It is also re-negotiating with NAFTA and has filed more than 90 cases against trade partners at WTO. China has also retaliated in response. Globally investors have been on the edge regarding the tightening by the US Federal Reserve. Federal Reserve officials, who met for the first time under Chairman Jerome Powell raised the benchmark lending rate by 25 basis points.

Foreign institutional investors (FIIs) bought a net amount of Rs. 11,654.29 crore in the Indian equity market and sold a net amount of Rs. 9,043.91 crore in the Indian debt markets. The mutual fund activity was strong. The net purchase by mutual funds in the equity and debt market stood at Rs. 7,538 crore and Rs. 39,590 crore respectively.

On the GDP growth front, the third quarter GDP grew at 7.2%. The Central Statistics Office predicts a 6.6% growth for 2017-18. The International Monetary Fund, in its G-20 Surveillance Note “Global Prospects and Policy Challenges”, India will see a pick up in growth this year while China’s growth is likely to fall gradually. The currency in circulation in the economy is back to pre-demonetisation levels. Both inflation and industrial expansion numbers sprung up positive news. India’s wholesale inflation measured by WPI fell to 7-month low of 2.48% in February owing to lower food and fuel inflation. The retail inflation measured by CPI cooled off to a 4-month low of 4.44% in February. The Index of Industrial Production (IIP) rose to 7.5% in January due to expansion in manufacturing. The India Manufacturing PMI fell from 52.1 in February to 51 in March. This is the eighth consecutive month of expansion in manufacturing but the pace pace weakened last month. The Services PMI improved from 47.8 in February to 50.3 in March.

The capital market activity has been strong in March. Total AUM of the MF industry increased by Rs 4.75 lakh crore or 26% to Rs 23.05 lakh crore at the end of 2017-18. This was mainly due to a strong awareness campaign and the rapid increase in participation from smaller towns. The SIP accounts grew by 70 lakh to 2.05 crore.

The Indian government unveiled a Rs 2.88 lakh crore market borrowing roadmap for the first half of FY19, which would be 22.6 % lesser than Rs 3.72 lakh crore raised during the same period last financial year. Election results for 3 bye-polls – 2 in UP and 1 in Bihar came out during the month and BJP lost out in all 3 of them. Another setback to the government was the pulling out of its ally TDP from the NDA alliance due to the issue of grant of special status to Andhra Pradesh. The market will be closely watching the outcome in upcoming state elections in this year.

Reforms

- The Reserve Bank of India (RBI) barred banks from issuing letters of undertaking (LoUs), the instruments used by Nirav Modi and Mehul Choksi to carry out the over $2 billion PNB fraud, in a move that may deal a blow to trade financing in India and raise credit costs for importers.
- SEBI will reduce the additional expenses charged by mutual funds by 15 basis points (bps) to 5 bps in order to increase the penetration of mutual funds.
- SEBI also announced that from August 1, through the SCORES platform, investors will be able to submit their complaints directly to the listed companies.
- The government has launched a crackdown on GST evaders. The Directorate General of GST Intelligence, in an all-India operation, detected tax evasion to the tune of Rs 440 crore.
- The government has decided to double the limit of tax-free gratuity to Rs 20 lakh for employees.
- The maximum maternity leave period for women employees has been enhanced to 26 weeks.
- The Corporate Affairs Ministry has notified Indian Accounting Standard (Ind AS) 115 which would be effective from the new financial year
- Under the first of its kind massive survey, which starts in the first week of April, the government will track employment generation in micro, small and medium companies.
- The Insurance Regulatory and Development Authority has asked all insurance companies not to include 'Genetic Disorders' as one of the exclusions in new health insurance policies issued in respect of all their existing health insurance products after a ruling by Delhi High court.
- Maharashtra, accounting for 30% of plastic waste in the country, became the 18th state to ban plastic. Stiff penalties and even the possibility of a jail term has been introduced.


## Ratios which investors of Mutual Fund Schemes might be interested in

Have you ever seen a mutual fund factsheet and seen names of ratios and wondered what they mean? We help you make sense of some of those ratios in this article.

Investing into mutual funds by taking historical returns into considerations is risky. The investors should also evaluate a mutual fund scheme on basis of risk taken by the fund before investing. Here we will look at some ratios that help an investor to evaluate the mutual fund on basis of risk.

1. **Standard Deviation (SD)**

It measures the volatility of the fund's return in relation to its historical returns. It tells us how much the fund is deviating historical mean return of the scheme. Higher the SD, the more volatile is the fund's returns.

2. **Beta**

It reflects the fund risk in relation to the market as a whole. A beta of one means the volatility of the fund and the market are aligned and a beta of less than one means the fund's returns are less volatile compared to the market. On the contrary, a beta greater than one means the fund's returns are more volatile relative to the market.

Beta is measured using the following formula:

$$\beta = \frac{Covarience\ (Rp)}{Variance}$$

3. **Sharpe Ratio**

It is named after its founder Mr. William F. Sharpe, this ratio helps to study the risk-adjusted performance of a mutual fund. This measure helps in determining how the returns of the mutual fund scheme have compensated an investor for the risks it has taken. This measure is used to compare two schemes of the same category. The scheme with a higher Sharpe ratio gives better returns for the same level of risk or the same returns with a lower level of risk.

Sharpe Ratio is measured using the following formula:

$$\text{Sharpe Ratio} = \frac{\text{Average Fund Return} - \text{Risk Free Rate}}{Standard\ Deviation\ of\ the\ Fund\ Return}$$

4. **Treynor Ratio**

It is named after Mr. Jack L. Treynor, this ratio similar to Sharpe Ratio in that it also measures the excess returns provided by the fund over a risk free rate. But unlike the Sharpe ratio, which uses the total risk (SD), this ratio uses market risk, represented by beta, in the denominator. By using beta in the calculation this ratio can determine the measurement of the fund's sensitivity to the market movements.

Treynor Ratio is measured using the following formula:

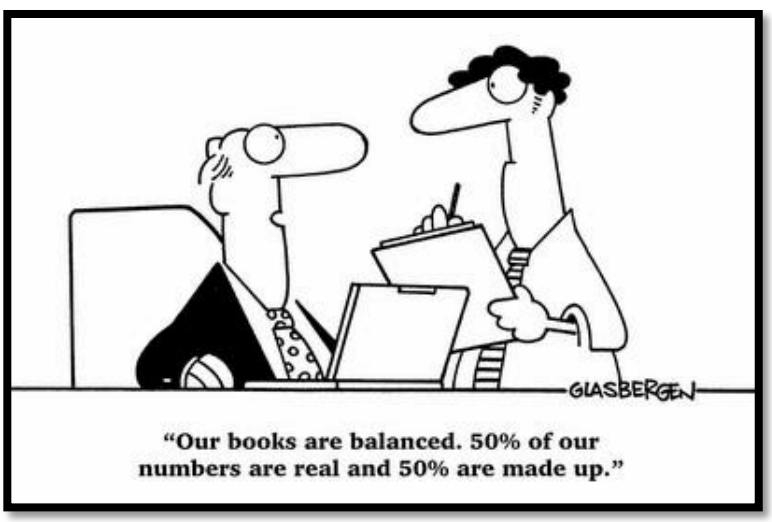
$$\text{Treynor Ratio} = \frac{\text{Average Fund Return} - \text{Risk Free Rate}}{\text{Beta } of\ the\ Fund\ Return}$$

Apart from the ratios given above, another popular measure Jensen's Alpha, which determines the abnormal return of a fund over the theoretical, expected return. But irrespective of the tool you use for evaluation, the bottom line remains the same, any health check makes use of several tools and tests, not just a few, and being a diligent investor, so should you. Even if these ratios are too complex for you, please ensure your financial advisor is aware of these while recommending mutual funds to you.

## Did you know?

More photos were taken in the last 2 minutes than in the entire 19th century!

## Cartoon of the Month



## Top Personal Finance News – March 2018

1) Here are 4 smarter ways to manage your finances better : Click here

2) Free health check-up feature from your insurer comes with clauses : Click here

3) Forgot to submit tax-saving proofs to your employer? You can still claim the benefit for these : Click here

4) 3 mutual fund risks and how to beat them : Click here

5) Now, mediclaim policy for treatment outside India : Click here

6) Did you know? Hybrid funds may not be the most suitable to get regular returns : Click here

7) Don't buy term insurance just to save tax, make sure it is the right cover for you : Click here

8) Did you know? Hybrid funds may not be the most suitable to get regular returns : Click here

9) When should you sell your equity MF units? : Click here

10) How to ensure a clutter-free portfolio? Answer is here : Click here

11) 10 Aadhaar questions answered for you: Click here

12) Banks vs Mutual funds vs insurance: Who will win the battle for wallet? : Click here

13) How to manage stock market volatility : Click here

14) What are the new debt fund categories : Click here

15) Did you know? Your mutual funds are being renamed: Click here

16) Life insurance claims are to be paid in 30 days : Click here

**17)** Banks are reducing charges for digital transactions : Click here

**18)** 31 March 2018: last day to file 2016-17 tax return : Click here