I-CAN FINANCIAL SOLUTIONS

I-CAN COMMUNIQUÉ

MAY 2018

MONTHLY NEWSLETTER – MAY 2018

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Sensex : Up 6.7% Nifty : Up 6.2%	
Best performing sector: FMCG (9.8%)	Worst performing sector: Oil & Gas (-1.3%)
Best performing Global index: CAC 40 (6.8%)	Worst performing Global index: RTS Index (-6.6%)
Indian Rupee: -2.2%	Gold price: 1.2%

S&P BSE Sensex and Nifty 50 picked up momentum from the lows hit by them by the end of March. The return for the month of April was around ~6%. The foreign institutional investors (FIIs) were net sellers in both equity and debt markets. The net fund flow in equity and debt market was Rs -5,552.2 crore and Rs 10,035.8 crore respectively. The domestic mutual funds invested a net amount of Rs 9,435.6 crore and Rs 24,418.2 crore in equity and debt markets respectively. The 10-year Government security yield inched up by 38 basis points to 7.77%.

Most of the macroeconomic indicators have been showing positive trends. There seems to be improvement in the employment figures. The Employees Provident Fund (EPF) released provisional figures for 6 months that showed that 3.11 million workers joined the fund during the September 2017 to February 2018 period. According to India Meteorological Department (IMD) rainfall is likely to be normal during the June-to-September southwest monsoon season. Inflation continues to show favourable movement. The wholesale inflation (WPI based) fell to 2.47% in March because of a fall in food prices, specially vegetables and pulses. Retail inflation (CPI based) softened to 4.28% in March – for the 4th consecutive month. RBI left the repo rate unchanged in its April monetary policy, and also lowered the CPI based inflation projection. The factory output in the economy measured by the Index of Industrial Production (IIP) grew by a strong 7.1% in February. The Nikkei Manufacturing Purchasing Managers' Index, compiled by IHS Markit, rose to 51.6 last month from March's 51. The Nikkei Markit Services Purchasing Managers' Index rose to a three-month high at 51.4 in April from March's 50.3, holding above the 50-mark that separates growth from contraction for a second month. There are concerns looming with regards to the rising current account deficit in the economy.

The GDP growth forecast for the Indian economy was released by some international agencies.

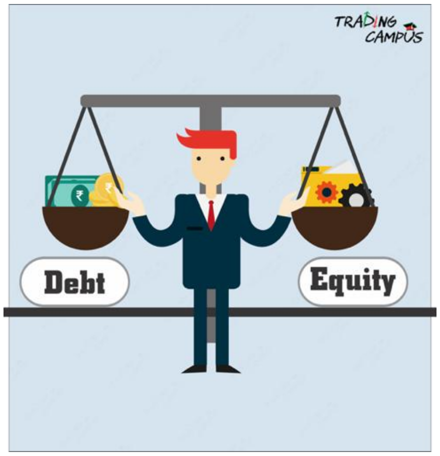
	GDP outlook (%) for 2018-19
International Monetary Fund	7.4
Asian Development Bank	7.3
World Bank	7.3
India Ratings	7.4
Deutsche Bank	7.5

Internationally, energy prices are shooting up. In India diesel prices hit the highest ever in history. According to a World Bank report released last month, prices for energy commodities like oil, natural gas and coal are expected to jump by a significant 20% this year.

Reforms

- Markets regulator SEBI allowed exchanges to extend the trading time for equity derivatives till 11.55 pm from October 1.
- The central government plans changes to the insolvency law by promulgation of an ordinance.
- The markets have gone to the roof. The Sensex P/E has shot up to 26. The month was very good for equity markets. It has seen a strong rally.
- The longest period in the history of the Indian markets. The IT stocks picked up.
- The income tax (I-T) department has cautioned salaried taxpayers against under-reporting their income or inflating their deductions in assessment year 2018-19.
- Prime Minister Narendra Modi invited top Swedish firms to invest in India and said stronger bilateral business relations would augur well for the people of the two countries.
- The government will soon launch the India Post Payments bank (IPPB). Most of the work has been done and only approval from the Reserve Bank of India (RBI) is awaited regarding the software used for integration of various services.
- To boost inflows of foreign funds into Indian capital markets, regulator SEBI has decided to raise the investment limit for foreign portfolio investors (FPIs) in central government securities and corporate bonds in two tranches.
- Two of the largest consumers of petroleum products in the world — India and China — will explore the possibility of sourcing crude oil jointly from the international markets.
- Each time a vehicle pays toll on a national highway, its movement may now be mapped for the distance it travels on that road. This will be done to charge toll in proportion to the road used by that vehicle. A pilot run for such 'geo-fencing' on the Delhi-Mumbai highway is expected to begin in the next couple of weeks after the Ministry of Road Transport and Highways and the National Highways Authority of India (NHAI) finalise the proposal of charging toll based on the distance travelled.
- A meeting of the Union Cabinet, chaired by Prime Minister Narendra Modi, gave the nod to the Protection of Human Rights (Amendments) Bill, 2018 for better protection and promotion of human rights in the country.

DYNAMIC EQUITY FUNDS



Equity investors tend to pour more money into stocks when they are headed up and stay away during downturn, which tends to hurt the returns. To help investors against such a bias, there is a category of funds called dynamic equity funds.

What are Dynamic Equity Funds?

Dynamic equity funds are somewhat similar in nature to balanced equity funds as they also have a mix of equity assets and debt instruments, but it is not mandatory for these type of funds to have the same breakup like balanced funds. They can either invest in the given ratio or invest in a certain class of fund. Dynamic funds have higher risk potential when compared to balanced funds but they also carry the feature of higher returns. Dynamic funds change their portfolio based on the market valuations.

How is the portfolio managed?

As the name suggests, these funds dynamically manage their equity portfolios, investing more when markets are down and less when they are up, these funds are more opportunistic. These funds have a mix of debt and equity in their portfolio. They allocate less to equities when market valuations appear expensive, and increase allocation to equities when market valuations appear cheap. The equity portion of the portfolio would vary depending on the method of calculation used by the fund house.

These funds act as a shield against market downswings and they typically lose less money when markets are down.

How are they different from equity diversified funds?

Most diversified equity mutual fund schemes are fully invested in stocks as per their mandate and do not take aggressive cash calls. Dynamic equity funds invest in a mix of debt and equity. They increase or decrease their allocation to equities and debt depending on their view of the stock markets.

Advantages & Disadvantages of a Dynamic Equity Fund

Dynamic equity funds automatically rebalance portfolios and hence it is recommended for first-time equity investors. If the market was to enter a corrective mode, dynamic funds with a lower allocation to equities could see a lower erosion in their net asset value (NAV) as compared to a pure equity fund. Since dynamic equity funds tend to hold higher cash in prolonged rallies, therefore, underperform in long upmarket cycles. These funds may underperform during strong market conditions. Essentially, lower volatility could end up giving lower returns in prolonged bull markets.

How are the Dynamic Equity Funds taxed?

One huge advantage of these dynamic funds is that they are structured in such a way that they are taxed as equity funds for investors. Most funds, when they lower their exposure to equities, ensure that the equity plus arbitrage component of the scheme is at least 65 per cent of the corpus, which helps it qualify for equity taxation. As per the new tax laws from the next financial year, investors will have to pay as much as 10 per cent long-term capital gains tax if they sell their units after holding them for one year.

These types of funds can be recommended to first time investors or the investors who have a conservative risk appetite and wish to invest for a 3-5 year horizon. For the investors who move their money from fixed deposits to equities and if the market was to correct in such case, a portfolio with a mix of debt and equity would face lower volatility than a pure equity fund portfolio. Dynamic equity funds may be suitable for those who are very conscious of market valuations and are wary of over-valued markets.

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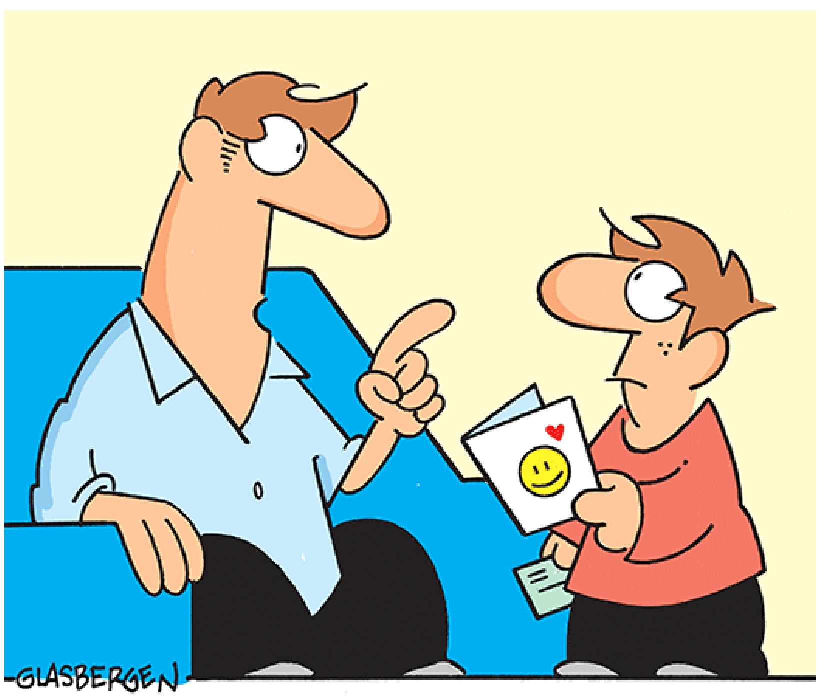
Did you know?

People who prefer Twitter over Facebook tend to have a higher IQ but are also more likely to suffer from insomnia.

Cartoon of the Month



"Your grandmother sent you $5 for your birthday. Put it in the bank for a very long time and someday it will be worth $2."

Top Personal Finance News – April 2018

1) Your bank will not allow you to buy bitcoins anymore : Click here

2) How to earn higher rates from deposits : Click here

3) Interest rates on unsecured instant loans are high : Click here

4) Why chasing the past returns of mutual funds is a bad idea : Click here

5) 7 tax changes from 1 April that will transform your lifestyle : Click here

6) Are PPF withdrawals taxable? Here's all you need to know: Click here

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8) Equity MFs better investment choice despite LTCG tax : Click here

9) How to calculate long-term capital gains tax on mutual fund SIPs : Click here

10) How investor behaviour can ruin returns from your fund : Click here

11) Why is it necessary to rebalance mutual fund portfolio? Click here

12) How to submit Form 15H, Form 15G to avoid TDS on interest income Click here

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14) Investing in equity markets? Here's why you should ignore short-term volatility and stay invested Click here