I-CAN COMMUNIQUÉ

I-CAN FINANCIAL SOLUTIONS

JULY 2018

MONTHLY NEWSLETTER – JULY 2018

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Sensex : Up 0.3% Nifty : Down 0.2%	
Best performing sector: Healthcare (7.7%)	Worst performing sector: Power (-8.6%)
Best performing Global index: Mexican IPC (6.7%)	Worst performing Global index: Shanghai Composite (-8.0%)
Indian Rupee: -1.6%	Gold price: -2.5%

The Indian stock markets have been volatile but the month of June ended with the headline indices clocking in almost flat returns for the month. There has been a significant weakness in the mid and small cap segments of the market. The BSE Mid Cap index fell by 3.5% while the BSE Small Cap index fell by -7% in June. Foreign institutional investors (FIIs) sold a net amount of Rs. 4,831.2 crore in equities and Rs. 10,970.3 crore in debt markets. This adds up to Rs. 15,801.5 crore of total FII selling last month. The Indian 10-year government bond yield rose by 7 basis points (bps) to end the month at 7.9%.

The global stock markets were affected by news related a more intensified tariff war that seems to be emerging. Countries like Canada, Mexico, China, Eurozone and even India announced a retaliatory tariff against the US. The Indian Rupee continues to be under pressure because of higher crude oil prices and fall in the Chinese Yuan on account of trade war with the US.

There seems to be some revival in economic activity. The Indian GDP growth was 7.7% in the January-March'18 quarter compared to 7% in the previous quarter. According to World Bank, India will be the fastest growing economy for next 3 years. The GDP growth estimate for 2018-19 is 7.3% and 7.5% for the next 2 years. India's industrial activity as measured by the index of industrial production (IIP) rose 4.9% in April compared to a year ago. This growth has been caused by a pick up in manufacturing. The Nikkei India Manufacturing Purchasing Managers Index (PMI) for India rose to 53.1 in June from 51.2 in May. The Nikkei Services Purchasing Managers' Index (PMI) inched up to 52.6 in June, its highest since in a year, from 49.6 in May.

In its June Monetary Policy, RBI hiked the repo rate by 25 basis points (bps) to 6.25%– the first rate increase in four years. petroleum products. A bunching up of oil exports in May led to this abnormal increase. Even then the trade deficit widened to a four-month high of $14.62 billion.

The central government's fiscal deficit for the first 2 months of the financial year stood at Rs 3.45 trillion or 55% of the full year (2018-19) target due to higher capital expenditure. This is lower than last year's 68% achievement in the same period.

In its June Monetary Policy, RBI hiked the repo rate by 25 basis points (bps) to 6.25%– the first rate increase in four years. RBI has concerns over rising inflation. The Wholesale Price Inflation (WPI) increased to a 14-month high of 4.43% in May while the Consumer Price

Inflation (CPI) increased to 4.87% compared to 4.58% in April.

According to a study by EY India India recorded the highest IPO activity in the world in the first half of 2018. There were 90 initial public offerings (IPOs) which raised $ 3.9 billion. Mutual funds collected Rs. 7,304 crore via systematic investment plans (SIPs) in May, 9% higher than the April collection. Domestic flows have been strong and supportive despite large sell offs by FIIs.

Reforms

- RBI is planning to take action against banks' statutory auditors whose certification of bank books is later found to contain errors.
- The Centre simplified the process for additional borrowing by eligible states.
- SEBI tweaked the Listing Obligations and Disclosure Requirements (LODR) which have made the conversion from physical shares to the form mandatory for all classes of investors by December.
- The GST investigation wing discovered GST evasion of more than Rs. 2,000 crore in 2 months
- SEBI and the stock exchanges tightened rules for putting stocks under the additional surveillance mechanism (ASM).
- The government increased the ethanol (produced from sugarcane) price by Rs. 3 per litre in order to improve the liquidity position of sugar mills.
- According to a study by US-based think tank Brookings, India is no longer the nation with the highest number of poor people. Nigeria has overtaken India with the largest number of extremely poor people in the world.
- The income-tax (I-T) department has attached over 1,500 unaccounted properties worth Rs 43 billion across the country within one and a half years of the introduction of the revised benami legislation. Jaipur and Mumbai top the list, with attachments of 200 properties each.
- National Infrastructure and Investment Fund (NIIF) to launch a USD 2 billion long-term fund to finance various mega projects.
- SEBI eased the disclosure norms for IPOs and tightened the definition for 'promoter group' in order to prevent fraudulent transactions. As per the new norms 'immediate relatives' are included within the definition of promoter and promoter groups.
- The government has permitted central registration for transporters registered in multiple states/Union Territories (UTs) for the purpose of generating e-way bills under the goods and services tax (GST).
- RBI has asked banks to upgrade its ATMs in a phased manner, which includes implementation of anti-skimming and whitelisting solutions.
- The housing loan limits for eligibility under Priority sector lending will be revised to Rs 35 lakh in metros from Rs 28 lakh and to Rs 25 lakh in other centres.
- Minister for Electronics and IT Ravi Shankar Prasad recently mentioned that India will soon have its own satellite navigation system on the lines of GPS.
- The Cabinet approved introduction of the Dam Safety Bill, 2018 during the monsoon session of the Parliament. It also approved the restructuring of the North Eastern Council and action plan for agriculture education.
- SEBI has set up a panel that will look at ways to make listing attractive for startups.

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PORTFOLIO MANAGEMENT SERVICES V/s MUTUAL FUNDS

Making money in the market requires a certain degree of expertise and a good risk appetite. While many investors start off early and go on to learn how the market behaves and thereby make the investments, there are investors who enter the market with larger amount of investments and seek help from professionals to earn above average returns. Therefore, investors end up investing in Portfolio Management Services (PMS) or Mutual Funds.

<u>What is a PMS?</u>

PMS is a type of wealth management service, usually offered to high net worth individuals. With greater flexibility and higher customization, PMS aims to generate superlative returns in comparison to other investment avenues focusing on the same asset class. A PMS can be equity oriented or debt oriented. However, most PMS funds are equity oriented.

While mutual funds pool assets from several investors, under PMS one can choose whether to invest in a scheme with limited subscribers or opt for a personalised service. Hence, under PMS, there are different types of portfolio services. There are two types of PMS:

1. **<u>Discretionary:</u>** Here the fund manager takes the investment decisions and has the power of attorney to invest on behalf of the investor. The fund manager individually and independently manages the funds of every client.

2**.** **<u>Non-discretionary:</u>** Here the fund manager needs the client to confirm whether to buy or sell the recommended security. The fund manager cannot make buy-sell decisions at his own discretion; he has to refer to the client for every transaction.

Key Differences:

<u>Ease of investing</u>

Mutual Funds: One can invest in mutual funds with the basic KYC in place. One can start investing with a minimum of Rs 500. Investments can be made through a variety of online platforms either through a distributor or a registered investment advisor or even directly through the fund house.

PMS: Being a high-end product with a minimum investment of Rs 25 lakh, there is a lot of paperwork involved. Each scheme offered has an agreement to be signed. Depending on what the investor has opted for, the discretionary or non-discretionary portfolio services, the investor needs to give a power of attorney to allow the PMS fund manager to transact in the investor's stock broking account. Due to these factors, one cannot invest in PMS on the go like mutual funds.

Taxes

Mutual Funds: Mutual fund is of two types, equity mutual funds and non-equity mutual funds. Both attract different tax norms.

In case of equity mutual funds if the investments are redeemed within a holding period of one year, equity mutual funds attract a short term capital gains (STCG) tax of 15%. Equity funds will attract a long term capital gains (LTCG) tax of 10% for gains in excess of Rs 1 lakh. The minimum holding period to qualify as LTCG is one year.

For non-equity funds, STCG is clubbed with the investor's income and taxed as per the tax slabs. LTCG tax of 20% with indexation applies on gains for redemption of non-equity funds for a holding period of greater than three years.

PMS: Taxation of gains from PMS under the I-T Act was earlier a matter of debate. There was a difference of opinion on characterization of gains from PMS as business income or capital gains. However, in 2014, the Delhi High Court clarified, that income from shares purchased through a discretionary PMS is taxable as Capital Gains and not Business Income. In PMS, one will pay short term/long term capital gains, depending on the churn that the fund manager has done. One should consult with a chartered accountant or tax consultant for the tax implications before investing through PMS.

Cost

Mutual Funds: The mutual fund cost structure is very simple and it is capped for all schemes. The fee is charged on a daily basis as a percentage of AUM. Basically, the annual cost charged by an equity mutual fund scheme can go up to 2.5%, while for a debt scheme, the cost can max out at 2.25%. There is no entry load charged.

PMS: While mutual funds charge a flat fee the portfolio manager of a PMS is free to decide the costs. The regulator does not stipulate an upper limit here, as in the case of mutual funds. Hence, as mentioned earlier, the costs can range from entry loads to exit loads and even brokerage charges. In many cases, the overall costs may balloon to excess of 3% per annum of the invested corpus. However, PMS providers reason that the returns they generate more than compensate for the costs.

Transparency

Mutual Funds: Mutual funds are very well regulated and extremely transparent. The investor can get all information about mutual funds right from the portfolio disclosures to the commission earned by distributors. The performance data is available on a daily basis, making mutual funds easier to track. An investor can track the performance and portfolio of each mutual fund through numerable websites and services and compare them. This publicly available data enables the investor to make the right choice.

PMS: While PMS do need to make timely disclosures to the client, the same is not freely available to the public. There is no platform where an individual can compare the performance of different PMS products. Due to this lack of information, it is difficult to know which the best performing PMS strategies are. Here the investor needs to do his own research or rely on the information provided by the Wealth Manager or broker.

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Did you know?

6% of the world's population has an Internet addiction.

Cartoon of the Month

"According to the encyclopedia, bulls eat hay and bears eat berries. My dad says they only eat money."

Top Personal Finance News – June 2018

1) How to build an emergency corpus with mutual funds: Click here

2) Investing in stocks? Invest for the long term – Here is why : Click here

3) What is Hindu Undivided Family and how is it taxed?: Click here

4) Mutual fund investment: Why naming nominees without thought can get you in trouble later? : Click here

5) What is the difference between portfolio management schemes and mutual funds?: Click here

6) Money matters after retirement: Click here

7) What works best: boring `SIP forever' in mutual funds or timing? : Click here

8) Take a loan against your mutual fund only if you really need it: Click here

9) How to invest for your child's education : Click here

10) Here's how to find your PF UAN number: Click here

11) All you want to know about TER in mutual funds : Click here

12) Why SWP scores over dividend option in mutual funds : Click here

13) Equity, debt or something else? Answer to your problem is here: Click here

14) Which critical illness insurance policy should a person with family history of diabetes buy? : Click here

15) Life Insurance: 3 steps to choosing the right insurer: Click here