I-CAN MONTHLY NEWSLETTER

FEBRUARY 2017

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I-CAN FINANCIAL SOLUTIONS

Market Update

Sensex : Up 3.9% Nifty : Up 4.6%	
Best performing sector: Metal (15.5%)	Worst performing sector: Teck (-2.9%)
Best performing Global index: Bovespa (7.3%)	Worst performing Global index: CAC 40 (-2.3%)
Indian Rupee: -0.1%	Gold price: 3.7%

The year 2017 began on a bright note as the headline indices registered around 4% gains in January. This is despite FIIs being net sellers to the tune of Rs. 1,176 crore and Rs. 2,319 crore in the equity and debt markets respectively. The markets expected some announcements in the Union Budget scheduled on 1 February which could drive up domestic demand. Some international agencies slashed the GDP growth forecast for India. IMF reduced it by one percent to 6.6%, while the World Bank reduced it to 7% from 7.6%. UN projected a growth rate of 7.7%. This still maintains India's position as one of the fastest growing major economies in the world. Goldman Sachs in a recent report highlighted that Indian market offers an extraordinarily good opportunity. In December, the retail inflation fell to 3.41% (which is a 3-year low), while the wholesale inflation increased to 3.39%. The Index of Industrial Production (IIP) rose by 5.7% - which was the highest growth rate in 13 months. Part of the reason was a favourable base effect. The 10 year G-sec yield fell from 6.515 to 6.407% in the month of January. According to some reports, the secondary residential real estate market has been impacted due to demonetization and continues to see a fall in prices – by almost 30%. (Source: Real estate consultancy Liases Foras)

The domestic investor sentiment continues to be buoyant. DIIs were net buyers and pumped in Rs. 4,749 crore in the month of January. 2016 saw the highest number of demat accounts opened in a single year since 2008, the total number being 2.4 million.

Reforms:

- The goods and services tax (GST) is expected to be rolled out from 1 July after the centre and the states reached a consensus on the issue of sharing of administrative powers.
- According to the Ministry of Rural Development, they have constructed almost 2.2 million houses under the Indira Awas Yojana till 28 January'17 and is confident of building almost 4.4 million new homes under the revamped Pradhan Mantri Awas Yojana by December 2017.
- Under the Indira Awas Yojana (IAY) beneficiaries used to get one-time grant of Rs 70,000 per unit in plains and Rs

75,000 per unit in hills from the Central government. Under the PMAY, this was raised to Rs 1,25,000 for plains and Rs 1,30,000 per unit for hilly regions.

- 5,000 suspicious accounts and cash deposits of Rs 1 crore or more under I-T scrutiny. Real estate developers, jewellers and sellers of luxury goods have come under the I-T department's scanner as part of the exercise to unearth black money in the wake of demonetisation.
- The government has enabled the Bharat Interface for Mobile (BHIM) app with Aadhaar and plans to launch the biometric-based Aadhaar Pay payment module in the coming weeks, seeking to accelerate the drive toward digital-money transactions in the country.
- A team of Big Data experts at the Niti Aayog has been scanning the post-demonetisation deposit data in Jan Dhan accounts to identify fraudulent activity.
- The second tranche of central public sector enterprise (CPSE) exchange-traded funds (ETF) received bids of around Rs 12,000 crore – nearly two and half times the issue size of Rs 4,500 crore.
- The government is considering an umbrella insurance scheme under which all Pradhan Mantri Jan Dhan Yojana (PMJDY) account holders will be offered free Rs 2-lakh insurance cover for three years.
- IRDAI has set up a committee to review insurance product regulations.
- The Cabinet has approved listing of all the five general insurance companies. The government holding in thethese companies will gradually fall to 75%
- The tax office will ask everyone who deposited more than Rs 10 lakh in their bank accounts after November 8 to disclose the source of money. A new e-platform put in place by the Central Board of Direct Taxes, the apex tax authority, will be used to reach out to these account holders who will have to file their response online.
- GST Council plans three-rate service tax structure. This means, instead of a uniform rate of tax on all services, including cess and surcharge, there would possibly be three rates: luxury, standard and basic.

5 Reasons to invest in Debt Funds

What are Debt Mutual Funds?

There are various types of mutual funds that invest in various securities depending on their investment strategies. Debt mutual funds mainly invest in a mix of debt or fixed income securities such as Treasury Bills, Government Securities, Money market Instruments, Corporate Bonds and other debt instruments with different time horizons.

The reasons that make debt mutual funds a good investment option are as follows:

More Liquidity

Debt funds are liquid as one can withdraw the investments any time and the money is in the account of the investor the next day. The fund house does not charge any penalty for exiting or redeeming the investment, unlike FD's where penalty is charged if one redeems the FD before the maturity period. There are some debt funds which have an exit load. One can also make partial withdrawals from the fund without redeeming entire investment.

Tax Efficient

In long term the debt funds are more tax efficient than fixed deposits. After 3 years of investment the income from a debt fund is treated as a long term capital gains and is taxed at 10 % without indexation or 20% after indexation. Indexation is adjusting the investments for inflation for the holding period. The longer is the holding period, the higher is the benefit of indexation. Also there is no TDS to be deducted in debt funds.

Income from Fixed Deposits is taxed on an annual basis where an individual gets the money once the FD term matures, i.e. 5-6 years, but the income is taxed every year. In case of debt funds the tax is deferred indefinitely till the investor redeems the units, hence the gains from a debt fund can be set off against the short term or long term losses that an investor must have made in the other investments.

Low Volatility

The debt funds have lower volatility than the equity market. The change in NAV's are not dependent on the volatility in the equity indices since the debt mutual funds invest in various debt instruments such as Treasury Bills, Money Market Instruments, Corporate Bonds & Government Bonds etc., where interest income is regular and the prices are relatively stable.

Generate Regular Income

For individuals who want to generate regular income then investment in debt funds is an ideal investment option. One can generate regular income through debt funds by Dividend Payout Options or through Systematic Withdrawal Plans (SWP). In case of funds with dividend payout plans, dividend is paid out daily, monthly, quarterly, half yearly or on yearly basis.

SWP is Systematic Withdrawal Plan where an investor can opt to withdraw the interest or a fixed sum of amount from the investment on a regular basis. SWP are usually suitable for retirees. One can also change the amount of SWP anytime.

Greater Flexibility

Debt funds offer greater flexibility. One can invest in small amounts every month by way of SIP. A key advantage of investing in a debt fund is that an investor can seamlessly shift the money from a debt fund to an equity fund or in another scheme of the same fund house.

If an investor has a substantial amount to invest, then one can put it in lump sum in a debt fund and then start a STP to the equity scheme one wishes invest in. Compared to the interest that one would have earned on the money in the Savings bank account, it has a potential to earn higher interest in Debt Mutual Funds.

Did you know?

It would take you 10 years to view all the photos shared on Snapchat in the last hour.

Cartoon of the Month

"I reviewed your investments and set you up for early retirement. On your last day, you can afford to leave at 4:30 instead of 5:00."

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