I-CAN FINANCIAL SOLUTIONS

I-CAN COMMUNIQUÉ

DECEMBER 2017

MONTHLY NEWSLETTER – DECEMBER 2017

Sensex : Up 0.2% Nifty : Up 1.1 %	
Best performing sector: Metal (5.6%)	Worst performing sector: Consumer Durable (-16.2%)
Best performing Global index: Bovespa (3.2%)	Worst performing Global index: Dow Jones (-3.8%)
Indian Rupee: 0.4%	Gold price: 0.01%

The Indian headline equity indices were marginally up last month. The net inflows by foreign institutional investors (FIIs) in the equity and debt markets was Rs 19,727 crore and Rs 530 crore respectively. The total net buying by domestic institutional investors (DIIs) was Rs. 9,243 crore. The 10-year G-sec yield went up by almost 20 bps – which was a negative for bond investors.

The market sentiment got a significant boost when credit rating company Moody's upgraded India's sovereign rating by a notch to Baa2 and changed the outlook from stable to positive. This is the first upgrade of India's rating in 14 years. It signaled confidence in the Narendra Modi government's reforms policy. Also, it was reported that India ranked third in World Economic Forum's list of most trusted governments. The relative outperformance of Indian stock markets has helped the country improve its weightage in the MSCI emerging markets (EM) index. India now has 8.72% share of the MSCI EM index, 50 basis points (bps) higher than the country's weight during the 2007 bull market. India has moved up one position to 126th in terms of GDP per capita of countries.

The macroeconomic data reported was not very positive. The Nikkei India Manufacturing Purchasing Managers' Index (PMI) for November came in at 52.6 from 50.3 in October. The Services PMI also declined in November to 48.5 from 51.7 in October (a measure less than 50 signaling contraction in activity). Inflation has been rising. Wholesale inflation rose to a six-month high of 3.59% in October from 2.6% in September as food items and fuel became more expensive. Consumer price inflation (CPI) rose by 3.58%, higher than 3.28% in September. The Index of Industrial Production (IIP) rose 3.8% in September, compared with the revised 4.5% in August (a nine-month high) and 5.7% in September last year. However, the GDP data showed improvement over the previous quarter – by growing at 6.3% in the quarter ending September 2017 vis-à-vis the 5.7% growth clocked in during the April-July period.

Reforms

- The Union cabinet approved amendments to the Insolvency and Bankruptcy Code (IBC) to plug potential loopholes in the new corporate turnaround regime and to ensure rescued companies remain in reliable hands.
- The Cabinet Committee on Economic Affairs (CCEA) approved a proposal to set up the 15th Finance Commission (FC) and finalise its terms of reference.
- The Centre has proposed a two percentage point discount in the goods and services tax (GST) for consumers who make digital payments. The proposal is likely to be taken up in the next GST Council meeting in January 2018.

- The Centre's PSU disinvestment plan got a big boost with the Bharat-22 Exchange traded Fund (ETF) subscribed four times and raising Rs 14,500 crore.
- The GST Council, in its Guwahati meeting on 10 November, announced GST rate cut for 178 items, leaving only 57 products in the top tax slab of 28%. The GST rate cut was to implemented from 15 November.
- The Income Tax Department is matching the "tax profiles" of all property registrations of above Rs 30 lakh under the provisions of the anti-Benami Act, as action against illicit asset holders is set to intensify
- In a major move, the Reserve Bank of India (RBI) has decided not to pursue a proposal for introduction of Islamic banking in the country.
- The Economic Advisory Council to the Prime Minister in its second meeting laid out a roadmap for stepping up skill development, job creation; enhanced resource investment in the social sector, including for health and education, and boosting infrastructure financing.
- India plans to invite bids for setting up 20 gigawatts (GW) of solar power capacity—the world's largest solar tender—at one go, in an attempt to spur domestic manufacturing of solar power equipment.
- India has provided a significant relief to private equity and pension funds from being taxed under 'indirect transfer' provisions. Central Board of Direct Taxes (CBDT), country's apex direct taxes body, has said these rules will not apply to investment made by non-residents through the multilayer structure if the fund's income is already chargeable to tax in India.
- The Insurance Regulatory and Development Authority of India (IRDAI) has allowed the sale of indemnity-based health insurance products through Point of Sale persons (PoS).
- The income-tax department and the capital markets regulator said they will be scrutinizing the so-called Paradise Papers—documents obtained by a global network of investigative journalists—to see if any Indian individual or companies were guilty of wrongdoing.

STOCK PICKING BY FUND MANAGERS

The mutual fund manager uses a variety of indicators to assess the profitability of a stock before adding it to a fund's portfolio. The fund manager's stock picking decision is mainly based on the objectives of the funds managed by them. Different mutual funds are designed to achieve different objectives, with varying levels of risk. In defining their investment approaches, the fund managers often use the top-down approach and the bottom-up approach.

What is a Top-Down Approach?

The top-down approach involves looking at the economic, demographic and cultural changes of the country to identify the broad themes and drivers which will in turn determine the growth and profitability of various sectors. The fund manager also looks at various other factors, which have an impact on the economy such as political scenarios, the government policies etc. After this analysis is done on a macro level, the fund managers try and focus on other issues and further look into analyzing other different sectors and take decision on those sectors which are likely to outperform under the prevailing economic conditions.

Hence the top-down approach basically measures the variances in the economic variables that are not explained by the external macro-economic factors. The approach basically relies on the historical data.

What is a Bottom-Up Approach?

The bottom-up approach involves analysis of individual stocks based on the individual attributes of the company. Here the fund managers examine the fundamentals of the stock, i.e. they look at the variables which define the performance of the stock and in this approach they analyze factors like the fundamentals of the company, price to earnings and other growth factors that would help to find the companies which would outperform over a period of time.

Like in top-down approach, the fund managers consider the macro economic factors for their investment decisions, in bottom-up approach the fund managers consider the microeconomic factors, which involves in-depth analysis of the company's fundamentals, for their investment decisions.

Hence this approach observes the performance and management of companies and not general economic trends and it analyzes individual risk in the process by using mathematic models.

The fund managers use a mix of both the approaches though the relative weightage that they give to each approach could vary.

Did you know?

If you laid all the molecules in a teaspoon of water end to end, it would stretch 10 times the width of the solar system.

Cartoon of the Month

"Money can't buy happiness. You also need high-yield stocks, prime real estate, and a solid credit rating!"

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