I-CAN COMMUNIQUÉ

JUNE 2018

I-CAN FINANCIAL SOLUTIONS

MONTHLY NEWSLETTER – JUNE 2018

Sensex : Up 0.46% Nifty : Down 0.03%	
Best performing sector: Banking (4.7%)	Worst performing sector: Healthcare (-8.1%)
Best performing Global index: Nasdaq (5.3%)	Worst performing Global index: Bovespa (-10.9%)
Indian Rupee: -1.1%	Gold price: -0.3%

The Indian headline indices ended the month of May on a flat note. The mid cap indices were battered sharply. S&P BSE Midcap index giving a return of -5.9% while Nifty Midcap 100 index return was -6.8%. The 10-year Government bond yield went up by 6 basis point to 7.83%. Foreign institutional investors (FIIs) were net sellers by Rs. 10,060 crore and Rs. 19,654 crore in the equity and debt markets respectively.

The markets last month have been negatively impacted by rising crude oil prices, uncertainty around the Karnataka state election outcome and rupee depreciation. The Congress- JD(S) coalition passed the floor test conducted in Karnataka. This has raised concerns over the show of the current government in the upcoming elections.

Some of the macroeconomic parameters have worsened. Owing to higher inflation in fuel and food, India's wholesale price inflation (WPI) rose 3.18% in April. After three months of easing, retail inflation (CPI) for April rose to 4.58%. Industrial output grew by a 5-month low of 4.4% in March. The Nikkei India Manufacturing Purchasing Managers Index (PMI) fell from 51.6 in April to 51.2 in May. India's services Purchasing Managers' Index (PMI) fell to 49.6 for the month of May, indicating the first contraction in services activity in three months. It was 51.4 in April. International rating company Moody's Investors Service slashed India's growth forecast to 7.3% for 2018 from 7.5% because of higher crude oil prices.

India's exports rose 5.17% in April, getting a boost from higher exports of engineering goods, handloom products and chemicals.

Reforms

- SEBI allowed debt issuers to review ratings by agencies. This has been done to prevent 'rate shopping' and 'pick-and-choose approach'
- India's rank in the report by IMD World Competitiveness Center improved by one place to rank 44 out of 63 countries.
- In a move that will lead to more concentrated efforts in resolving tax litigation involving around Rs 5 trillion, the Central Board of Direct Taxes (CBDT) is planning to increase the threshold for filing appeals by income-tax (IT) authorities.
- The government is hopeful state-run banks will be able to slash bad loans by as much as Rs 3 lakh crore this financial year, mostly through debt resolution under the Insolvency and Bankruptcy Code (IBC).

- SEBI is considering allowing futures trading in petrol and diesel.
- Awarding of highway projects on the hybrid-annuity model (HAM) has again led to private developers' interest in the sector.
- The Government plans to spend Rs 4,000 crore this year to create new jobs in the country and it has already employed 40 lakh new job seekers through Pradhan Mantri Rojgar Protsahan Yojana.
- The finance ministry is planning to create a fund under the National Investment and Infrastructure Fund (NIIF) dedicated for strategic investments.
- In order to facilitate ease of market access for foreign investors, SEBI allowed 'segregated nominee account structure' in international financial services centre (IFSC) for such investors to trade on stock exchanges.
- SEBI is planning to ease the norms for mutual funds (MF) participation in the derivative markets.
- SEBI has suggested a uniform methodology for pricing of non-traded and thinly traded non-convertible debt securities. This is done with a view to deepen the bond markets.
- The government proposes to set up charging stations for electric vehicles every 3 kilometres in cities with million-plus population and smart cities, and every 50 km on busy national highways.
- SEBI has asked the boards of the companies to split the post of chairman and managing director.
- The government will introduce a Producers Price Index (PPI) next month for 10 services.

FIXED MATURITY PLANS VS FD

What are Fixed Maturity Plans (FMPs)?

FMPs are closed-end debt funds having a fixed maturity period. Unlike other open-ended debt funds, FMPs are not available for subscription on a continuous basis. FMPs are ideal for those investors who wish to park their funds for a specific period. The fund house comes up with a New Fund Offer (NFO) for a specific duration. NFO will have an opening date and a closing date. One may invest in the NFO only during these days. Upon expiry of the closing date, the offer to invest ceases to exist.

Where do the FMPs Invest?

FMPs usually invest in debt instruments like a certificate of deposits, money market instruments, corporate bonds, commercial papers and bank fixed deposits. Based on the duration of the scheme, the fund manager allocates your money in instruments of similar maturity. For example, if FMP is for 5 years, then the fund manager invests in a corporate bond having a maturity of five years Unlike other debt funds, the fund manager of FMP follows a buy and hold strategy. There is no frequent buying and selling of debt securities like other debt funds. This helps to keep the expense ratio of FMPs at lower level vis-a-vis other debt funds.

Fixed Deposits

The term 'fixed deposit' refers to an investment method where you can deposit money in a bank or financial institution to earn interest on your investment. It is called 'fixed deposit' because the investment period is fixed at start of the investment. A fixed deposit is considered to be the safest and most secure form of investment. Funds placed in a Fixed Deposit usually cannot be withdrawn prior to maturity or they can perhaps only be withdrawn with advanced notice and/or by having a penalty assessed.

Returns

While FDs provide returns that are guaranteed by the bank, FMP's do not. Until 2009, they used to provide an indicative yield, but SEBI did away with this practice as it was leading to mis-selling by some distributors who touted this as a 'guaranteed return'. FMP's do, however, publish an indicative portfolio break-up between AAA bonds and AA bonds. From this, one can indirectly derive an expected return. In general, FMP's provide between 75-100 bps higher returns than FD's of equivalent tenures - however, this isn't a guaranteed return.

Risk

FMP's are exposed to the risk of one or more of their underlying papers known as credit risk, and this could potentially hamper their returns. They are also exposed to a risk known as 'reinvestment risk' - that is, the risk that the fund manager will need to reinvest maturity proceeds at a lower than earlier rate. Generally speaking though, FMP risks are well managed, and the chances of default are less as they typically hold highly rated papers. However, FD investors need to be aware that such risks exist in order to generate the higher returns.

Liquidity

The FD's fare better than FMP's on the liquidity front. While FMP's have a lock in period, FD's provide options for quick and easy withdrawals, but encashing the FD prematurely will entail sacrificing returns though, as the interest will be pro-rated to the final holding period.

Tax Efficiency

FMP's fare better than FD's on tax efficiency, provided that the FMP tenure exceeds three years. Returns from FMP's with tenures not exceeding three years are taxed exactly as Fixed Deposits (short term capital gains, clubbed with the income for the year). Returns from FMP's with tenures exceeding three years are indexed for inflation and taxed at 20%, and this brings down the tax outgo significantly.

Did you know?

They type of music you listen to affects the way you perceive the world.

Cartoon of the Month

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

I-CAN FINANCIAL SOLUTIONS

Top Personal Finance News – May 2018

1) Should you opt for growth or dividend option in mutual funds: Click here

2) Health Insurance: Debunked! Top 5 myths about health plans : Click here

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

4) What to do when your mutual fund CIO quits? : Click here

5) Why it doesn't make sense to withdraw cash from an ATM using your credit card : Click here

6) A mutual fund guide for starters: Click here

7) Mutual Fund scheme changes – What should the investor do? : Click here

8) Mutual funds re-categorisation: Don't redeem in panic : Click here

9) 3 questions you must ask your financial adviser or distributor before hiring : Click here

10) Get tax exemption of Rs 10,000 on savings bank account interest income – Here is how: Click here

11) Health Insurance: Why you need to buy a Super Top Up health cover Click here

12) Life Insurance: You can cancel insurance policy within 15 days of getting documents Click here

13) Stock Markets: Here are 6 steps to analyse industry before investing: Click here