Foundation of Independent Financial Advisors

Aug 2018

What's New?

Monthly SIP Inflows

After a healthy consolidation phase, Indian markets again resumed its uptrend. Touching the highs once again, June-18 became a witness to the highest ever monthly inflows through SIPs, as SIPs emerged as a better investment option during the volatile times. During the month of June 2018, an amount of Rs. 7,554 crores has been invested through SIPs which is 59% higher than the amount of Rs. 4,744 crores collected in June-17. Even on a sequential basis, the SIP inflows were higher by more than 3% than the SIP inflows in May-18. As the retail investors continue to have faith in investing in the markets through SIP in volatile times, around 29.49 lakh SIP accounts have been added during the first quarter of FY 2018-19 with average SIP amount being Rs. 3,300.

Equity Market Performance during July 2018

Bucking the trend of flat or negative returns during the recent times, July 2018 was a good month for equity markets. Both the benchmark indices, S&P BSE Sensex and Nifty 50, gave returns of around 6% to the investors during the month. Even while the markets were worried about the increasing risks of trade wars and also the increasing oil prices. However, the positives seem to overshadow the perceived negatives. In the season of corporate earnings, the majority of the results beating the street estimates has been cheering the markets. Even the Govt. showcased its commitment towards staying sensitive towards its citizens, as it made several announcements during the period to rationalize and simplify the compliance procedures.

Most of the sectoral indices ended the month in green and S&P BSE Oil & Gas index was the biggest sectoral gainer with 10% returns during the month, while S&P BSE Metals Index emerged as the biggest loser with (-)ve returns of around 3%. Expected resolutions for few corporate loans helped the S&P BSE Bankex give a return of around 6% to the investors during July 2018

The decrease in the GST rates for several goods is expected to fuel the consumption and further, the better corporate earnings are providing a cushion to the market valuations. As such, investors can certainly expect better returns during the times to come. Investors may continue investing in the markets through Systematic Investment Plans (SIPs) to make the most of the volatile markets.

AUM Data - Investments in Mutual Funds

The AUM for the mutual fund industry continued to swell during the month of July 2018 as well. The AUM increased sequentially from Rs. 22.86 lakh crores as at 30th June 2018 to Rs. 23.06 lakh crores as at 31st July 2018. Even the net inflows into equity schemes (including arbitrage funds, balanced funds, and ELSS) were higher at Rs. 10,872 crores in July 2018 as compared to Rs. 9,719 crores during the previous month. Further, with the better performance of the equity markets, total AUM under such schemes as at the end of July 2018 also increased to Rs. 10.10lakh crores, amounting to 44% of the AUM.

3 Ways through which Debt Funds Generate Returns

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) bit the bullet of rate hike once again when it announced the increase in repo rate and reverse repo rate by 25 bps once again. MPC had hiked the policy rates by 25 bps in its last meeting as well and this was the first time since October 2013 that the policy rates were increased in two consecutive meetings.

Since debt funds invest in fixed income securities, any change in the market interest rates impacts their NAV and therefore, the returns to its investors. The extent of impact depends upon various factors like duration of funds, current yield, portfolio composition etc.

Let us discuss how debt funds generate returns for their investors:

Equity Market Performance during July 2018

The primary source of returns for the debt funds continues to be the accrual of interest income of the fixed income securities. So, while the interest on such investments may be payable to the investors (debt funds in this case) on a periodical basis, say monthly, quarterly, semi-annually or annually etc., the accrual of interest for every day gets factored into the price of the securities. So, the price of the investments will increase each day and therefore, will impact the overall portfolio valuation and thus the NAV. So, typically speaking, NAV will always increase through the interest accrual.

Equity Market Performance during July 2018

Market forces are dynamic and the yields of the fixed income securities get adjusted by changes in their prices through the market forces so as to reflect the current interest rate scenario. The interest rates/ yield and prices of the fixed income securities are inversely proportional. As such, the valuation of the fixed income security will decrease when the market interest rates rise. Similarly, the price of bonds will increase if the interest rates decrease as the current high-interest bonds will become more attractive for the investors to invest in and therefore, command premium in the market. This is how the interest rate movements impact your debt portfolio.

The extent to which the valuation for the fixed income securities is impacted through interest rate movements also depends upon the pending maturity period of the securities. This is due to the fact that the securities with longer maturity period will stay impacted for the higher/ lower interest rates for a longer period of time. As the maturity of the fixed income security reaches closer, the market price will tend to converge to the face value. So, the impact of the rate actions on the price is lower for the securities with less maturity period. As such, in a rising interest rate scenario, short-term funds are more desirable while in a falling interest rate scenario, long-term duration/ gilt funds are better.

AUM Data - Investments in Mutual Funds

The valuation of the fixed income securities also gets impacted by the changes in the ratings of the issuer companies, as the changes in credit ratings reflect the changes in the credit risk and hence, the related credit risk premium gets factored into the yield and consequently, the price of fixed income securities. As such, fund managers also make a bet on the credit opportunities and the potential rating upgrades to generate higher returns for the investors.

FIFA Welcomes New Members

M TYPE	MEM. NO.	TYPE	NAME OF ORGANISATION / IFA	NAME OF MEMBER	LOCATION
General	01531	Indv	Vijay Vasant Paragavakar	Vijay Vasant Paragavakar	Kolhapur
General	01532	Indv	Dinesh Jain	Prakash Murlidharbhai	Nagpur
General	01535	Indv	Prakash Murlidharbhai Chhabadiya	Prakash Murlidharbhai Chhabadiya	Rajkot
General	01536	N.Indv	Investmentadvisorindia.com	Investmentadvisorindia.com	Ahmedabad
General	01537	N.Indv	R.S. Bavishi	R.S. Bavishi	Rajkot
General	01538	N.Indv	Navkar Wealth Service	Navkar Wealth Service	Rajkot
General	01539	N.Indv	Investment Options	Investment Options	Rajkot
General	01540	N.Indv	Arihant Investment	Arihant Investment	Rajkot
General	01541	N.Indv	N.J. Securities	N.J. Securities	Rajkot
General	01542	Indv	Bhavin Vrajnikant Gadoya	Bhavin Vrajnikant Gadoya	Rajkot
General	01543	N.Indv	Good Deals	Good Deals	Rajkot
General	01544	Indv	Chirag Shashikantbhai Mehta	Chirag Shashikantbhai Mehta	Rajkot
General	01545	Indv	Mona Darshit Parekh	Mona Darshit Parekh	Amreli
General	01546	N.Indv	Smart Investment	Smart Investment	Jamnagar
General	01547	N.Indv	Chunilal Mansion	Chunilal Mansion	Rajkot
General	01548	Indv	Harshukhlal Mehta	Yatinkmar Harshukhlal Mehta	Rajkot
General	01549	Indv	Geeta Sood	Geeta Sood	Chandigarh
General	01550	N.Indv	Advisors	Growmore Financial Advisors	Thane
General	10151	Indv	Akhil Ravindra Vakil	Akhil Ravindra Vakil	Aurangabad
General	01552	Indv	C.Y. Sulfi	C.Y. Sulfi	Kodaikanal
General	01553	Indv	S.Kumar	S.Kumar	Hosur

As part of our Knowledge Sharing Session, FIFA will be organising seminars across the country to share the findings to enable members to use the insights of the study to develop their practice.

IFA corner

A few fund houses may delay your trail commission due to incomplete KYC.In fact, a few fund houses have written to distributors about such a delay. In one such communication, a large fund house has said, “We will be releasing brokerage payments for the month of July by August 14, 2018. Further, based on recent SEBI advice for investors where PAN/KYC is not available, we have kept your trail commission (if any) on hold for such folios. Trail commission will be paid once the necessary remediation has been carried out for the pending information in the investor folio.” These fund houses may share details of such folios with you through brokerage annexure soon. Earlier, SEBI had found irregularities in practices of fund houses during its inspection carried out between April 1, 2014 and March 31, 2016. One such irregularity was payment of trail commissions to distributors on assets with incomplete KYC. Cafemutual spoke to a few distributors and operational heads of AMCs to understand this issue. Here is the root cause of this issue.

Before 2004, there was no KYC in the mutual fund industry. Distributors just needed to collect application forms and cheques to execute transactions in mutual funds on behalf of their clients. In 2004, the government made it compulsory for investors to furnish their pan card copy along with the mutual fund application form if the investment amount was Rs.50,000 or above. Later in 2007, based on SEBI direction, AMFI notified all mutual fund investors to obtain mutual fund identification number (MIN) to invest in mutual funds. Under this initiative, PAN became mandatory for all investors irrespective of the application size. Also, investors had to visit Karvy's office to undergo in person verification. However, MIN was later abolished within a year due to operational issues.

After a year, SEBI introduced KYC norms for investment in mutual funds to check money laundering activities. KYC is the process of verifying the identity of clients and assessing potential risks of illegal intentions for the business relationship. Under KYC norms, investors were required to submit PAN details along with the address proof to invest in mutual funds. Investors who invested Rs.50,000 or more had to submit their KYC. However, there was no uniformity across fund houses. Each AMC followed up own guidelines to do KYC. In 2012, KYC became mandatory for all investors. SEBI appointed KRAs to bring uniformity across fund houses to do KYC. Simply put, investors can invest across fund houses by quoting their KYC number allotted by KRAs.

Also, the market regulator has introduced the concept of micro investors. These investors can invest up to Rs.50,000 annually in a single mutual fund per year without a permanent account number (PAN). Instead of PAN, these investors can submit their voter identity card, passport or driving license for photo identification. To further stream line the process of KYC, the government had introduced Central KYC in 2015. The government entrusted an agency called CERSAI to keep KYC records of all customers in the financial sector which can be used by instituitions like mutual funds, stock brokers, insurance firms, banks and SEBI registered Investment Advisers to verify and download KYC data. However, the new CKYC forms capture additional details like mother's name, maiden name and FATCA details. Experts believe that many investors who invested before January 1, 2012 did not comply with these norms due to frequent changes.

Quiz

- Q.1 - Investments in mutual funds cannot be made in the name of minors.

  A) True B) False

- Q.2 -Redemption Payouts upto Rs. 20,000 in equity funds can be paid in cash.

  A) True B) False

- Q.3 -Systematic Transfer Plan (STP) allows you to only transfer your debt fund investments to equity funds

  A) True B) False

- Q.4 - AUM stands for:

  A) Asset Management Company B) Asset Mutual fund Company

  C) Average Maturity Collected D) Average Monthly Collection

- Q.5 - Entry load is applicable for mutual fund investments exceeding Rs. 20,000.

  A) True B) False

Ans. Q.1 - B), Q.2 - B), Q.3 - B), Q.4 - A), Q.5 - B),

All Members are requested to update their email IDs and cell numbers on telegram and database. Also, please provide the GST Number.

All those Members who have not paid the Annual Fee are requested to do so at the earliest for both 2017-18 & 2018-19.

Your contribution towards this newsletter is solicited. Please share your views on events that you at your end.

Mail to response@fifaindia.com

Editor: Nisreen Mamaji