FIFA

FOUNDATION OF INDEPENDENT FINANCIAL ADVISORS

Foundation of Independent Financial Advisors

May 2019

What's New?

Market Performance during May 2019

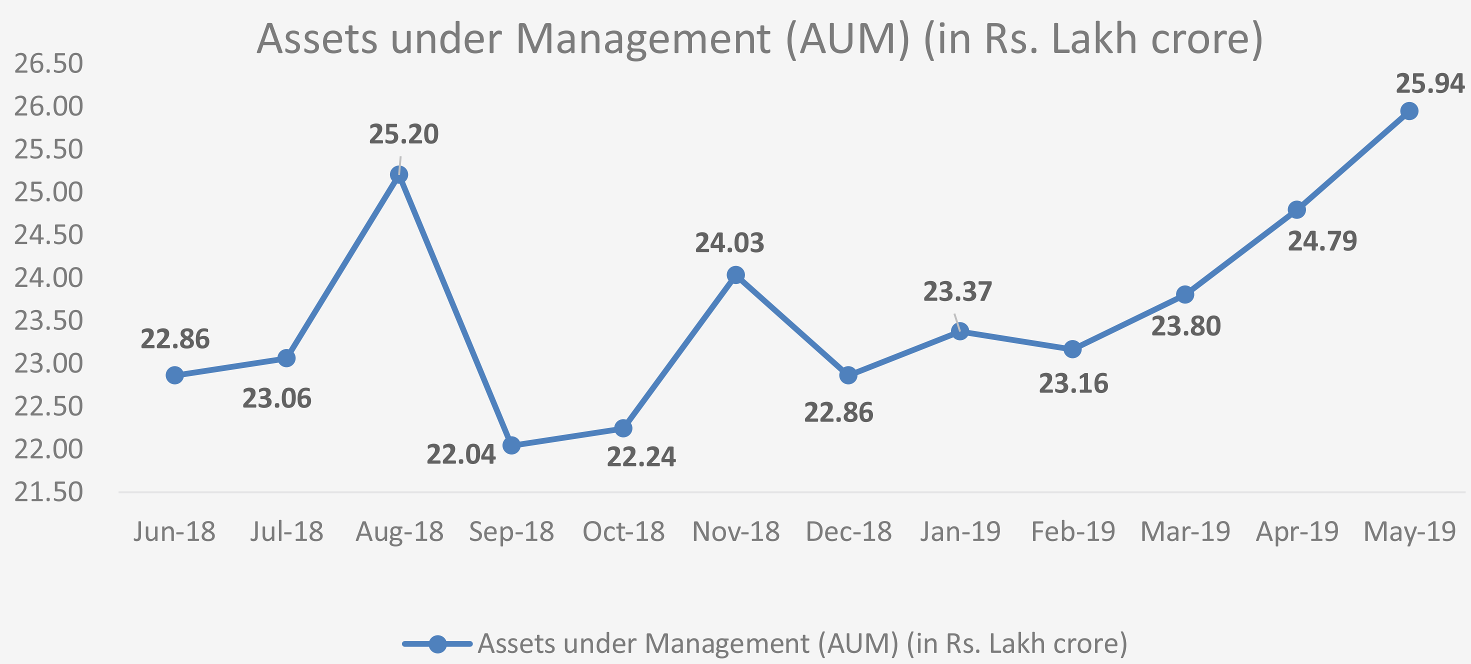
With a thumping victory to the ruling party in the General Elections 2019, the markets got optimistic on the continuity of the policy development at the Centre. The Indian markets soared to record highs on the Election Results day, before giving some gains by the end of the month due to profit booking by the investors. The benchmark indices, S&P BSE Sensex and NSE Nifty50, gave 1.75% and 1.49% returns during May 2019 with the market breadth staying positive with around 1:15 advance-decline ratio. FII continued to be the net buyers in the Indian markets with inflows of Rs. 7,920 crores in the equity markets during the month, while this month also saw the mutual funds turn net buyers after staying sellers for 2 months.

Majority of the sectoral indices ended higher during May 2019, with S&P BSE Capital Goods Index being the best performer with 11% returns for the investors. This could be on the back of sustained focus on infrastructure development by the Govt. On the other hand, weak global cues on the back of escalated tariff situation between US-China seem to have disrupted the S&P BSE Healthcare Index and S&P BSE Metal Index which saw the investors generate negative returns of around 7% each.

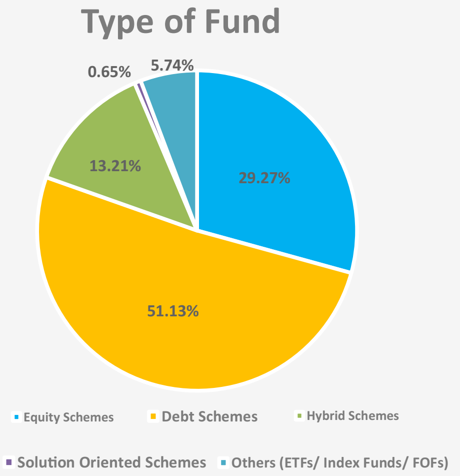
The expected rate cut coupled with the results of the General Elections also pushed a rally in the debt markets, and the 10-yr benchmark G-sec yield declined significantly by 38 bps, reaching 7.03% by 31st May 2019. Further, with the subsequent RBI Monetary Policy Announcement of a rate cut of 25 bps in the policy rates during the first week of June 2019, the benchmark yields went below 7% as well. The credit spreads also softened a little with the 10-year credit spreads for an AAA-rated entity decreasing by 7 bps to end the month at 81 bps. Further, the heightened tariff war situation pushed the Indian currency lower, partially softened by the optimism in the markets on account of election results and the Indian currency ended the month at Rs. 69.69 per USD as against Rs. 69.56 per USD at April-19 end.

With favorable elections results helping the equity markets over the future periods, the long term outlook for investment in equity markets stays positive. However, the near term volatility, primarily on account of liquidity crunch in the financial sector, needs to be watched out, since any squeeze in the credit flow will impact the economic growth. The markets continue to be seen in the over-valued territory, as the current P/E Ratio for both the benchmark indices is significantly higher than the 10-year average. As such, the clients may be advised to invest in the large cap schemes, which are better positioned to absorb the market volatility and gain from the economic recovery. Further, volatility can also be used to the benefit of investors with investments in asset allocation schemes. Considering the long term investment outlook, the clients may be advised to continue their monthly investments in mid-cap and small-cap schemes for long term wealth creation.

AUM Movement over the last 12 months



AUM Composition as at May End



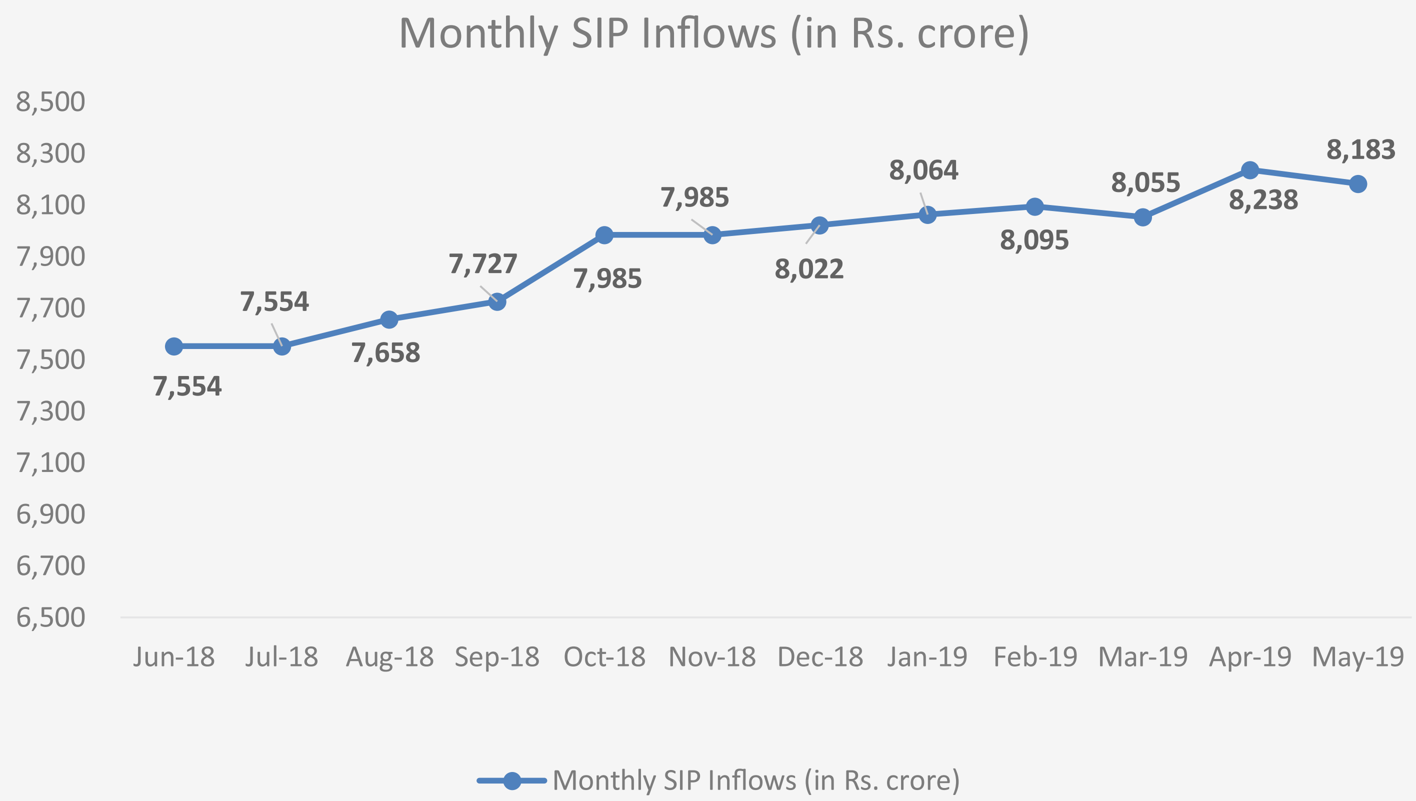
How has the AUM changed over the last month?

(All figures in Rs. lakh crore)

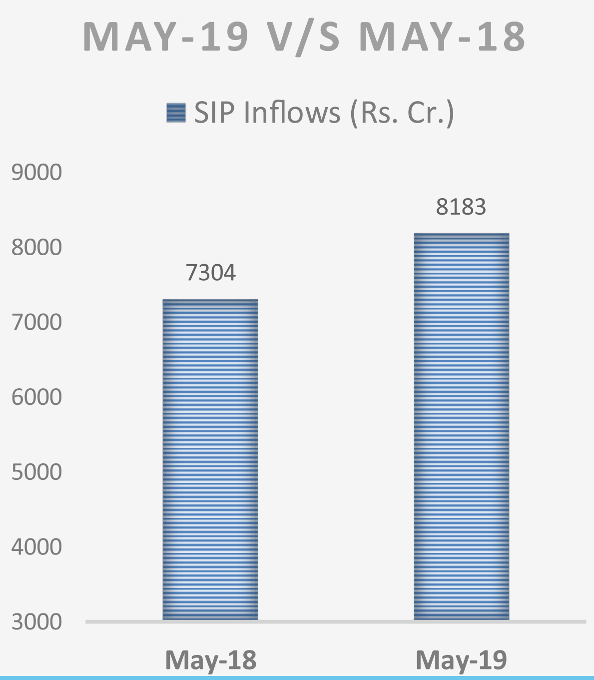
Particulars	AUM as at 30-Apr-19	Net Inflows/ (Outflows)	Increase/ (Decrease) due to market movements	AUM as at 31-May-19
Equity Schemes	7,38,191	4,968	15,867	7,59,026
Debt Schemes	12,44,861	67,930	13,321	13,26,112
Hybrid Schemes	3,36,207	1,266	5,065	3,42,538
Solution Oriented Schemes	16,478	175	279	16,932
ETF/ FOF/ Others	1,43,020	2,651	3,281	1,48,952
Total	**24,78,757**	**76,990**	**37,813**	**25,93,560**

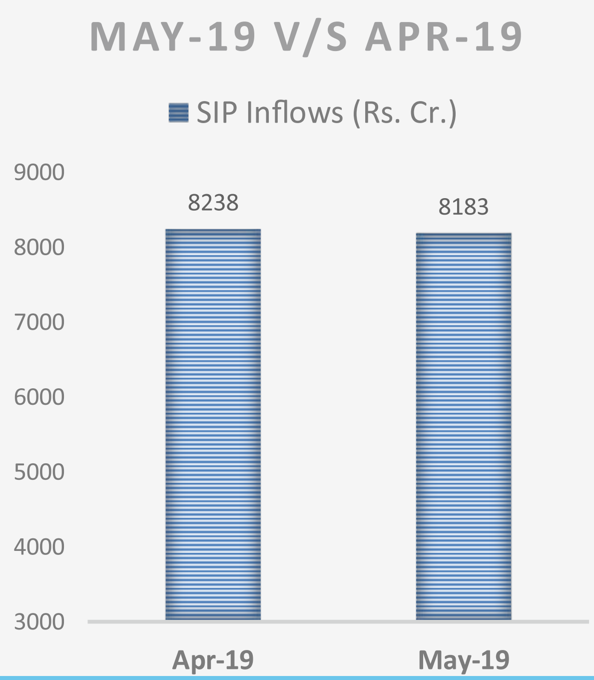
Source – AMFI

SIP Trends



Growth in SIP Inflows





Choosing a debt fund for your portfolio!

With the recent credit default events and subsequent rating downgrades, several debt funds eroded significant amounts from the investors' portfolio. While debt funds have traditionally been associated with conservative risk profiles, such instances do a lot more harm, especially to the retail investors' trust in debt funds. As such, the focus has got back to risk management in debt funds. Here is how you can choose a suitable debt fund for your portfolio:

1. Matching the Investment Horizon

Debt funds can be classified under different categories depending upon the types of securities they invest in. Further, the varying average maturity of the securities the fund makes the different debt funds suitable for different investors. The investors must endeavor to match their investment horizon with the maturity profile of the fund.

If you are looking to park your surplus funds, then overnight or liquid funds may be more suitable. Similarly, if you are looking to save money in a debt fund towards near term goals, a money market fund or a short duration fund may be the right option to invest such funds. Similarly, if you have a longer investment horizon, long duration funds and dynamic bond funds can also be considered.

2. Matching the Risk Appetite

While debt funds are known to generate stable and consistent returns, different types of debt funds may expose you to different kinds of risk, the prominent ones being credit risk and interest rate risk. Credit risk denotes the risk that the issuer company may not be able to honor the debt servicing obligations on time. Similarly, the interest rate risk indicates the risk of the existing fixed rate securities getting more or less valuable due to interest rate movements.

An overnight fund may be the least risky in terms of market risks since the investment is made in overnight securities having a maturity of 1 day. Similarly, the investors wanting to avoid interest rate risk may be interested in investing in floater funds, which invest 65% or more of their portfolio in floating rate instruments. On the other hand, an aggressive investor may like to invest in gilt funds, medium duration fund, long duration funds, etc. to generate better returns on decreasing interest rate outlook. Dynamic bond funds may be preferred by the investors with moderate risk appetite since such funds enjoy the flexibility to adjust the fund duration as per the interest rate outlook.

Similarly, the conservative set of investors may seek to avoid credit risk by investing across gilt funds, as they invest predominantly in the sovereign securities. When it comes to corporate securities, corporate bond funds tend to invest in highest rated instruments primarily, and the credit risk funds invest primarily in the lower than the highest-rated securities, i.e., the securities with a rating lower than AAA credit rating. The credit risk can thus be gauged and adjusted accordingly by the investors.

3. Scheme Past Performance and Expense Ratio

While the past performance is not a guarantee of future returns, it can still serve as a reasonable comparative benchmark for the investors. However, the fund performance must be seen through a complete interest rate cycle to judge the performance better. Similarly, the expense ratio may also be watched out carefully, as higher expense ratios will only lower the investor returns. For example, if a debt fund carries a portfolio with an average yield of 9%, and the expense ratio is 1%, the investor may expect returns of 8%. However, if the expense ratio doubles to 2%, your expected returns will reduce to 7%, eating 1/8th of the earlier expectations.

Indian Market Outlook post General Elections Outcome

General Elections 2019 closed with sweeping victory for the ruling party, as it won a majority on its own with 303 seats. This was also received well by the equity as well as debt markets, as the markets rallied quite a bit after the exit polls and even on the results day. Similarly, the currency markets and debt markets were also optimistic about the election outcome as reflected in the movement of Indian Rupee versus the Greenback and even the 10-year benchmark G-Sec yields.

With the new Govt. now at the helm of the affairs, it would be interesting to watch out how it responds to domestic and global headwinds. Following will be the critical challenges for the Govt.:

1. Slowing Economic Growth

The first economic data encountered by the Govt. has been the GDP growth numbers. While much of the slowing economic growth has been attributed to the sluggishness in the financial credit, especially through NBFCs, reviving the growth story will be one of the key challenges before the new Govt.

2. Lower than Expected Revenue Collections

The revenue collections have been going lower than expected, and the collections for fiscal 2019 have been lower than the revised budgetary estimates. As such, achieving the current year's forecasts will ask for even higher growth in the revenue numbers, than what had been factored in the budgetary estimates, which can be a tricky proposition.

3. Liquidity Crunch in Financial Markets

Indian markets have been under a liquidity squeeze during the recent times, more significantly after one of the top-rated NBFCs defaulted on its debt servicing obligations. Not only has it made the fundraising by the 'shadow banks' (NBFCs) more expensive and difficult, it has also pushed them to be more cautious in disbursing fresh loans and instead use the current cash flows to match the debt obligations. A recent default by one of the top-rated Housing Finance Companies has again shifted the focus on this issue.

4. Crude Oil Volatility

Crude has been playing a critical role in determining the value of our currency in recent times. The volatility seen in the Indian Rupee has been primarily attributed to the crude oil prices, which had been going higher due to the impending ceasure of the waiver of US Sanctions on Iran. With the current softening of the crude oil prices, the Indian Rupee has also been relatively stable.

5. Geopolitical Issues across the Globe

Be it about escalating tensions with our neighbors, or increasing risks of US-China tariff wars, the geopolitical issues across the world will continue to weigh heavily over the other global factors.

Amidst all these challenges, it is the continuity of the policy developments, which is expected to keep the optimism flowing into the markets. With a sense of determination for decision making, it is likely that this optimism fueled by the Elections results will likely sustain.

FIFA Welcomes New Members

M TYPE	MEM. NO.	TYPE	Member/Organization	LOCATION
Founder	F158	Indv	Sharad Gupta	Gurgaon
Founder	F159	N.Indv	Citrine Financial Advisors LLP	New Delhi

M TYPE	MEM. NO.	TYPE	Member/Organization	LOCATION
General	O1977	Ind	Samma Ditthi Solutions	Nagpur
General	O1978	Ind	Padamshree Sharma	Jabalpur
General	O1979	Ind	Cherish Consultants	Chennai
General	O1980	Ind	Manish Devendrabhai Shah	Ahmedabad
General	O1981	Ind	Ammar Wealth	Patan
General	O1982	Ind	Secure Wealth Management	Patan
General	O1983	Ind	Vijay Vasantrao Bachulkar	Satara
General	O1984	Ind	Sambhaji Vyankatesh Lipane	Satara
General	O1985	Ind	Dhairyasheel Gulabrao Nimbalkar	Satara
General	O1986	Ind	Vinaykumar Vadilal Satvara	Ahmedabad
General	O1987	Ind	Arun Gupta	Chandigarh
General	O1988	Ind	Rekha Tandon	Panchkula
General	O1989	Ind	Chandresh Premchand Khatri	Sidhpur
General	O1990	Ind	Prathiba Girish	Mumbai
General	O1991	Ind	Nikunj Hareshbhai Chhag	Ahmedabad
General	O1992	Ind	Rikesh Mirchandani	Mumbai
General	O1993	Ind	Sudhakaran Namboodiri M.I	Trivandrum
General	O1994	N.Indv	Rapture Consultants Pvt Ltd	Patna
General	O1995	Ind	Charanjit Singh	Amritsar
General	O1996	Ind	Miteshkumar Rameshbhai Patel	Navsari
General	O1997	Ind	Prajesh Kantilal Shah	Navsari
General	O1998	Ind	Jayesh Tarunbhai Master	Surat
General	O1999	Ind	Sagar Kirankumar Panchal	Navsari
General	O2000	Ind	Nileshkumar Hasmukhbhai Patel	Navsari
General	O2001	Ind	Nirav Jayant Shah	Navsari
General	O2002	Ind	Devang Subodhchandra Desai	Navsari
General	O2003	Ind	Chetan Indrawadan Bodawala	Surat
General	O2004	Ind	Krishna kiriti Nori	Hyderabad

Mr Dhruv Mehta & Ms Roopa Venkatkrishnan attended the CIFA's 2019 International Forum on 6th & 7th May at the United Nations in New York City.

Details about the Forum have been uploaded on the website www.fifaindia.org along with the links.

On 9th May, 2019 Mr. Sanjay Khatri conducted session in Visakhapatnam which was attended by many IFAs.

On 10th May, 2019 Mr. Sanjay Khatri conducted session in Vijayawada which was attended by large number of IFAs.

On 11th May, 2019 Mr. Sanjay Khatri conducted session in Tirupati which was attended by many IFAs.



Mr Amit Gune conducted session on Debt Market in Karad on 11th May, 2019 in coordination with Axis Mutual Fund which was well attended by many IFAs.


Mr Nayan Mehta conducted session on Debt Market in Surat on 21st May, 2019 in coordination with Axis Mutual Fund which was well attended by many IFAs.


On 25th May, 2019 Ms. Roopa Venkatkrishnan conducted session in Amravati which was attended by large IFAs.



On 26th May, 2019 Ms. Roopa Venkatkrishnan conducted session in Nagpur which was attended by large IFAs.


Quiz

Q.1 - Mutual Funds can be held in demat form of less than 7 days.

A) True B) False

Q.2 - Long Term Capital Gains from debt funds are eligible for exemption up to Rs. 1,00,000 per year.

A) True B) False

Q.3 - Sidepocketing can be done for exceptional interest rate movements.

A) True B) False

Q.4 - STP stands for:

A) Systematic Travel Plan B) Specific Transferable Plan

C) Systematic Transfer Plan D) Same Taxation Plan

Q.5 - Liquid funds do not carry any exit load.

A) True B) False

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

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