Sakthi Financial Services

Weekly Update

01st March 2022 Vol: - 21.22.43

SENSEX	NIFTY	USD	GOLD (10 grams)	CRUDE
56247.28	16793.90	75.53	50667.00	7220.00

Should mutual fund investors buy more now?

The world is still coming to terms with the Russian attack on Ukraine. The market even before that was grappling with many uncertainties. It was worried about rate hikes, liquidity tightening, spiralling inflation, high oil prices... However, two-year-old wonders in social media are least bothered by a sharp fall in the market or the depressed sentiment. They are offering an instant fix to maximise wealth: buy more.

Mutual fund advisors say many investors, especially first-time investors, are still hoping for a repeat of the market scenario soon after Covid hit the world. Even as everyone was bracing for a long bear market, markets bounced back. Moreover, the market started to climb historic highs. Many investors believe the current situation may improve soon and the market may climb up soon.

Maybe they are right in their prediction. But they can also be terribly wrong. That is the problem with all market predictions. That is why we always start with a proper investment plan. One of the important decisions we make is to invest in equity mutual funds only to achieve our long-term financial goals. The basic idea is that even if things go wrong in the market, we have enough time to recoup the losses. Don't we also say don't change your investment plans based on the market conditions? Again, this is to save us the trouble of taking a call on short-term trends in the market. For example, the market fell over 2,000 points yesterday. Should you decide whether you should sell your investments to protect your wealth? The trouble is we don't know for sure whether the market is going to fall more in the coming days.

if that is the case, how can we be sure about buying more? As said earlier there is no way to know the future course of the market. Sure, everyone makes informed guesses. But they are just guesses. The market may fall more. Then what will happen? Would you buy even more? You should have infinite resources to buy more after every market fall.

That is why it makes sense to have a predicated formula when it comes to investing more in equity. For example, you can decide to make extra investments if the market falls 5% or 10%. You should also remember that this is a tactical allocation that you are trying to make to maximise wealth. The money should be invested for the long term. You should not try to make money in the short term by deploying the money you need for short term needs. If you do that, you are trying to time the market. And mostly such stunts often result in losses.

Glossary

ADR or American Depository Receipts: -

It is a certificate issued by a U.S. bank representing a specified number of shares (or one share) in a foreign stock that is traded on a U.S. exchange. ADRs are denominated in U.S. dollars, with the underlying security held by a U.S. financial institution overseas.

Survival kit for mutual fund investors in a volatile market

Many mutual fund investors are extremely worried about their investments. They were already concerned about imminent interest rate hikes; tighter liquidity conditions and the Russian aggression has made things more complicated for them. Foreign investors have been selling Indian stocks for a while now. The surge in oil prices and talk of nuclear options are going to keep the market in doldrums for a while. Against this backdrop, what can mutual fund investors do?

Don't do anything

This is what most mutual fund managers and advisors have been telling investors for a while. These experts believe that investors should not second guess what the central banks around the globe are going to do or what foreign investors are going to do. They say we are dealing with variables in an emerging situation and the best thing for mutual fund investors is to do nothing at this juncture. Let your mutual fund manager do his job.

Cut out the noise

Lot of new investors are in the market. More than that there are many new experts in social media dispensing instant solutions to market troubles. These experts who have been in the market for a few years can't offer you anything worthwhile. Their quotable quotes can be entertaining. Do not attach more importance to them. There are many chapters in the book these experts still haven't internalised.

What is worrying you?

Are you new to the market? Is it the general market conditions that are troubling you? If so, as said earlier, don't do anything. That doesn't mean you can revisit your investments. Are you doubtful about some decisions? If so, speak to your mutual fund advisor or financial planner. Clear your doubts. If you are still not happy with certain investment decisions, you have to reconsider your decisions. Look at the tax outgo, load if any, and sell those investments if that can give you peace.

Don't take more risk

The so-called new experts are goading investors to get into riskier investments to maximise wealth. Faced with losses, many investors are betting on these opportunities to recoup their losses and make more money. Don't be fooled? After the market falls, stocks become attractive. But that is relative. Is the valuation really attractive? These are not something that a mutual fund investor should worry about. Stick to your original investment plan. Never invest in choices without considering your goals, horizon and risk profile.

Focus on your goals

A bad phase in the market is a good time to focus on your goals. Obsessing about the market or tinkering with your investments is the sure way to lose money. Instead focus more on your goals. This will give you the confidence to continue with your investments. As fund managers say a bad market may offer some real good options. Continue with your investments to amass more units and maximise wealth.

GDP growth slowed to 5.4% in Oct-Dec 2021, FY22 growth estimated at 8.9%

India's GDP growth slowed down to 5.4 percent in October-December 2021 from 8.5 percent in the previous quarter, data released on February 28 by the Ministry of Statistics and Programme Implementation showed. The statistics ministry also said India's GDP will likely grow by 8.9 percent in FY22, down from its first advance estimate of 9.2 percent, released in early January 2022.

The GDP growth rate of 5.4 percent for the third quarter of FY22 is below expectations. As per a Moneycontrol survey, the GDP was seen rising by 6.2 percent on a year-on-year basis last quarter.

Growth was expected to decline in the last quarter of 2021 as a favourable base effect waned, with the Indian economy having exited a technical recession in the corresponding period of FY21.

Like the GDP growth rate, growth in Gross Value Added (GVA) also slid in October-December 2021, coming in at 4.7 percent, down from 8.4 percent in July-September 2021. For the year as a whole, the statistics ministry has estimated GVA will post a growth of 8.3 percent.

October-December 2021 saw all eight sectors record a lower rate of growth compared to last year, with the construction sector contracting by 2.8 percent. In July-September 2021, the construction sector had grown by 8.2 percent. The manufacturing sector also proved to be a drag last quarter, expanding by a mere 0.2 percent on a year-on-year basis. However, for FY22 as a whole, the government's second advance estimate showed the manufacturing and construction sectors are seen growing by 10.5 percent and 10.0 percent, respectively.

The second advance estimate suggests India's GDP growth will slow down further to 4.8 percent in January-March 2022, data for which will be released on May 31.

Sebi defers swing pricing framework for mutual fund schemes to May

Markets regulator, the Securities and Exchange Board of India (Sebi), on Friday deferred the implementation of swing pricing framework for mutual fund schemes to May from March. The decision has been taken based on the request received from the Association of Mutual Funds in India, an industry body for asset management companies in India.

To dissuade large or savvy investors from exiting a fund in times of market panic and prevent the collapse in a scheme's net asset value (NAV), Sebi in September had introduced swing pricing framework for certain category of open-ended debt MF schemes. Overnight funds, gilt funds and gilt with 10-year maturity funds were exempted from this framework.

The swing pricing mechanism allows fund houses to adjust a scheme's NAV in response to inflows and outflows, protecting long-term unitholders from value erosion during heavy redemptions.

Four international funds that are still open for investment

The Russia-Ukraine crisis has sent the global stock markets into a meltdown. However, investors looking to increase their allocation to global markets amidst the ongoing correction don't have many options as most international mutual funds stopped accepting fresh money after RBI's overseas limits were set to be breached. However, there are a few funds where investors can still deploy money for global diversification.

DSP Global Innovation Fund of Fund was launched with idea of investing in a combination of index funds and ETFs that track innovative companies in different parts of the world. However, following SEBI's directions on overseas limits, the fund for now will invest in iShares NASDAQ 100 UCITS ETF and iShares Semiconductor ETF. The iShares Semiconductor ETF tracks an index of US-listed in the semiconductor sector.

The overseas limit for mutual funds investing in international exchange traded funds (ETFs) is still open. **Kotak NASDAQ 100 Fund of Fund** invests in iShares NASDAQ 100 UCITS ETF. The NASDAQ 100 is an index of 100 largest US companies listed on the Nasdaq stock exchange.

Sachin Bansal-backed **Navi Mutual Fund's US Total Stock Market Fund of Fund** will be investing in an ETF run by Vanguard, which is the pioneer of passive investing in the world. The Vanguard Total Stock Market Index Fund ETF (VTI ETF) tracks the CRSP US Total Market Index, which is a broad US index that covers nearly all of the US equity market, across multiple sectors and comprises of more than 4,000 stocks. VTI ETF is the third largest ETF in the world with $1.3 trillion worth of assets.

Aditya Birla Sun Life NASDAQ 100 Fund of Fund also invests in iShares NASDAQ 100 UCITS ETF. The NASDAQ 100 is an index of 100 largest US companies listed on the Nasdaq stock exchange.

Glossary

ISIN

ISIN (International Securities Identification Number) is a unique identification number for a security. The ISIN standard is used worldwide to identify specific securities such as bonds, stocks (common and preferred), futures, warrant, rights, trusts, commercial paper and options. ISINs are assigned to securities to facilitate unambiguous clearing and settlement procedures. They are composed of a 12-digit alphanumeric code. For example, the ISIN No. of TATA STEEL LTD. is INE081A01012.

SEBI pulls up Samco MF for calling its scheme a 'pure' equity fund

The capital markets regulator has pulled up Samco Mutual Fund, a new entrant to the market, for calling its maiden scheme a pure equity fund and not incorporating the clauses pertaining to its tool to pick stocks in the scheme information document (SID) of the new fund offer (NFO).

The Securities and Exchange Board of India has also asked the fund house to change its "Stress Tested Mutual Fund" tagline.

Existing unit holders have the option to exit the scheme before February 24 without any exit load and the regulator has directed the fund house to pay interest at the rate of 15% a-year to such unit holder from the date of closure of the NFO till date of the payment.

The fund house launched the NFO of its maiden scheme, Samco Flexi Cap Fund, last month. The stock pick is based on an in-house proprietary investment framework, called the Hexashield Framework, which shortlists companies on six parameters: competitive strength and pricing power, balance sheet and insolvency, reinvestment and growth, corporate governance and leadership, cash flow and regulatory compliance.

The regulator is upset that the fund was sold to investors as a pure equity scheme though as per the asset allocation table, the scheme shall invest 65-100% in Indian equity, 0-35% in foreign securities and 0-35% in tri-party repo (TREPS) through Clearing Corporation of India. The regulator believes that any scheme with a high cash allocation cannot be called a pure equity scheme. "Since the scheme shall also invest up to 35% in TREPS instruments, the reference of the word 'pure' was duly removed from the website to avoid any confusion, as per the direction received from Sebi. Going forward, we will refer to Samco Flexi Cap Fund as an equity scheme," said a spokesperson for Samco MF.

The regulator also directed Samco Mutual Fund to incorporate the clauses pertaining to the Hexashield Framework in the investment strategy section of the SID. The spokesperson said the fund has issued a notice-cum-addendum, incorporating the information.

To comply with the regulator's direction on changing the tagline, the fund house amended it to "HexaShield Tested Investments".

Bonds gain on hopes of RBI intervention

Indian bonds ended slightly higher on hopes of central bank intervention after volatile trading in the past few days as uncertainty about the flight of capital amid rising geopolitical risks and inflation worries spooked investors.At one point of trading bonds erased substantial gains after the Reserve Bank of India kept monetary policy rates and stances unchanged belying expectations of a token increase in the reverse repo rate, the rate it pays banks for parking excess funds.

"Market sentiment is weak amid a slew of uncertainties emanating from geopolitical and macro factors," said Siddharth Bachhawat, head - trading, Barclays Bank India. "Even though rates rallied post the RBI policy, risk appetite remains subdued. Rising crude is worsening sentiment further."

PE firms' partner each of four IDFC Mutual Fund suitors

Buyout group TPG has joined forces with an investment vehicle of the Hinduja family and IndusInd Bank, also owned by the same business family to form a consortium and make a firm bid for IDFC's mutual fund business,
said people aware of the development.

The TPG-IndusInd combination is competing with three other such groups that have got formed ahead of the mid-March binding bid deadline. It is after a long time that each of the shortlisted contenders -- home grown banks and global asset management firms -- in fray have tied up with a private equity firm.

Sundaram Mutual Fund has partnered Carlyle, while Invesco and Warburg Pincus have created a consortium for the potential Rs 5,000 crore buyout, the people add. Carlyle, TPG, IndusInd, Warburg and Bandhan declined to comment. Mails sent to GIC, IDFC AMC, Invesco and Sundaram remained unanswered at press time Sunday.

In September last year, boards of IDFC Ltd and IDFC Financial Holding Company ratified a proposal to divest the mutual fund business, IDFC Asset Management Co Ltd. Last December, IDFC First Bank set the ball rolling for the process of merging IDFC Ltd and IDFC Financial Holding Company with it. Both entities are part of the bank's
promoter group.

Citigroup was roped in and is running a formal process to find a buyer for the MF business, sources said.

IndusInd Bank is keen to enter the mutual fund business so that it is able to create a new fee-based income channel. If its IDFC AMC acquisition plan goes through, IndusInd Bank will get a ready-made and operational MF business without requiring to secure a licence from the Securities and Exchange Board of India. IDFC AMC already has a licence that can be transferred in IndusInd's name. Interestingly though, the Hinduja family investment vehicle is leading that consortium and not the bank.

IDFC Mutual Fund had Rs 1.26 lakh crore of assets under management as of June 2021. IDFC Mutual Fund's average AUM was growing 19.3%, outperforming the industry growth of 8.6%, its annual presentation for fiscal 2021 said. "Our full-year market share increased 4% in FY21 from 3.7% in FY20," according to the presentation. For FY21, the firm had reported a net profit of Rs 144 crore, registering growth of 81%.

Established in 2000, IDFC AMC is one of India's Top 10 asset managers with on-the-ground presence in over 46 cities, and investors in more than 375 cities and towns, its website showed. The company offers over 60 mutual fund schemes, the website showed.

Consolidations are happening in the mutual fund industry. In last December, HSBC announced acquisition of L&T's mutual fund business for around Rs 3,200 crore.

New Fund Offer(NFO)

(Source: - AMFIindia, Moneycontrol, Economictimes, Livemint, Cafemutual, IBJArates, etc.)