

Equity Markets

Jan 2008



It was a tough and disappointing month for the equity market investors. Weak global sentiment, liquidity crunch and FII outflows pulled down Indian equity markets sharply, but showed remarkable recovery. Markets started softly on the first day of 2008. Markets traded evenly with marginal gains. During the month markets were highly volatile, where new highs were seen around 20,873.33 points.

As the global markets went into a tail spin, the Indian markets were also affected from a technical point of view. The sell off resulted in the brokers and their clients facing margin calls on the derivative positions. To honor the margin calls, the brokers had to sell on behalf of their clients. Lots of money had also gone out of the system as application for the IPO's of Reliance Power & Future Capital this also resulted in a sharp correction.

On the other hand, the domestic institutions had been buying, with the tax saving season round the corner, more money went into Unit Linked schemes, Insurance Plans, found their way into the stock markets. Markets rebounded taking cues from firm global markets and saw its biggest ever single day gain of 1,139.92 points on Jan 25, 2008. Sensex opened the month at 20,312.90 and closed at 17,648.71 points, losing 2,664.19 points or 13.12%. FIIs remained net sellers throughout the month, with total net selling worth of \$3231.60 & domestic MFs and insurance companies aggressively bought primarily large caps at lower levels.

Outlook

In the short term, it may be difficult to time the bottom, considering the magnitude and the speed of the market fall it would be sensible to analyze the fundamentals of the market and decide the course of action to be taken. Macro-fundamentals continue to be strong with the economy growing at over 8.5% p.a. India continues to be one of the fastest growing economies in the world. Corporate India too, continues to deliver strong results. Hence we advice investors to stay focused on the long term growth story of India and not to upset by any short-term volatility; however, liquidity and sentiment will be determined by global cues and could cause volatility in the short term. Given the attractive valuations and long term perspective this would be an opportunity to participate further in Indian equity markets.

Index	Value as on 01.01.2008	Value as on 31.01.2008	%Change
Sensex	20,312.90	17,648.71	(13.11%)
S&P Nifty	6,144.35	5,137.45	(16.38%)
Nasdaq	2,652.28	2,389.86	(9.89%)
FTSE	6,456.90	5,879.80	(8.94%)
Dow Jones	13,264.82	12650.36	(4.63%)
KLSE	1,435.68	1393.25	(2.96%)
Hangseng	27,812.65	23,455.74	(15.67%)
Kospi	1,853.45	1,624.68	(12.34%)
Nikkei	14,691.41	13,592.47	(7.48%)

Debt Markets

Jan 2008

The gilt market witnessed a see-saw movement for the month ending Jan 08. There was a downward shift in the yield curve week - on - week, as demand was triggered by expectations of improvement in liquidity, resulting in tightening of spreads at the long end. During the month liquidity conditions and rate cut expectations boosted the sentiment, but not sustained. During the month RBI kept all the rates unchanged in the view that inflation rate may increase, as crude prices are increasing. RBI maintained the status in terms of policy direction and highlighted growth moderation in certain industrial sectors, liquidity management and possible upward inflationary risks. The macro environment remains favorable for debt markets, with RBI achieving its objective of moderating inflation and credit growth, without hampering the economic growth momentum.

However, the sharp rate cuts announced overseas and recent comments made by government officials have resulted in increased rate cut expectations among a segment of the market and as a result, yields moved up after the policy announcement.

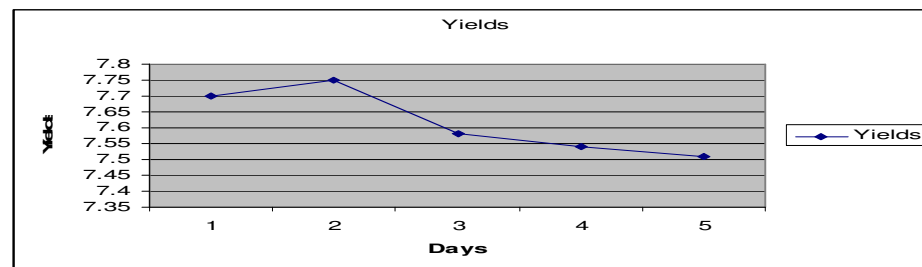
- Inflation rose to 3.93% for the month from 3.45% in the previous month due to increase in prices of food and manufacturing products.
- Rupee remained mixed anticipating strong capital inflows after FED rate cut and traders remained cautious on RBI intervention. Rupee stood at Rs.39.40.
- Crude oil prices stood at \$ 92.33 per barrel after the FED rate cut.



Outlook

We expect the central bank to maintain a neutral policy position and interest rates to have a downward bias, going ahead. Driving factors may be the global uncertainty and possible inflation pressures due to increase in prices of food items and global commodity prices. But RBI could announce appropriate measures if growth momentum gets impacted due to international/domestic factors. Investors with appropriate risk profile can look to get invested in long term bond funds and short term income plans continue to be attractive investment avenues, keeping in mind the medium term rate outlook.

Yield Curve



FII & MF Investments for the month of Jan 08

	Purchases	Sales	Net Invt
FII Investments	1,03,678.20	1,16,713.70	(13,037.70)
MF Investments	32,514.20	24,935.50	7,578.70

Mutual Fund performance in the market fall (NAVs plummet)

- Amid a falling stock market the Net Asset Values (NAV) of mutual funds had seen a sharp fall.
- Although domestic institutions, which include mutual funds, had been buying aggressively, but global cues and leveraged positions by some investors had led a bearish sentiment in the market.
- This compares favorably to the position in the May 2006 crash, when most equity funds saw much sharper free falls in their NAVs than the index. Six out of every ten funds managed a lower decline than the sensex in the recent fall, while quite a few funds contained declines to levels much lower than the index.
- Some of the best performing mutual funds had seen their NAVs declined by more than 23% while sensex dropped by 20% during the January 11-22 period.
- Some of the diversified funds that registered declines between 12-20% in this period were HDFC Equity Fund, HDFC Top 200, and JM Equity etc.
- On the other hand funds such as Sundaram BNP Paribas Rural India Fund had fallen by 23.10% from their high NAV of Rs. 19.79cr to Rs.15.22cr. Birla advantage fund had fallen by 23.15% from their high NAV of Rs.194.74cr to Rs.149.66cr. Principal Dividend Yield, UTI Master Value and Tata Equity PE have suffered significant reversals in the meltdown.
- Theme funds focused on the infrastructure, banking and power sectors, despite concentrated exposures had not fared poorly against the sensex. While Reliance Diversified Power shed about 14.50% in value, JM Basic Fund lost 16.4% per cent.
- In contrast to the picture presented by equity funds, small investors who had taken direct exposure to the equity markets could have lost more than 50 per cent of their wealth in select stocks during this period

Mutual Fund News

NFO News:

HSBC Mutual Fund to launch an open ended equity scheme HSBC Emerging Markets Fund, which will invest in equities in India and other emerging markets. The fund opens for investments from 28 January 2008 and closes on 25 February 2008.

HDFC Mutual Fund launches a new infrastructure fund named HDFC Infrastructure Fund. The Fund is a 3-year close-ended equity scheme with automatic conversion into an open-ended scheme upon maturity. The NFO opens on 8 January 2008 and closes on 21 February 2008 at a face value of Rs 10. There would be no entry or exit load. The minimum initial subscription amount is Rs. 5000 and in multiple of Rs. 100 thereafter.

SIP's & SWP's benefit in volatile markets

The most striking feature of any stock market has been very high level of volatility that has made all investors, retail as well as institutional, look for cover at times when bets have fallen flat. This is where the efficacy of Systematic Investment Plan (SIP) becomes paramount. Timing the market is the crux of making money. The best way to profit from volatility in the market is to predict the turning points correctly, and make the appropriate investment decision. In other words, buy at the bottom and sell at peaks! Do so consistently, and you will make lots of money. But this is a job next to impossible. Shouldn't you take the guesswork out of timing the market, and consistently buy near the bottom? That is exactly what you do with SIPs, an investment option available on various mutual fund schemes (equity, debt and balanced). SIPs are the most effective in the case of equity schemes, as equities are, by nature, the most volatile of asset classes.

While investing in mutual funds, usually, you buy into it at its prevailing NAV. With SIP, however, your investment is staggered. Instead of a lump sum amount, you invest a pre-specified amount in a scheme at pre-specified intervals at the then prevailing NAV. SIPs are based on the concept of rupee cost averaging - an investment strategy quite common in the stock markets. This disciplined approach to investing helps long-term investors reap good returns over a period of time. And, in most cases, the average unit cost will always be less than the average sale price per unit, irrespective of whether the market is rising or falling. Only in a very pessimistic market, with prices falling continuously, a SIP investor suffers losses. SIPs work best over long periods of time. Only then do you capitalize on the periodic dips in the market and accumulate a greater number of units at lower levels-and over time, reduce your average unit cost.

Advantages of SIP:

- **Avoiding the market predicting:** Most investors cannot resist the urge to try to invest at a market low and take their profits at a market high. They usually fail because the task is extremely tough, even for experts.
- **Disciplined investing:** Once you start with SIP, you invest at the appointed time and that makes you a disciplined investor. Further, SIP ensures you don't divert your savings earmarked for investment purposes towards spending.

However, there are some of the disadvantages of SIP. SIP does not protect you from making a loss in constantly declining markets. If you have been investing in a falling market without saving a thought for the long-term trend, you might make losses. Second factor is that cost averaging is of no use if your portfolio is fundamentally not sound. So first one must identify the right portfolio and then think of price averaging.

Some practical factors to keep in mind

- Ignore minor swings. A falling market will bring you in doubt as to whether to continue with an equity-linked SIP or not. Unless you feel the long-term outlook on your investment has turned negative, persist with your SIP. In fact, a downturn gives you the opportunity to buy a greater number of units, and brings down your average cost price. And when the market recovers, your gains will be magnified.
- Remember to monitor your investment periodically. Given that a fund manager has 6,000 stocks to choose from, stock selection can make or break a fund. In time, you might discover that your scheme isn't delivering. If so, consider making an adjustment to your investment strategy.
- Decide on the periodicity of your investment. Your choice should be based on the periodicity of your cash inflows and the time during which you can make good the indicated amount. Your status regarding the inflows and outflows of your investible resources should be extremely clear. However, traditional wisdom says that lesser the periodicity, the better, as it allows you to get more opportunities to benefit from favorable market swings.

Systematic withdrawal plans (SWP)

If SIP is for making a disciplined investment in market, the SWP is the disciplined way of unwinding your investment. The root lies in the fact that just the way it is less risky to invest in bits, it is similarly less risky to liquidate your positions in bits. This is because if you keep booking profit in predefined successions, you avert the risk of getting stuck should the market fall suddenly. This happens rather frequently in our system where liquidity and depth is rather low. So, if you are booking profit periodically you are in fact derisking yourself by leaving less and less of your portfolio to be liquidated at higher market levels. This means that even though the market is going higher consistently, you are moving out of market. Therefore it makes more sense to go in for systematic investment and withdrawal mechanisms when you are trading in a market, which behaves in high channel and does not follow a secular trend. In short though you may be sacrificing returns, but this is worth derisking that you get through systematic investments.

The following table displays the yields generated with an investment of Rs. 1,000 per month for 25 months started on 1st Jan 2006 and continued till 1st Jan 2008.

Scheme	Total Investment	Present Value	Yield
Birla Mid Cap Fund - Growth	25000	38084.782	43.5729
Birla SunLife Equity Fund - Growth	25000	36907.7886	39.9368
DSP Merrill Lynch Opportunities Fund - Growth	25000	35518.8453	35.5831
Franklin India Bluechip - Growth	25000	33624.6554	29.5302
Franklin India Prima Fund - Growth	25000	30943.2978	20.7166
HDFC Equity Fund - Growth	25000	33238.6731	28.2797
Reliance Banking Fund - Growth	25000	43101.7059	58.5185
Reliance Growth - Growth	25000	38472.1024	44.7231

Risk Note : While every effort has been taken to ensure that the information provided herein is correct and accurate, Pelican Wealth Managers Pvt. Ltd is not responsible for any mistakes that may have crept in inadvertently. Readers are requested to refer the respective offer documents before committing their investments. Pelican does not solicit any investment business through this newsletters, but only provides information, which it genuinely believes to be true. The investment products discussed here are not exhaustive but only indicative.

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