EXPONENT
Empowering The Common Man ™

The Exponent Group of Journals For
Shares And Stock Market

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Editorial

- Sanket Pradhan

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The other day, while having my lunch, just overheard two friends discussing the stock market. One of them was advising the other that to gain in the stock market , we need to buy when the price is low and sell at the highest price. It is very easy to say this but difficult to time the market. With our busy schedules, tools like Systematic Investment Plan (SIP) help us to invest and get returns in the long run. We will discuss this in detail in our article related to SIP.

People invest for many reasons. As a hobby, for their ego's sake or to meet a medium-term goal, such as paying for college fees for children.But most of us have a real, long-term goal. However you choose to express it, retirement, your golden years, the day you stop working — it's all about living off your money rather than continuing to work solely to make more.

NATIONAL PENSION SCHEME is an avenue for people to help planning for their golden years. We will discuss this in detail in the related article.

Finance Minister Arun Jaitley recently presented the Union Budget for 2015-16. This is Modi Government's first full-fledged budget after coming to power last year in May.

The budget 2015-16 has been widely hailed as a Super Budget, which stalwarts expect that it would put India firmly on the growth path. We have covered some aspects on the Budget in this edition.

There is much more information available in the current journal than what I have briefly mentioned. Hope all of you find this informative.

Forex Trading

- Sanjay Thakkar

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Forex is short for foreign exchange, but the actual asset class we are referring to is currencies. Foreign exchange is the act of changing one country's currency into another country's currency for a variety of reasons, usually for tourism or commerce. Due to the fact that business is global there is a need to transact with most other countries in their own particular currency. After the accord at Bretton Woods in 1971, when currencies were allowed to float freely against one another, the values of individual currencies have varied, which has given rise to the need for foreign exchange services. This service has been taken up by the commercial and investment banks on behalf of their clients, but has simultaneously provided a speculative environment for trading one currency against another using the internet.

Forex as a Hedge

Commercial enterprises doing business in foreign countries are at risk, due to fluctuation in the currency value, when they have to buy goods or services from or sell goods or services to another country. Hence, the foreign exchange markets provide a way to hedge the risk by fixing a rate at which the transaction will be concluded at some time in the future. To accomplish this, a trader can buy or sell currencies in the forward or swap markets, at which time the bank will lock in a rate, so that the trader knows exactly what the exchange rate will be and thus mitigate his or her company's risk. To some extent, the futures market can also offer a means to hedge a currency risk depending on the size of the trade and the actual currency involved. The futures market is conducted in a centralized exchange and is less liquid than the forward markets, which are decentralized and exist within the interbank system throughout the world.

Forex as a Speculation

Since there is constant fluctuation between the currency values of the various countries due to varying supply and demand factors, such as: interest rates, trade flows, tourism, economic strength, geo political risk and so on, an opportunity exists to bet against these changing values by buying or selling one currency against another in the hopes that the currency you buy will gain in strength, or the currency that you sell, will weaken against its counterpart.

Currency as an Asset Class

There are two distinct features to this class:

- You can earn the interest rate differential between two currencies
- You can gain value in the exchange rate

Why We Can Trade Currencies

Until the advent of the internet, currency trading was really limited to interbank activity on behalf of their clients. Gradually, the banks themselves set up proprietary desks to trade for their own accounts, and this was followed by large multi national corporations, hedge funds and high net worth individuals.

With the proliferation of the internet, a retail market aimed at individual traders has sprung up that provides easy access to the foreign exchange markets, either through the banks themselves or brokers making a secondary market.

Forex Risk

Confusion exists about the risks involved in trading currencies. Much has been said about the interbank market being unregulated and therefore very risky due to a lack of oversight. This perception is not entirely true, though. A better approach to the discussion of risk would be to understand the differences between a decentralized market versus a centralized market and then determine where regulation would be appropriate.

The interbank market is made up of many banks trading with each other around the world. The banks themselves have to determine and accept sovereign risk and credit risk and for this they have much internal auditing processes to keep them as safe as possible. The regulations are industry-imposed for the sake and protection of each participating bank.
Since the market is made by each of the participating banks providing offers and bids for a particular currency, the market pricing mechanism is arrived at through supply and demand. Due to the huge flows within the system it is almost impossible for any one rogue trader to influence the price of a currency and indeed in today's high volume market, with between two and three trillion dollars being traded per day, even the central banks cannot move the market for any length of time without full coordination and cooperation of other central banks.

Attempts are being made to create an ECN (Electronic Communication Network) to bring buyers and sellers into a centralized exchange so that pricing can be more transparent. This is a positive move for retail traders who will gain a benefit by seeing more competitive pricing and centralized liquidity. Banks of course do not have this issue and can, therefore, remain decentralized. Traders with direct access to the forex banks are also less exposed than those retail traders who deal with relatively small and unregulated forex brokers, who can and sometimes do re-quote prices and even trade against their own customers. It seems that the discussion of regulation has arisen because of the need to protect the unsophisticated retail trader who has been led to believe that trading forex is a surefire profit-making scheme.

For the serious and somewhat educated retail trader, there is now the opportunity to open accounts at many of the major banks or the larger more liquid brokers. As with any financial investment, it pays to remember the caveat emptor rule - “buyer beware!”

Pros and Cons of Trading Forex

If you intend to trade currencies, and regard the previous comments regarding broker risk, the pros and cons of trading forex are laid out as follows:
1. The forex markets are the largest in terms of volume traded in the world and therefore offer the most liquidity, thus making it easy to enter and exit a position in any of the major currencies within a fraction of a second.

2. As a result of the liquidity and ease with which a trader can enter or exit a trade, banks and or brokers offer large leverage, which means that a trader can control quite large positions with relatively little money of their own. Leverage in the range of 100:1 is not uncommon. Of course, a trader must understand the use of leverage and the risks that leverage can impose on an account. Leverage has to be used judiciously and cautiously if it is to provide any benefits. A lack of understanding or wisdom in this regard can easily wipe out a trader's account.

3. Another advantage of the forex markets is the fact that they trade 24 hours around the clock, starting each day in Australia and ending in New York. The major centers being Sydney, Hong Kong, Singapore, Tokyo, Frankfurt, Paris, London and New York.

4. Trading currencies is a “macroeconomic” endeavor. A currency trader needs to have a big picture understanding of the economies of the

various countries and their inter connectedness in order to grasp the fundamentals that drive currency values. For some, it is easier to focus on economic activity to make trading decisions than to understand the nuances and often closed environments that exist in the stock and futures markets where micro economic activities need to be understood. Questions about a company's management skills, financial strengths, market opportunities and industry specific knowledge is not necessary in forex trading.

Two Ways to Approach the Forex Markets

For most investors or traders with stock market experience, there has to be ashift in attitude to transition into or to add currencies as a further opportunity for diversification.

1. Currency trading has been promoted as an "active trader's" opportunity. This suits the brokers because it means they earn more spread when the trader is more active.

2. Currency trading is also promoted as leveraged trading and, therefore, it is easier for a trader to open an account with a small amount of money than is necessary for stock market trading.

Besides trading for a profit or yield, currency trading can be used to hedge a stock portfolio. If, for example, one builds a stock portfolio in a country where there is potential for the stock to increase value but there's downside risk in terms of the currency, for example in the U.S. in recent history, then a trader could own the stock portfolio and sell short the dollar against the Swiss franc or euro. In this way the portfolio value will increase and the negative effect of the declining dollar will be offset. This is true for those investors outside the U.S. who will eventually repatriate profits back to their own currencies.

With this profile in mind, opening a forex account and day trading or swing trading is most common. Traders can attempt to make extra cash utilizing the methods and approaches elucidated in many of the articles found elsewhere on this site and at brokers or banks websites.

A second approach to trading currencies is to understand the fundamentals and the longer term benefits, when a currency is trending in a specific direction and is offering a positive interest differential that provides a return on the investment plus an appreciation in currency value. This type of trade is known as a "carry trade." For example, a trader can buy the Australian dollar against the Japanese yen. Since the Japanese interest rate is .05 % and the Australian interest rate last reported is 4.75%, a trader can earn 4% on his trade. (For more, read The Fundamentals Of Forex Fundamentals.)

However, such a positive interest needs to be seen in the context of the actual exchange rate of the AUD/JPY before an interest decision can be made. If the Australian dollar is strengthening against the yen then it is appropriate to buy the AUD/JPY and to hold it in order to gain in both the currency appreciation and the interest yield.

For most traders, especially those with limited funds, day trading or swing trading for a few days at a time can be a good way to play the forex markets. For those with longer-term horizons and larger fund pools, a carry trade can be an appropriate alternative.

In both cases, the trader must know how to use charts for timing their trades, since good timing is the essence of profitable trading. And in both cases, and in all other trading activities, the trader must know his or her own personality traits well enough so that he or she does not violate good trading habits with bad and impulsive behavior patterns. Let logic and good common sense prevail. Remember the old French proverb, "Fortune favors the well prepared mind!"

Forex Market Structure

For the sake of comparison, let us first examine a market that you are probably very familiar with: the stock market. This is how the structure of the stock market looks like:

By its very nature, the stock market tends to be very monopolistic. There is only one entity, one specialist that controls prices. All trades must go through this specialist. Because of this, prices can easily be altered to benefit the specialist, and not traders.

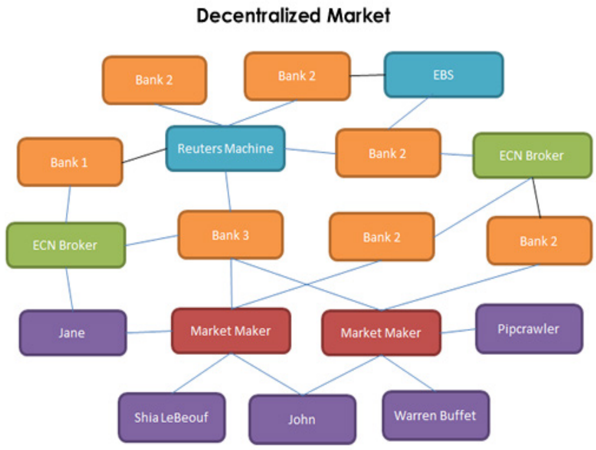
How does this happen?

In the stock market, the specialist is forced to fulfill the order of its clients. Now, let's say the number of sellers suddenly exceed the number of buyers. The specialist, which is forced to fulfill the order of its clients, the sellers in this case, is left with a bunch of stock that he cannot sell-off to the buyer side.

In order to prevent this from happening, the specialist will simply widen the spread or increase the transaction cost to prevent sellers from entering the market. In other words, the specialists can manipulate the quotes it is offering to accommodate its needs.

Trading Spot FX is Decentralized

Unlike in trading stocks or futures, you don't need to go through a centralized exchange like the New York Stock Exchange with just one price. In the forex market, there is no single price that for a given currency at any time, which means quotes from different currency dealers vary.



This might be overwhelming at first, but this is what makes the forex market awesome! The market is so huge and the competition between dealers is so fierce that you get the best deal almost every single time.

Also, one cool thing about forex trading is that you can do it anywhere.

The FX Ladder

Even though the forex market is decentralized, it isn't pure and utter chaos! The participants in the FX market can be organized into a ladder. To better understand what we mean, here is a neat illustration: At the very top of the forex market ladder is the interbank market. Composed of the largest banks of the world and some smaller banks, the participants of this market trade directly with each other or electronically through the Electronic Brokering Services (EBS) or the Reuters Dealing 3000-Spot Matching.

The competition between the two companies – the EBS and the Reuters Dealing 3000-Spot Matching – is similar to Coke and Pepsi. They are in constant battle for clients and continually try to one-up each other for market share. While both companies offer most currency pairs, some currency pairs are more liquid on one than the other.

For the EBS plaform, EUR/USD, USD/JPY, EUR/JPY, EUR/CHF, and USD/CHF are more liquid. Meanwhile, for the Reuters platform, GBP/USD, EUR/GBP, USD/

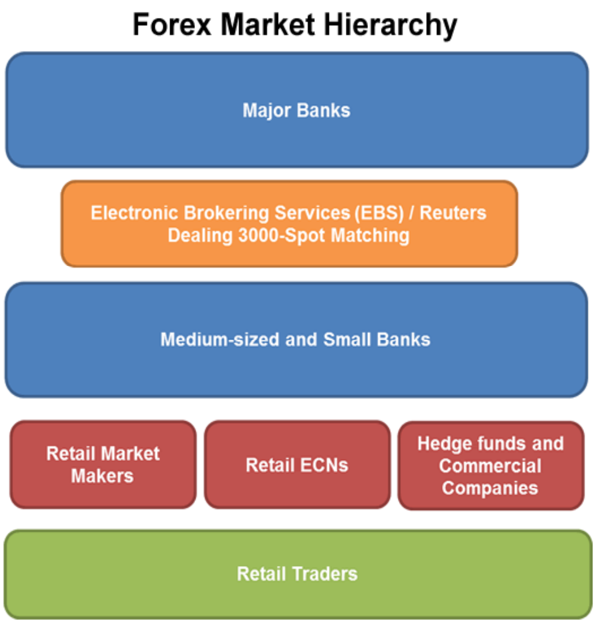
CAD, AUD/USD, and NZD/USD are more liquid.

All the banks that are part of the interbank market can see the rates that each other is offering, but this doesn't necessarily mean that anyone can make deals at those prices.

Like in real life, the rates will be largely dependent on the established CREDIT relationship between the trading parties. It's like asking for a loan at your local bank. The better your credit standing and reputation with them, the better the interest rates and the larger loan you can avail.

Next on the ladder are the hedge funds, corporations, retail market makers, and retail ECNs. Since these institutions do not have tight credit relationships with the participants of the interbank market, they have to do their transactions via commercial banks. This means that their rates are slightly higher and more expensive than those who are part of the interbank market.

At the very bottom of the ladder are the retail traders. It used to be very hard for us little people to engage in the forex market but, thanks to the advent of the internet, electronic trading, and retail brokers, the difficult barriers to entry in forex trading have all been taken down. This gave us the chance to play with those high up the ladder and poke them with a very long and cheap stick.



Market Participants

Unlike a stock market, the foreign exchange market is divided into levels of access.

At the top is the interbank market, which is made up of the largest commercial banks and securities dealers. Within the interbank market, spreads, which are the difference between the bid and ask prices, are razor sharp and not known to players outside the inner circle. The difference between the bid and ask prices widens (for example from 0 to 1 pip to 1–2 pips for a currencies such as the EUR) as you go down the levels of access. This is due to volume. If a trader can guarantee large numbers of transactions for large amounts, they can demand a smaller difference between the bid and ask price, which is referred to as a better spread. The levels of access that make up the foreign exchange market are determined by the size of the "line" (the amount of money with which they are trading). The top-tier interbank market accounts for 39% of all transactions.

From there, smaller banks, followed by large multi-national corporations (which need to hedge risk and pay employees in different countries), large hedge funds, and even some of the retail market makers. According to Galati and Melvin, "Pension funds, insurance companies, mutual funds, and other institutional investors have played an increasingly important role in financial markets in general, and in FX markets in particular, since the early 2000s." (2004) In addition, he notes, "Hedge funds have grown markedly over the 2001–2004 period in terms of both number and overall size". Central banks also participate in the foreign exchange market to align currencies to their economic needs.

Top 10 currency traders [64] % of overall volume, May 2014		
Rank	Name	Market share
1	Citi	16.04%
2	Deutsche Bank	15.67%
3	Barclays Investment Bank	10.91%
4	UBS AG	10.88%
5	HSBC	7.12%
6	JPMorgan	5.55%
7	Bank of America Merrill Lynch	4.38%
8	Royal Bank of Scotland	3.25%
9	BNP Paribas	3.10%
10	Goldman Sachs	2.53%

most traded currencies by value Currency distribution of global foreign exchange market turnover[71][5]			
Rank	Currency	ISO 4217 code (Symbol)	% daily share (April 2013)
1	United States dollar	USD ($)	87.0%
2	Euro	EUR (€)	33.4%
3	Japanese yen	JPY (¥)	23.0%
4	Pound sterling	GBP (£)	11.8%
5	Australian dollar	AUD ($)	8.6%
6	Swiss franc	CHF (Fr)	5.2%
7	Canadian dollar	CAD ($)	4.6%
8	Mexican peso	MXN ($)	2.5%
9	Chinese yuan	CNY (¥)	2.2%
10	New Zealand dollar	NZD ($)	2.0%
11	Swedish krona	SEK (kr)	1.8%
12	Russian ruble	RUB (▯)	1.6%
13	Hong Kong dollar	HKD ($)	1.4%
14	Norwegian krone	NOK (kr)	1.4%
15	Singapore dollar	SGD ($)	1.4%
16	Turkish lira	TRY (")	1.3%
17	South Korean won	KRW (₩)	1.2%
18	South African rand	ZAR (R)	1.1%
19	Brazilian real	BRL (R$)	1.1%
20	Indian rupee	INR (₹)	1.0%
21	Danish krone	DKK (kr.)	1.0%
22	Israeli new shekel	ILS (₪)	1.0%
Other			8.3%
Total[72]			200

Fundamentals of FOREX TRADING

Those trading in the foreign-exchange market (forex) rely on the same two basic forms of analysis that are used in the stock market: fundamental analysis and technical analysis. The uses of technical analysis in forex are much the same: price is assumed to reflect all news, and the charts are the objects of analysis. But unlike companies, countries have no balance sheets, so how can fundamental analysis be conducted on a currency?

Since fundamental analysis is about looking at the intrinsic value of an investment, its application in forex entails looking at the economic conditions that affect the valuation of a nation's currency. Here we look at some of the major fundamental factors that play a role in a currency's movement.

Economic Indicators

Economic indicators are reports released by the government or a private organization that detail a country's economic performance. Economic reports are the means by which a country's economic health is directly measured, but remember that a great deal of factors and policies will affect a nation's economic performance.

These reports are released at scheduled times, providing the market with an indication of whether a nation's economy has improved or declined. These reports' effects are comparable to how earnings reports, SEC filings and other releases may affect securities. In forex, as in the stock market, any deviation from the norm can cause large price and volume movements.

You may recognize some of these economic reports, such as the unemployment numbers, which are well publicized. Others, like housing stats, receive less coverage. However, each indicator serves a particular purpose and can be useful. Here we outline four major reports, some of which are comparable to particular fundamental indicators used by equity investors:

Gross Domestic Product (GDP)

GDP is considered the broadest measure of a country's economy, and it represents the total market value of all goods and services produced in a country during a given year. Since the GDP figure itself is often considered a lagging indicator, most traders focus on the two reports that are issued in the months before the final GDP figures: the advance report and the preliminary report. Significant revisions between these reports can cause considerable volatility. The GDP is somewhat analogous to the gross profit margin of a publicly traded company in that they are both measures of internal growth.

Retail Sales

The retail-sales report measures the total receipts of all retail stores in a given country. This measurement is derived from a diverse sample of retail stores throughout a nation. The report is particularly useful as a timely indicator of broad consumer spending patterns that is adjusted for seasonal variables. It can be used to predict the performance of more important lagging indicators, and to assess the immediate direction of an economy. Revisions to advanced reports of retail sales can cause significant volatility. The retail sales report can be compared to the sales activity of a publicly traded company.

Industrial Production

This report shows change in the production of factories, mines and utilities within a nation. It also reports their "capacity utilizations," the degree to which each factory's capacity is being used. It is ideal for a nation to see a production increase while being at its maximum or near maximum capacity utilization. Traders using this indicator are usually concerned with utility production, which can be extremely volatile since the utilities industry, and in turn the trading of and demand for energy, is heavily affected by changes in weather. Significant revisions between reports can be caused by weather changes, which in turn can cause volatility in the nation's currency.

Consumer Price Index (CPI)

The CPI measures change in the prices of consumer goods across over 200 different categories. This report, when compared to a nation's exports, can be used to see if a country is making or losing money on its products and services. Be careful, however, to monitor the exports - it is a popular focus with many traders, because the prices of exports often change relative to a currency's strength or weakness.

Other major indicators include the purchasing managers index (PMI), producer price index (PPI), durable goods report, employment cost index (ECI) and housing starts. And don't forget the many privately issued reports, the most famous of which is the Michigan Consumer Confidence Survey. All of these provide a valuable resource to traders if used properly.

So, How Are These Used?

Since economic indicators gauge a country's economic state, changes in the conditions reported will therefore directly affect the price and volume of a country's currency. It is important to keep in mind, however, that the indicators discussed above are not the only things that affect a currency's price. Third-party reports, technical factors and many other things also can drastically affect a currency's valuation. Here are some useful tips that may help you when conducting fundamental analysis in the forex market:

Keep an economic calendar on hand that lists the indicators and when they are due to be released. Also, keep an eye on the future; often markets will move in anticipation of a certain indicator or report due to be released at a later time.

Be informed about the economic indicators that are capturing most of the market's attention at any given time. Such indicators are catalysts for the largest price and volume movements. For example, when the U.S. dollar is weak, inflation is often one of the most-watched indicators.

Know the market expectations for the data, and then pay attention to whether the expectations are met. That is far more important than the data itself. Occasionally, there is a drastic difference between the expectations and actual results. If so, be aware of the possible justifications for this difference.

Don't react too quickly to the news. Often numbers are released and then revised, and things can change quickly. Pay attention to these revisions, as they may be a useful tool for seeing the trends and reacting more accurately to future reports.

The Bottom Line

There are many economic indicators, and even more private reports, that can be used to evaluate forex fundamentals. It's important to take the time to not only look at the numbers, but also understand what they mean and how they affect a nation's economy. When properly used, these indicators can be an invaluable resource for any currency trader.

Source

http://en.wikipedia.org/wiki/Foreign_exchange

http://www.investopedia.com/articles/forex/11/why-trade-forex.asp

http://www.investopedia.com/articles/trading/04/031704.asp

Capital Market Scams in India – a Review (3) (IPO SCAM)

- Nitin R. Joshi

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"You can deceive all people for some time, some people for all time, but you cannot deceive all people for all time"

Introduction

The stock market is the place where everyone comes to earn money but the reality is that everybody is not enough lucky to do so. The stock market or capital market system is very complex and vast and so it paves the way for scams for opportunists' scammers. IPO scam is another example of existence of scammers in capital market of India.

In 21st Century India has created its ownidentity in the international market and it is rapidly moving in the direction of becoming a Developed Country. India is one of the fastest developing nation in the world. Growth potentials, Government policy on infrastructure has changed the picture of Indian economy from 2001. It is clear from the fact that Government has spent Rs 1,00,000 crore on the core and infrastructure industries during 2001-03 and it lead to a boom in the Indian Economy inviting bull run in capital market.

It is observed that in India that every bullrun in the Capital Market has got supplemented by a scam (Harshad Mehta Scam – 1992, the scam of CRB-NBFC, and the Ketan Parekh Scam). Industries and finance sector always tried to tap the primary market during a boom. It was during 1986-88, the primary market momentum had a mini-scam of mini-steel plants and mini-cement plant public issues. These companies fooled the Small Investors by collecting hundreds of crores of Rupees. And no doubt small Investor was the loser. After the Harshad Mehta pick, once again the primary market got a momentum during 1995 to 1997 which resulted into the vanishing companies scam. Almost 1000 companies raised funds through Public Issues and got vanished by zeroing the creditworthiness of Indian Capital market by opening up the loopholes in it.

What is an IPO?

An IPO is the first sale of an entity's common shares to public investors. When an entity wants to enter the market, it makes its share available to common investors in form of an auction sale.

Each application for an IPO has to be within a cut-off figure, which is eligible for allotment in the retail investors' category.

IPO SCAM 2005

Salient features of IPO scam:

- Current account opened in the name of multiple companies on the same date in the same branch of a bank
- Sole person authorised to operate all these accounts who was also a Director in all the companies
- Identity disguised by using different spelling for the same name in different companies

- Multiple accounts opened in different banks by the same group of joint account holders
- Huge funds transferred from companies accounts to the individual's account which was invested in IPO's
- Loans/ overdrafts got sanctioned in multiple names to bypass limit imposed by RBI
- Loans sanctioned to brokers violating guidelines
- Multiple DP accounts opened to facilitate investment in IPO
- Large number of cheques for the same value issued from a single account on the same day
- Multiple large value credits received by way of transfer from other banks
- Several accounts opened for funding the IPO on the request of brokers, some were in fictitious names
- Nexus between merchant banker, brokers and banks suspected

Modus Operandi

Corrupt mentality has ruined the whole of the Indian finance/capital system. It is like a virus which has demolished, corrupted the banking system, depository system, stock exchages, and regulatory network.

The IPO scams are well planned strategy implemented by the opportunists consisting of intermediariess, bankers, financiers. They made a lot of money by controlling shares meant for retail investors in Initial Public Offer(IPO), as per the statement of SEBI. The sebi started a broad investigation into ipo allotments after it detected irregularities in the buying of shares of yes bank's ipo in 2005. This scam was masterminded by Roopalben Panchals from Ahmadabad, Sugandh Investments, Zaveri, Budhwanis, Sakserias, brokers, investors ,bankers and DP. They siphoned off more than 5 crores of investors by corrupting more than 53 public issues. Roopalben Panchal, Sugandha Estates and Investments Pvt. Ltd., Purushottam Budhwani and ManojdevSeksaria had obtained IPO Shares reserved for retail applicants by making applications in the retail categories through the medium of thousands of benami IPO applicaants with each of the application being for small value so as to be eligible for allotment.

Connivance of all of these made 43,982 applications in fictitious names in IDFC Public Issue and got alloted 1,17,05,872 shares. Roopalben & Budhwani were allowed to open 5,000 Bogus Demat A/c on the last day of IDFC issue by Karvy(DP) & Bharat Overseas Bank.

- Roopalben received 39,43,184 shares from 14,807 demat a/c's on August 11
- Purshottam Budhwani received 2,98,412 shares from 1122 demat a/c's on 8 August
- Roopalben also received 32,61,426 shares from 12,257 dematerialized a/c on 8 Aug
- Sugandh Investment Pvt. Ltd. received 27,08,944 share- 10181 demat a/c on 8 Aug

Bogus Demat a/c of Panchals & Others in IDFC

Ms. Roopalben Panchal	27064
Sugandh Estates and Investments Pvt. Ltd.	10181
Shri Purshottam Ghanshyam Budhwani	4748
Shri Manojdev Seksaria	1989
TOTAL	43982

Source: SEBI Order on IDFC – Demat Scam

IPO SCAM in Nutshell

- At first bank accounts were opened up in fictitious or "benami" names, which allowed these fictitious account holders to open demat accounts.
- The master account holders, the person who had

executed the planning acts as an intermediary on behalf of the financiers.

- The shares acquired at the IPOs were disposed on the date of listing at a premium to get more than the amount of money invested.
- The banks played an important part by means of opening bank accounts and giving loans to the fictitious entities for the purpose of earning fee incomes.

Role of DP

Numerous DEMAT accounts were opened by the DPs on a single day with all the account holders having the same address. Even the addresses of the BO account holders were that of the sub-brokers of the DPs who procured DEMAT clients for the DPs. The genuineness of such DEMAT clients were not get ascertained by the DPs. Some of the DPs were found to have not only opened DEMAT accounts in fictitious / benami names but had also provided IPO financing to such fictitious / benami account holders thereby facilitating the cornering of retail portion of IPOs. There was also violation of KYC (Know Your Customer) norms applicable for opening of bank accounts and there was violation of guidelines relating to the IPO financing schemes of the banks. SEBI found in case of Karvy Stock Broking Ltd. (Karvey DP), that Karvy had an arrangement with BhOB and through that Karvy opened several DEMAT accounts in the name of people introduced by sub-brokers. However, in reality none of the DEMAT accounts were actually introduced through sub-brokers. While moving through investigation procedures, it was found that actually Karvy DP played a dubious role by forging the bank letters and opening the forged DEMAT account.3

Action taken

- Panchals, Investors, Syndicate & Others directed not to buy, sell in the securities market, directly or indirectly
- NSDL and CDSL to asked to ensure that the demate account which served as conduit for Roopalben, Sugandh, Budhwani and Seksaria are not utilized for manipulation of IPO allotment in future.
- SEBI is directed to conduct immediately inspection of Karvy.

Conclusion

It can be concluded that the IPO Scams held in the market during 2003-2006 was one of the biggest scam in Indian Capital Market. The experts believe that retail allotments were not only fixed to the Yes Bank and IDFC cases but it was more than that. The role of Depository System mainly NSDL was suspesious. Many provisions which were expected to be followed by the depository were not followed according to the SEBI guidelines. Bogus DEMAT accounts in huge number have focused onto a need of revisiting the applicable laws governing the depositories and the depository participants.

Lesson for Investors

Great investors need to have the right combination of intuition, business sense and investment talent.

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Outward Direct Investments by India

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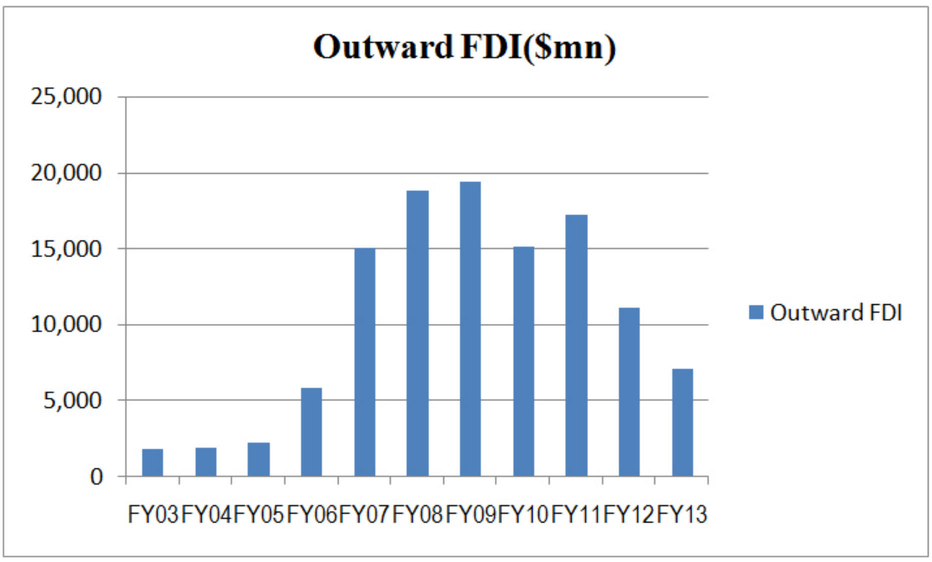
Introduction

1990s was era of global economic integration and FDI *(Foreign Direct Investment)* was driving force of this huge expansion. In this process of globalization countries accessed open markets of the world by way of exporting and reduced restrictions. Due to globalization industries got advanced with new technologies, skills, resources, etc. Countries try to access market resources in different for reducing production cost by directly investing in foreign countries. By increasing manufacturing activities abroad helps to compete in global market. As globalization is a two way process not only in terms of FDI inflows, but also in terms of FDI outflows. In recent years India is also evident of increasing FDI outflows. Overseas investment through FDI has provided greater access to technology, research & development, skills and other economies of scale. Motives behind investing in other countries was resource rich countries, ease of doing business, expansion of profit & creating physical presence in the market .We will take look at India's trend in ODI *(Outward Direct Investment)*, Sector wise distribution of ODI & changes in investment destinations.

Growth of ODI

Predominantly exports were the instruments of India to reach global markets. However, this scenario has changed significantly in past two decades. ODI has become an important mechanism of Indian entities to globalize their operations. There is sense of realization among Indian business entities that to become globally competitive, exporting products is not just enough they need to make physical presence by way of investing acquiring companies/assets and intangible assets such as brand and goodwill in foreign countries.



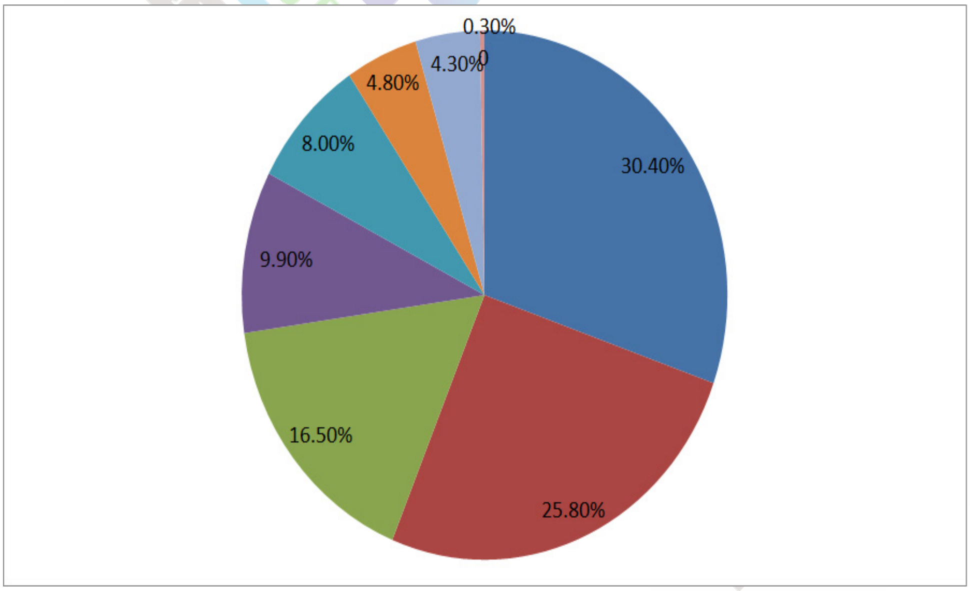
Source –RBI

After moderate investment during FY03-FY04 ODI started gradually increasing after relaxation in reforms of investments post 2004. ODI picked up pace during FY07 and reached peak in FY09 at $19365 million abroad. This growth in ODI coincided with financial crisis which first hit in 2007. During 2008 foreign exchange reserve provided relaxation to capital controls and simplification of procedures on ODI from India. Currency also appreciated in 2008 and average exchange rate was $40.42.Upward trend was moderately affected during FY10 and increased in FY11 at $17,195 million. then ODI growth saw downward movement till FY 13 at $7,134 million.

Breakup of ODI

ODI is divided into three categories. Equities, loans and guarantees issued. Most of the Investment made is in terms of guarantees issued then in equities and loans. In the year FY 14 (April to January) total ODI was $29,294 million out of which guarantee issued were $19,009mn Equities-$7,007mn loans-$3,208mn respectively.

Sector-wise Distribution of ODI FY14 (April to January)



SOURCE –RBI % & Care Ratings Report

In terms of sectoral dispersion of ODI of India primarily manufacturing sector has been most favored sector. RBI data of 2003-13 shows that manufacturing sector's share in total ODI has gradually decreased in last few years. In 2003-04 manufacturing sectors share was 59.8% which reduced gradually to 25.8% in 2013-14. Transport storage and communication services count for 30.4%, Agriculture and mining activities for 16.5%, wholesale, retail trade and restaurants and hotel have 9.9%, Financial, insurance and business services count for 8%, construction 4.8 %, community and social services 4.3% and 0.3% for other miscellaneous in FY 2013-14.

Regionwise Dispersion

Region-wise dispersion of India's ODI has seen perceptible shift. India's ODI in early 2000 was largely directed towards traditional mature markets like U.K, U.S.A, and etc. then in mid 2000 resource rich countries like Australia, Sudan, and U.A.E became new destinations of investments from India. However, from 2011 economies in transition became most favored destination of ODI as they provided tax benefits such as Singapore, Mauritius, British Virgin Islands and Netherlands.

Regionwise ODI Dispersion FY14 (April to January)

Countries	Share in ODI
NETHERLAND	28.8%
SINGAPORE	15.2%
BRITISH VIRGIN ISLANDS	12.6%
MAURITIOUS	10.3%
U.S.A	7.0%
U.A.E	4.9%
U.K	4.6%
SWITZERLAND	3.4%
AARBAIJAN	2.8%
CAYMAN ISLAND	1.8%
HONKONG	1.1%
CYPRUS	0.9%
SAUDI ARABIA	0.9%
BELGIUM	0.6%
OMAN	0.4%

SOURCE-RBI & CARE ratings survey report.

Conclusion

Recent trend in outward investment has shown that emerging as well as transition economies are ahead in this area. This gives a sense of increased competition among global economies. India's investment in overseas is a new dimension in terms of global economics integration. India also need to get adapt with new technology, skills and resources available so as surge ahead in ODI. There needs to be a structural reform and institutional mechanism which could help Indian enterprises especially manufacturing sector to increase physical presence in world market.

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CARE ratings survey report on Outward FDI from India. March 2014

National Pension Scheme

- Dharmesh Trivedi

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History

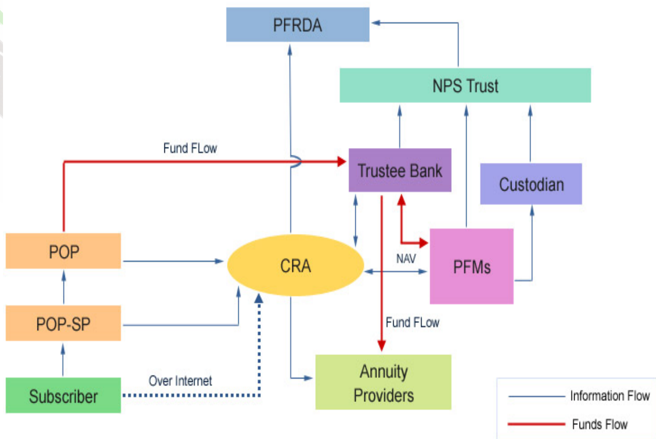
Prior to January 2004, India did not have any universal social security system to protect the elderly and the senior citizens against any unforeseen eventuality or protection against economic deprivation.

The Government of India in the year 2004 launched the Defined Contribution based Pension system. This was a first step towards the institution of the pension reforms in the country.

This was in addition to the existing pension fund being run by the Government of India which have assured benefits. In this since it is contributory base, it also gives a option to the investors where to invest the money.

The Pension Fund Regulatory and Development Authority (PFRDA) was established by the Government of India on 23 August 2003 to promote old age income security by establishing, developing and regulating pension funds and is the prudential regulator for the NPS for the past 11 years, covering 95 Lakh subscribers from Central Government and State Governments. The Pension Fund Regulatory & Development Authority Act was passed on 19th September, 2013 and the same was notified on 1st February, 2014.

The Present Structure of the NPS is as under for all the citizens of India.



Investment Schemes

The options available in the investment scheme are in two Tiers namely as under

Tier 1	An individual can contribute his /her savings into this account, however no premature withdrawal is available under this scheme till retirement. This is available to all the citizens since May 1, 2009 In case of Government Employees, the Government will contribute the equal amount to the account, however this is not so for non government employees.
Tier II	It allows premature withdrawals and is a voluntary account.

Who Can Open the Account

a. All citizen of India who are above18 and below the age of 55 on a voluntary basis
b. For All Central Government Account (except armed forces) it is mandatory.

Contribution Guidelines

Minimum Amount	Rs. 500 per month
Minimum Number of contributions	Once
Minumum Contribution – annual	Rs. 6000/- in each account
Penalty for Non contribution	Rs. 100/- per year
Status of Account	If No contribution during the year, then the account becomes dormant
Closure of the account	If the amount lying in the dormant account becomes zero due to penalty levied year on year, then the account will be closed.

Where can the Account be Opened

The following are being used to collect the contributions and also ensure that there is seamless collections and also transfer of collections in case of location or employment of the contributors

- Banks
- Post offices

How to Open an Account

The forms for opening a account with the banks are available on the website of NSDL on the following link.

https://npscra.nsdl.co.in/download/subscriber-corner/Steps-to-Join-NPS/UOS-S1_CompositeApplicationForm(CAF).pdf

The completed form can be submitted to the banks / post office for opening of the account alongwith the relevant documents

In the case of Corporate employees, the Company has to get registered first and then open the accounts for the employees with the Banks.

Investments Options

The investments can be done by the individuals in three assets Classes as per below, this is purely as per the choice of the contributors

E Class	Investment in Primarily in Equity Markets. The investment is in Index fund that the replicates the portfolio of either BSE index or Nifty 50 inded
G Class	Investment in Government securities like the GOI bonds or State Government Bonds
C Class	Investment in Fixed income securities other than government securities

In case the Contributor does not choose any of the above scheme, then the investment will be done under the “ Auto choice “ option.

In the Auto Choice option , the investment is a pre determined portfolio depending on the age of the contributors.

Class	Till the of age 35 years	At age of 45 years	At age 55 Years
E	50%	30%	10%
C	30%	20%	10%
G	20%	50%	80%

Taxation Benefits

Presently as per the existing tax provisions the contributions and the returns are exempt upto a limit and the withdrawals are taxable as normal income.

Income tax concession to Employees under NPS

Just as the contribution made by a National Pension System contributor in Tier I scheme of the NPS is deductible from the total income under Section 80CCD of the Income Tax Act.

The contribution made by the employer for his employee is also deductible under Section 80CCD. However, the aggregate deduction under Section 80C, 80CCC and 80CCD is fixed at Rs. 1.5 lakh. The total eligible deduction under Section 80C, 80CCC and Section 80CCD, such as LIC premium, PPF, bank or NSC deposits, ELSS and NPS for the subscriber is also pegged at Rs.1.5 lakh.

Recently the Finance Act, 2011 amended section 80CCE so as to provide that the contribution made by the central government or any other employer to the pension scheme under section 80CCD shall be excluded from the limit of 1.5 lakh rupees.

Accordingly, effective from the assessment year 2012–13 (financial year 2011–12) the employer's contribution in NPS from the income tax on the employee is totally tax free.

Income tax concession to Employers under NPS

Further, the Finance Act, 2011 amended section 36 so as to provide that any sum paid by the employer by way of contribution towards a pension National Pension System(NPS) to the extent it does not exceed ten per cent of the salary of the employee, shall be allowed as deduction in computing the income under the head "Profits and gains of business or profession" of the employer.

How can one Withdraw from the NPS

Age of subscriber	
Before 60 years of Age	• 80% of the pension wealth to purchase a life annuity from IRDA regulated insurance company. • Balance 20% may be withdrawn in lumpsum
On attaining age of 60 and before 70 years of Age	• Minimum of 40% of the accumulated savings (pension wealth) needs to be invested for purchasing a life annuity from any IRDA regulated life Insurance company • The remaining pension wealth can be withdrawn in lumpsum at the age of 60 or in a phased manner between 60 years and 70 years
On the Death of Subscriber	• 100% of the accumulated pension wealth to the nominee or if the nominee wishes to continue the account then he can subscribe to the same after complying with the KYC requirements

Types of Annuity

The subscriber can purchase an annuity from any one of the PFRDA empanelled annuity service providers as per his choice or selection of the annuity type. Currently, the Indian life insurers who act as Annuity Service Providers provide the following type of annuities in India:

- Pension (Annuity) payable for life at a uniform rate to the annuitant only.
- Pension (Annuity) payable for 5, 10, 15 or 20 years certain and thereafter as long as you is alive.
- Pension (Annuity) for life with return of purchase price on death of the annuitant (Policyholder).
- Pension (Annuity) payable for life increasing at a simple rate of 3% p.a. Pension Fund Regulatory & Development Authority Page | 15NPS for Corporates
- Pension (Annuity) for life with a provision of 50% of the annuity payable to spouse during his/her lifetime on death of the annuitant.
- Pension (Annuity) for life with a provision of 100% of the annuity payable to spouse during his/her lifetime on death of the annuitant.

List of the Pension funds

For Government Sectors

- LIC Pension Fund Limited
- SBI Pension Funds Private Limited
- UTI Retirment Solutions Limited

For Private Sector

- HDFC Pension Management Company Limited
- ICICI Prudential Pension Fund Management Company Limited
- KOtak Mahindra Pension Fund Limited
- Reliance Capital Pension Fund Limited
- SBI Pension Funds Private Limited
- UTI Retirment Solutions Limited

Performance of the Pension funds

The Performance of fund managers as on 31.12.2014 is listed below:

Asset Class (E)

Fund Manager	1-year	Since Inception*
ICICI Prudential Pension Funds	33.49%	13.88%
HDFC Pension Management Company Limited	33.08%	-
Reliance Capital Pension Fund Limited	33.04%	12.66%
SBI Pension Funds Private Limited	32.74%	10.59%
Kotak Mahindra Pension Fund Limited	32.67%	12.08%
UTI Retirement Solutions Limited	32.41%	13.19%

Asset Class (C)

Fund Manager	1-year	Since Inception*
SBI Pension Funds Private Limited	14.72%	11.48%
Kotak Mahindra Pension Fund Limited	14.63%	11.21%
ICICI Prudential Pension Funds	14.60%	11.12%
Reliance Capital Pension Fund Limited	14.27%	9.34%
UTI Retirement Solutions Limited	14.26%	9.57%
HDFC Pension Management Company Limited	14.07%	-

Asset Class (G)

Fund Manager	1-year	Since Inception*
SBI Pension Funds Private Limited	20.38%	10.18%
ICICI Prudential Pension Funds	20.38%	8.80%
UTI Retirement Solutions Limited	20.00%	8.50%
Reliance Capital Pension Fund Limited	19.91%	8.18%

HDFC Pension Management Company Limited	19.65%	-
Kotak Mahindra Pension Fund Limited	19.24%	8.55%

Benefit of the National Pension Scheme over the Other Retirement Plans

- Cost of managing a pension scheme is lower and hence results in higher returns
- NPS allows you to invest 50% in equity and hence the returns are higher as compared to PPF and EPF.

Source

http://en.wikipedia.org/wiki/National_Pension_Scheme

http://pfrda.org.in/

https://npscra.nsdl.co.in

SIP, STP & SWP – Tools for Investments

- Girindra Vasudeo

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An average investor is usually mired in a maze of innovative and creative products in the investment arena. The finance fraternity is astute enough to shower a wide spectrum of products which can flummox the investor and give a larger share of the pie to the finance agents.

Whilst this phenomena cannot be obviated unless we have a loyal and honest financial advisor, we as investors should also become adept at understanding the nuances of the wide spectrum of products that are offered.

One must appreciate that conservatism is deeply embedded in the culture of the Indian investor and therefore it is quite natural that the conservative investor looks at deploying his savings only in FDs of banks or at best some blue chip companies. One needs to appreciate that these avenues of investment are not only risky at times (especially company FDs) but certainly tax-ineffective. Imagine your hard earned money giving you the following earning in the highest tax bracket:

Bank Interest (approx.)	9%
Less: Tax @ 31%	2.79%
Net earnings post tax	6.21%

You will observe and appreciate from the above that this earning can be rapidly eroded if the monster of inflation looks to eat into the real earnings.

In view of this scenario in the financial market, we need to look at and understand the following tools of managing the process of our investments:

1. SIP - Systematic Investment Plan
2. STP - Systematic Transfer Plan
3. SWP - Systematic Withdrawal Plan

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Before dwelling into the details of these tools, let me reiterate that these tools only offer a process of investment which is based on a solid platform of discipline.

However, it will always remain critical that we select a proper and appropriate fund from a myriad of such options that are available to us as investors.

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Start investing with a proper financial plan

The first and foremost thing to do is start investing rather than just watching and reading the stock market stories. Don't sit on the fence to wait for the right time. This is the right time.

Support your investment plan with a properly laid down financial plan, so you can fix onto some goals, be it long-term (children's education, own retirement) or short-term (vacations, buying a new car).

Don't make investments in equities for short-term goals. Have diversification and asset allocation strategies in place.

With a financial plan approach, you will not be tempted to withdraw your investments with a sudden jump in the returns and also won't be worried at the fall of the market since you have invested in equity for long-term goals which are still far away.

Automate the investments

Automating investments is required to keep your behavior biasness at bay. If you don't automate investments, then surely you would try to time the market and when you don't find the "right time", you may miss the regularity cycle.

Go with mutual funds SIP or if you want to get into stocks, then many online broking houses offer SIP route in stocks too.

Why SIP (Systematic Investment Plan)?

Once you have allocated a slice of your earnings towards savings for the future, then nothing can be better than starting a SIP.

SIP is an investment tool that helps you to save regularly in small portions. It is akin to a recurring deposit in a bank or post office. The major difference between a conventional recurring deposit and a SIP is that SIP channels your funds into a mutual fund and therefore it has an intrinsic risk factor coupled with potential of aggressive earnings.

As you may be aware, a mutual fund is a pool of funds that comprises of many investors who put in small deposits of their earnings which are pooled and in turn invested in stocks and bonds.

Thus it will be observed that SIP is beneficial because it helps you in saving regularly and provides capital gains with optimum tax shield.

You can invest in SIP on either a monthly or quarterly basis and the minimum amount can be as low as Rs. 500/- per month. SIPs enable you to build your own portfolio as you are free to choose your funds and invest across these funds to diversify your risk.

In order to maximize your returns, it is advisable to stay invested for a longer duration. You can either give post-dated cheques or take advantage of ECS instructions to the bank for automatic debit of a specified amount to your bank account.

Let us now look at the benefits and limitations of SIP as an investment tool.

Benefits of SIP (Systematic Investment Plan)

1. Discipline and Regular Investments – SIPs help you in saving small amounts from your earnings regularly, thus bringing a discipline in your saving regime. It helps you to be focused about the portion of investment on monthly or quarterly basis and also helps to increase your wealth in the long-term.

2. Rupee Cost Averaging – This is an important benefit of investing in SIP as it saves you from getting hit by the market fluctuations. The cost averages out over a period of time as you are able to purchase more units when the Net Asset Value (NAV) drops and you buy fewer units when the NAV rises.

3. Compounded Benefits – This states that if you begin with SIP early in life, it gives you the power of compounding. Compounding of funds may lead to a massive difference in your savings over a long period of time.

4. Easy to Operate and Maintain – SIPs prove to be quite hassle-free as they come with easy payment options. You may either give post-dated cheques for your fund or may give standing instructions to your bank to debit your account for a particular SIP amount on a particular date.

5. Other Benefits – If you opt for saving through SIPs, then there are numbers of mutual funds available that will not charge an entry load from you. You can also be exempted from paying the exit load if you do not sell your units within a year.

SIP is an investment that can be made by people of all ages. The duration, fund options and amount may vary from one age group to the other but investors of all age groups can enter and gain from SIPs.

SIPs provide you with liquidity i.e. you can have access to all or part of your invested funds as and when required. This means that there is no lock-in period i.e. no minimum specified period for which you compulsorily have to keep your money invested.

It provides an opportunity to those who cannot invest a large volume of money in one go. It helps you to invest small amounts and provides substantial gains.

First In First Out (FIFO) works for SIPs, that is capital gains are taxed on FIFO basis wherever applicable.

There is a bouquet of options available in SIPs and you can choose any one from Balanced Fund, Growth Funds, Equity Diversified Funds, Tax Saving Funds, Index Funds, etc. as per your requirement and convenience.

If you invest in SIP in Equity Tax Saving Mutual Fund, you will be able to get tax benefit under Section 80C for a maximum investment of Rs. 1.50 lakhs.

It is always advisable to enter the SIP funds only if you plan not to touch your money for a minimum period of 3-5 years. SIPs provide you with better returns only in the long term.

Many investors opt out of their funds if they see a fall in the market conditions which is not a wise decision at all. Market conditions fluctuate and when you invest through SIPs, you tend to get the feel of the lows and highs of the market. If you stay invested for longer duration, you yield better returns as you sail through all the phases of the market be it bull or bear.

"I wish eating was more like investing. No matter how much I feed my mutual fund, it keeps getting smaller!"

Limitations of SIP (Systematic Investment Plan)

Though investing in SIP is a popular and advisable option but it suffers from few disadvantages which are as follows:

1. It has been viewed by financial experts that SIP delivers better returns when opting to play in equity market as compared to debt funds.

2. As SIP is an option available in mutual funds, you cannot completely ignore the risk related to a mutual fund plan. If invested for a short term period, it may not be able to deliver the assured returns. The returns do depend on the type of fund invested in, the scheme's performance and also on the skills of the fund manager to an extent.

3. If the market remains consistently on a rise, then the returns on SIP will be low and thus lump sum investments when the markets are undervalued are also advisable occasionally.

4. For few investors, the date options on which the monthly investment gets accrued may be termed as a limitation. As the date options which are mainly 1st, 5th, 10th, 15th, 20th and 25th in a month, you end up investing in multiple funds on the same dates

which may hinder your flow of cash for your regular expenses.

5. In the event of some emergency expense in a particular month, it becomes difficult to immediately stop an SIP as you need to give a two-week notice in order to stop your SIP. The only option available in this case is to cancel the SIP but this too may prove cumbersome if you have multiple SIPs.

The Turn Around Time (TAT) that mutual fund houses take in starting a SIP is a month and two weeks if you wish to stop a SIP, which may seem to be a long span in the fast paced world.

For those of you who have unpredictable cash flows, SIP may not be the most sought after investment option as it would be difficult for you to commit to a fixed amount of investment every month.

However, SIP is a very good investment option for a long term investor. Those who wish to play safely in equity markets and cannot afford to put in a lump sum amount, may get started with a SIP. Those who wish to cultivate a regular saving regime for their loved ones and themselves that helps in churning out wealth, SIP would be the right place to invest in.

STP (Systematic Transfer Plan)

Let us now turn to a similar but not identical tool of investment called STP (Systematic Transfer Plan). In case you have a lump sum amount, it is prudent to use this tool wherein the total amount is invested in an ultra-short term scheme and a fixed amount is switched out from it to the target scheme, thus impacting two schemes.

Before we understand STP, let us recap SIP (Systematic Investment Plan) first. SIP is a disciplined way of investing where investors invest a regular sum every month in mutual funds. STP is a variant of SIP. STP is essentially transferring investment from one asset or asset type into another asset or asset type. The transfer happens gradually over a period. STP is of two types – fixed STP and capital appreciation STP. A fixed STP is where investors take out a fixed sum from one investment to another. A capital appreciation STP is where investors take the profit part out of one investment and invest in the other. Example of STP – suppose you have invested Rs. 5 lakhs in debt funds because you thought the market is trading at close to peak. The PE ratio of the market is 25 and hence you think that fall is imminent. Hence, you invested your money in debt fund. Now assume that your prophecy was right and the market indeed fell to a level where you can make entry to equities. However, there are overall weak sentiments which may push market further down. What is the best strategy in this case? You can take out Rs. 5 lakhs of debt fund and invest in equity oriented mutual fund. The risk is that if the market goes further down, your fund value will also fall. This is a risky strategy. Moreover, if the weak sentiments prolong for some time, you will lose on the opportunity cost because your money is stuck with an investment which has gone down in value. There is another way which can really minimize the risk. This way is called STP. In this case, you can withdraw a fixed amount from your debt fund investment and invest in equity oriented fund. This can go on for several months depending upon your choice. For example, if you want to continue STP for 3 years, you can direct your fund to do this and the fund will withdraw money automatically from your debt fund and put into equity oriented fund every month. What this strategy achieves is that it essentially acts as a defence against any adverse movement of the market. You can see that even when the market is losing value at the rate of 1% per month, the STP has worked as a defence against the fall. Even after 12 successive falls, the return after 12 months is 9.56%, which is quite good. Had this been done in a lump sum amount of Rs. 5 lakhs, here is the payoff. The investor has actually lost 11.36% over the same period. This is the advantage of STP.

Important points to keep in mind – STP is possibly the second best investment strategy after SIP. It is one of the best risk mitigation strategies of the market. Investors though should keep the following points in mind. First, STP is a risk mitigation strategy. It will protect you from any adverse loss to a large extent. Investors should be clear about this. All risk mitigation strategies cap the loss but also reduce returns when the market is bullish. Second, investors need to follow it with discipline. STP, just like SIP, benefits only when followed properly. Breaking STP because of short term market movement or interest rate movement will only harm your investment in the long term. Finally, you need to understand the assets and the stages they are in. For example, it would be unwise to transfer money from debt to equity when the market is closer to peak value. Similarly, it would be counter-productive to transfer money from equity to debt when the market is close to bottom.

Benefits of STP (Systematic Transfer Plan)

Let us look at the benefits of STP –

1. Like a SIP
You can invest a lump sum amount in one mutual fund and have a fixed amount of money transferred to another mutual fund on a periodic basis, just like an SIP would.

2. Like a STP (Systematic Withdrawal Plan) – which tool we shall see a little later.

When you feel that markets are risky and might do down, you can have money transferred from an equity fund to a debt fund. This will help reduce your exposure on equities.

3. Provides Good Liquidity
This is the benefit you get by investing in any mutual fund. Since your money is invested in a debt fund, you can sell the units any time in case of an emergency or otherwise and you can have liquid cash in your account in no time.

4. Capital Appreciation
You will benefit from the rise in NAV of the debt fund or equity fund that you are invested in.

5. Flexibility
In most funds, fund units are sold so that specified amount can be transferred to another fund. Some STPs provide options wherein only the capital appreciation can be transferred.

Having looked at a disciplined approach to investing money through a SIP and STP, we should now understand how we would be able to create a regular income out of our savings at the minimum level of taxation.

SWP (Systematic Withdrawal Plan)

This is a smart way to plan your future needs by withdrawing amounts systematically from your existing portfolio either to reinvest or to meet your expenses. Your savings no longer remain idle.

While SWP is not as popular as SIP, we need to understand SWP is essentially the reverse of SIP. In a SWP, you regularly withdraw funds from your corpus and the amount and periodicity is also fixed in advance.

Systematic Withdrawal Plans are used by the investors to create a regular flow of income from their investments. Investors who are looking to fund a travel plan during their children's vacation, can set up withdrawals for such occasions as well.

SWP is considered to be a wise strategy because it does not attract tax deduction at source. One can also set up the SWP to withdraw only the appreciation and keep the principal intact and invested for future earnings.

Downside to SWP (Systematic Withdrawal Plan)

The downside to systematic withdrawals is that when your investments are down in value more shares have to be liquidated to meet your withdrawal needs. In a down or sideways market, this can have the reverse effect of actually lowering your overall rate of return when compared to other withdrawal strategies.

Alternatives to SWP (Systematic Withdrawal Plan)

One alternative to a systematic withdrawal plan is to keep a year's worth of withdrawals in a money market fund, taking your monthly withdrawals from this, then rebalancing your account once a year, thus selling investments that had the highest rate of return and using the proceeds to replenish the funds spent from money markets.

In summary, we need to understand that selection of the right mutual fund is key to the success of these tools of investment i.e. SIP, STP and SWP. Not with standing the right selection, it is also imperative that we periodically review the market conditions and the returns on our specific investments so that a mid-course correction is possible to optimize the returns on our investments.

So invest wisely with discipline and reap the benefits of optimum post tax returns. Equity mutual funds are a recommended long term investment route as they offer the benefits of professional management, diversification and economy of scale as well as liquidity. Within the equity asset class, it may be prudent to create a portfolio that has a mix of large cap and mid-cap schemes to spread your risk profile.

A Well Balanced & Realistic Budget

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The Finance Minister Mr Arun Jaitl y delivered a well measured and balanced union budget on Feb 28, 2015 amidst very high and unrealistic expectations from the markets.

Also the FM had to tackle conflicting objectives such as higher share of government revenues going to the states as well as maintaining a tight fiscal deficit, while also increasing public investments to spur growth as private investments are still lagging behind.

So, the deficit target has come in a little higher at 3.9% vs 3.6% expected, but importantly, the additional spending is going towards medium-term growth enhancing areas such as infrastructure, education, skill development and sanitation.

On the Expenditure side the FM has limited total expenditure growth to 5.7% YoY in FY16 as compared 5.7% YoY last year. The FM has kept planned expenditure unchanged at RS 4.65 trillion while increasing non plan expenditure by Rs 1 trillion or 0.7% of GDP.

As compared to FY15, the FM has decided to allocate an extra amount of Rs 1.3 trillion for public investments in FY16 (0.90% of GDP) with Rs 7 trillion being capex related. The sectors where this money will be spent include rural roads, low cost housing, power generation and railways.

Secondly, this union budget carries forward the government's thrust on taking our economy towards global standards of governance by making it more investment-friendly, fairer and transparent, with its thrust on lower subsidies, better subsidy allocation through DBT and Jan Dhan Yojana, efforts to rein in black money, postponing GAAR and implementing a new bankruptcy law.

In keeping with this theme, there is also increasing thrust on social security, with the increase in deductions for health insurance and pension.

The surcharge of 2% on corporate tax is near-term negative for the markets, but is well-balanced with the medium term commitment to lower base corporate tax rate from 30% to 25%, simplifying the tax structure as well as sticking to the April 2016 deadline for GST.

However the first cut of corporate taxes is likely to be seen from FY17 onwards. Also the increase envisaged in service tax from 12.36% to 14% in this budget is likely to see a gradual increase over the next 4 years in a bid to prepare for the GST implementation road ahead from next year onwards.

Also in line with our expectations the FM decided to show a higher fiscal deficit of 3.9% of GDP in FY16 as compared to the initial target of 3.6% set earlier. However the good thing is that the FM has targeted at growth and increased public investments and hence settled for a slightly higher fiscal deficit number which is a positive.

Also from the FIIs point of the view, the GAAR has been delayed for another two years and will be implemented from 2017 onwards. Also the explicit clarity from the FM that the FIIs operating from within India will not be deemed to be creating "permanent establishment" risk, this budget should be viewed positively by the FII community.

In summary the few positive & Negative takeaways of this budget include -

Positives

Increased Public investments keeping the Make in India approach, bigger focus on infrastructure with regards to Housing, Roads and financing via tax free infra bonds. Also re affirmation on GST, Deferral of GAAR and cut in corporate taxes from 30% currently to 25% over the next 4 years, Merger of FMC with SEBI, and merger of FDI and FII for investment purposes and legislation on curbing Black money in the financial system are other big positives

Negatives

Service Tax increase which is bound to hit the common man, No changes in MAT, No cut done on STT which capital market participants were hoping this will happen in this budget and no news flows on further oil sector reforms and urea decontrol where also there was no update.

How will the stock markets react to this budget going ahead?

We believe that by and large while this may not be a Big Bang Budget, it is definitely not a populist budget and aims to achieve a higher GDP growth of 8% in FY16 with focus on increased investments from the government and maintaining a strict vigil on fiscal consolidation.

Hence from a medium to long term objectives this budget looks positive despite small disappointments like increase in service tax, no increase in the personal income tax exemption levels. Our thinking is that now execution will hold the key to see the success of this Budget ahead.

From the FII point of view the GAAR deferral and the FII and FDI merger will make them look at several equity investments in the Indian capital markets with increased aggression.

In conclusion we would rate this budget at around 8 on a scale of 10. Although this is a fairly well balanced budget, the market expectations were really sky rocketing before this day. Hence one should not be surprised that the markets did not touch the 9000 levels instantly.

While this budget may not be close to the 'Visionary document' that people have been talking about. The levy on corporate taxation, rationalization of wealth tax, incentives for more expenditure towards infrastructure are all positives.

Also the FDI and FII classifications have been an endless controversy for corporates over the absence of a consolidated FII (foreign institutional investor) limit.

Hence the process of investing in India and Indian companies that much easier. It is still very much a part of the larger scheme of making India an attractive destination and introducing transparency.

Also the gold monetization scheme has helped other countries and it will certainly help foster one step to a more active gold market in India.

In conclusion we believe that the intrinsic structural and secular bull market India story is very much alive and kicking and feel that corrections and consolidation in the markets are part and parcel of all bull markets and they cleanse interim excesses

Historical valuations range suggests that in absence of any earnings damage, NIFTY is likely to trade within a band of 8700 to 9100 in the near term before a decisive shift.

We are confident that H2 of 2015 would see the domestic macros like IIP, Inflation, Crude prices and concerns on fiscal and trade deficits getting corrected and would aid market sentiments positively.

Also globally within the BRICS markets currently Russia has a GDP of $2.06 trillion, Brazil has a GDP of $2.24 trillion. With both these economies facing a big turmoil, it's very likely that India which occupies the 10th position currently is likely to move up in the global GDP ranking ladder ahead of Russia, Italy and Brazil which occupy the 9th, 8th, and 7th position globally. The European economies are also in very fragile economic state with most of the countries here in deflationary mode.

Hence we believe that India presents a big investment opportunity for investors over the next decade and is all set to see a structural bull run. Hence FIIs and foreign capital are bound to see increased flows ahead in the Indian markets which is a big long term positive.

We hence suggest that any short term weakness in the markets would present a good opportunity to long term investors to build a core long term portfolio of stocks having strong businesses and credible managements.

Sectors Views and Stocks Impacted

1. Reduction in Corporate Tax from 30% to 25% over next four years

- Key players to benefit: HUL, Asian Paints, Colgate, Nestle, Marico, Dabur, Bajaj Corp, Bosh, Bajaj Auto, HeroMoto Corp, Maruti Suzuki and M&M

2. Autos CVs

- Custom duty on CVs increased from 10% to 40%
- Key players to benefits: ALL, Tata Motors, M&M and Force Motors

3. Housing Finance

- Housing for all by 2022 announced – 2 crore in rural areas and 5 crore in urban areas.
- Key players – GIC, Gruh Finance, HDFC and Dewan Housing to benefit.

4. Infra (Roads, Ports, Power)

- Proposes 5 ultra mega power projects for 4,000 MW each
- Tax-free infrastructure bonds for projects in railways, roads and Infrastructure.
- PPP model of Infrastructure to be revitalized and realigned.
- Ports will be encouraged to corporatize and become companies under Companies Act.
- Investment in Infrastructure will go up by Rs 70,000 crore in 2015-16.
- Increase in infra investments in roads, railways and other areas. To prioritize completion of 1 lack km roads.
- Infrastructure: need to increase public investment. Capex of PSU to be Rs 3.18 lack crore.
- Target of 1,75,000 MW renewable energy till 2022.
- Key players to benefit: Adani Ports, Tata Power, NTPC and NHPC

5. Leather Industry

- The excise duty on footwear having retail price of more than Rs. 1,000 per pair has been reduced by 6%.
- Key players to benefits: Mieza International, Liberty and Bata Shoes.

6. Gold Finance/Gold Jewellery Companies

- Gold monetization scheme – allow depositors to earn interest in metal accounts and will develop alternate to gold metal –bond.
- Key players to benefits: Titan, Muthoot Finance and Mannapuram Finance.

7. NBFC companies

- NBFCs registered with RBI above Rs. 5,000 crore to be considered financial institutions.
- Additional deduction of Rs 50,000 for pension contributions.
- Govt increases limit of deduction of health insurance premium from Rs 15,000 to Rs 25,000
- Key players to benefits: Srei Infrastructure Finance Ltd and IDFC

8. Real Estate

- Housing for all by 2022 announced – 2 crore in rural areas and 5 crore in urban areas.
- Key players to benefits: Unitech, DLF, Godrej Properties and Sobha Developers.

9. Clean India Initiative

- 100% deduction for contribution to Swachch Bharat and Clean Ganga schemes.
- Key players to benefits: Sintex Industries and

Kajaria Ceramics.

10. Agriculture Initiatives

- Farm credit target higher at Rs 8.5 lac crore.
- Will create Mudra Bank with corpus of Rs 20,000 crore for microfinance.
- In order to improve soil health, organic farming program Rs 5,300 crore for micro-irrigation watershed projects.
- Rs 25,000 crore for Rural Infra Development Fund of NABARD. Rs 34,699 crore for MNREGA and if tax buoyancy permits will provide additional Rs 5000 crore.
- Key players to benefits: M&M, Escorts, PSU Banks like SBI, PNB and BOB

10. Banks

- Will bring a comprehensive bankruptcy code in 2015-16.
- All PSU banks will benefit as private sector banks have better NPA and Better Margins.

Budget Highlights

- Corporate tax rate will be reduced to 25% over the next four years from current 30%.
- GST to be implemented from April 1, 2016.
- The CAD for the year is expected to be below 1.3% of GDP.
- Foreign exchange reserves have risen to $340 billion.
- Will meet 4.1% fiscal deficit target for FY15. Government to achieve fiscal deficit of 3% in three years against previous target of two years as the government would focus on investments. Fiscal deficit of 3.9% for FY 16, 3.5% for FY17 and 3% for FY18.
- The latest CPI inflation is 5.1% and whole sale price inflation is negative. Targeting CPI inflation close to 5% by end of year.
- Estimated GDP for 2015-16 will be between 8 and 8.5 per cent. "Aiming for a double-digit growth rate seems feasible."
- Rs 1.25 lack crore of public investment.
- Target of 1,75,000 MW renewable energy till 2022.
- Rs 25,000 crore for Rural Infra Development Fund of NABARD. Rs 34,699 crore for MNREGA and if tax buoyancy permits will provide additional Rs 5000 crore.
- Visa on arrival scheme - increased to 150 countries in different stages.
- Proposes to merge commodities regulator with SEBI.
- Proposes 5 ultra mega power projects for 4,000 MW each
- Tax-free infrastructure bonds for projects in railways, roads and Infrastructure.
- PPP model of Infrastructure to be revitalized and realigned.
- Ports will be encouraged to corporatize and become companies under Companies Act.
- Investment in Infrastructure will go up by Rs 70,000 crore in 2015-16.
- Increase in infra investments in roads, railways and other areas. To prioritize completion of 1 lack km roads.
- Infrastructure: need to increase public investment. Capex of PSU to be Rs 3.18 lack crore.
- Pradhan Mantri Jeevan Jyoti Bima Yojana - Rs. 1 per day premium, Rs. 2 lakh coverage.
- Accident death risk Rs 2 lakhs for a premium of Rs. 12 per year.
- Atal Pension Yojana – defined pension depending on contribution. Government will contribute 50% of the amount subject to Rs 1000 per year for first five years.
- Rs 1,000 crore for start-up support.
- Gold monetization scheme – allow depositors to earn interest in metal accounts and will develop alternate to gold metal –bond.
- GAAR deferred by 2 years – to apply prospectively for investments on or after 1 April 2017.
- NBFCs registered with RBI above Rs. 5,000 crore to be considered financial institutions.
- Will bring a comprehensive bankruptcy code in 2015-16.
- Housing for all by 2022 announced – 2 crore in rural areas and 5 crore in urban areas.
- Transport allowance, which is currently Rs 800 per month, has been increased to Rs 1600 per month.
- Additional deduction of Rs 50,000 for pension contributions.

- Govt increases limit of deduction of health insurance premium from Rs 15,000 to Rs 25,000.
- 100% deduction for contribution to Swachch Bharat and Clean Ganga schemes.
- Proposes to increase service tax rate and education cess to 14% from 12.36%.
- The excise duty on footwear having retail price of more than Rs. 1,000 per pair has been reduced by 6%.
- Custom duty on raw materials and intermediaries to be reduced.
- Tax dept to put out a clarification on indirect transfer of assets and dividend paid by foreign firms.
- Retrospective tax provisions will be avoided.
- Central excise duty of 12.36% including the cesses will be rounded off to 12.5%.
- Wealth tax is abolished and 2% additional surcharge on super-rich with taxable income of Rs 1 crore.
- Income tax on royalty and fees for technical services reduced to 10% from 25%.
- Farm credit target higher at Rs 8.5 lack crore.
- Will create Mudra Bank with corpus of Rs 20,000 crore for microfinance.
- In order to improve soil health, organic farming program Rs 5,300 crore for micro-irrigation watershed projects.