EXPONENT
Empowering The Common Man

The Exponent Group of Journals For
Shares And Stock Market
In Association with
Shree Aniruddha Upasana Foundation

Volume: 3 - Number 4 Sep 2015 - Nov 2015

The Exponent Group of Journals for Shares And Stock Market is an E-journal published Quarterly.

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Editors Desk, Exponent Group of Journals
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Editorial

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Dear All,

It gives us a great pleasure to present to you one more edition of the E-Magazine of the Shares and Securities. We hope this would give you an insight into the most of the current issues that are prevailing in the world today.

If one looks at the last 3 months events of the world one can conclude that everything has happened from the positive events to the negative events. If we were to name a few of the events the same are the Greece Crisis and the fallout of the bailout package, the terrorism at its peak in the form of ISIS, the refuge crisis of Syria, the Deficient rainfall in major parts of India and the floods in some of the countries, the Chinese economy slowdown and the devaluation of the Chinese currency, the Devaluation of the Rupees and the world caught in the sudden currency war and may other important events, the lock jam in the Indian parliament leading to non-passing of several important legislations.

Well not all is on the negative side there are some positive developments in India with the NDA government taking crucial and harsh decisions at the cabinet level and trying to push the bills thru both the houses of parliaments, the Reserve Bank reducing the rate of interest, the inflation (a big animal) under a bit control and the economy trying to keep afloat with some of the key initiatives taken by the Central Governments

In this issue we are covering the following articles

1	Chinese Equity Markets
2	Chinese Yuan Devaluations
3	Interest Rates – Part 1
4	Gold Monetization Scheme
5	Government Securities Market in India
6	Through the mind of the Prudent Investor

All the above topics are current and are very lucidly written and you will get a good insight. Wishing you all a very happy experience in this issue.

To end we can only say that “let Sanity and peace Prevail in the Mindset of the people in this difficult times.”

The Recent Stock Market collapse of the Chinese stock market why it happened and its impact on the rest of the world and India

- Sanjay Sadarangani

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On June 12th 2015, the Shanghai Composite Stock Index (CSI 300), an index of China's biggest listed companies, collapsed. Between then and now, shares listed on the index have lost 30% of their value, ie approx. USD 3 trillion. To put that number in perspective, that is more than the economic output of Brazil or it is as though every stock on the London Stock Exchange falling to zero !

But is this collapse likely to lead to another financial crisis for the rest of the world and India ?

Why did the market fall?

Earlier this year, the market was displaying all the signs of a bubble, with college students, grandmothers, cab drivers, all making money in a frenzy of 'chao gu' or stir frying stocks – Chinese slang for trading. The rally came at a time when the rest of the economy was slowing, puzzling many economists and as the saying 'what goes up, must come down' and so it did.

A key factor for the rally was the huge increase in margin financing, putting it very simply, borrowing to buy shares. It is estimated that the total quantum of margin financing is approx. RMB 3.7 trillion, US 500 bn, ie about 40% of the total market capitalization before the crash. As the value of the shares purchased against margin falls, lenders sell shares to make good the difference, this causes share prices to fall even more.

Why did the average investor take such risks?

The reopening of the Shanghai market, which dates to the 1860s and has been closed since the Communist take over in1949, was seen as a major symbol economic reforms led by Deng Xiapong. Nonetheless, the government maintained heavy control over the markets. Investors based their buy and sell decisions on what they thought Beijing would do next. This is also because the government is by far the biggest investor, maintaining controlling stakes in defense, energy and other key sectors companies from which are listed on the exchanges.

In the two years after China opened its stock markets in December 1990 shares soared 1,200%, a perfect example of this rise is that of Shanghai Special Steel Tubing Company, when the company was first listed on the Shanghai Stock Exchange on May25th 1992, employees were stunned to hear that shares they owned had increased 471% on the first day of trading!

To take advantage of the sentiment, several companies filed for listing their shares. In August of 1992, hundreds of thousands of people lined up to get applications to invest in initial public offerings, which they believed would soar because every IPO had to be approved by the government. When the applications ran out the investors accused officials of hoarding them for their friends and family or to sell at a profit. This led to a riot, with protesters setting cars on fire and breaking windows, while the police stepped in, firing shots in the air. The Government also stepped in and fired several government authorities and put a new regulatory body in charge of the stock exchanges. This was a particularly tense period for China, as it was just 3 years after the Tianamen Square crackdown.

The response since then

The authorities have unleashed a combination of measures to prop up stocks, letting hundreds of shares halt their trading, around 1,400 firms representing about 45% of the market value suspended trading in their stocks. Regulators limited short selling (ie selling a stock before you own it, in anticipation that when the price falls, you can buy it back cheaper than what you sold it for) under the threat of arrest. The Government has also since cut interest rates and introduced measures to allow the use of property as collateral for margin trading and encouraging brokerage firms to buy shares with money borrowed from the People's Bank of China (the Central Bank). While the market has responded positively since then, it continues to remain volatile.

There are varying views on the impact of the Chinese equity collapse and both of these are presented below

Limited Impact

Notwithstanding its size, the stock market is relatively unimportant within the Chinese system, with bank (both, formal and informal / shadow) lending contributing to a bulk of the capital raising by companies and the stock market contributing to around 10%.

Retail exposure to the market is also low with only 10 – 20% of household wealth being in the form of shares, much lower than the developed world. The composition of the SCI is also varied, with only 30% made up of large, government owned entities and the balance comprising of small and medium capitalization stocks. The recent rally was mostly in these small and medium cap stocks, some of which increased almost 400%, with the large cap stocks comparatively increasing only about 20 – 30%.

As such the impact on the global economy is expected to be limited as foreigners own just 1.5% of Chinese shares

Some Impact

The reason the Government is taking such extraordinary measures is because it is trying to transition the economy from an export driven towards a services and consumption driven economy. The large number of retail investors (in absolute numbers it is still large at around 200 million people) that entered the markets, combined with the steep sell off, could negatively impact consumer sentiment and thus hamper and already difficult transition.

More importantly, the government is concerned about social unrest, given the large number of retail investors that have an exposure to equities, equivalent to about the size of the entire population of the US.

Conclusion

Further, the government has also allowed the currency to weaken by about 2% recently, this will make China's exports more competitive and its imports more expensive.

While the direct impact on the world and India's economy will be limited, there will be some impact, as companies that have an exposure on China, have seen a fall in their share price, as consumer sentiment weakens. This includes companies such as Tata Motors which through Jaguar Land Rover has an exposure to China, which is its largest overseas market and also global companies such as Remy Cointreau and Burberry, all of which have seen their share price fall. Commodity companies such as Vedanta and Hindalco have also been impacted as China is one of the biggest buyer of commodities.

Source: Wall Street Journal (various articles in July and August 2015), Satyajit Das (Market Watch, July 2015),

China Yuan Devaluation

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On Monday August 10 PBoC (Peoples Bank of China) set its reference rate 1.9% lower which caused ripples in markets all over the world. It was followed by another devaluation of 1.6% on next day. This sudden devaluation shook global markets. China's Exchange rate is set by central bank and it is pegged by basket of currencies mainly dominated by US Dollar $. Each day PBoC sets its reference rate by previous day data and it is allowed to trade 2% above or below the target. Recent Devaluation has been the biggest fall since 20 years.China's exchange rate policy has transformed from centrally planned to market oriented. China began with open market policy since 1978 from then the official Yuan rate was devalued in correction with market fundamentals. In 1981 dual track system of exchange rate was introduced including official exchange rate & internal assessment rate for foreign trade. Chinese foreign exchange rate system was under excessive control of government. It was purely fixed regime from 1994 to 2005 .Again from 2005 PBoC pegged Yuan to basket of currencies.From july 2005 to feb 2010 Yuan appreciated 17. 5% against USD $. Many market strategists and analysts are worried by the decision of china. But PBoC has clarified that the devaluation or fall is not in course it is for temporary adjustment to make economy stronger.

What Caused Devaluation.?

July export data of china showed 8.3% decline in its exports because of weak global demand with slow economic growth since last four months has forced government to take tough measures to revive growth. Growth projections by IMF are near to 7% which has sent discouraging message in economy. Depreciating Yuan will make Chinese export cheap & competitive in the world and help export more. Next main reason behind the devaluation is to give Yuan a strong place in global currencies .China has been pushing itself to make Yuan fifth currency recognized by IMF for special drawing rights (SDR), which is international currency reserve .To push china for SDR status it has to show that their currency is freely usable .the results could include convincing more banks across world to keep Yuan as reserve currency.

Impact of Devaluation

Prima facie the positive effect of the devaluation will be seen on Chinese exports .many analysts argue that china purposefully devalued its currency due to week export data.IMF projects China's GDP growth at 7%, exports will help in regaining the pace of growth and economic activity in the country. Many markets tumbled down with Yuan devaluation. Immediate effect was seen on many European & other market equity index. Some of the worst hit were Germany DAX(-5.34%), France PX (-4.42), United Kingdom UKX (-2.51) United States of America DJI(- 0.94) , India SENSEX (-0.007).It will affect Indian Rupee but it wont be as significant as compared to other emerging market economies. India's macro fundamentals are in good position. There is fear amongst analysts and economists about currency war which may erupt due to Yuan devaluation. Many economies may devalue their currency too, this may create turmoil in global economy. Lower Yuan means higher Dollar which means US exports will be less competitive. It would also affect emerging market currencies such as Malaysian Ringgit and Indonesian Rupiah which have already depreciated against U.S dollar.

Current devaluation has got many critics from all over the world. Chinese authorities mentioned devaluation as one time change and to make market in china competitive .Devaluation has made U.S rethink about their rate hike ahead this year. Yet IMF welcomes this devaluation as china was always reluctant about lifting controls over currency. This devaluation is made Yuan more market decisive and dependant. China's current economic situation is also low with wage rate hike and week global demand for Chinese products has slowed down their GDP growth. Now all economists are looking for Fed decision of rate hike, further devaluation and rate hike by U.S will definitely affect emerging market adversely.

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Interest rates - Part 1

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Interest rates play an important role in Indian economy. In India, interest rate decisions are taken by the RBI's (Reserve Bank of India) Central Board of Directors. The RBI's most important aim is to maintain monetary stability through monetary policy. Monetary policy is concerned with money supply, credit creation by banks & rate of interest. It is formulated & implemented by the Central bank. Rates which the Indian Central bank uses for this are the Bank rate, CRR (Cash Reserve Ratio), SLR (Statutory Liquidity Ratio), Repo rate, Reverse repo rate. Monetary policies have a significant impact on changes in real growth & the rate of inflation. Thus the goal of monetary policy may be broadly stated as to keep output & inflation as stable as possible. Monetary policy can be contractionary or expansionary. It is expansionary when it seeks to increase the availability of money or reduce the cost of money. It is contractionary when it seeks to reduce the availability of money or increases the cost of money. The official interest rate is the benchmark repurchase rate. If you are borrower it is important for you to understand the significance of changes in interest rate. There are two concepts of interest rate which are interrelated to each other.

1. The term interest is used to express a rate of return earned on capital as a factor of production.

2. Interest rate refers to the price which is paid by the borrowers to lenders for the use of their saving fund.

Some views related to interest rate are, According to, Classical economists,

a. Interest is a price for abstinence or waiting

b. Interest is paid because of time preference

According to Keynes, "Interest is the reward for parting with liquidity for a specified period. Liquidity preference means the demand for money to hold cash. Individual's liquidity arises because of three motives:-

1) Transaction motive
2) Precautionary motive
3) Speculative motive

We can write liquidity preference in functional form as follows:-

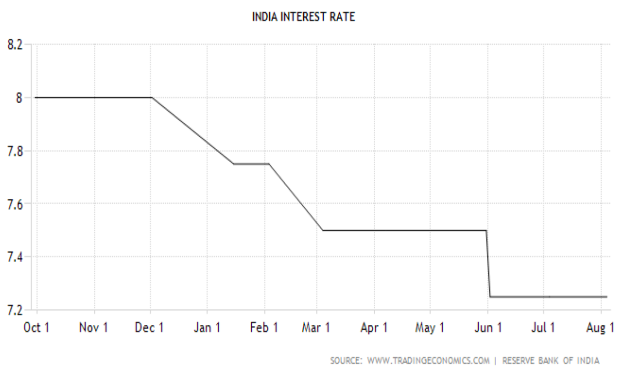
$$M_1 = L_1(Y)$$

Y-income L_1-liquidity preference function M1-Money held under the Transaction motive & Precautionary motive

$$M_2 = L_2(r)$$

r-interest L_2-liquidity preference M_2-Money demand for speculative motive. Since total supply of money M=M1 + M2 then we get

$$M = L_1(Y) + L_2(r)$$



The benchmark interest rate in India was last recorded at 7.25 percent. Interest Rate in India averaged 6.71 percent from 2000 until 2015, reaching an all time high of 14.50 percent in August of 2000 and a record low of 4.25 percent in April of 2009. Interest Rate in India is reported by the Reserve Bank of India.

Importance of interest rate in an economy:-

Importance of Interest Rate

The economy is living, breathing & deeply interconnected system. When central bank changes rates it directly passed or affects to the economy. If the central bank reduces interest rates, then commercial banks lending capacity increases. In turn they can lend to the borrowers at low rate. This will attract individuals and firms and increase the competitiveness.

With lower interest rates individual who was willing to buy home or car may decide to buy it. So more the consumer spends, more the economy grows with increased aggregate demand. Investors spend more on capital goods and services then companies will increase the production. Lower interest rates are good for stock market because it makes other investments less attractive. If bond rates are tied with interest rates and bank lowers the rate it will make other investments attractive and influx of investor's money in the stock market will increase the stock prices. Higher interest rates will cost more to the consumer and less he will be willing to buy on credit. This is how it effects inflation with sluggish demand reduced consumer spending supply will also be lowered and prices won't increase rapidly. All rates are important but **Repo rate** is the rate which influences most the given money supply in the economy. The Repo or repurchase agreement refers to agreement for a transaction between Reserve bank of India & commercial banks through which RBI supplies funds immediately against government securities. If the central bank rises its repo rate, it becomes costly for banks to borrow money from RBI so they will increase the loan interest rates at which customers borrow money from commercial banks. Higher the interest rate, higher is the cost of capital and contributes to slowdown investment in the economy. Mainly high rate of interest have high influence on both growth & inflation.

Government Securities Market in India

- Ashutosh Vaidya

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The Government securities market has witnessed significant changes during the past decade. Introduction of an electronic screen based trading system, dematerialized holding, straight through processing, establishment of the Clearing Corporation of India Ltd. (CCIL) as the central counterparty (CCP) for guaranteed settlement, new instruments, and changes in the legal environment are some of the major aspects that have contributed to the rapid development of the government securities (popularly known as G-Sec) market.

Major participants in the Government securities market historically have been large institutional investors. With the various measures for development, the market has also witnessed the entry of smaller entities such as co-operative banks, small pension and other funds etc. These entities are mandated to invest in Government securities through respective regulations.

Let us understand few examples of government securities traded in India:

What is a Government Security?

A Government security is a tradable instrument issued by the Central Government or the State Governments. It acknowledges the Government's debt obligation. Such securities are short term (usually called treasury bills, with original maturities of less than one year) or long term (usually called Government bonds or dated securities with original maturity of one year or more). In India, the Central Government issues both, treasury bills and bonds or dated securities while the State Governments issue only bonds or dated securities, which are called the State Development Loans (SDLs). Government securities carry practically no risk of default and, hence, are called risk-free gilt-edged instruments. Government of India also issues savings instruments (Savings Bonds, National Saving Certificates (NSCs), etc.) or special securities (oil bonds, Food Corporation of India bonds, fertiliser bonds, power bonds, etc.).

a. Treasury Bills (T-bills)

Treasury bills or T-bills, which are money market instruments, are short term debt instruments issued by the Government of India and are presently issued in three tenors, namely, 91 day, 182 day and 364 day. Treasury bills are zero coupon securities and pay no interest. They are issued at a discount and redeemed at the face value at maturity. For example, a 91 day Treasury bill of Rs.100/- (face value) may be issued at say Rs. 98.20, that is, at a discount of say, Rs.1.80 and would be redeemed at the face value of Rs.100/-. The return to the investors is the difference between the maturity value or the face value (that is Rs.100) and the issue price The Reserve Bank of India conducts auctions usually every Wednesday to issue T-bills. The Reserve Bank of India announces the issue details of T-bills through a press release every week.

b. Cash Management Bills (CMBs)

Government of India, in consultation with the Reserve Bank of India, has decided to issue a new short-term instrument, known as Cash Management Bills (CMBs), to meet the temporary mismatches in the cash flow of the Government. The CMBs have the generic character of T-bills but are issued for maturities less than 91 days. Like T-bills, they are also issued at a discount and redeemed at face value at maturity. The tenure, notified amount and date of issue of the CMBs depends upon the temporary cash requirement of the Government. The announcement of their auction is made by Reserve Bank of India through a Press Release which will be issued one day prior to the date of auction. The settlement of the auction is on T+1 basis.

c. Dated Government Securities

Dated Government securities are long term securities and carry a fixed or floating coupon (interest rate) which is paid on the face value, payable at fixed time periods (usually half-yearly). The tenor of dated securities can be up to 30 years.

The Public Debt Office (PDO) of the Reserve Bank of India acts as the registry / depository of Government securities and deals with the issue, interest payment and repayment of principal at maturity. Most of the dated securities are fixed coupon securities.

The nomenclature of a typical dated fixed coupon Government security contains the following features - coupon, name of the issuer, maturity and face value. For example, 7.49% GS 2017 would mean:

Coupon : 7.49% paid on face value
Name of Issuer : Government of India
Date of Issue : April 16, 2007
Maturity : April 16, 2017
Coupon Payment Dates : Half-yearly (October 16 and April 16) every year
Minimum Amount of issue/ sale : Rs.10,000

d. State Development Loans (SDLs)

State Governments also raise loans from the market. SDLs are dated securities issued through an auction similar to the auctions conducted for dated securities issued by the Central Government. Interest is serviced at half-yearly intervals and the principal is repaid on the maturity date. The SDLs do not carry any credit risk. In this regard, they are similar to securities issued by the Government of India (GoI).

Why should one invest in Government securities?

Holding of cash in excess of the day-to-day needs of a bank does not give any return to it. Investment in gold has attendant problems in regard to appraising its purity, valuation, safe custody, etc. Investing in Government securities has the following advantages:

a) Besides providing a return in the form of coupons (interest), Government securities offer the maximum safety as they carry the Sovereign's commitment for payment of interest and repayment of principal.

b) They can be held in book entry, i.e., dematerialized/ scripless form, thus, obviating the need for safekeeping.

c) Government securities are available in a wide range of maturities from 91 days to as long as 30 years to suit the duration of a bank's liabilities.

d) Government securities can be sold easily in the secondary market to meet cash requirements.

e) Government securities can also be used as collateral to borrow funds in the repo market.

f) The settlement system for trading in Government securities, which is based on Delivery versus Payment (DvP), is a very simple, safe and efficient system of settlement. The DvP mechanism ensures transfer of securities by the seller of securities simultaneously with transfer of funds from the buyer of the securities, thereby mitigating the settlement risk.

g) Government security prices are readily available due to a liquid and active secondary market and a transparent price dissemination mechanism.

h) Besides banks, insurance companies and other large investors, smaller investors like Co-operative banks, Regional Rural Banks, Provident Funds are also required to hold Government securities.

How are the Government Securities issued?

Government securities are issued through auctions conducted by the RBI. Auctions are conducted on the electronic platform called the NDS – Auction platform. Commercial banks, scheduled urban co-operative banks, Primary Dealers Insurance companies and provident funds, who maintain funds account (current account) and securities accounts (SGL account) with RBI, are members of this electronic platform. All members of PDO-NDS can place their bids in the auction through this electronic platform. All non-NDS members including non-scheduled urban co-operative banks can participate in the primary auction through scheduled commercial banks or Primary Dealers. For this purpose, the urban co-operative banks need to open a securities account with a bank / Primary Dealer – such an account is called a Gilt Account. A Gilt Account is a dematerialized account maintained by a scheduled commercial bank or Primary Dealer for its constituent (e.g., a non-scheduled urban co-operative bank). RBI, in consultation with the Government of India, issues an indicative half-yearly auction calendar which contains information about the amount of borrowing, the tenor of security and the likely period during which auctions will be held. A Notification and a Press Communique giving exact particulars of the securities, viz., name, amount, type of issue and procedure of auction are issued by the Government of India about a week prior to the actual date of auction. RBI places the notification and a Press Release on its website (www.rbi.org.in) and also issues an advertisement in leading English and Hindi newspapers. Information about auctions is also available with the select branches of public and private sector banks and the Primary Dealers.

How does the trading in Government securities take place?

There is an active secondary market in Government securities. The securities can be bought / sold in the secondary market either (i) Over the Counter (OTC) or (ii) through the Negotiated Dealing System (NDS) or (iii) the Negotiated Dealing System-Order Matching (NDS-OM).

Why does the price of Government security change?

The price of a Government security, like other financial instruments, keeps fluctuating in the secondary market. The price is determined by demand and supply of the securities. Specifically, the prices of Government securities are influenced by the level and changes in interest rates in the economy and other macro-economic factors, such as, expected rate of inflation, liquidity in the market, etc. Developments in other markets like money, foreign exchange, credit and capital markets also affect the price of the Government securities. Further, developments in international bond markets, specifically the US Treasuries affect prices of Government securities in India. Policy actions by RBI (e.g., announcements regarding changes in policy interest rates like Repo Rate, Cash Reserve Ratio, Open Market Operations, etc.) can also affect the prices of Government securities.

Conclusion

There are many players in the Government securities market including commercial banks and primary dealers besides institutional investors like insurance companies. Primary Dealers play an important role as market makers in Government securities market. Other participants include co-operative banks, regional rural banks, mutual funds, provident and pension funds. Foreign Institutional Investors (FIIs) are allowed to participate in the Government securities market within the quantitative limits prescribed from time to time. Corporates also buy/ sell the government securities to manage their overall portfolio risk. Thus from the above it can be observed that, investment in government securities by individuals and their associations is prohibited due to various reasons such as minimum threshold limit, use of technology, back-up or operational functionalities, and most importantly as a general principle, the policy-makers do not want to include citizens of this country to invest in the complex financial products/markets for some-time now.

Gold Monetization Scheme

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Objective of Gold Monetization Scheme

The Government has come out with the Gold monetization scheme with the following objectives in mind. The scheme's objectives are

To mobilize the idle gold lying in the households in the country.

- To give fillip to the Gems and jewellery industry by releasing gold for them on loan basis from the banks
- To reduce reliance on gold imports to meet the domestic demands.
- The objectives listed above are very noble and will go a long way in helping india reduce the Gold imports.

Why this scheme

What made the government to introduce such a scheme for this country. To understand it in more better perspective, one will have to understand where india stands in terms of the gold demands and in terms of the gold holding as compared to other countries.

Here is a few charts which depicts the same.

a. Gold Holding of India vis-à-vis other countries and its share in the forex reserves

As of March 2015

Rank	Country/Organization	Gold holdings (in tonnes)	Gold's share of forex reserves
1	United States	8,133.5	74.0%
2	Germany	3,384.2	68.7%
3	International Monetary Fund	2,814.0	N.A.
4	Italy	2,451.8	67.7%
5	France	2,435.4	66.8%
6	Russia	1,237.9	13.3%
7	China	1,054.1	1.0%
8	Switzerland	1,040.0	7.7%
9	Japan	765.2	2.5%
10	Netherlands	612.5	57.2%
11	India	557.7	6.9%
12	Turkey	530.0	16.0%
13	European Central Bank	504.8	27.6%
14	Republic of China (Taiwan)	423.6	4.1%
15	Portugal	382.5	72.8%

b. Demand for Gold sector wise

Table : Historical data for gold demand – last 10 years

	Tonnes					
	Jewellery	**Total bar and coin invest.**	**ETFs and similar**	**Technology**	**Central banks**	**Total**
2005	2,721.0	418.1	211.1	440.4	-663.4	3,127.2
2006	2,301.4	429.8	258.5	471.7	-365.4	3,096.0
2007	2,424.9	437.5	258.8	477.7	-483.8	3,115.1
2008	2,306.2	917.9	324.0	464.7	-235.4	3,777.3
2009	1,816.3	832.3	644.2	414.4	-33.6	3,673.7
2010	2,051.5	1,201.8	421.1	459.9	79.2	4,213.3
2011	2,090.5	1,493.4	236.4	427.0	480.8	4,728.1
2012	2,135.6	1,299.9	306.3	379.1	569.3	4,690.3
2013	2,670.7	1,702.0	-916.0	354.1	625.5	4,436.3
2014	2,457.2	1,004.4	-183.8	346.5	588.0	4,212.4

Source: Metals Focus, ICE Benchmark Administration, World Gold Council

c. Demand in Tonnes – Country wise in 2014 and in the 1st quarter of 2015.

Table : Consumer demand in selected countries (tonnes)								
	2014	**Q1'14**	**Q2'14**	**Q3'14**	**Q4'14**	**Q1'15**		**Q1'14 vs Q1'15, % change**
India	811.1	167.1	204.9	237.3	201.7	191.7	↑	15
Pakistan	35.6	7.1	10.2	8.7	9.6	8.3	↑	16
Greater China	1,051.4	316.3	242.3	227.3	265.4	290.4	↓	-8
China	973.6	293.8	224.1	212.0	243.7	272.9	↓	-7
Hong Kong	61.4	18.8	13.2	11.5	17.9	14.0	↓	-26
Taiwan	16.3	3.6	5.1	3.8	3.8	3.6	↓	-2
Japan	14.4	11.2	2.6	3.5	-2.9	0.4	↓	-96
Indonesia	62.9	17.6	14.7	14.7	15.9	18.3	↑	4
Malaysia	18.7	4.8	5.0	4.8	4.1	5.0	↑	4
Singapore	22.0	5.3	6.1	5.5	5.1	5.3	→	0
S Korea	16.7	4.5	3.7	4.3	4.2	4.5	↑	1
Thailand	106.8	27.6	19.9	27.8	31.5	22.7	↓	-18
Vietnam	66.7	19.7	15.3	15.9	15.8	18.3	↓	-7
Middle East	313.0	102.3	83.0	63.6	64.0	83.6	↓	-18
Saudi Arabia	84.0	21.4	22.6	18.2	21.8	22.3	↑	4
UAE	66.1	21.2	19.9	12.5	12.6	19.8	↓	-7
Kuwait	15.3	6.1	3.5	2.4	3.3	5.2	↓	-15
Egypt	51.1	14.7	13.0	12.5	10.9	10.0	↓	-32
Iran	75.4	30.8	18.9	14.1	11.5	18.2	↓	-41
Other Middle East	21.0	8.1	5.2	3.9	3.9	8.0	↓	0
Turkey	116.6	27.0	32.0	22.3	35.3	15.6	↓	-42
Russia	74.9	21.8	19.0	18.7	15.3	13.0	↓	-40
Americas	223.2	45.5	51.6	49.6	76.4	44.2	↓	-3
United States	164.2	32.8	36.6	36.3	58.6	32.3	↓	-2
Canada	17.4	3.6	4.0	3.2	6.6	3.2	↓	-11
Mexico	18.0	4.5	4.3	4.6	4.6	4.5	↑	2
Brazil	23.5	4.7	6.7	5.5	6.7	4.2	↓	-10
Europe ex CIS	276.0	65.4	54.0	58.4	98.3	73.5	↑	12
France	15.4	3.0	2.9	2.3	7.2	3.6	↑	20
Germany	111.6	28.6	21.5	25.1	36.5	33.8	↑	18
Italy	18.7	2.7	3.8	2.9	9.4	2.5	↓	-7
Spain	8.1	1.6	2.0	1.8	2.7	1.7	↑	4
United Kingdom	33.3	6.3	5.6	6.4	14.9	5.9	↓	-6
Switzerland	47.7	12.5	9.8	10.4	15.0	13.8	↑	11
Austria	10.8	2.7	1.9	2.3	3.8	3.0	↑	10
Other Europe	30.4	7.9	6.4	7.2	8.8	9.2	↑	16
Total above	3,209.8	843.1	764.4	762.5	839.8	794.9	↓	-6
Other & stock change	251.8	58.6	62.9	52.5	77.9	59.0	↑	1
World total	3,461.7	901.7	827.3	815.1	917.6	853.8	↓	-5

Source: Metals Focus, World Gold Council

From the above it can be seen that the highest growth in demand is in India and it stands 11th amongst the gold holdings.

Majority of the gold bought in india is lying in safe , unused and only for investment purposes. So there was a need to unlock the gold which was lying idle.

The scheme prepared by the government is after due discussions with the banks, jewelers and the refineries.

Scheme Details and Procedure to be followed

Before one deposits the gold under the scheme, the following procedure has to be followed.
Step 1 – Customer to give consent for preliminary testing of the gold to know purity
Step 2 – customers also has to give consent for the melting of the gold.
Step 3- Once he is told about the purity of the gold he has choice of either to take back the melted gold in the form of gold bars or he can agree to deposit the gold with the bank
Step 4 – If he deposits the gold then he will be given the certificate by the collection centre about the gold purity , amount and the details of the gold deposited by him

The above looks to be very simple. But the catch is that presently only 30 grams of gold can be deposited. Gold can be either in the form of the bullion or the jewellery

Opening of gold savings account with the banks & benefits

- Once the customers produces the certificate for the gold deposited with the Purity Testing centre, the bank will
  a. open a Gold saving Account and
  b. Credit the gold deposited with the centre in to the customer's account.
- The Banks will pay interest to customers after 30/60 days of opening account. Banks can decide the rate. Both the principal and the interest will be valued in gold grams
- At the time of redemption the same will be either in cash or in gold. The decision has to be taken at the time of the opening of account as to how he wants it.
- Maturity will be 1 years and in multiples of 1 years. Breaking before maturity is also allowed
- As regards the tax exemptions, the government has yet to decide on the same.

use of the Gold deposit with the Centers

- The government can give incentive to the banks to mobilize the gold as part of the CRR and SLR requirement with RBI

- Banks can sell the gold to generate FX and which can be used for foreign payments

- Banks can convert gold into coins for selling to customers

- Banks can buy and sell on domestic commodity exchange where gold will be delivered

- Banks can lend to jewelers , however the jewelers have to open a Gold loan account with the banks.

Conclusion

It is a well thought idea and will go a long way in reducing india's dependence on the imported gold and will channelize the idle gold lying in the country.

On the whole it's a win win situation for the government, the buyers and the jewellers.

Sources

a. Data from the world Gold council
b. https://mygov.in/sites/default/files/master_image/Draft_Gold_Monetization_Scheme

Through the Mind of a Prudent Investor

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The "mind-spectrum" of any investor is always tickling his brain cells on the question as to what should be one's investment strategy. Especially under the present set of circumstances when the rupee is weakening, concerns about the Greece crisis are deepening and the weather gurus are predicting a sub-normal monsoon, there is some amount of trepidation.

Each one of us is constantly striving to create a financial plan that will make our money go miles and exponentially grow our wealth. It is imperative to exhibit prudence in understanding the external environment to ensure that one's internal resources (wealth) are aligned to not only grow at a rapid pace but also stay afloat during the worst of times when the markets go into a downward spiral.

A prudent investor starts from his base platform of wealth. Therefore, it is not important how much money you make but it is critical to know how much money you keep. This "savings-corpus" is the root from which stems the plant of wealth creation. Having said this, the base of one's strategy has to be that investment income must exceed inflation. If it just equals inflation, then it is tantamount to your running on the spot, whereas if it is lower than the inflation number, then you are actually becoming poorer.

Therefore, while developing your investment strategy, it is prudent to consider the following issues:

i. Age of the investor
ii. Source of income
iii. Propensity to spend
iv. Risk appetite
v. Knowledge of investment avenues.

While the broad canvas of available investment avenues are captured in the following table, it is important to know that the equity markets, through mutual funds or direct investments with of course an element of expert advice, can be the elixir of becoming a prudent and successful investor.

Diversify your Investments Invest across asset classes for better risk-adjusted returns					
Asset Class	**Time Horizon**	**Returns**	**Safety**	**Volatility**	**Liquidity**
Savings Account	Short Term	Low	High	Low	High
Bank Fixed Deposit	Medium to Long Term	Low to Moderate	High	Low	Low
Company Fixed Deposit	Medium to Long Term	Moderate	Moderate	Low	Low

Post Office Schemes	Long Term	Low to Moderate	High	Low	Low
Income Funds	Medium to Long Term	Moderate	Moderate	Low	Low
Equity Funds	Long Term	High	Low	High	High
Insurance	Long Term		High	Low	Low
Real Estate	Long Term	High	Low	High	Low
Gold	Long Term	Moderate	High	Moderate	Moderate

As you will observe from the above table, one needs to diversify and invest across asset classes for optimizing the risk adjusted returns.

Considering the fact that the Indian Economy is poised to take off, we are going to dive deep into the area of Equity Markets/Mutual Funds. The basic fundamentals that a prudent investor needs to look at from both external and internal facts to be a successful investor are as follows:

External

i. Global Economic scenario
ii. Indian Economy and its integration with Global Economy
iii. Status of Equity Markets
iv. Sector specific knowledge for growth opportunities

Internal

i. Assess one's personal cashflow to track investible surplus
ii. Identify and prioritize goals for the usage of money
iii. Map the allocation to various asset classes
iv. All long term goals must be linked to equities may be through mutual funds.

External Factors

i. Global Economic Scenario

Would India be impacted by the global slowdown? China's growth is expected to fall to 6.8% in 2015. Greece, Russia and Ukraine have the potential to derail the Euro and growth in Europe. The IMF has slashed its forecast for the US economy. World Bank has advised the US Federal Reserve to keep on hold any interest rate increase. A weak global economy will adversely impact India's export growth. However, the US recovery is a double-edged sword for India. While the exports will be boosted, the foreign funds will move out from the emerging markets like India, resulting in lower growth numbers.

ii. Indian Economy

When we look at the Indian Economy, we realize that India today operates in a more integrated world. The integration is not only restricted to goods and services but also extends to financial integration and the corporate sector. Many Indian companies have taken bets abroad and therefore any impact overseas has a direct link to these companies.

At a time when the world is struggling to recover, the Indian GDP numbers (thanks to new calculations) have shown an optimistic trend.

About a year ago we built unrealistic expectations on how much the new Government can achieve in the short run. While our dreams may not have come true, it is not disappointing but more about matching expectations with what has been achieved. The India story is yet looking good in the long run. We need to be patient to experience the real economic growth in India.

iii. Status of Equity Markets

Since the Indian equity markets have corrected a bit in recent times, it may be a good time for the investors to enter. As the valuations of Indian markets are appearing to be attractive even at these levels, it appears that the domestic investors are about to embrace the equity markets by moving away from debt. If the investors look from the perspective of growth and reforms, then India scores highly on that agenda. The Indian markets are backed by strong fundamentals of a consumption led economy and therefore it is imperative that as investors we pick the right sectors and the right companies – may be through our experts/advisors.

iv. Sector specific knowledge for growth opportunities

In spite of the "Modi-Sarkar", we need to take cognizance of the fact that corporate earnings in the last quarter were disappointing. Even the globally competitive sectors like IT and pharma have been sluggish in growth. The Nifty is down by 11% from the peak of March 2015.

A prudent investor should view this situation as the right time to enter the market as the current government is looking at

- Tax reform – GST, Labour, etc.
- Improved governance
- Infrastructure development
- Ease of doing business.

The fears about a sub-normal monsoon seem to have been allayed by the initial indication of a good monsoon. Considering these facts, the sectors to be preferred for investment would be

- Banks
- Construction and Engineering
- Auto
- Industrial machinery
- Pharma
- IT.

It is therefore a matter of specific study of certain companies with the help of the advisors to narrow down on the stocks that a prudent investor needs to buy and keep buying at every decline for long term prosperity.

Now that we have looked at the external factors, let us turn to the internal factors that impact the decision making of a prudent investor.

Internal Factors

i. Assess cashflow to track investible surplus

One needs to keep track of income and expenses through a simple budgeting exercise. The cash flow forecasting facilitates in identifying the critical expenses or repayments of loans. Once you have been able to forecast your cashflow and balance-sheet, then you need to make a list of your priorities and goals.

ii. Identify priorities and goals

It is imperative that a comprehensive list of goals is made. This list would entail goals like child's education, marriage, daily expenses and/or buying a car/house. These goals could be split in 3 buckets as follows:

- Short term goals	- 0 – 6 months
- Medium term goals	- 5 – 10 years
- Long term goals	- ≥ 10 years

Based on these goals, one has to think of an investment plan which will make the money work and grow.

iii. Map allocation of resources to asset classes

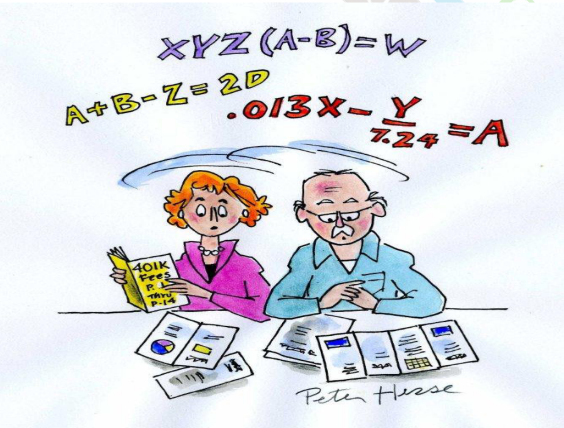
An investment plan should help you to deal with inflation, build a retirement corpus and also improve your standard of living.

It is imperative to align your investment plan to your risk profile and then spread across different asset classes in order to minimize the risk and enhance the risk-adjusted returns.

The mutual fund investments are preferred by the investors because of their cost efficiency, tax efficiency and ease of execution. The added advantage in mutual fund investments is that the money is managed by professionals.

iv. All long term goals should be linked to equity markets

As the long term goals have to beat inflation and augment wealth to a level that risk-adjusted returns are adequate, it is prudent to get the help of experts. The mutual funds are generally well managed by professionals who are domain experts and manage large amounts in their portfolio.



Now that we have looked at the various factors which will drive our investment strategy, we must be willing to abide by the following fundamental rule:

"Separate emotions from objectives. Investment decisions have to be made by the head and not the heart."

You should be inclined to make "equity" the pivot of your portfolio. This asset class has consistently grown ahead of the inflation factor and is extremely liquid unlike any investment in real estate.

Based on the hypothesis that equities are the best instruments to beat inflation, one would say that mutual funds score the highest in terms of cost efficiency, tax efficiency and ease of execution. There is an added advantage that the funds are managed by professionals. Therefore, a prudent investor must have an adequate slice of mutual funds in his overall pie of investments.

In fact, the lesson for small investors is simple. Take the mutual fund route instead of trying to find the next Infosys among individual stocks. Also, do not invest in one go. Just as you are diversifying your investments across a basket of stocks, diversify across time as well by using the SIP mode. That is the best way to create wealth without losing sleep.

Finally, you should periodically review your portfolio of investments to optimize the yield by getting rid of those stocks or mutual funds which have under-performed and replace them by those which show promise in the future.