Complaints Galore In Medical Insurance

NO.1 PERSONAL FINANCE MAGAZINE

Outlook MONEY

SUBSCRIBER COPY NOT FOR RESALE

SEPTEMBER 2020, ₹50

OUTLOOKMONEY.COM

- ★ Gold **ETFs** Rise
- ★ **Copper** Is Next Gold
- ★ Why **REITs** Is An Attractive Asset
- ★ Challenges Retail **Investors** Face

8 904150 800027 09

MAHA GOLD LOAN
Retail and Agriculture

Loan available upto : Rs. 20.00 Lakh

Rs. 3600/- per Gram of
22 Carat Gold Jewellery / Ornaments

R.O.I.* @ 7.40% p.a. • No Processing Fees

Give Missed Call : 8010 614 614

Visit : www.bomloans.com/argold

बैंक ऑफ महाराष्ट्र
Bank of Maharashtra
भारत सरकार का उद्यम

एक परिवार एक बैंक

Follow us @mahabank

*T&C Apply

Outlook MONEY

Contents

SEPTEMBER 2020 ■ VOLUME 19 ■ ISSUE 9

Cover Design: DEEPAK SHARMA & PRAVEEN KUMAR .G

HEAD OFFICE AB-10, S.J. Enclave, New Delhi 110 029; Tel: (011) 71280400, Fax: (011) 26191420 **OTHER OFFICE** Mumbai: (022) 50990990
Printed and published by Vinayak Aggarwal on behalf of Outlook Publishing (India) Pvt. Ltd. Editor: Saibal Dasgupta.
Printed at Kalajyothi Process Pvt. Ltd. Sy.No.185, Sai Pruthvi Enclave, Kondapur – 500 084, R.R.Dist. Telangana and published from AB-10 Safdarjung Enclave, New Delhi 110029
For Subscription queries, please call: 011-71280462, 71280400 or email: **yourhelpline@outlookmoney.com**
Published for the month of September 2020; Release on 1 September 2020. Total no. of pages 68

Sanity Of Safety Or Rush Of Risk

The present fear will not be allayed in the next couple of months. The subject was an interesting insight into the market, especially the choice between risk and safety, and how it stems out is quite tricky. It was a well-presented and helpful article.

Soham Ghosh, Kolkata

Dynamically Manage Your Asset Allocations For Smarter Return

It was an informative interview with S Naren and got to learn about identifying my risk appetite. I also liked how he discussed the optimal approach to navigate the uncertain times, when the pandemic is still fragile, through dynamically managed asset allocation schemes. The questions were commendable and overall it helped me clear several clouds regarding investment strategy.

Ananya Malhotra, Mumbai

Being Risk-Free With Low Returns

The article on small savings was quite good. The distinctions between FDs and PPFs were explained in a lucid form, allowing people to comprehend and understand the pros and cons. Since small savings schemes have been a popular investment option among the people, the article surely added a bit more to knowledge.

Sachin Srivastav, Mumbai

Letters must be addressed to: The Editor, Outlook Money, AB-10, Safdarjung Enclave,
New Delhi 110029, or letters@outlookmoney.com. Please mention your full name and residential address.

Outlook MONEY

EDITOR-IN-CHIEF
Ruben Banerjee

EDITOR
Saibal Dasgupta

EQUITIES AND MARKETS EDITOR
Yagnesh Kansara

SENIOR ASSISTANT EDITOR
Anagh Pal

SPECIAL CORRESPONDENTS
Himali Patel
Vishav

PRINCIPAL CORRESPONDENT
Nirmala Konjengbam

SENIOR CORRESPONDENT
Dipen Pradhan

NEWS DESK
COPY EDITOR
Sudeshna Banerjee

TRAINEE SUB EDITOR
Indrishka Bose

WEB CORRESPONDENT
Rajat Mishra

DIGITAL TEAM
Amit Mishra
Sneha Santra

ART
CHIEF ART DIRECTOR
Deepak Sharma

SENIOR DESIGNERS
Praveen Kumar. G
Vinay Dominic
Leela

DESIGNER
Rohit Rai
Girish Chand (DTP Operator)

TECH TEAM
Raman Awasthi
Suraj Wadhwa

Business Office
CHIEF EXECUTIVE OFFICER
Indranil Roy

VICE PRESIDENT
Tushar Kanti Gosh

Circulation & Subscriptions
Gagan Kohli, Kapil Dhal (North)
G Ramesh (South)
Arun Kumar Jha (East)

Production
GENERAL MANAGER
Shashank Dixit

MANAGER
Sudha Sharma

ASSOCIATE MANAGER
Gaurav Shrivas

DEPUTY MANAGER
Ganesh Sah

Accounts
VICE PRESIDENT
Diwan Singh Bisht

COMPANY SECRETARY & LAW OFFICER
Ankit Mangal

Discover the true value, before the world does.

Presenting HDFC Capital Builder Value Fund.

Often market dynamics present opportunities generally overlooked by investors. The Fund is positioned as a multi-cap fund with a value bias that invests mainly in stocks that are trading at prices below their intrinsic value, as measured by potential earnings or asset values, and/or future cash flow growth. It shall also include stocks likely to benefit out of value unlocking opportunities such as mergers/acquisition, turnarounds, etc. Invest now to benefit from value investing!

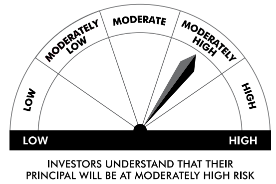
HDFC Mutual Fund/AMC is not guaranteeing returns on investments made in this scheme. The current investment strategy is subject to change depending on the market conditions. For complete portfolio details refer **www.hdfcfund.com**

To know more,
contact your financial adviser or give a missed call on **73974 12345.**

HDFC Capital Builder Value Fund (An open-ended equity scheme following a value investment strategy) is suitable for investors who are seeking*.

- To generate long-term capital appreciation/income in the long term.
- Investment primarily in undervalued stocks.

Riskometer



*Investors should consult their financial advisers, if in doubt about whether the product is suitable for them.

Note: For further details, refer to the Scheme Information Document/Key Information Memorandum available on www.hdfcfund.com or with ISCs or Distributors.

HDFC MUTUAL FUND
BHAROSA APNO KA

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

What's On Offer For COVID-19 Patients?

I have already learnt about the two policies that reimburse the costs or expenses incurred during the COVID-19 treatment. However, the article assisted me by explaining the policies in detail. Since the threat is far from being over, I was planning to take a dip into this subject and at the same time, I wanted to be sure about my choices. The story helped me clarify my queries.

Deep Chakraborty, Delhi

Widen Your Filter For Job Search

The article felt like a gush of relief. It gave a reality check as well as left hope in the struggling minds. It was great to learn from the experts that companies are still looking to hire fresh talents and there is no blanket freeze in the industry. Many of us are still in the phase where the pendulum is tilted towards negativity, but it was a relief to know that the situation has improved as compared to the scenario two months back.

Shipra Sinha, Kolkata

Beware Of Heavy Discounts On Houses

I would like to thank Outlook Money for presenting this column which speaks a lot about the current situation of the builders. Since many are moving back to their home towns because of the ongoing pandemic, there is an increase in the percentage of buyers. The anxious buyers often fail to notice the intricate details, as described in the column, and overlook the track record of the builders.

Rishav Sharma, New Delhi

Make The Most Of Your Money

As a beginner, we often fall into the mis-selling trap while looking for a good financial advisor. Because of reasons like this, we end up crushing the need to have a financial advisor.

The article was praiseworthy, as it helped me understand the strategy in a stepwise manner.

Suyash Pandey, Noida

Insights For A Pandemic Economy

I thoroughly enjoyed reading the prescription for the financially savvy, "on the road to financial freedom".

Sonali Das, Kolkata

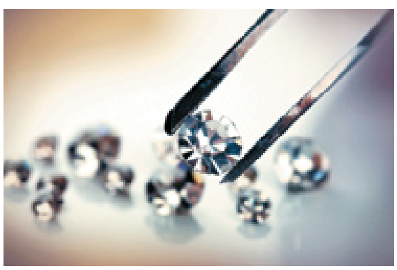
Buying Diamonds In Post COVID Era

The gold and silver rally is the talk of the town. However, the article had a new perspective on the diamond industry and captured the consumer preference perfectly.

Prachi Chaturvedi, Mumbai

Mitigating Risks With Strong Foundation

I can relate to Brigadier Ramnarayan and how his previous financial trajectory was. I got to learn a lot from his story and the decisions he had taken to shape his finances. Definitely, as mentioned in the story, with discipline in his veins it was easier to convince him and make



him understand the importance of financial discipline in life. I would like to thank him for sharing this story, and especially the plethora of lessons from his investment journey.

Alisha Chowdhury, Chennai

Watch Emotions While Investing

I have been following Outlook Money for a couple of years, and I found this article on SIP very fruitful. I like the way it is explained, keeping in mind the current crisis. Also, it was great revisiting the important theories and it was absolutely commendable how the author tried to apply those theories in the market situation. I would also like to mention how he discusses the 'five stages model' to understand the way humans deal with grief causing change. People are finding it difficult to cope with this sudden outbreak of humanitarian turned economic crisis, which will probably have a long lasting effect.

Suneel Varma, Bangalore

Sudden Surge In Demand For Credit Cards Among New Users

We are witnessing a surge in mobile based payments. I was shocked to know that a survey has claimed that Indian market will be having over 50 million contactless cards. This shows how the pandemic has fast-tracked the adoption.

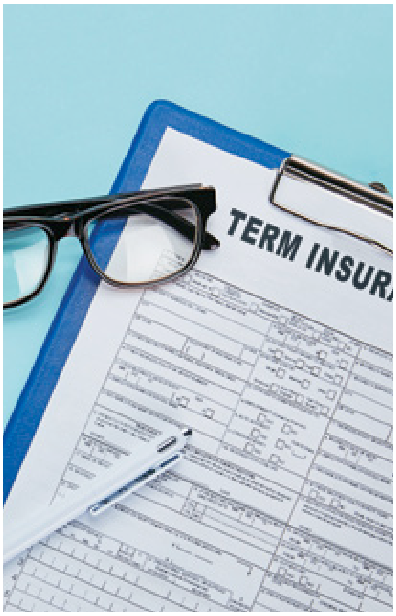
Gurpreet Singh, Mumbai


Featherlite®
Work better, live better
WE'RE ONLINE!
Discount code: OLM075
SHOP NOW AT
www.featherlitestore.com

A Guide To Online Term Insurance Policy

PURVESH JAIN
purveshrjain@yahoo.com

I have purchased an online term insurance for a cover of ₹25 lakh on March 30. I have made a full payment from a card and alongside uploaded all documents. Till today, the insurer has not contacted me for tele-medical calls, and the policy is not issued as the tele-medical process is incomplete. Please advise whether I will get a full refund if I cancel the policy. Also, if the policy is issued, will the cover start from the date of application or the date of issuance of policy?



If the policy is in pending status due to an incomplete tele-medical verification and you would like to cancel the policy you will definitely get a full refund of the premiums you paid. However, if your policy has been issued and the risk cover has begun, then you may seek a refund within the free-look period policy conditions that insurers provide. Outside of the free-look period you may not get the refund of your premiums. Once the company commences your risk, your policy date will be from the date of issuance (not the date of application).

Manu Lavanya, Director & Chief Operations Officer, Max Life Insurance

NAGABHUSHAN KN, bhushimbbs@yahoo.co.in

I am 34 years, and I have an accidental death and disability rider in two of my LIC policies upto ₹50 lakh along with term plan and an endowment plan. Do I need to buy a separate policy for the same? Similarly I have a health insurance policy family floater.

When one talks about human life value one needs to consider the value of coverage. If it is as per the calculation then buying a separate policy is not required. I would suggest you to read the policy pack and compare the features. Critical illnesses are considered family diseases as the entire family suffers when one member falls ill. Hence, critical illness policies are surely an additional umbrella for the additional expenses.

Hina Shah, Director - LUHEM

NIKHIL
mnmn4me@gmail.com

I had invested in the following mutual fund schemes through SIP for a period of 5 years. 1) Franklin India Equity Fund 2) HDFC Hybrid Equity Fund 3) ICICI Pru Balanced Advantage Fund 4) ICICI Pru Value Discovery Fund 5) SBI Magnum Global Fund 6) UTI Equity Fund. Please advise which of these investments can be retained for a further 5-10 years and which of these could ideally be redeemed now and switched.

Investments should be mapped with short-term, medium-term and long-term goals. The above-mentioned investments are various types of multi-cap, Dynamic Asset Allocation contrarian or value and thematic. And, these are long-term investment funds. One should redeem an equity fund if it has performed poorly than its peers in the category over the long run.

Hina Shah, Director - LUHEM

MIRAE ASSET
Mutual Fund

AIM FOR WEALTH CREATION

YOUR INVESTMENT NEEDS

OCUS

TO GROW, ISN'T IT?

Mirae Asset Focused Fund

Focused Fund: An open ended equity scheme investing in a maximum of 30 stocks intending to focus in large cap, mid cap and small cap category i.e. multi cap.

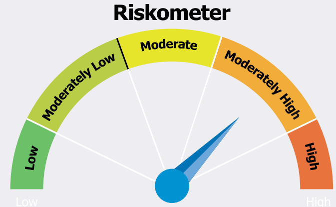
Product Labelling :

Mirae Asset Focused Fund is suitable for investors who are seeking:*

- To generate long term capital appreciation/income
- Investment in a concentrated portfolio of equity & equity related instrument of up to 30 companies across large, mid and small cap category

*Investors should consult their financial advisers if they are not clear about the suitability of the product.

Riskometer



Investors understand that their principal will be at Moderately High Risk

SCAN HERE

TO KNOW MORE

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

1800-2090-777

Contact your financial advisor for details

Ahead Of Festivals

IS GOLD STILL A GOOD INVESTMENT?

Gold prices saw a dramatic 40 per cent upswing and then a small correction in August. Analysts said the yellow metal still offers investment opportunities because the reasons that led to price hike will remain unchanged over coming months

By **Yagnesh Kansara**

Gold demand in India's retail sector has plunged to a 26-year low while the price rose to an all-time high of ₹55,000 per 10 grams. Within this seeming contradiction is the curious plan of many factors, some global, and local.

And yet, gold will continue to play a significant role in Indian as it did in the days of Samudragupta, 375 CE, son of the Gupta emperor Chandragupta, who issued gold currency and performed the Ashvameda (horse) sacrifice to establish in war victories.

Gold is present in India life at various levels: as an emotional and safety anchor, as an hedge against inflation and also figures in the political sphere.

External Affairs Minister S. Jaishankar last year referred to the wholesome transfer of wealth by the British, some of which was in gold. "India had two centuries of humiliation by the West in its predatory form it came to India in the mid-18th century," he said.

"An economic study tried to estimate how much British took out of India, it ended up at a number of $45 trillion in today's value," Jaishankar said at the noted think tank Atlantic Council in Washington DC.

But it is to the Bank of England that the then government of PV Narsimha Rao turned to when it decided to pledge the nation's family gold for a loan to tide over an economic crisis in 1991. India mortgaged 67 tonnes of Gold to raise $600 million to prevent itself from defaulting on import payments. However, the Reserve Bank of India was quick to buy back the pledged gold in December that year.

The RBI learnt its lesson and has been steadily buying gold year after year with the present level of stock rising nearly 10 times to 653 tonnes. It bought 40.45 tonnes of gold in financial year 2019-20.

There is a lesson for the retail investor here. If the central bank of India and several other countries trust gold as an important investment option, why shouldn't you?

Gold Market Highlights

Experts say there is still investment opportunity in gold because it is likely to rise further

Government helped boost price by sharply raising rate of its gold bonds in early August

Retail investors should allocate 10 per cent of their surplus savings for gold, say analysts

Gold prices rose 40 per cent due to pandemic, weakening in dollar and other reasons. These issues remain

Prices rose from ₹4,400 in 2000, ₹18,500 in 2010, and around ₹52,000 towards August end

Photo : *Tribhuvan Tiwari*

Gold Drama

The crucial point about buying gold is the price point. It is now evident that the ordinary investor has missed the brief buying opportunity that emerged as gold prices began climbing up the price curve in early August before hitting the all-time high of ₹55,000 per 10 grams. The sudden jump is best understood in the context of steady growth in prices at ₹29,667 in 2017, ₹31,438 in 2018 and ₹35,220 last year.

The price increase was a awesome 40 per cent offering huge opportunities for short-term profits until the prices began falling in the third week of August and the yellow metal losing more than ₹4,000 in value to reach ₹51,200 by August 25. And yet, the gold is rallying at a much higher level than it did a year back.

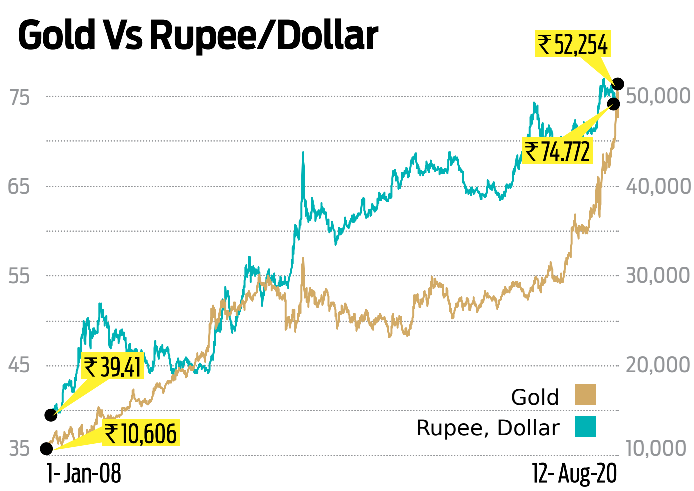
In some ways, the government is responsible for push up in prices because it raised the rate of its sovereign gold bonds from ₹48,000 in June for 10 grams to ₹53,300 in early August. The government needs to cover itself because it will ultimately repay bond holders at the prevailing price of gold during maturity dates five and eight years from now. But many in the market saw the government move as a new benchmark which influenced gold pricing.

Investors are eagerly waiting for the offer price when the government announces its next batch of gold bonds to be sold between August end and early September.

It is not in the area of pricing but even regulators have suddenly become active taking a decision they had delayed for long.

The Multi Commodity Exchange (MCX) launched the country's first bullion index, Bulldex, on August 24. The move will give a big push to gold futures opening up new opportunity for speculative trading for both large and small investors.Gold and silver are already being traded as individual commodities on the commodity exchange and bulldex offers an additional option to the trading community.

"Bullion Index futures offers retail investors an opportunity of investing in the bullion sector as a whole without the need



to analyse the gold or the silver market separately. It is convenient as the contracts are settled in cash," said Saurabh Chandra, Chairman, MCX.

Even as excitement soar in the gold market, the retail investor moved in the opposite direction. COVID-19 led to erosion of income and an strong tendency to avoid new investments. The World Gold Council has estimated that the Indian jewellery demand fell 74 percent during the three months ending June 30.

Though estimates have not been made about the movement in the resale market, there is indication that vast number of families have either sold or pledged their gold to raise funds to meet the financial and health crisis that hit millions of people. Many others could not redeem their past pledges on deadline and allowed loan giving companies to take ownership of their gold. This is a bonanza for the loan givers—and a direct hit against the loan takers—because the gold had been pledged at much lower prices than today.

The market was being driven by institutional buying and a host of other factors with the retail player keeping away. Institutions include companies with surplus cash, hedge and exchange traded funds for gold besides the central banks.

This is also a strong sign that many companies with surplus funds are investing as part of their treasury management program and staying away from business investments. The weakened economy, partly caused by the pandemic but mostly a continuation of the slowdown that began in 2018, has dried out business opportunities forcing companies to look for other ways of investing. Physical gold and paper gold are among the options. Was it wise on the part of retail investors with investible funds to stay away from the gold market as prices began rising?

"We believe every investor should have around 10 percent of the financial assets in Gold and we have been recommending our clients to buy gold since last year," said Ashish Ranawade, Head of Products-Wealth Management, Emkay Global Financial Services. The big question is whether gold prices will continue to rise in the coming

How Rates Affect Gold Price

Nearly $15 trillion of the global debt is carrying negative yields. Many key economies like Japan, Switzerland, Denmark, etc have negative rates. They are -0.1, -0.6 and -0.75 respectively.

The US Federal Reserve has indicated that it is not in favour of negative rate environment. But the market participants think that the US Central bank would be forced to push the rates into negative zone in view of the economic situation.

Ranawade said, "Apart from high liquidity which drives demand for gold, the falling interest rates make it unattractive for some money to move into fixed income as an asset class and there is incentive to chase Gold Prices".

Jateen Trivedi, Senior Research Analyst, Currency and Commodities, LKP Securities said, "Interest rate reduction are bullish for gold, since falling interest rates make bonds and other fixed-income investments less attractive, money flows into safer-yielding investments like bullions mainly Gold".

India is a trade deficit country with imports being more than the value of exports. As the value of imports rise, inflation and production costs are impacted finally resulting in a weak currency, he said. Weakening currency also provide conducive environment for the bullion prices to move up swiftly. The USD has weakened among major currencies of the world. It is being pointed out that the US Greenback has entered into a quite longer weakening cycle of 5-7 years, which began in March this year. The USD is weakening because of weak US economy.

A weakening Indian Rupee (INR) adds more to the lustre of gold for Indian investors. With low growth and high fiscal deficit and a possibly sustained impact of the COVID pandemic in India given the large size of the population, the INR may remain weak for some more time.

In this backdrop, Singh said, "The correlation between the Rupee/Dollar rate and the gold prices in India since 2008 GFC stands at 0.84 which is indeed quite high. The Rupee/Dollar rate and gold prices are highly correlated. It is due to the fact that Indian gold prices are derived from the international prices, so we do just the price conversion from the Dollar/Oz to Rupee/grams. Higher the Rupee/Dollar rate, higher will be the gold prices in Indian Rupee terms."

10 GMS Of Gold Price History For The Last 95 YRS

Year	Price	Year	Price	Year	Price	Year	Price	Year	Price
1925	₹18.75	1944	₹52.93	1963	₹97.00	1982	₹1,645	2001	₹4,300
1926	₹18.43	1945	₹ 62.00	1964	₹63.25	1983	₹1,800	2002	₹4,990
1927	₹18.37	1946	₹83.87	1965	₹71.75	1984	₹1,970	2003	₹5,600
1928	₹8.37	1947	₹88.62	1966	₹83.75	1985	₹2,130	2004	₹5,850
1929	₹18.43	1948	₹95.87	1967	₹102.50	1986	₹2,140	2005	₹7,000
1930	₹18.05	1949	₹ 94.17	1968	₹162.00	1987	₹2,570	2006	₹8,570
1931	₹18.18	1950	₹99.18	1969	₹ 176.00	1988	₹3,130	2007	₹10,800
1932	₹23.06	1951	₹98.05	1970	₹184.50	1989	₹3,140	2008	₹12,500
1933	₹24.05	1952	₹76.81	1971	₹193.00	1990	₹3,200	2009	₹14,500
1934	₹28.81	1953	₹ 73.06	1972	₹202.00	1991	₹3,466	2010	₹18,500
1935	₹30.81	1954	₹77.75	1973	₹278.50	1992	₹4,334	2011	₹26,400
1936	₹29.81	1955	₹79.18	1974	₹506.00	1993	₹4,140	2012	₹31,050
1937	₹30.18	1956	₹90.81	1975	₹540.00	1994	₹4,598	2013	₹29,600
1938	₹ 29.93	1957	₹90.62	1976	₹432.00	1995	₹4,680	2014	₹28,006
1939	₹ 31.74	1958	₹95.38	1977	₹486.00	1996	₹5,160	2015	₹26,343
1940	₹36.04	1959	₹102.56	1978	₹685.00	1997	₹4,725	2016	₹28,623
1941	₹37.43	1960	₹111.87	1979	₹937.00	1998	₹4,045	2017	₹29,667
1942	₹44.05	1961	₹119.35	1980	₹1,330	1999	₹4,234	2018	₹31,438
1943	₹51.05	1962	₹119.75	1981	₹1,800	2000	₹4,400	2019	₹40,000

Source: *Bombay Bullion Association*

months or settle at a saturation point of around ₹50,000 per 10 grams. Most analysts believe that gold will continue to be much higher than last year's level and rule above ₹45,000 even in the worst case scenario.

But optimists think the possibilities of gold price increase is ample because most of the reasons that pushed up gold prices continue to remain unchanged. Bullish speculators have put the future level at around ₹65,000.

Ranawade said, "Given the uncertainty in the equity markets, low yields on fixed income and the likely situation of global liquidity remaining abundant for the next one year, gold should continue to do well." The fact is that few Indians with surplus funds think of gold as an investment option although they put a lot of their trust and funds on mutual funds. For most, gold is all about jewellery which can be redeemed in the time of crisis, if any, but not a monthly investment option.

ASHISH RANAWADE

Head of Products-Wealth Management, Emkay Global Financial Services

We believe every investor should have around 10 per cent of the financial assets

Praveen Singh, AVP- fundamental research - currencies and commodities. Sharekhan, said, "We have been bullish on gold right from $1500 level and on silver from $16 level. We see gold prices rallying to $2500 in the next 18 months". Though silver has also risen in tandem with the yellow metal, most experts tend to be a little less enthusiastic about it.

Ranade thinks silver is a better option for traders with appetite for high risk, and not the ordinary investor. "We do not recommend Silver as we believe it is more likely to be a

Rediscover The Charm Of Working From Home

While there are a number of factors responsible for the change in our attitude about working from home, at Featherlite we recognise that a large part of the reason can be attributed to the lack of a properly equipped space for work. The effects are as large as they are extreme. Mental health problems can range from fatigue, frustration, lack of patience, inability to think logically, and more, while physically, one puts their whole body at risk of developing potentially fatal disorders such as weakened muscles, spinal problems, heart issues, obesity, and the various torrents of issues that can stem as a result of these. If this wasn't enough of a scare, all these factors play a role in diminishing your productivity not just at work, but in general.

The ticket to a drastically improved work from home experience is simple and two-fold. Just as much as it is important to have the right furniture for yourself, allocating a dedicated workspace is key to continued excellence. Moreover, with work from home becoming the preferred choice for so many companies, why don't we show you how our ergonomic furniture is engineered to deal with the growing anguish, and make work feel like home.

With an expanse that covers not just India but companies all over the globe, Featherlite has been spreading the furniture industry's equivalent of a Midas Touch, changing the way companies function for the better. Our presence is felt by over 100,000 satisfied customers including leading brands in the automotive, FMCG, and IT industries.

Our focus is to cater to your health and aesthetic requirements, and motto is to create the difference in ergonomic furniture. Our wide array of chairs are built with a firm back support and a flat cushion to minimise the stress on your pelvis. This allows you to relax and sit with your back pressed to the back of your chair preventing any chances of you hunching forward or straining yourself. An important factor to improving your quality of workspace from home is to pay attention on your posture. We advise you to sit straight with your feet firmly planted on the floor, and your knees forming a perfect right angle. Alignment is everything, and wouldn't be complete without our small-sized tables, designed to address the struggles of working from home without eating up too much of your space.

As a company that already delivers a comprehensive range of office furniture, including chairs, tables, general, and outdoor seating, as well as furniture for living spaces, auditoriums, and cinemas – we are proud to bring over five decades of expertise, and the best in the industry to you. Since the launch of our Work From Home line in March, we have received a great deal of traction and are happy to see people paying more attention to their health.

We at Featherlite invite you to welcome efficiency, movement, and productivity to your work from home space. Stay tuned to know more about how we are here with you to bring the pleasure back to work. You can also visit www.featherlitestore.com to shop our Work from Home Furniture Collection. ■

PRAVEEN SINGH
AVP- Fundamental Research - Currencies And Commodities

Gold cannot be printed. Thus, it is rising in comparison to currencies being printed

short-term trading opportunity and retail investors are likely to get stuck in case a bubble builds up in silver," he said.

Many Factors

The going rate of silver was $26.88 per ounce on August 25. Ranade thinks silver is likely to rise to $30 per ounce in the medium term. Its best case scenario, it could be $35. "Silver has additional bullish factor concerning the supply issues in Latin America due to contagion," he said.

However, nothing goes up or down in a straight line for long. There would occasional corrections, sometimes quite steep ones. So, it is required that the buyers should be prudent in their risk management. A successful Coronavirus vaccine at commercial level would dent the bullish picture of the precious metals, he said. A wide range of factors have contributed to the rise of gold prices to almost dizzy levels. They include the weakening of the dollar, the negative interest rate environment and the general softening of economy coupled with the harmful effects of the COVID-19 pandemic has pushed up gold prices.

Governments in India and other countries like the US have also played their part by announcing generous stimulus package to meet the pandemic crisis and ended up with an increased dose of inflation which was bound to influence the price movement of the glittering yellow metal.

Simply put, gold is attracting some amount of frenzied buying by companies seeking a hedge against rising inflation, and out of fear that inflation might further increase as some financially weakened governments may be forced to print extra currencies. "Gold typically thrives during periods of uncertainty and the current rally started sometime in October 2018 as global growth started falling and was further triggered by the uncertainty on account of the US-China Trade war," Ranawade said.

Notable factors that conspired to edge on gold prices also include the low growth rate worldwide, the possibility of the US Federal Reserve further easing the monetary policy, and geopolitical concerns emanating chiefly from the souring relationship of the US and China over Hong Kong.

The COVID-19 situation has prompted an unprecedented USD 19 trillion of global liquidity as stimulus package from different governments- than three times of the stimulus given during the 2008-09 global financial crisis—causing an upheaval in the behaviour of different asset classes.

Equities valuations have skyrocketed against weak economic fundamentals while fixed income yields are moving in the opposite direction giving extremely low or negative returns. Real Estate is likely to be weak as 30 percent of global workforce is working from home in the new, almost surreal, normal.

It is possible that some of the liquidity created as part of the stimulus package may have perhaps moving into gold, he said.

Praveen Singh, AVP- fundamental research - currencies and commodities. Sharekhan said, "Huge stimulus leads to the debasement of the fiat currencies, too. Gold can't be printed at will, thus value of gold in terms of fiat currencies is rising".

Global Gold supply (Tons)

Region	2015	2016	2017	2018	2019
North America	506.0	522.9	527.2	532.3	494.5
Central and South America	567.4	571.4	576.1	566.3	576.8
Europe	25.2	27.8	30.5	30.9	31.4
Africa	711.0	795.3	834.3	847.1	853.7
Asia	739.8	713.2	684.3	683.5	611.7
Central Asia	433.6	466.8	473.6	504.5	558.2
Oceania	353.3	362.2	367.6	396.7	407.5
Global total	3,336.4	3,459.7	3,493.6	3,561.3	3,533.7

Source: *World Gold Council*

Global Silver Supply

Million ounce Supply	2015	2016	2017	2018	2019	2020*
Mine Production	892.9	892.3	863.4	847.8	836.5	797.0
Recycling	166.5	164.4	167.7	167.7	169.9	169.4
Net Hedge Supply	2.2	-			15.7	10.0
Net Official	1.1	1.1	1.0	1.2	1.0	1.0
Total supply	1,062.7	1,057.8	1,032.1	1,016.7	1,023.1	977.4

Source: *Silver Institute*

JATEEN TRIVEDI
Sr. Research Analyst LKP Securities

Interest rate reduction is bullish for gold. The bullion is attractive because returns on fixed-income instruments is falling

Huge fiscal stimulus measures also stretch the finances of the countries. In an alarming development, global debt to GDP ratio has reached the record high level of 331percent. Stretched ratio could lead to yet another episode of sovereign debt crisis, which would be positive for the gold prices".

Investors also suspect that the US Federal Reserve could embark on yield curve control like it did post World War II as the US public debt reaches the level seen during that time. If that happens, it would be highly inflationary but the rates won't be moving higher, so that would be quite supportive for gold prices.Some analysts are taking the alarmist path saying that the global economic contraction may be three times more intense than the one seen during the financial crisis of 2008-2009.

In fact, there are signs that the virus contagion may last longer and in some cases get worse and further weaken the global economy, which was already weak due to the 18- month long trade war.

"Weak global economy means that there would be more stimulus measures and the global rates would remain low", Singh explained. Gold has been in short supply as mining of gold has not been able to expand at the rate at which demand has been increasing. "This result Global ETFs, Central Bank demand and jewelry have been the primary demand drivers. Notably, Central Banks, which were net sellers prior to the Lehman Crisis, have been stocking up on gold every year," said Ranawade.

With the addition of more stocks, the value of gold reserves with the Indian government rose to $30.57 billion (around ₹2.32 Lakh crore) by March 2020 from $23.07 billion in March 2019. The Reserve Bank of India (RBI) bought 40.45 tonnes of gold in financial year 2019-20, taking its total holdings of the yellow metal to 653.01 tonnes. Gold imports have fallen due to the

TRENDS IN GLOBAL BULLION PRODUCTION

Global gold supply over past decade has shown direct correlation with price, with higher prices leading to increased mining activities. Similarly higher gold prices lead to weak retail demand but higher investments from Exchange Traded Funds (ETF) denoted in gold.

Last five years average output from gold mines remains at 3,477 tons, and the largest contributions come from African and Asian regions, accounting for 23 per cent and 20 percent 0respectively. The clean environment drive from China and banning of illegal miners and smelters from Indonesia saw output to plunge 15 percent from Asia. Central Asian countries, which have wealth of unexplored natural resources, saw their production jump 40 percent over 5 years. China, Australia, Russia, and the United States are some of the largest producers of gold in the world. Global production of gold reached approximately 3,300 metric tons in 2019. Production in China has increased from 320 metric tons in 2009 to an estimated 420 metric tons in 2019.

Trivedi said, "The increase in mining shows that the demand is increasing in the bullions and pattern shows the trend will continue as the demand shall keep the mining sites busy, and in case of lack of supply the prices would remain a top".

rising prices. This has had a positive impact on the country's current account. However, this positive impact is not going to last long.

Deepti Mathew, Economist, Geojit Financial Services said, "The trend of falling imports is likely to continue in the coming months as the economy is grappling with a consumption slowdown. Though, there would be some uptick during the festive season, it is unlikely to witness a huge surge in the gold demand, amidst the income uncertainty".

Pandemic Disruption

World Gold Council primary data suggest 5 per cent dip in mined output to 1604 tons on y-o-y basis during first six months of the current year. Total 111 gold mines and 101 silver mines were disrupted due to corona pandemic, worldwide. Central South America comprising of Peru Mexico and Chile has been hit the worst and the world will see significant dip in gold output this year. South African mine output fell 59 percent in Q2 2020 due to severe lockdown. Silver institute forecast decline in silver mined output by 7 per cent at the start of 2020, however Corona pandemic is the worst that could have happened to already declining silver mined output. The year 2019 saw silver mined output dropping to fourth straight year in 2019 by 3.8 per cent.

MATHEW, ECONOMIST
Geojit Financial Services

The festive season is unlikely to witness a huge surge in gold demand, amidst the income uncertainty

Other Precious Metals

The current fluid situation has not only helped Gold prices to rise dramatically but has also been positive for other precious metals including Silver. While Palladium has been doing well and platinum is expected to do well. Silver has shown greater gains if we compare from the start of the year 2020. Silver has given 46 per cent, Palladium 17 per cent, Platinum 2 percent return compared to Gold's 26 percent rise on Comexes and 36 per cent in Indian markets respectively. Trivedi opined, "Going ahead it looks similar outperformance for rest of the year 2020 that Silver will keep riding ahead of other precious metals".

However, Ranawade is not far optimistic about long bull-run in Silver prices locally as well as in international markets.

Ranawade said, "Every time silver has risen, based on speculation, the rally has been short lived and I have no reason to believe this time it will be different. Industrial demand will fall and so will consumer, if prices rise too much. Silver mining and recycling (unlike gold) can match up to the demand."

Gold to silver prices ratio reached record high of 124 in March this year as the global economy crumbled due to the havoc wreaked by the Coronavirus globally. The ratio soared as the investors piled into gold, shunning silver. The historical ratio is around 57. The ratio since March high of 124 has tumbled to around 70 currently as silver played a late catch up with gold prices on stimulus measures.

Singh is also not too optimistic about firm trend in Silver prices lasting long. Singh said, "As the global economy remains in a precarious state, it is difficult to see silver doing much better than gold from the current levels. For gold-silver ratio to drop significantly from current levels, the global economy has to do a lot better which doesn't look probable in next two years."

yagnesh@outlookindia.com

Strengthen Capabilities For A Sustainable Growth

With the relevant countermeasures from Sebi, Indian capital markets are well-equipped to face any storm

Vijay Chandok
MD & CEO of ICICI Securities

The current COVID-19 situation is like a black swan. During crisis, human body's natural response is to protect itself by bettering its capabilities. Big bang reforms in the history of mankind have been in reaction to major crisis. For instance, the American civil war resulted in the end of slavery, World War II resulted in creation of peace keeping institutions like the United Nations, global financial crisis has led to tighter banking regulations.

Closer home too, each time there is a major crisis, there has been a compelling response from the system. Food shortage during the early decades of independence led to the green revolution. The 1992 stock market scam gave birth to electronic trading. The balance of payment crisis in 1991 led to liberalization of Indian economy. These big bang moves short-circuited years of incremental change.

Sebi has been a proactive regulator

As soon as the realities of the 'new normal' set in early March this year, there was tremendous amount of uncertainty in the capital markets. Many capital raising and M&A options being assessed suddenly seemed unviable. The swiftness with which this happened, did not given enough time to anybody to figure out the best course of action.

Sebi has stepped up to support the fund infusion in companies by the promoters

The response of Sebi to this uncertainty has been remarkable.

The early measures taken by Sebi includes the extension of Sebi card's validity period for IPO candidates. This means that the time lost by the issuers to launch a transaction during the pandemic will be discounted, bringing relief to issuers who have incurred cost and time in coming to this stage. The other concurrent relaxation is the flexibility to change the primary issue size by 50 per cent (from earlier 20 per cent) so issuers can adjust the issue size commensurate to a possibly attenuated demand and yet go on with the fund raise.

It has become tough for companies to find capital to sustain and fuel their growth. To alleviate this, it is imperative for freely priced products to be available for the issuer to use. Rights Issuances are very well suited to such circumstances as they provide an equal opportunity and option for all shareholders. Sebi has relaxed the eligibility conditions for issuers to take a fast track route for rights issue. This has even made newly listed companies (18 months track record required as opposed to earlier 36 months) eligible.

There are other relaxations in certain disclosure requirements but one of the most important change is the relaxation of minimum subscription threshold for the success of an issue to 75 per cent from the earlier 90 per cent.

Relaxations have also been given to listed entities in their continuous listing obligations. For example, the extension of timelines for publication of accounts will help corporates to cope with the issues of limited workforce and data collation and allow them time to get a good assessment of impact on businesses.

Sebi has also allowed companies to raise funds through Qualified Institutions Placement (QIPs) without having a six-month gap between two such events. Issuer can raise funds in tranches with a two-week gap. Another important step towards the private placement through preferential issue is the reduction of time frame of historical prices that need to be considered to calculate the minimum issuance price. Amendments have been introduced to relax the conditions of companies wanting to come out with further public offerings under the fast track route.

On the consolidation side Sebi has stepped up to support the fund infusion in companies by the promoters. The increase in the creeping acquisition limit through a preferential allotment to the promoter is going to ensure that meaningful amount of capital can be made available to ailing businesses. Another change in the takeover regulations is the allowance to do a voluntary takeover by a holder holding over 25 per cent stake, even if they have acquired shares in the last year. This will give an opportunity for potential M&A which, in such circumstances, could be critical for survival of certain companies.

Sebi has taken proactive and numerous laudable measures to tame market volatility and ease compliance burden on various registered intermediaries like revision of market wide position limit, increase in margins, extension in penal provision and extension of timelines for various regulatory filings.

Shoots of resurgence in capital markets

With the bulwark of cogent and relevant countermeasure from Sebi, Indian capital markets are well placed to weather storms.

While the ability to raise capital has been much better for blue chip names a few corporates are trying to estimate the extent of impact before getting into capital raise mode.

Amongst primary market products, rights Issues have been the dominant choice for capital raising in such uncertain times. In addition, the ability to tailor various instruments such as a partly paid-up share or a compul-

> **It has become tough for companies to find capital to sustain and fuel their growth**

sorily convertible debenture or an issue of NCD + warrants allows a staggered fund raising, easing out investor liquidity issues as well as securing financing. The provision of fast track as well as reduced disclosure norms for eligible companies have also cut the time to market for such issues. There is enough and more appetite for high quality names at the right price and as the market infrastructure opens up.

Sebi may consider encouraging the NRI remittance to further strengthen our economy. NRI remittances are categorised as natural and induced. Millions of Indians working abroad and sending money home to their families constitute the natural remittance and this source is under some pressure now. However, there is a large untapped Induced remittance, which is business investments by the rich NRIs. This is potentially a very large pool, given the number of affluent Indians abroad, and is solely dependent on how well we frame policies on ease of doing business and welcoming such capital. Sebi may consider some of the below measures to encourage this all-season capital.

Many NRIs desirous of investing in the Indian capital markets are constrained by some of the "pre-COVID" era requirements of documentations and procedures, which many find cumbersome. Sebi's recent guidelines on seamless and paperless customer on-boarding procedure has played a big role in record retail participation in the capital market. Similar investor-friendly policy interventions could also spur NRI participation. The regulator could consider earmarking a portion of public issue for NRIs which would encourage flow of a new pool of capital.

Sebi may consider forming a task force to identify the pain points faced by the NRIs and recommend suitable resolution measures.

In addition, the activity in capital markets can be supported further with certain other steps such as increasing the maximum permissible discount to the Sebi floor price (currently 5 per cent) in case of QIPs. For rights issue, companies listed through scheme of arrangement/change in control can have reduced disclosure v/s full disclosure offer document which could significantly reduce their launch time.

Another critical issue is that while the extension has been granted to the IPO card validity, the information in the filed DRHPs is quite dated. Sebi may consider giving a relaxation allowing an addendum to the DRHP for critical updates on business and industry. ■

Jewelry Buyers Need Not Fear Price Fall In Future

Prithviraj Kothari, *Managing Director of Riddhi Siddhi Bullions Limited (RSBL), a leading Indian bullion conglomerate, expressed his views at length on queries posed by* **Yaagnesh Kansara**

Why are Gold and Silver prices on rise, both internationally and domestically?

History is repeating itself. Gold is testing new highs at it did at the time of the Global Financial Crisis and thus proving its role as a defensive tool.

Governments are running big deficits and central banks are printing more money. It is generating inflation which is helping to drive the bullion price higher. The Federal Reserve in the US is not likely to normalize rates or end quantitative easing or shrink its balance sheet. Inflation is likely to grow.

Many believe it is not sensible to buy at this high level. Your take?

Going long on gold is the second most preferred strategy of global fund managers. A high 23 per cent of managers surveyed in the BofA Securities August Fund Manager Survey (FMS) said they were bullish on the yellow metal. Surprisingly, 31 per cent of fund managers surveyed by BofA Securities believe gold is overvalued.

Although correction in the short-run would be totally normal, or even desirable, the underlying bull market should continue, at least for a while, i.e., until the dominant economic narrative changes, which is not yet happening.

It is argued that Gold is a non-productive investment and generates no income in the form of interest, dividend etc. Gold prices move only when times are uncertain. Do you agree?

The real rate of interest has turned negative. India is no exception. As per a recent SBI Ecowrap report, real rates of interest have been negative since December 2019, barring in March 2020. If we deduct 5.25 per cent rate of interest on a bank fixed deposit from the CPI of 6.93 per cent, we get a real rate of interest of minus 1.68 per cent. In the wake of a negative real rate of return from debt funds, the investor is more likely to choose gold over bonds. Gold is nothing but a perpetual zero coupon bond, which maintains the purchasing value of any currency simply because it cannot be printed at will unlike government bonds which can have unlimited issuances.

There are many other triggers for yellow metal prices to move northwards. Consumption demand – the key driver for gold, is down as individuals across the world are trying to make peace with the uncertain environment around. However, the same uncertainty is expected to propel the safe-haven demand for gold.

> **Gold will be in demand due to negative real rate of return from debt funds**

Where do you see Gold & Silver prices settle in the near future? Do you advise your investors to buy these precious metals at such a high price?

In 1979, gold climbed over 274 per cent, rising from just over $200 an ounce to over $800 an ounce. But during that year, there were 11 corrections of more than 3 per cent. We saw a similar pattern of corrections in gold's bull run between 2009 and 2011. In that time, gold gained 116.7 per cent but corrected more than 3 per cent 17 times. Eleven of those corrections were greater than 5 per cent. Meanwhile, silver dropped more than 5 per cent 23 times during its bull run between 2009 and 2011 on its way to a 339.5 per cent gain.

Thus far in calendar year 2020 (CY20), gold prices have moved up nearly 30 per cent (YTD) and 38 per cent in the past one year. There is long way to go ahead in this bull market and prices are not at such a high level. We are going to see big selloffs during a bull market. We will likely see plenty more before the current gold bull runs its course. Gold may hit $2300

PRITHVIRAJ KOTHARI, Managing Director of Riddhi Siddhi Bullions Limited (RSBL)

and Silver $34 in 3 to 6 month's period. It's important not to panic when metals sell off. We are advising clients to keep their eyes on the fundamentals. From the fundamental point of view, there is further room for gold to go higher in the long-run. The obvious reason for this is the macroeconomic backdrop with fragile recovery and a lot of uncertainty about the future path of pandemic and economic growth, extravagant fiscal policy, dovish Fed that will maintain lax monetary policy and negative real interest rates.

What cautions retail investors should exercise while dealing in these metals at current price level? Also, how careful should they remain while buying-selling jewellery?

World Gold Council (WGC) recently provided an update on the gold industry, noting that overall gold demand was down 11% year over year in the first half of 2020. There was a notable decline in the demand for jewellery (off by nearly 50 per cent), which is traditionally a large source of industry demand. In other words, this price spike is being driven by investors, not fundamental strength in the gold market. There could be some correction in prices and it might impact traders but those buying jewellery shouldn't worry.

Your comment on RBI's recent decision to increase loan to value ratio (LTV) to 90 per cent from earlier level of 75 per cent. Is it going to benefit the consumer of the Gold loan? Will it be a practical proposition for the lender?

RBI decision to increase LTV to 90 per cent from earlier level of 75 per cent is overwhelmingly welcomed by banks and consumers as there is 30 per cent growth in loan disbursal witnessed by lenders. This enhanced LTV ratio is applicable up to March 31, 2021 to enable the borrowers to tide over their temporary liquidity mismatches on account of COVID 19. This move will provide support to people in managing their financial liabilities during the pandemic.

This is a good move as long as the gold price continues to rise. But as the ongoing rally in gold has now halted it may create a headache for lenders. If volatility continues and gold price falls sharply, then banks may ask borrowers to deposit additional gold as margin or make partial repayment to maintain the LTV ratio of the loan below 90 per cent. This may lead to unnecessary disputes and create pressure for the borrower to arrange additional margin.

yagnesh@outlookindia.com

Golden Opportunities

Gold ETF continues to gain traction, recording a massive net inflow of ₹921.19 cr in July against just ₹494.23 cr in June

By **Himali Patel**

Consider this, despite a dwindling global demand, gold-backed Exchange Traded Funds (ETFs) broke all records, emerging as a safe haven during crisis.

For the month of July 2020, the Indian Gold ETFs recorded a massive net inflow of ₹921.19 crore against the ₹494.23 crore in June, registering a stellar growth of 86 per cent shows the data by Association of Mutual Funds in India (AMFI). This year so far, Gold ETF category has received a net inflow of ₹4,451.9 crore. (See the table: Gold ETF)

The World Gold Council (WGC), in its July report had stated that the first half (H1) of world gold demand was down by 6 per cent at 2,076 tonnes (t). Interestingly despite the global demand being down, the inflows into Gold ETFs recorded a breaking 734t. indicating the H1 inflows have even surpassed the 2009 annual record of 646t.

So, what factors led to this trend where massive inflow in Gold ETF in mutual fund category was seen, given the low demand for gold? And will Gold ETF continue to grow? Let's take a look:

A Gold ETF is a commodity-based Mutual Fund (MF) that mainly tracks the price of asset like physical domestic gold. Gold ETF units represent the physical gold in dematerialised paper form. In India, Gold ETF represents 99.5 per cent purity assurance of physical gold bars. The capital gains from sale of Gold ETFs are taxed at par with physical gold at 20 per cent.

"A Gold ETF is passively managed and closely tracks domestic gold prices derived from London Bullion Market Association. The performance of the scheme may differ from that of the underlying gold due to tracking error," says Manish Banthia, Senior Fund Manager - Fixed Income, ICICI Prudential AMC.

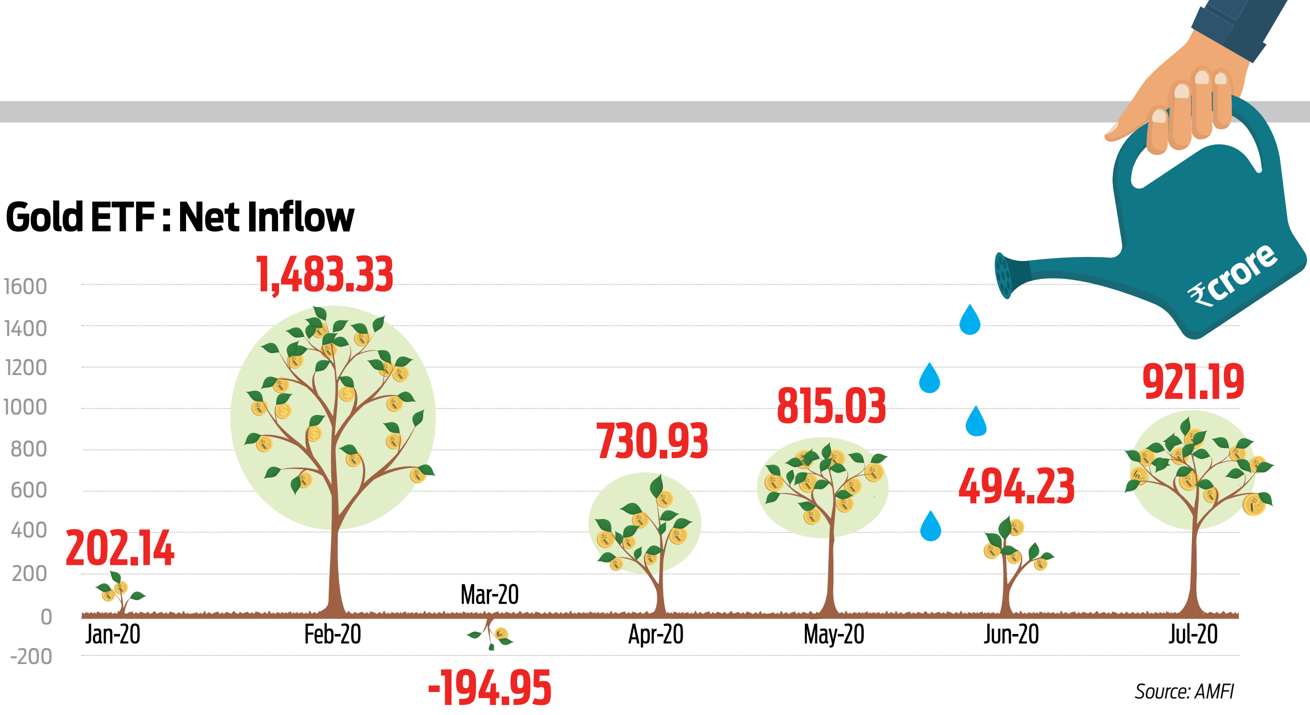
Today the Gold ETFs are devoid of the ills that plague physical gold such as lack of standardisation and transparency.

"Gold ETFs are standardised, traded on an exchange platform, thereby bringing together a diversity of buyers and sellers in one place making it liquid and allowing price discovery. In a sense, Gold ETFs address the problem of fragmented physical markets," says Vishal Jain, Head-Nippon India ETF, Nippon India Mutual Fund.

According to WGC, COVID-19 was the main influence on the gold market in Q2, that led to severely curtailing consumer demand after lockdown, while providing support for investment in the form of Gold ETF's. "The global response to the pandemic by central banks and governments, in the form of rate cuts and massive liquidity injections, fuelled record flows of 734t into gold-backed ETFs (gold ETFs)," says the report.

Gold has always been considered a safe haven during economic distress and has a low correlation with most other asset classes, thereby providing investors with portfolio diversification. "Given the uncertain conditions on account of the pandemic, a lockdown in physical markets, these ETFs became the most natural avenue for investors to take cover," concurs Jain.

Gold ETF : Net Inflow



Source: AMFI

Financial investors tend to focus on asset classes that have done well in the recent past. Experts call it a 'recency bias'. And it is not limited to gold. Equity, bonds, real estate or gold, whichever asset class performs, gets a lot of focus. Gaurav Rastogi, Founder & CEO of Kuvera.in, believes the same is happening with gold and thus an increase in interest in ETFs. The gold returns have a low correlation to equity returns especially during wars, market crash, and other disasters. This is what makes gold an effective portfolio diversifier.

"In the past 29 years of data, the correlation of monthly gold returns and monthly Nifty50 returns is just 0.3 per cent. Gold ETFs have issues of liquidity, they can trade at significant premium and discount to the underlying due to supply demand mechanics," explains Rastogi.

Quantum Mutual Fund research points out that Gold ETFs have received record inflows in 2020, greater than any previous full year. This also indicates that gold remains an under owned asset.

"Today the biggest indicator of under-ownership of the metal is that global allocation to gold stands at only 2.5 per cent, a figure far-flung from the ideal allocation of 10-15 per cent. This means that even a small uptick in portfolio allocation to the asset class could translate into significant price appreciation for gold in the time to come, this includes Gold ETFs as well," points out Chirag Mehta, Sr. Fund Manager-Alternative Investments, Quantum Mutual Fund.

VISHAL JAIN

Head-Nippon India ETF, Nippon India Mutual Fund

These are standardised instruments, traded on an exchange platform, allowing price discovery

The current gold prices scale new highs on the back of weakness in the US Dollar, tension between US and China. Rise in COVID-19 cases globally, boost its safe-haven appeal. Investors continue to hedge their exposure to riskier assets by investing a portion of their assets in gold.

For the month of July, retail inflation, which is measured by Consumer Price Index (CPI), climbed to 6.93 per cent from 6.23 per cent of June data. As per the value research, returns from gold commodity schemes under mutual fund category for last 3 months, 1 year (Absolute return), and 3 years (Annualised return) have been 12.12 per cent, 34.22 per cent and 20.31 per cent respectively as on August 13, 2020.

Given the high inflation rate, Gold ETF clearly has become an excellent choice of investment for investors who are looking to beat inflation. Whether it is for consumption or for investment, one thing is for sure that demand for Gold ETF is going to see an upswing.

himali@outlookindia.com

MF Vs Gold: What Is Best For You?

JOYDEEP SEN AND
SHWETA PURSWANI

Investors should take a portfolio allocation approach for optimal results

Traditionally, investors have embraced gold as a safe haven for portfolio protection during political tensions, geopolitical turmoil and economic turbulence. Gold prices, historically, tend to surge significantly only during periods of negative real interest rates when gold reclaims its traditional role as store of wealth that would at least keep pace with inflation to preserve the purchasing power of the investment. Bonds have a committed return, in the form of coupon / interest, which would result in real positive returns most of the times, or sometimes a loss, depending on movement of interest rates.

Gold has served as a strategic asset which acts as an effective portfolio diversifier and aids in improving risk adjusted returns while adding liquidity during periods of crisis without side effects of impact cost or difficulties in timing the market (Chart-1). As per analysis of world gold council on the hypothetical portfolio based on Willis Towers Watson Global Pension Assets Study 2019 and Global Alternatives Survey 2017, allocation of 2.5-10 per cent investment in gold provides an optimum hedge over the long run while considering returns, portfolio volatility, risk adjusted returns and portfolio drawdown.

Gold has historically protected investors against extreme inflation. In years when inflation in India was higher than 6 per cent gold's price increased 11.5 per cent on average (Chart-2). Further, research by Oxford Economics shows that gold should do well in periods of deflation as well. Such periods are characterised by low interest rates and high financial stress, all of which tend to foster demand for gold.

Gold as an asset class

There is an opportunity cost of holding gold as unlike bonds or equities, gold doesn't pay any interest or dividend. Gold's effectiveness as a hedge may help the risks associated with portfolio volatility and thereby help in improving risk adjusted return.

Looking back almost half a century, the price of gold has increased by an average 14.1 per cent per year since 1973. Gold's long term return has been higher than Indian stocks and higher than Indian government bonds, also outperforming other major asset classes

Methods of investment

Investment in gold can be done through physical gold, digital gold, sovereign gold bond, Gold ETFs or multi-asset funds. Every mode of investing in gold has different benefits and the choice depends upon the investor's time horizon and other requirements.

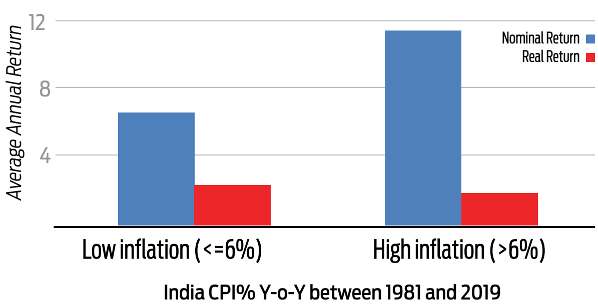
Debt as an asset class

The asset category of bond mutual funds provides an excellent avenue for retail investors to participate and benefit from stable returns and portfolio diversification. Mutual funds are favoured globally with the variety of investment options that they offer right from liquid, ultra-short term to long-tenure. Debt mutual funds invest in fixed income securities like corporate bonds, government securities, treasury bills, bank certificate of deposit, commercial papers.

Over a period of 18 years, short-term debt funds have generated a CAGR of 7.54 per cent whereas gilt funds generated a higher CAGR of 8.18 per cent. Over this period gold generated a CAGR of 12.58 per cent.

Balanced allocation to equities, bonds, and gold and other commodities is important for better risk adjusted returns across good and bad times in markets. Allocation of 10-15 per cent to gold and the balance to the staple asset classes of equity and debt as per risk appetite and horizon of the investor can significantly improve risk adjusted returns.

Average Nominal And Real Gold Return



Sources: *Bloomberg, ICE Benchmark Administration, World Gold Council*

Comparison Between Different Class Of Assets

BASIC	PHYSICAL GOLD	GOLD ETF	SGB	DIGITAL GOLD
Investment Limit	No limit	Min 1 gram and max no limit	Min 1 gram and max 4kg for an individual	Min limit depends on distributor- no max limit
Safety security	Risk of theft	Safe	Safe	Safe and held in vaults
Transaction Costs	High	Low	Low	Low
LTCG	If held for > 36 months	If held for > 36 months	Applicable for 36 months. No capital gains tax if held till maturity	If held for > 36 months
Can it be used as collateral for loan?	Yes	No	Yes	Yes
Tradability	Not tradable on exchange	Tradable	Tradable	Tradable on any MMTC- PAMP India Pvt Ltd platform
Lock in period	No	No	5 years	No
Total Return	In line with price	Lower than price	Higher due to additional benefit of interest pay-out	In line with price
Purity of Gold	Variable	High	High	High
Storage Cost	Can be high if kept in locker	Low(held in demat form)	Very low(held in the books of central bank)	One time cost for storage & safety-included in the price of gold while buying
Tenor	None	None	8 years. Can be redeemed after 5 years	5 years. In case no transaction has been made for 18 continuous months, account is deactivated

There is an accrual in the portfolio or bonds carry a coupon, which accrues proportionately to the returns every day. Market based returns are over and above the accrual. Hence, there is a better degree of stability in debt mutual funds. For comparison with debt MFs, the nearest comparison is gilt funds, as it does not carry any credit risk and market-linked volatility is higher than other debt fund categories.

To be noted:

(a) The sanguine returns from gold includes rupee depreciation. For Indian investors, the global appreciation of gold prices is augmented as the landed or imported cost of gold is relevant

(b) we are doing the comparison after the significant up-move in gold prices due to global uncertainties.

For the investor, it is better to take a portfolio allocation approach, which would optimise risk-adjusted returns.

Looking at the latest returns from gold, one would be tempted to allocate higher. However, the current bull run would continue till uncertainties persist.

The author Joydeep Sen is Managing Partner, Sen & Apte Consulting Services LLP, Shweta Purswani is Senior Manager (Corporate Banking) at RBL Bank.

Gold With An Extra Glitter

If you want to avoid capital gains tax, earn a safe yearly interest and enjoy the surge in asset class, go for SGBs

By **Vishav**

Gold has remained a preferred investment class for Indians for generations, not only due to financial reasons but for cultural factors as well. India is the second-largest consumer of the precious metal and considers it auspicious asset.

However trends are changing. While accumulating physical gold is a sign of prosperity, many feel safe in keeping as an asset class in demat or digital format.

There are different ways one can invest in gold — buying the yellow metal in physical form, Gold ETFs and now, Sovereign Gold Bonds (SGBs). Issued by the Reserve Bank of India (RBI), SGBs have emerged as a good substitute for holding physical gold. The government issues such bonds in tranches and investors buy them through banks, post offices and markets.

When it comes to a choice between investing in physical gold and gold bonds, gold bonds have some advantages over physical gold. Investors earn 2.5 per cent interest per annum on the principal value of investment in addition to the price appreciation of gold.

Consider this, if you make a purchase bonds worth ₹50,000, you will earn 2.5 per cent interest every year for eight years' maturity with the market value too. Early redemption is allowed after the fifth year. It can also be traded at stock exchanges.

The risk of loss of scrip and costs of storage are also eliminated as the bonds are held in demat form. There will always be a copy of your investment details with the RBI.

Archit Gupta, Founder and CEO, ClearTax, says SGBs are an excellent alternative to physical gold for the additional 2.5 per cent returns.

"At the start of August 2017, the price per one gram of gold was ₹2,619.25 per gram, and it almost doubled (to ₹4,769.63) at the start of August 2020. Now, if you had invested in physical gold, then your returns are the difference between the buying and selling prices. There may be certain losses on account of making charges etc. Moreover, getting cash for gold may be difficult too. On the other hand, if you had invested in sovereign gold bonds, you would get returns in the form of capital appreciation and interest income at the rate of 2.5 per cent. One also has to consider the effort involved in storing physical assets and keeping them safe," he explains.

While physical gold attracts Long-Term Capital Gains (LTCG) tax after three years, there is no capital gains tax for SGBs if an investor holds them till maturity of eight years.

Other instruments like equity attracts a 10 per cent LTCG, debt funds are taxed at 20 per cent with indexation. So do gold ETFs.

Hence SGBs are best placed on the taxation front especially for HNIs. However, interest on gold bonds are taxable.

Watch Out For

- Investors should avoid aggressive bets with gold price rise hovering between 40 to 50 per cent over last one year and 11 per cent in July alone
- SGBs are best placed for HNIs as they do not attract capital gains tax if held until maturity
- Despite fixed tenure of 8 years, early redemption is allowed after 5 years
- One can also trade the bonds on the exchanges, though liquidity is low
- In the secondary market, one must remember that trade is at a discount
- If you buy a bond after four years of its issue, remember you would get the 2.5 per cent interest only for the remaining four years.

"If the bonds are sold through the exchange before three years from the date of purchase – the gains, if any, will get added to the gross total income and therefore are taxable at marginal rate of tax as per the tax slabs. If one holds for over three years, LTCG will apply at 20 per cent (plus the cess)," explains Apoorva H. Vora, Founder, Finolutions Wealthcare.

He adds that one can build gold exposure not only through physical gold and sovereign bonds, but also through mining stocks, structured products on gold, or ETFs. "When buying gold, focus can be on its characteristics of being a safe haven, stability, and certainty. The most important criteria should be to reduce portfolio level volatility, and invest in gold as a reasonable hedge against global economic uncertainties," Vora opines.

Acting as an insurance against uncertainties, and with its inflation-beating capacity and high liquidity, gold will continue to shine, especially in troubled times. This is visible in the fact that gold has given almost 40 per cent returns in the last year, crossing ₹55,000 levels, before the recent correction. Many expect it to reach ₹65,000 levels in the coming months.

Every financial advisor would recommend investors to have some proportion of gold in their portfolio.

However, investment in gold should not be compared with fixed income schemes like FD and PPF, says Jashan Arora, Director, Master Capital Services. "First, it does not provide any fixed returns. Rather the returns are subject to price appreciation of gold. Unlike fixed income instruments, gold is an internationally traded commodity and its performance is highly influenced by factors such as supply, import cost, currency risks and so on," he explains.

According to Malini Saba, Founder and Chairman of Saba Group Holdings, which among other businesses also operates in gold mining, the market for investment in gold as an asset class is a safe bet for investors across the globe. She says gold has seen very less depreciation in the last one decade.

"The precious metal may continue gaining price until the spread of the COVID-19 pandemic is controlled and any obvious signs of economic recovery emerge. About 10-15 per cent allocation of yellow metal is sufficient to achieve long-term diversification of the investment portfolio," she explains.

According to Saba, if gold and its products have to be purchased for investment purpose, "it is the correct time to enter this asset class."

Nikhil Kamath, Co-founder and CIO, Zerodha, says it is important to note that different asset classes are not perfect substitutes for another, and a diversified portfolio is key with an approximate allocation of about 10-15 per cent to gold among other asset classes.

However, he warns that it wouldn't be wise to extrapolate past returns to the future. "While gold is considered to be an inflation-beating asset, the metal should be invested in to serve as a hedge to other investments, rather than purely for returns," he adds.

Saba sees gold as a good choice for better returns than fixed deposits. She prefers investing in physical gold instead and says, "We all are

ARCHIT GUPTA
Founder and CEO, ClearTax

SGBs give you returns in the form of capital appreciation and interest income at 2.5 per cent

Performance Over last 5 years

NAME	2016/17	2017/18	2018/19	2019/20	2020/21
PPF	8.10%	7.80%	7.60%	7.90%	7.10%
EPF	8.65%	8.55%	8.65%	8.50%	8.65%
SCSS	8.30%	8.30%	8.30%	8.60%	7.40%
NSC	8.10%	7.80%	7.60%	7.90%	6.80%
FD	7.00%	6.50%	6.75%	7.00%	6.10%
Gold	-0.14%	6.66%	4.24%	36.44%	23.45%

Public Provident Fund (PPF); Employee Provident Fund (EPF); Senior Citizen Savings Scheme (SCSS); National Savings Certificate (NSC); Bank Fixed Deposit (FD)

Source: *Fintrust*

MALINI SABA
Founder and Chairman of Saba Group Holdings

About 10-15 per cent allocation is sufficient to achieve long-term diversification of portfolio

aware that all banks are giving the worst interest rates presently. I prefer investing in physical gold and from experience, if we look at the way the economies of the world have been since 2008, it may be prudent for all of us to learn and make sure we stay in liquid form to some extent and hold gold as an asset."
However, she suggests that one should consult their investment advisors to get the right asset allocation.

Various factors such as concern and variability in gold purity, inconsistence and non-transparent transaction cost, risk of theft, significant liquidity cost owing to irrecoverable making charges on resale, storage issues especially when portfolio size is large, make physical gold less attractive from investment perspective compared to gold bonds, opines Prashant Joshi, Co-Founder and Partner (Financial Research and Advisory Services), Fintrust Advisors.

"Gold bonds provide for marginal passive income paid half-yearly, which is also added to total returns," he adds.

It is crucial to understand that gold, in itself, should not be invested in purely for the goal of returns. Gold, a commodity that does well when uncertainty is high, works well as a hedge against other asset classes such as equity. While it is relatively stable, long-term returns are generally not very high..

vishav@outlookindia.com

All That Glistens Is Not Gold

Remember to gauge the yellow metal's purity

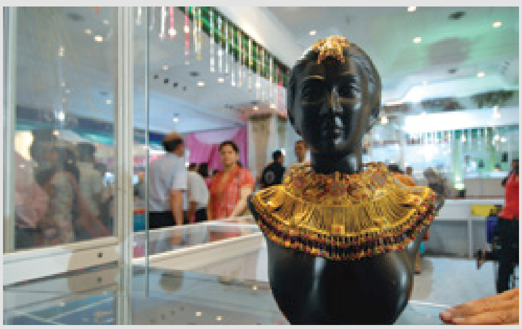


Photo : Tribhuvan Tiwari

By **Indrishka Bose**

Admiration for gold is deep-rooted in India's tradition, starting from the birth of a child to wedding ceremonies. Gold finds its place in every shopping list. Despite its popularity, thousands end up paying a higher price for less pure jewellery. Some prefer major brands to avoid any compromise on the quality. Those who cannot afford often settle for a promise. However, it is found that the majority of the gold we purchase is not certified. In such scenarios, it is always safe to go for certified jewelleries rather than going with a promise of purity.

The process of certifying gold's purity is termed as hallmarking, which was introduced in India by the Bureau of Indian Standards (BIS). Hallmarking is done through a sampling method in a licensed laboratory of BIS. Jewellers, themselves have to get a license from BIS before they get their artefacts hallmarked.

It can be measured in Karat, categorised as 24, 22, 18, 14, 10. A 24 Karat gold is considered as the purest and delicate form as it comprises 100 per cent gold. In general people prefer jewelleries made up of 22 Karat to 10 Karat of gold.

Before the hallmarking scheme was revised it had an additional component where a code letter denoted the year of hallmarking.

It is always easier to gauge the purity of gold by searching for a Karat stamp on the piece. And in case, if you see no stamp, you can always visit the jewellery store and get your piece tested.

Benefits Of Strong Commodity Derivatives Trading

Commodities are goods used in daily lives, which are essentially movable and exchangeable. These are essentially financial instruments whose value is based on underlying commodities such as agricultural products, oil and gas, metals and mineral products.

What sets apart commodity derivatives investments from others is the fact that it benefits all segments of the economy. While it enables the consumer in getting an idea of the price at which the commodity would be available at a certain time in future, it provides the exporter with an advance indication of the price likely to prevail and thereby enable him in quoting a realistic price and secure a contract in an immensely competitive market.

Now, why should consider investing in commodities? How will it help your overall portfolio? Well, as financial tool, commodity derivatives are beneficial to multiple sections of the society. Whether it's a farmer, industrialist, businessperson or just a simple investor, benefits are galore in terms of commodity derivatives trading. An investor can benefit in the following ways:

1. Diversification:

Since returns from commodities markets are free from direct influence of debt and equity markets, they make for effective hedging instruments along with providing better diversification.

2. Lower manipulations:

Commodities pricing are governed by international pricing movements, which makes it less prone to manipulations and rigging by individuals.

On the other hand, commodities derivative trading can help importer or exporters hedge against any kind of price fluctuations. Oscillations in prices of export and import products, often have a direct affect on bottom-line pricing. However, derivative trading can help one sell or procure commodities at a price decided months before the actual transaction takes place, thereby handcuffing any subsequent chances of price fluctuation that might happen.

Among other major benefit of commodities derivatives trading, risk management needs special mention. Exchanges follow well-structured processes along with judicious risk management procedure, which acts as reassurance for investors.

Yet another reason as to why should commodity derivatives trading be included in an investor's portfolio happens to be the aspect of transparency. The availability of an electronic trading platform helps in generating a transparent pricing mechanism without the intervention of buyers and sellers. Since it is completely driven by market fundamentals, the risk factor of manipulation also gets negated. Also, because commodity returns usually have low or negative correlations with the returns of other major asset classes, so often when bonds and stock prices fall, commodities rise. For example, when Lockdown 1 was imposed, bear stranglehold continued with its tightened grip with stocks and bonds plummeting, gold prices received a shot-in-the-arm owing to its status as a-safe haven (investment tool) among investors.

However, like every other financial instrument, trading in derivative commodities also has its share of risks. Hence, investors must keep themselves abreast about the markets and then take informed decisions. •

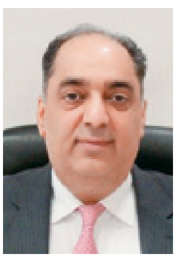
To Buy Or Not To Buy

The glitter of the yellow metal is hard to resist but watch for the price tag

By **Anagh Pal**

Kolkata-based Anjana Mitra has her daughter's wedding in November. With skyrocketing gold prices, she has now decided to remake and polish some of her existing jewellery, instead of buying everything for her daughter's wedding.

In the last four months, gold has been very volatile, up by 8-10 per cent, which conveys instability and uncertainty among consumers who otherwise regularly invest in the yellow metal. People are shying away from buying fine gold at ₹57,000 per 10 grams.



AMIT MEHRA

MD, Mehrasons, Yashpal Mehra Group

The situation has created confusion in the minds of the consumers on whether to buy or not

"For the sake of jewelry the demand is almost negligible, but there is a demand for bullion alike," says Neeraj Khanna, director, Niraj Krishna and Sons Jewellers.

When consumers see a steep rise in price they hesitate to buy gold. "Customers usually wait for the prices to stabilise at a range value of 1-2 per cent of the volatility. Only then markets are able to regain trust in the purchase gold," explains Abhishek Raniwala, Co-founder, Raniwala, a jeweller that has existed since 1881. Delhi-based Aakansha Singh too is putting away her gold purchase for similar reasons. She feels the price is too high for her comfort.

It is very important we contextualise the current rise in gold prices within the peculiar socio-economic circumstance of the pandemic. "The situation has created confusion in the consumer's mind on whether to buy or invest in a product like gold jewellery at a time like this, when the business and basic livelihoods need funds as well. Consumers are also questioning the need for gold and precious gems in a social situation

Photo : *Tribhuvan Tiwari*

Golden Deal

- You may wish to buy gold jewellery before gold prices go up further
- If you need jewellery for an immediate need, remake or restore existing jewellery
- Take quotes from different jewellers to get the best price before selling your gold ornaments
- Stay away from cash for gold companies and only deal with legitimate jewellers
- Look for schemes like buying jewellery in installments rather than making a one-time payment

where they have nowhere to go, and no one to show off to," argues Amit Mehra, MD, Mehrasons, Yashpal Mehra Group.

He, however, adds that with unlock-down and restrictions being relaxed, jewellers are seeing customers arriving - especially those with disposable income or professionals looking to invest in timeless pieces of jewellery. He maintains the footfall will take a while to return to pre-COVID days.

"We are seeing a mix behaviour from consumers - new purchases and exchange of old gold for new gold. What we are seeing is - families, as well as the bride and groom are looking for lighter and more wearable pieces (medium to light-weight pieces). The pieces they are choosing have more functional use, more versatility, as opposed to heavy gold jewellery," says Mehra.

Since people are looking to remake jewellery they already own and jewellers are cashing in on that. The situation is such that nobody wants to lose out on business.

C. Krisniah Chetty Group of Jewellers is offering a program - Beat the COVID Blues - offering a designer to sit with a consumer to recreate or restore or repair existing gold jewellery.

As Dr. C. Vinod Hayagriv, Managing Director at C. Krisniah Chetty Group of Jewellers explains, "The idea is to make a new piece out of an old one and that way you do not have to buy new jewellery yet save money." However, he adds that when it comes to the wedding market, some people are advancing their purchases and buying to beat the inflationary prices of gold.

There is even a trend of selling existing gold jewellery to meet liquidity needs, but that is mostly the case with the lower socio-economic segment who are unable to meet their expenses. "Jewellery is not really the first asset, one is ready to sell to meet their needs. Jewellery is seen as a sacred investment and auspicious asset, usually passed down from one generation to another. It holds a lot of emotional value too. I personally do not feel that the situation has come to the point where one would sell off gold so easily," argues Raniwala.

As of now, the yellow metal is certainly full of glitter. Make a wise decision on whether you want to buy physical gold or ornaments.

anagh@outlookindia.com

Pledging Gold For Loans

Soaring price of the yellow metal is fuelling rise in demand for gold loans

By **Rajat Mishra**

Gold is often seen as an auspicious asset in India with good gains and acts as a safe haven during crisis. With pandemic looming large, the yellow metal has seen a sudden spike in demand.

Tapan Patel, Senior Analyst, Commodities, HDFC Securities explaining the reason behind the picking up demand for gold-backed loans, says: "There are two reasons which are driving the rise in demand of gold-backed loans in India- one, gold prices are going high and secondly, there is a liquidity crunch in the market due to COVID-19 induced pandemic."

These are secured loans where gold articles are taken as collateral by the lending bank or NBFC. The loan is given to borrowers against gold as a collateral. The tenure of the gold varies with every lender and so do interest rates.

India's largest lender SBI is offering gold loans at an interest of 7 to 7.50 per cent with the processing fee of 0.50 per cent. PNB is offering gold loans at an interest rate of 8.60 to 9.15 per cent with a processing fee of 0.75 per cent. Muthoot Finance offers loans at an interest rate of 12-27 per cent.

On August 6, Reserve Bank of India (RBI) increased the permissible Loan-To-Value (LTV) on gold for non-agricultural purpose to 90 per cent from 75 per cent. This relaxation will be available till March 2021. This means borrowers can now get more money on the same gold collateral and banks can lend more against gold ornaments. Non-banking lenders specialising in gold-backed loans have approached the RBI seeking to enhance the permissible LTV to 90 per cent in their case too.

Muthoot Fincorp, a leading non-banking financier has disbursed loans worth Rs 8,321.72 crore during Jan to March, with over 19 lakh customers as compared to previous year. Between May and July, gold loan worth Rs 10,250 crore has been disbursed to over 20 lakh customers. Mumbai-based India Infoline (IIFL) disbursed loans worth Rs 1,674 crore.

"Loan against gold has undisputedly proven to be the best option for customers during unprecedented times like this. Demand has increased substantially across the board. Our portfolio has grown by 48 per cent year-on-year, with a 100 per cent increase in new loans to back customer acquisition. Disbursement has grown by 44 per cent," says CVR Rajendran, MD & CEO of CSB Bank.

According to a KPMG report, India's gold loan market is expected to reach Rs 4.617 lakh crore by 2022 at a five year compounded annual growth rate at 13.4 per cent. The organised gold loan market comprising banks, NBFCs and Nidhi Companies contribute to nearly 35 per cent of the Indian gold loan market. About 65 per cent of India's

$46 billion gold loan industry is dominated by informal lenders, whose interest rates can range anywhere between 25 to 50 per cent. With the size of the unorganised gold loan sector, which is estimated to be three times the size of the organised sector, there is a significant potential for growth.

Saurabh Kumar, Head of Gold Loan, IIFL Finance says, "We are going to witness a big demand for gold-backed loans in the year ahead. And a 50 per cent jump in overall gold price means the market will expand to cater to the needs of the people. Gold loan is a quick and easy product to get. One can walk into a branch, take a loan and walk out with cash in just 30 minutes. Its hassle-free nature is one of the reasons behind the boost in demand."

According to credit rating agency Crisil, the overall loan growth in India's banking system has already been decelerating and is expected to hit a multi-decade low of 0 to 1 per cent this fiscal.

In fact, now banks and NBFCs are scrambling to grab a pie of the rise in demand for gold loans. ICICI Home Finance has started offering gold loans through its 70 branches; Canara Bank recently restructured its business to launch a gold loan vertical. Amid contactless culture, companies are trying to make the process convenient and fast like never before. Manappuram Finance too has announced doorstep delivery of gold loans in Delhi and Mumbai. The process promises to be hassle free and requires two employees of the company to visit the customer's residence to appraise the gold loan and then make immediate disbursement through NEFT or IMPS to the customer's bank account. Muthoot Finance is also offering "Loan@home" service where the NBFC is helping customers to avail loan without stepping out of their homes.

TAPAN PATEL
Senior Analyst, HDFC Securities Ltd

With gold prices going high and a liquidity crunch in the market due to COVID-19, demand for gold loans has seen a spike

IIFL Finance, the non-banking finance company, has launched Digital Gold Loan, which allows customers to avail loans online, without visiting the branch.

"To make the process of availing loans easy, we have our 24*7 product where our existing customers need to send an SMS and once they do so their accounts are credited with the money. For new customers, we are adhering to all safety norms put forward by the health department," explains Thomas George Muthoot, Director, Muthoot Fincorp.

As per World Gold Council's (WGC) estimates, Indian households are sitting on a $1.5 trillion hoard of gold, the biggest of its kind, largely in the form of jewellery.

With the pandemic and a surge in price of the yellow metal, growth of gold loans too has seen a hike. Experts are of the view that there is more scope of an upswing.

rajat@outlookindia.com

Tremors In Bullion Market

Jewelers live under stress due to bullish trend

DINESH PAREKH

In 2020 gold prices have breached the psychological $2,000 per ounce for the first time after 2011 when gold price reached $1,923 per ounce.

This year seems to be the year of precious metal, as in the past eight months gold price has increased by 40 per cent.

New investors in gold have emerged, for example, Warren Buffet of Berkshire, who once mocked, makes a bet on the gold market. He changed his position in Barrick gold, buying 20.9 million shares or 1.2 per cent of the company's outstanding stock with the current market value of $505 million.

In the past, Buffet cautioned against investing in the metal because it is not productive like a farm or company. He might have been averse to gold in the past, but he has bet big on metal before in 1997 when he bought 129.7 million ounces of silver.

Paulson & Co, run by billionaire hedge fund manager, John Paulson, added its holding in Barrick Gold. Recently, its shares rose to 7.4 per cent in a single day after trading in Newyork market.

Billionaire Peter Grandich of Grandich Co who bought gold after selling all his shares and savings said that the gold price will touch $700 per ounce.

As India is dependent on imports, any change in the global market will immediately reflect on the domestic market price.

In the Indian market gold and silver prices have recently touched the new high as import cost of bullion metals have gone up after a rally in the global market. As the production of these gold and silver metals in India is negligible

As India is dependent on imports, any change in the global market will immediately reflect on the domestic market price.

In the case of silver, we have seen such record prices in the year 2011 when the price touched ₹77,000 per kg. Looking at the present situation silver prices are likely to go up further to ₹80,000 per kg in a short time and will break the previous record, a leading trader said.

As uncertainty lingers, revival of businesses will take time

Gold prices, which was around ₹51,200 on August 26 is also likely to go further up to ₹65,000 per 10 gms before Diwali.

The jewellers are under extreme stress as they fear that soon people may rush to sell their ornaments to get rid of the liquidity crunch which they faced due to job losses.

However, there is hope in Zaveri Bazaar in Mumbai as most of the traders and importers had honoured their commitment to deliver gold and silver at the highest level price against costlier forward deals committed at lower prices.

The CEO of RSBL Company, Prithviraj Kothari mentions that at this high price, new interested investors are entering the market to buy gold and silver bars, whereas, old investors are not daring to take the risk.

Prakash from Dilkhush Company, a silver bullion trader says, "All traders and small investors are buying silver bars at all prices. Our sales have decreased by 50 per cent but still, we sell 200 to 250 kg silver bars per day with limited staff members."

Silver ornaments and utensil shopkeeper, Hitesh from Hema Jewelleries informs that till transport facilities gain normalcy they are not going to welcome more customers. They will open the shop to update the accounts and pull down the shutter after that.

As uncertainty lingers with loss of economic activity and exponential rise in coronavirus cases, the revival of businesses will take a long time. However, it is predicted that the price will continue to rise.

The author is a journalist and bullion researcher in Mumbai

Understanding RISK

If you understand the risk, know the risk and then take the risk, you will be in a much better position than if you're ignorant of the dangers.

Chandan Ghosh
Chartered Wealth Manager, AAFM, USA

For a layman investor, it may appear to be normal that equity is riskier than debt. That's because to many of us, risk in an investment is about losing money, and there is a greater chance of that happening in an equity fund than in a debt fund. We could draw a similar conclusion if we were to go by "riskometer" that every mutual fund scheme document carries, under which schemes are classified by the extent to which an investor's principal is at risk. Typically, debt funds are shown having low to moderate risk whereas equity funds are shown as having moderately-high to high risk. Reality is that risk is too complex to be assessed in such a simplistic manner. As an investor, having a thorough understanding of risk can help us make better investment decisions.

Context matters when assessing risk

If investment tenure is short, then the chances of losing money in equity much higher than in debt. However, if the investment tenure is 10 years, then historical data suggests that chances of losing money, be it equity or debt, is pretty low. In fact, over a decade, the potential gain on an equity fund tends to be much better than a debt fund.

Risk isn't always about losing money

When investing, the risk of losing money, in the short term, is a very real one. In the long term, the dominant risks in investing are not being able to beat inflation, inability to adequately fund long term goals etc. What if, thanks to inflation, ten years from now, our investments are not worth what it is today? What if we don't have enough money during retirement to enjoy a comfortable lifestyle? By being focused only on not losing money, one could be caught unaware by long term risks such as these. The other risk we need to be wary of is not getting back our money as and when we need it. Among mutual fund investors, this can particularly impact those who invest in closed end schemes, and try to exit before the maturity of the scheme.

Comparison of Risk

While debt funds are relatively safer in the short term, they carry a much higher long term risk of underperforming the rate of inflation. So, can we logically make a fair comparison between debt and equity funds overall risk element? Fact is; we can't. The approach here is to assess the extent to which each risk matters to us. Based on that we can decide how much of each investment option we should have.

Strategy to mitigate risk

Consider the risks involved in driving a car. To some extent, these are linked to the way that a car is built (how strong or weak is its body, what safety features it has or lacks etc.). However, a lot would depend on how we drive the car. For instance, driving the car rashly, without wearing a seat belt, increases the risks involved. The same applies to investing. Example: The risks pertaining to equity funds tend to be magnified if one is investing without a care for market valuations and for short term gains. On the other hand, investing in a staggered manner for the long term, tend to reduce the risks involved to a great extent.

Risk management begins with knowledge

While investing, risk is a potential obstacle in the path of getting optimal returns. We cannot avoid them, but we can surely overcome them. To do so, we must first understand the nature of risk involved. While the earlier points offer clues to the broad nature of risk, one of the ways to understand the finer aspects is by looking at past performance data. The objective here is to looking at how various investment options and strategies have performed, in an attempt to find the answer to the proverbial question: what's the worst that can happen? This is where the saying from former investment manager, Edmond Warner comes alive: "History never repeats itself, but you owe it to yourself to be acquainted with the bear markets. At least if history does then repeat itself you can't say that you weren't warned." ■

(Author is the Founder Director, Prudent Wealth)

Is Copper The New Gold?

Time to invest in the base metal, which has seen a 45% surge since mid-March

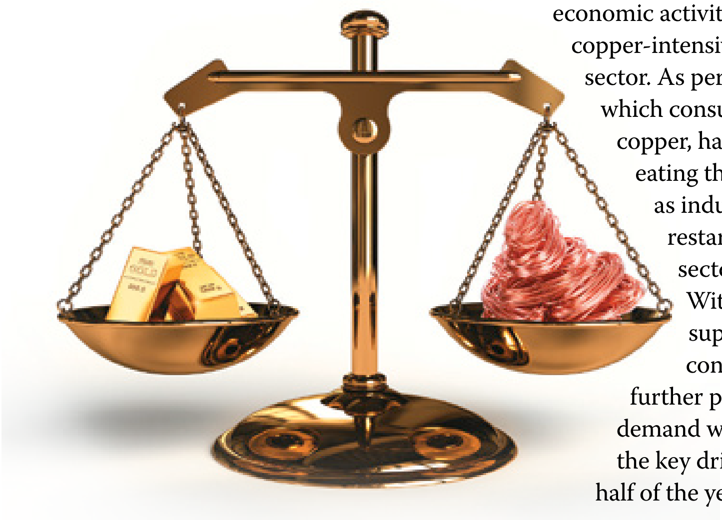
By **Vishav**

Copper prices have lately seen a surge like never before, having risen around 45 per cent in only a few months. After falling due to the lockdown, the price of copper has now bounced back to pre-COVID levels, and surpassed it. It is now expected to keep surging as factories open up and manufacturing picks up the pace. This surge in copper prices is interesting because usually, copper and gold prices move in opposite directions. When there is an economic slowdown, price of gold shoots up, as is happening recently, because investors look for a stable investment instrument. Copper prices at these times, however, fall as manufacturing and construction face hurdles.

That is the reason it is surprising that both copper and gold prices have been rising in tandem in the last few months. Copper prices crashed early this year with the scale of the COVID crisis becoming clear, falling to its lowest levels since late 2016 in March. However, by mid-June, it had bounced back with improvement in copper demand in China, coupled with stimulus packages and supply disruptions in top-producing countries. It surpassed $6,000 a tonne in June and is now trading at around $6,700 a ton. It was trading in the $4,300-$4,400 range in mid-March.

One major factor for this price surge is the remarkable bounce-back in Chinese demand fuelled by the government's push to stimulate economic activity especially in the copper-intensive infrastructure sector. As per experts, China, which consumes half the world's copper, has been steadily eating through stockpiles as industrial production restarted and construction sector picked up pace. With government's support to the copper-consuming sectors, a further pick-up in Chinese demand will probably remain the key driver in the second half of the year.

One major factor for this price surge is the remarkable bounce back in Chinese demand fueled by its government's push to stimulate economic activity



"The base metal, sometimes called as Dr Copper, as it often plays a role in deciding the health of the global economy, has seen a surge by a whopping 45 per cent since mid-March, despite the shackled economy," says Malini Saba, Founder and Chairman, Saba Group Holdings.

"The red metal has its widespread use in power generation and transmission, manufacturing machinery and more than 65 per cent of it goes directly into building construction and electronics. Thousands of copper workers' illness and mining restrictions disrupted production, thus decline in output, in Chile and Peru, the biggest exporters of copper ore in the world," she explains.

Pointing towards the strange phenomenon, Saba adds that both gold and copper are moving in unusual ways, despite the downgrading global forecast by IMF and a resurgence of COVID-19 infections, forcing governments around the world to re-impose crippling lockdowns on business. However, she expects the trend to continue and demand for copper, and in turn its prices, to rise further.

"Copper has experienced a phenomenal growth in China, India, and other emerging market economies. Its demand has also increased in the manufacturing and construction industries and is expected to rise further as electric vehicles become more prevalent in the world. The rule of supply and demand tells us that this can cause the price of copper to travel up as a result," she says.

Investors normally tend to focus on precious metals to diversify their portfolios. But base metals like copper offer an opportunity to profit from industrial development, especially in countries like India and China. Apart from trading in contracts on the exchanges through a broker, one can also invest in copper stocks.

vishav@outlookindia.com

Motor Insurance FAQs

Does COVID-19 outbreak impact vehicles due to long time periods of non-usage?

The lockdown not only disrupted daily lives but also caused vehicles to remain immobilized for prolonged durations due to the reduced need of travelling to workplaces or running errands; this has caused vehicles to remain stationary for elongated periods of time potentially leaving them more prone to breakdowns.

Is there a way to avoid vehicle breakdown?

The best way to avoid breakdown due to immobility is to rev up the engine at least once every four days, keeping it lubricated and charging the battery in regular intervals. Starting the car for a few minutes on a regular basis will ensure that the tyres remain in good shape. We at HDFC ERGO have launched #JumptStartThem campaign, to help all our customers to jumpstart their vehicles in case there are some problems in starting them post long period of immobilization. Monsoons bring with them potholes, water clogging, flooded roads and traffic jams. In the current situation, most vehicles have come back on the road after 60 days or more only to meet the monsoon woes. Hence, we will advise to take help of your workshops to check the vehicle before monsoon.

What is a fool-proof way to protect my vehicle from these uncertainties?

Apart from taking the above steps to avoid any untoward damage to the vehicle, a comprehensive motor insurance policy will cover unwarranted financial losses and cover your vehicle against uncertainties.

How can vehicle insurance add-ons give more safety?

It is highly recommended to invest in add-on motor insurance packages to cover maximum possible financial losses:

- Engine and gearbox protection cover offers protection against expenses which are incurred on repairs and replacement of parts
- Consumables cover is for repair and replacement of most consumables like oil, nuts, bolts, screws, washers among others
- Roadside Assistance Service (RSA) cover provides services such as mechanic on the spot, vehicle towing, battery restart, and flat tyre replacement
- **Spare key –** The customer can avail two services where the insurer will arrange for a spare set of keys from your residence, and the insurer will pay for changing car's lockset. These depend on eligible conditions

> **Mr. Parthanil Ghosh, President – Motor Business, HDFC ERGO General Insurance Company Ltd.** "An individual's vehicle is a prized possession and requires a good insurance cover to secure it against damages, especially during the monsoons. Coupled with immobility during the recent lockdown the chances of these risks aggravating are especially high. It is always better to be safe than sorry. Therefore, apart from taking personal care of the vehicle it is wise to invest in a comprehensive motor insurance policy with essential add-ons to avoid any added financial and emotional stress during these monsoon periods."

Any add-ons specifically for immobile vehicles and for monsoon protection?

Vehicle owners are advised to get following add-on cover while insuring their vehicles insured:

- **Return to invoice:** In case of total loss (due to floods /water logging) or theft of your car, entire value mentioned on your vehicle's sale invoice, including registration charges and road tax paid, for the vehicle is paid
- **Engine & Gearbox protector:** Pays for the value of parts requiring replacement caused due to water entering the engine (hydrostatic losses) or oil leakage in engine or gearbox
- **Zero-depreciation:** Get compensated for the full value of the damaged parts which need replacement in case of an accident without any deduction towards depreciation
- **Cost of consumables:** This cover pays for consumable items such as nuts, bolts, bearings which require replacement in case of damage, and are normally not covered as part of claim
- **No Claim Bonus Protection:** Allows customer to be eligible for the next 'no claim bonus' slab discount on renewal regardless of any claims made on account of damages while the vehicle in parked. ■

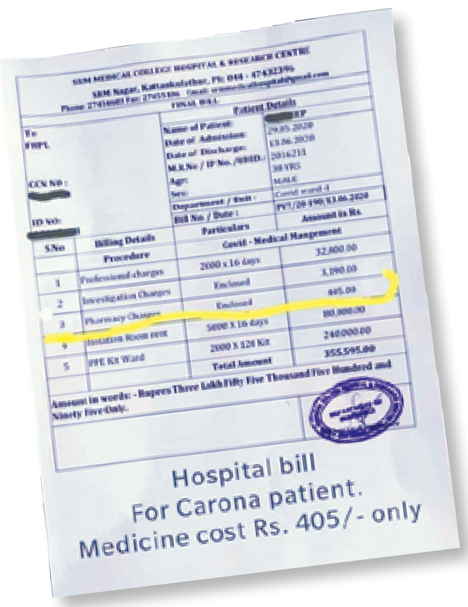
Photo: PTI

A Focus On Grievance And Complaint

Health insurance policyholders are caught between hard rock and deep-sea as they struggle to settle their claims

By **Kumud Das**

Holders of health insurance policies encounter multiple challenges when it comes to renewing old policies or getting their claims settled by insurance companies.



According to them, the insurers are busy patting their backs by claiming that they receive very few complaints from policyholders, hence suggesting that customers are largely satisfied with their services.

The government has appointed several Insurance Ombudsman across the country to handle grievances of insurance customers. Even though the move has brought the redressal framework into focus, it works through a system that appears to be quite discouraging.

Policyholders of Health Insurance (HI) are compelled to run from pillar to post to either get their policy renewed or even their claims settled.

Consumers are mostly facing hassle in settlement of claims

Normally, they directly approach the ombudsman with their grievances. However, insurers often deny the renewal of HI policy on the ground of Pre-Existing Disease (PED). Their woes do not stop here, as it is found that the policyholders' claims get deferred for an uncertain period on some flimsy ground.

Jagriti Chandra, a New Delhi based professional, had taken a health insurance policy from Oriental Insurance along with a top-up of ₹20 lakh from Liberty two years back.

"It has been two months that I despatched the claim form along with all the required originals and have not received an acknowledgement yet," claims Chandra.

Now the question arises which insurer state-run or private sector one is better in terms of premium rates or hassle-free claim settlement.

"It is a matter of perception. Some people are satisfied with the services provided by the private sector health insurers, whereas the few others are happy with the state-run general insurers for the same. It is the market share enjoyed by various insurers which can be seen as a differentiator," says Sanjay Datta, Chief Underwriting and Claims, ICICI Lombard GI.

PED is another grey area where people face difficulties while buying a policy or even at the time of claim settlement.

Abhishek Muthiah, a start-up coach from Coimbatore, is suffering from bone-related diseases. Soon, after having a successful surgery in July 2018 he applied for a health insurance top-up plan as his existing base plan did not have the necessary coverage to compensate for the COVID-19 treatment.

"Insurers went against the IRDAI guidelines and denied the policy, citing my pre-existing illness. Following the incident, I have raised a complaint with IRDAI's grievances cell," claims Muthiah.

"Choosing the correct health insurance plan might prove to be quite a challenge for many, due to the varied types of health insurance plans available in the market. You need to weigh the plans as per your requirement and then choose accordingly," says Dhirendra Mahyavanshi, Co-Founder, Turtlemint, an InsurTech company.

In reply to an RTI query by an Indore-based activist Mukesh Trivedi, the IRDAI has said that there is no particular qualification required for the doctors to be appointed by TPAs that have been fixed by the authority.

However, Upasana Kamineni Konidela, MD, Family Health Plan Insurance TPA Limited (FHPL) denied it by saying that "though it is true that TPAs take their business from insurers, they do ensure timely claim settlement of the policyholders. All my 3,000 employees work around the clock to get the claims settled in an expedited manner."

The Supreme Court has taken a critical view on the insurers' lagging when it comes to settlement of HI claims in time.

In a recent judgment, the Supreme Court has asked the Centre to examine why insurers are not reimbursing the entire COVID-19 treatment cost.

The apex court took judicial notice of general complaints about insurance companies playing truant in reimbursing the full cost of the treatment and told the Union government to proactively look into the problem faced by citizens during the pandemic.

A bench of Chief Justice SA Bobde and Justices AS Bopanna and V Ramasubramanian told solicitor general Tushar Mehta to "take care of the insurance companies" who are allegedly slashing the reimbursement amount due to COVID-19 patients.

Milind Kharat, the Insurance Ombudsman for Mumbai and Goa in an interview, informed that the Mumbai centre has received only two complaints and the value is less than ₹1 lakh.

"The two complaints that we received were in the non-life segment and both have been redressed.

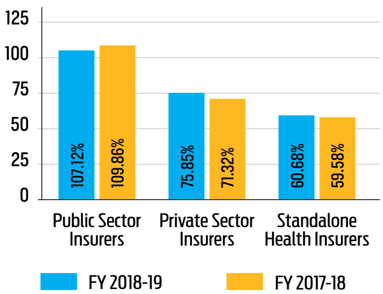
UPASANA KAMINENI KONIDELA

MD, Family Health Plan Insurance TPA

Despite taking business from insurers, TPAs ensure timely claim settlement

Incurred Claim Ratio

Net Incurred Claims: Health Insurers



Source: IRDAI Annual report

Gross Direct Premium Income In India General And Health Insurers			Market Share	
	2018-19	**2017-18**	**2018-19**	**2017-18**
Public Sector Insurers	67,794.23	68,658.85	45.00%	40.52%
	12.58%	1.28%		
Private Sector Insurers	65,419.82	81,287.15	43.42%	47.97%
	21.59%	24.25%		
Standalone Health Insurers	8,314.28	11,354.03	5.52%	6.70%
	41.93%	36.56%		
Specialised Insurers*	9,133.81	8,148.42	6.06%	4.81%
	10.75%	-10.79%		
GRAND TOTAL	**1,50,662.13**	**1,69,448.46**	**100.00%**	**100.00%**
	17.59%	**12.47%**		

Source: IRDAI **Specialised Insurers***: ECGC (Export Credit Guarantee Corporation of India) & AIC (Agriculture Insurance Company of India Limited (AIC)

Photo: PTI

We have received a total of 800 complaints as of July 31, 2020," says Milind Kharat.

He described that the nature of complaints indicated the consumers are mostly facing hassle in settlement of claims.

"Abiding by the guidelines of the local government, we have kept our offices open. Complaints are received through both online and offline mediums and are being registered daily. Our Mumbai centre has disposed of the highest number of complaints through online hearings. So far, we have not received any complaints regarding claim denials," Kharat informs.

The provision of a cashless facility is extended by the hospitals as per the Preferred Providers' Network arrangement that insurance companies have with PPN hospitals. Such companies take action against hospitals that deny cashless facilities. IRDAI has already addressed the matter and issued instructions to the companies in this regard.

Atul Sahai, CMD, New India Assurance, and Girish Radhakrishnan, CMD, United India Insurance briefed their views on this subject. When asked about the COVID-19 claims related complaints, Sahai says, "We have received seven complaints and in terms of the claimed amount it is around ₹9 lakh."

While Radhakrishnan replies, "From April 1, 2020, we have issued nearly 50 lakh policies, and have received around 6 lakh claims, out of which 5.7 lakh claims are settled. I would consider this to be a satisfactory position."

DHIRENDRA MAHYAVANSHI

Co-Founder, Turtlemint

You need to weigh the plans as per your requirement and then choose accordingly

Many consumers are left stranded as they face obstacles due to legal technicalities. Based on this, both Sahai and Radhakrishnan have gladly announced that they have simplified the process by displaying FAQs and other requirements, to ensure that claims do not add headaches to the customers.

New India Assurance has received complaints related to cashless settlements, admission of PPE kits cost, submission of documents, and non-availability of hospital beds.

"In general, the nature of the complaints follows a normal pattern, like delay in receiving claim amounts and policy documents, policies that fail to appear for online purchase, and so on. However, a plethora of complaints have also entered in the form of queries on COVID-19 related claims," says Girish Radhakrishnan.

Apart from other expenses, the insurance companies also cover the cost of PPE kits, as patients could end up spending as much as a fourth of their hospital bills on PPE kits, during an extended hospitalisation.

"We have made it clear from the very beginning of the pandemic that we shall cover the cost of PPE Kits under the scope of our health policies," says Sahai.

Even though IRDAI's guidelines state that the health insurance companies will not be able to reject any claim, there was emerging news of insurers denying claims or delaying settlements. Labelling the news as merely rumours Radhakrishnan says, "While we too have heard market rumours to this effect, I can assure you that this is not true of United India Insurance and I am sure, not true of other PSUs as well. While every claim is not payable and insurers do reject some, it is to be noted that not a single COVID-19 related claim has been denied."

"We have neither denied nor repudiated a single claim so far. Around 77 per cent of claims have been admitted on cashless, and rest on reimbursement basis out of total 17,356 claims. A total of 13,223 claims have already been discharged. Around 10,000 claims have been settled under cashless," states Atul Sahai.

The incurred claims ratio, which is a total claim paid by the insurer as a ratio to the total premium collected by them, of the health segment was reduced to 89.34 per cent in the year 2018-19 from 92.21 per cent a year ago. Speaking for the New India Assurance, Sahai informed that all claims have been settled to the extent that cash facilities were granted.

"United India Insurance has received 6.30 lakh claims during this lockdown and settled 5.70 lakh claims out of which 4.60 lakh were health-related. We have also settled over 21,000 COVID-19 claims including those under Government Health Schemes," says Radhakrishnan.

kumud.das@gmail.com

Save Tax With Wealth Funds

Invest in National Infrastructure & Investment Fund to get 100 per cent tax relief

DIVAKAR VIJAYASARATHY

India needs huge investments in its ailing infrastructure and the government is doing whatever it takes to make it attractive for global investors to participate. India is expected to be the world's third-largest construction market by 2022 and will require an investment of over $770 bn in the infrastructure sector for sustainable development (ibef.org).

Budget 2020 gave a tax relief of 100 per cent exemption for Sovereign Wealth Funds (SWF) on passive incomes--interest, dividends and capital gains--earned from investment in infrastructure and other notified sectors. All investments made on or before March 31, 2024 are eligible for this tax relief provided, they are held for a minimum period of three years. Given the present scenario, the time limit for investment is likely to be extended by a year or two.

These government-backed wealth funds are the National Savings Certificate (NSC), Sovereign Gold Bond Scheme (SGB) and National Infrastructure Investment Ltd. (NIIF) (Category-II AIF).

India's domestic savings saw a gradual fall from 36 per cent in 2007-08 to just over 30 per cent during fiscal year 2019. Hence, the need for long-term external capital on benign terms is felt now.

To give a perspective, a SWF is a state-owned pool of money with a mandate to invest in diversified financial and developmental assets with the dual objective of betterment of societies as well as earning a passive income. The National Investment and Infrastructure Fund (NIIF) is involved in infrastructure financing.

Globally, major SWFs held nearly $8.2 trillion of assets in 2019 (SWFI). However, it is reported that the present holding of SWF has drastically reduced to $2.6 trillion, thanks to COVID. Some of the top-ranking SWFs are:

- Government Pension Fund Global (Norway): $1 trillion +
- Chinese Investment Corporation: $940bn
- Abu Dhabi Investment Authority (ADIA): $745 bn

SWFs are traditionally passive, long-term investors. They invest in a wide range of assets classes including government bonds, equity and FDI. India has been one of the top destinations for SWF investments garnering nearly 8 per cent of all deals happening in this space (2018-19 - SWFI). Some of the prominent investments made by SWFs in India include ₹5,683 crore investment in Reliance Jio by ADIA and ₹7,614 crore investment in GVK Power and Infrastructure by ADIA, Canada's Public Sector Pension Investment Board and NIIF.

The scope of this exemption is not restricted to only core infrastructure like roads, bridges but has also been expanded to include sectors like transportation, logistics, energy, telecom, education, tourism, medical, affordable housing.

Even though these investments would, predominantly be in the unlisted space, the trickle-down effect is expected to be felt across facets:

- A one rupee investment in Infrastructure increases GDP by at least two rupees (S&P Global ratings) in India.
- A sustained inflow of long term global capital ensures a stable currency and keeps the inflation in check.
- The annuity flows from these investments could be bundled and listed as instruments with a fixed yield, thereby offering a hybrid option with proven annuity flows.
- Eventually the equity portion of these investments would get listed to provide an exit option to investors thereby increasing options for market participants
- Consistent advent of high-quality investors like SWF would increase the corporate governance, reporting and accountability standards in the market.

The introduction of exemptions for SWFs is a positive initiative to bring in the much need patient capital in an infrastructure starved economy.

However, tax exemptions alone are not going to drive investment decisions given the scale and complexity of these investments.

India has been one of the top destinations for SWF investments

The author is Founder and Managing Partner of DVS Advisors LLP

Are Insurance Stocks A Good Buy?

Average stock price of six listed insurance companies are up over 60 per cent

By **Himali Patel**

If the pandemic brings some relief to India's under-penetrated insurance sector, could stocks stay behind?

Presently, out of the 57 insurance companies - with 24 in life and 33 in non-life business - six companies are listed on the Indian bourses. In fact, ICICI Prudential Life Insurance became first Insurance company to go public in the year 2016.

The year 2017 witnessed a spate of Initial Public Offerings (IPOs) in life and non-life insurance including SBI Life Insurance, The New India Assurance, General Insurance Corporation (GIC RE), HDFC Life Insurance and ICICI Lombard General Insurance. Stocks of all these companies were oversubscribed post their IPO launch.

These stocks saw a smart pull back from the recent lows of March 2020. A sharp rebound in stock prices was also observed. On an average, the stock prices of these six companies rose over 60 per cent since March.

Multiple factors have led to a sharp rebound in stock prices. "The rise in stock prices comes from the fact that participants took comfort from the data that the death rate due to COVID is low and thus it is not going to hit the insurance companies badly," says Ajit Mishra, VP - Research, Religare Broking.

Data projects a sudden surge in demand for insurance products in India, which has so far been at an average of 3.7 per cent against the global average of 6 per cent.

As per the July report of HDFC Securities on life insurance, research on Google Trends indicate a steep rise in interest for both term and health insurance to a near all-time high.

Well, earlier too, sales of health and term insurance have surged during spread SARS (CY 2002-04) and MERS (CY 2013-14) in India. According to Madhukar Ladha, Analyst, HDFC Securities, “1QFY21 data indicates that protection sales have improved with the sum assured/ premium ratio (x) increased to 56.3 vs. 32.4 for FY20. This ratio was even higher in May 2020 at 61.0.”

Term insurance being a traditional product has a higher sum assured per rupee of premium paid by the consumer. This means higher the ratio higher is the sale of the term product. Savings-linked insurance products, on the other hand, have a lower sum assured per rupee of premium. As per research, the ongoing pandemic is expected to reset mindsets in terms of the importance of life insurance as a risk cover rather than a savings-linked investment product. This, according to experts, also means demand for protection products is likely to gain further momentum.

As per July data from Insurance Regulatory and Development Authority of India (IRDAI), released in August 2020, after a year-on-year drop in first year premium for the last four months, the life insurance sector has witnessed a positive growth. First year premium of life insurers grew by 6.9 per cent in the month of July 2020 to ₹22,986.1 crore, compared to ₹21,509.2 crore in July 2019, largely driven by the private insurance companies. Private insurers reported first year premium of ₹7,815.1 crore in July 2020, up 26.1 per cent from ₹6,197.4 crore in July 2019. Similarly, in July 2020, the non-life insurance industry has reported a growth in both, month-on-month as well as year-to-date figures. The monthly gross direct premium till July 2020 increased marginally by 1.6 per cent to ₹56,339.8 crore from ₹55,442.1 crore till July 2019. Public and private sector have grown at nearly the same pace for the period ended July 2020.

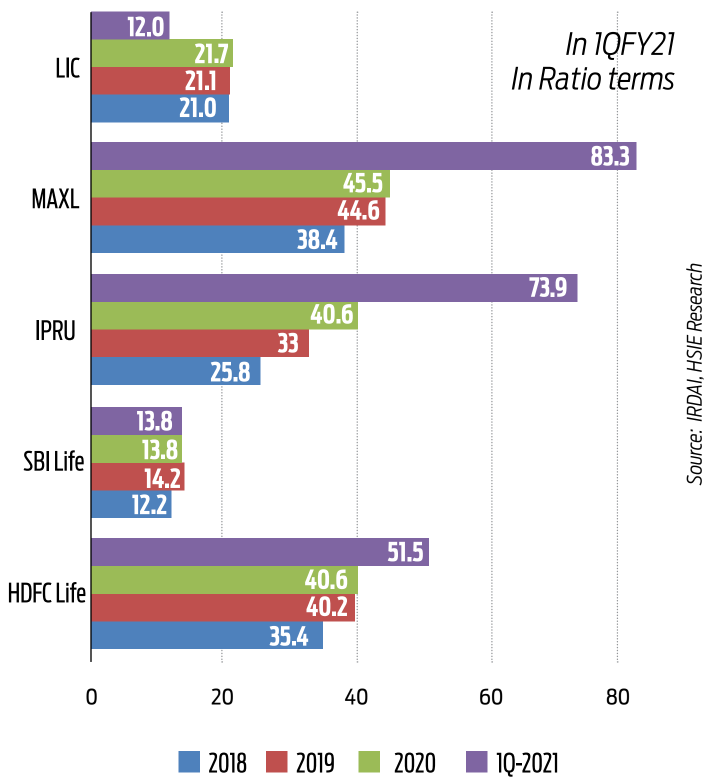
“A reason that could be attributed towards growth in life and non-life is that July 2020 was the last month for investing in insurance policies and claiming deduction under Section 80D and Section 80C of the Income Tax Act,” argues CARE Ratings in its report on ‘Life Insurance and Non-Life First Year Premium’. Lockdown has led to disruptions across channels. Moderation in protection business and weaker capital market appetite impacting insurance companies’ investment portfolio have been putting pressure on insurance stocks earlier.

It also resulted in a short-term impact on the sales volume of new policies since the Indian insurance industry has been largely following an offline sales model, believes some experts. “The Government of India has provided a grace period towards those citizens who are unable to meet their insurance premium obligations during the lockdown. This created a short-term pressure on both, the new premium business and the renewal

MADHUKAR LADHA
Analyst, HDFC Securities

Protection sales have improved with the sum assured/ premium ratio (x) increased to 56.3 vs. 32.4 for FY20

Spike in non-single sum assured to premium



Factors That Led To A Sharp Rebound

- The stock prices of six listed insurance companies rose over 60 per cent on average since March.
- Investors took comfort from the data that the death rate due to COVID-19 is low thus it's not going to hit the insurance companies badly.
- The business was least impacted as most of the companies have strong digit platforms, allowing clients to transact even during the lockdown.
- Also, the increased awareness regarding the importance of insurance products especially health and life acted as a trigger for a swift rebound.

premiums," explains Siji Philip, Senior Research Analyst, Axis Securities.

Some market experts, are of the view that the lockdown has impacted the life insurance segment badly while general insurance has done well. In life insurance, the Annualised Premium Equivalent (APE) has gone down by 13 per cent in the first four months of FY21.

"Due to the pandemic the individual sum assured business in life insurance, in the first four months of FY21, has gone up by 9 per cent but due to the sharp de-growth of 43 per cent seen in the group assurance business and overall sum assured has seen a fall of 13 per cent," says Rusmik Oza, Executive Vice President, Head of Fundamental Research at Kotak Securities.

AJIT MISHRA
VP - Research, Religare Broking

Reiterate Our preference for HDFC Life, ICICI Prudential, SBI Life and ICICI Lombard are with long-term view

When it comes to the Q1 FY2021 the performance for most life insurance business has not been good. "The Value of New Business (VNB) has declined between 29 per cent and 43 per cent for some leading players. The stocks, however, had a smart pull back from the recent lows of March and a few of them hit the valuation hurdle. We expect APE for most leading players to fall marginally in FY21 and then recover in FY22," adds Oza.

In insurance business the measure of profitability is usually computed as the present value of future profits on the business and is sourced in a particular period (usually the preceding 12 months). This is known as VNB. Most experts agree that companies saw healthy growth despite a low penetration of insurance in India.

"We would reiterate our preference for insurance stocks such as HDFC Life, ICICI Prudential, SBI Life and ICICI Lombard are with only long-term view," says Mishra.

For Kotak Securities, the five insurance companies they track, a decent upside of more than 15 per cent is seen in only one stock - SBI Life Insurance. After the sharp rally from the recent March lows, valuations of companies are slightly on the higher side. "Our long-term view on the sector and companies remains positive. One or two companies could also find space in the Nifty-50 in future as market cap of the leader HDFC Life is ~ ₹1.22 lakh crore and that of SBI Life is ~₹86,000 crore," says Oza.

Today the Insurance business, protects the livelihoods of people. The future earnings have a direct correlation with the earnings of people, their business performance and net worth. "With the increase in India's per capita income, insurance penetration is expected to see a 50 per cent growth by 2023. It indicates that the prolonged earning visibility for the insurance sector in the future," explains Siddharth Sedani, Vice President, Equity Advisory, Anand Rathi Shares and Stock Brokers.

Going forward, although the pandemic has played a major inflection point of awareness of Insurance amongst consumers, listed insurance players are going to enjoy the premium valuations hand-in-hand.

himali@outlookindia.com

Testing Time For HFCs

With loan growth diving to a multi-year low, managing liquidity remains key

KRISHNAN SITARAMAN

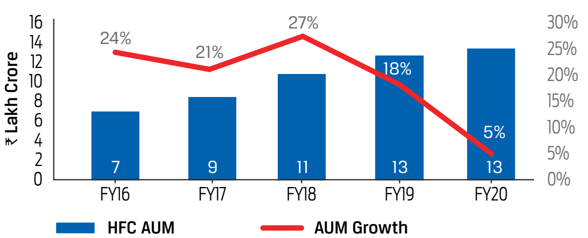
Potential home buyers, shelving plans with the pandemic, will exacerbate the already weakening growth in Assets Under Management (AUM) of Housing Finance Companies (HFCs) this fiscal. AUM growth will decline for the industry and even turn negative for some HFCs, on heels of a tepid 5 per cent growth in fiscal 2020, diving all the way from 27 per cent in fiscal 2018. Home sales are expected to drop sharply this fiscal. Further, prices are expected to fall across segments, with luxury segment the most impacted, leading to lower loan ticket size, hence, reduced disbursements. With funding access remaining a challenge, players are focussing on maintaining higher liquidity, which will also impact disbursements.

That said, not all sub-segments of HFCs will perform the same - while home loans AUM is expected to witness low single digit growth, the non-housing portfolio - primarily developer loans and loans against property - is expected to contract.

Many other shifts and changes in trends are in the making, not all negative. What could support AUM, despite lower disbursements, is the slower rundown in outstanding home loans stock due to the longer tenure of this asset class, and 20-30 per cent of the retail book and 80-90 per cent of the wholesale book being under moratorium. Capitalisation of accumulated interest would also support AUM levels. Meanwhile, fallingq interest rates on home loans in the near to medium term and home prices moving south, come as a reprieve for HFCs, by raising affordability. We have already seen many new as well as established players focussing on affordable housing loans. This segment should continue to be a key contributor to home loan disbursements.

HFC AUM Growth Is On A Downward Trajectory

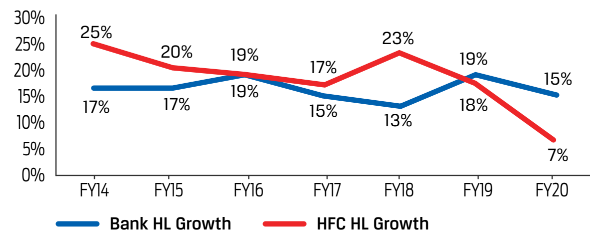
Chart 1



Source: CRISIL estimates

Banks' Home Loan (HL) AUM Are Rising At A Faster Clip Than HFCs'

Chart 2



Source: RBI, CRISIL estimates

At the same time, the Reserve Bank of India's long-term repo operations window, partial credit guarantee, and National Housing Bank's refinance schemes have eased funding access in the last couple of months. But these have served as a one-time push and a sustained pickup in fund raising through traditional routes remains to be seen.

Banks too are expected to gain share in the home loan market, given their lower funding cost and greater access to resources. Banks have already been giving HFCs a run for their money in this segment in recent years. In fiscal 2019, home loans growth of banks crossed that of HFCs for the first time in the last five years.

HFCs have been put to test on several fronts in recent times. Even before the pandemic hit, housing sales were under pressure and continued funding access challenges and focus on conserving liquidity were only reducing business growth. Competition from banks is expected to intensify. Tighter underwriting processes to prevent sharp asset quality deterioration is leading to a lower but sharper growth focus only on retail segment.

The key for HFCs to maintain their position and tide over current challenges will be to strengthen their capital base, manage funding access prudently and keep credit costs under check. Conservative asset liability maturity management and liquidity preservation would help stabilise HFC balance sheets. These would be the important monitorables for key stakeholders of HFCs.

Those with strong parentage or part of large corporate groups, are expected to fare relatively better on fundraising and disbursement, navigating the current environment with less pain.

The author is Senior Director, CRISIL Ratings

Ride Your Financial Goals

Be optimistic, flexible, open to new ideas and benefit from compounding wealth

AJAY BAGGA

Financial success is a combination of wealth, wisdom and freedom to do as we please. Here we are presenting the seven top secrets to financial success:

1. Know yourself:

The better you know yourself, the better you will do. This self-awareness and self-confidence are critical. Understand your income, expenses, savings and investments. Understand what provides you with great joy and satisfaction. And keep reminding yourself that your first instinct to act may be wrong. A huge advertisement industry is constantly enticing you to spend your money. Even in terms of investments, the maximum pressure comes from products where the provider makes the highest commissions or margins. Only you can determine what is best for you. The successful and rich have this acute sense of self knowledge. Don't try to keep up with the Jones. The Jones are most probably over leveraged or broke.

Remind yourself, like that Jon Bon Jovi song:

"It's my life
Tomorrow's getting harder, make no mistake
Luck ain't enough
You've got to make your own breaks
It's my life
And it's Now or Never"

2. Postponement of gratification, investment before self:

Warren Buffett says, "Do not save what is left after spending; spend what is left after saving." This ability to postpone gratification was tested in the famous Marshmallow experiment at Stanford University in 1972. Students who were able to choose postponement for higher rewards, showed better outcome.

I have a story that illustrates this. My uncle's friend was looking to buy an apartment in a nearby town and asked my uncle to help him decide. The apartments were very nice. However, the next week, as a new car model was launched, his friend bought the car instead. My uncle, who had gone only to give company, ended up buying an apartment. Thirty years later, the car had long since been junked, the apartment was worth around 65 times its purchase price. The annual rent on it was three times the purchase price. My uncle is no more, but my aunt told me how that apartment became a central motif in their successful retirement.

Postponement of instant gratification and investing in an appreciating asset is one of the best life choices one can make.

3. Income is critical, savings are more important, but investments are most important:

Take the example of the King of Pop, Michael Jackson. In 1985, MJ used earnings from his album “Bad” and bought ATV Music which owned 250 Beatles songs. It cost $47.5 million. Ten years later in 1995, Sony Music bought ATV Music. MJ got paid $150 million, plus a stake, plus an annual income of $11-18 million. In 2016, Sony Music bought out Michael Jackson estates’ holding in Sony/ATV for $750 million. Paul McCartney, who co-wrote most of the Beatles songs with John Lennon, had more money than MJ in 1985 and had the right of first refusal on ATV Music. He did not have the vision. Despite all his problems, all his debts, this single move of Michael Jackson took care of his financial legacy.

4. Financial Literacy:

The best lessons in finance can be learnt vicariously. The best advice would be to buy as many income generating assets as early in life as possible. Time and diversification are the best friends of investors. Time allows compound interest to work its magic for investors, while diversification ensures survival across market cycles. Building competencies or hiring competent advisors helps investors harness these forces. Basic understanding of markets, accounting, law and investing can be a force multiplier.

5. Budgeting, written plans and goals:

Having written goals has been shown to be a key success habit of the uber-rich .Thomas Corley in “Rich Habits: The Daily Success Habits of Wealth Individuals” found that 67 per cent of wealthy people had written goals and 81 per cent of them kept daily to-do lists.

Neuroscience has discovered that writing creates 23 per cent better recall and reinforces these goals, enhancing the chance of success by 1.4 to 1.6 times. So do yourself a favour today. Write out vivid success goals, draw them, create pictures of them and revisit them frequently. That one initiative will increase your chances of success by a large margin.

Make the goals S.M.A.R.T. (specific, measurable, achievable, relevant and time-bound).

“Rich is not a goal, ₹1 crore in financial investments in 10 years is!”

6. Negativity sounds intelligent. Positivity makes you rich:

Pessimists are intelligent, Optimists are rich. Main street looks at the past while Wall Street looks at the future. As investors, having an optimistic outlook is a key ingredient to success.

This is as true for advisors as it is for clients. Without this optimism and faith, there would have been no Microsoft, no Amazon and no Facebook. It is good to be grounded, practical and plan for contingencies. But financial success also involves intelligent risk-taking and believing in the potential of companies to deliver superior returns on equity.

7. Flexibility, agility, continuous learning, experimentation:

In August 2019, Tesla had a lower market cap than GM. At $355 billion in August 2020, Tesla has a higher market cap than GM, Ford, Fiat Chrysler, Daimler, BMW, Ferrari, Honda and Hyundai, combined.

The new investors coming into the market, the so called Robinhood traders, have benefited from not having prior experience or knowledge and have made the most of the 50 per cent returns from the market bottom on March 23, 2020. The big lesson is of openness, of flexibility, of agility and of not getting stuck to a way of thinking or investing. The market is a great leveller. The example of the 167 million Chinese retail stock traders shows this will end badly for most Robin Hood traders. Chinese retail traders with 30 per cent market ownership made 80 per cent of the market trading volumes in 2016-2019, and consistently lost money to the institutional players who generated 11 per cent returns. Trading is very tough to make money off. But what can be learnt from this segment is their agility and their experimentation. Successful investors should learn from all players and then create their own strategy. And be ready to modify this as disruptive innovation changes market realities.

In conclusion, I would like to remind you that there are no experts on the path of financial success, your reality is unique and the opportunities to succeed are infinite. Be optimistic, self-aware, flexible and open to new ideas. Be resolute to stay the course, compound and diversify. Good Luck.

The author is a Private Investor

Restore Stability To Revive Economy

Former Deputy Governor of Reserve Bank of India, **Viral Acharya** *in his latest book -* **Quest For Restoring Financial Stability in India** *- has figured out some key issues in India's financial sector and suggested some measure too, during an interview with* **Rajat Mishra***. Edited Excerpts:*

The RBI came up with a loan moratorium during this pandemic. Your views.

I think there should be some scope in the system for temporary stopgap measures, especially, if the shock is unprecedented like this pandemic, which no one could have anticipated. The shock in terms of working conditions, the inability of large sectors to generate immediate revenues during lockdown can't be completely left unaccommodated. The moratorium with a sunset clause is the right approach. The idea is to accommodate the temporary problems, without eliminating the discipline of repaying creditors on time.

We need to prepare the financial system for absorbing losses and ensure there is a wherewithal, both in corporate restructuring as well as in personal delinquencies that may arise.

You have always supported decisive recapitalisation of banks. Why do you think this mitigates the adverse impact of the pandemic?

As we expect some economic activity to revive and rebound with COVID getting controlled, we would want the cost of credit for corporations. Those who have productively aided in the revival, should have low cost of borrowing. The undercapitalised banking system is more interested in maintaining hefty margins to generate a quick return on capital. They are not interested in growing their loan book and competing for loans by offering attractive lending rates. So, if we have an undercapitalised banking system fighting legacy loan problems, coming out of COVID will still not aid in economic recovery. They will act as a headwind to economic recovery. Thus it is crucial to ensure the economy doesn't have a lasting scar from the pandemic.

Do you think RBI has failed in predicting recent situation where banks and NBFCs went bust? What do you suggest?

Yes, failures do happen. Not even the best of the banking regulators in the world get all failures, right. Even the Federal Reserve got the housing crisis wrong. The question here is - are we learning from these mistakes, do we have the capacity to fix the failures and reduce the likelihood of their recurrence? The RBI's financial stability report has been flagging some of the risks regularly. Now we have to address them. We have not been able to do so in a decisive manner so far. We need to question, diagnose, and then fix things. The central bank should adopt a supervisory specialised carder, use big data analytics and risk management techniques, besides onsite supervision. The central bank should adopt regulatory stress tests that needs to be embedded in the supervision and the regulatory framework. The stress tests should clarify how much capital needs to be raised by banks ahead of time so that the bridge can withstand crises.

How do you assess the distressed NBFCs in India?

It has something to do with the post-demonetisation gush of deposits that came from the informal economy into the formal economy. Banks were not in a capacity to lend given their poor capitalisation. Therefore, yields on deposits were low and these deposits flew into debt liquid mutual funds, which then started chasing the higher yields on the non-bank finance company paper. So, this sudden surge of liquidity in a very short period led to a deterioration of the underwriting standards, especially in the housing finance loans. Eventually, once the liquidity conditions got tight, inflation rose and so did cost of borrowing in the economy. Overall short-term borrowing pressures went bad. NBFCs should have asset quality review the way it was done for banks in 2014-15. So, I laid out two to three steps that should follow the asset qualitative view. This could be done by subjecting the weakest ones to prompt corrective action. This may mean selling them off and getting the moderate ones to show their capital levels to the healthy ones. Provide transparency in the healthiest ones so that the market doesn't have to question the balance sheet strength.

> NBFCs should have asset quality review the way it was done for banks in 2014-15

How should banks deal with growing Non- Performing Assets (NPAs)?

VIRAL ACHARYA
Former Deputy Governor of Reserve Bank of India

The NPA has got to rise because economic activity has collapsed in the short run. We are expecting a significant contraction for the whole year. Some of the sectors were already declining or heavily indebted, even in the lead up to the COVID. We shouldn't forget that our growth had been declining for two to three years even before the pandemic. Hence, the NPAs will see a rise in legacy assets as well as COVID-affected sectors. This is why the Reserve Bank of India's financial stability report has estimated gross nonperforming assets to be in the range of 12.5 to 15 per cent. Analysts see these ratios going higher than what has been projected. So, the only solution is to prepare the financial sector for the oncoming losses. When you buy a property the decision should be based on location and when it comes to running a financial sector or regulating it, it should just be based on capital.

Do you think the central government has done enough for bank's retail customers? Please identify areas that require improvement?

We have a huge fiscal deficit and expenditure and a large amount of subsidy-based welfare programmes. The question is whether it is time to rationalise some of that and roll them into some form of a universal basic income because then only the households can decide on things. It would lead to a bit of rationalisation and perhaps a more effective use of subsidies by the households.

The best thing that could be done is to help revive growth. This means finding the capacity to provide fiscal relief and repair. That could mean identifying space for infrastructure investments, which I understand is on the cards. Adherence to FRBM targets with a medium-term, need of an independent bipartisan fiscal council, which can monitor the government's progress and vet the budgets.

We need to rationalise expenditure - do less on subsidies and more on capital expenditures. We shouldn't be in denial as to where our current borrowing and deficit numbers are, because the government has been doing a lot of fiscal tricks to do off-balance-sheet and extra-budgetary borrowings.

We need to do a consolidated public sector borrowing assessment so that we know where we are and where we need to be in the medium term. We need to do a course correction - a massive disinvestment wave. This has to happen not just in the non-strategic sectors besides finance, but in the financial sector as well. Large public sector banks can be considered for privatisation, where majority stakes can be brought down to 25 or 30 per cent. Thus public exchequer's burden for recapitalising banks comes down and doesn't jack up the borrowing requirements. Disinvestment is required even in insurance and non-banking financial sectors, where the government has a large presence. So, that's my five-point agenda.

rajat@outlookindia.com

REITs As An **Attractive Asset**

This derivative instrument with underlying assets in realty offers stable rent-yielding cash flows

By **Vishav**

Real Estate Investment Trust (REIT) could be a viable alternative to traditional investment, with falling interest rates, diminishing debt returns from asset-backed investment instruments, coupled with threat of inflation and drop in income.

REITs are derivatives that own or finance real estate assets in a range of properties and earn a return of 12-15 per cent. Of these, 6-7.5 per cent is fixed (based on rental income) and the balance is through market escalations.

While REITs have existed for the past 60 years, and are now a $2 trillion asset class globally, India saw its first REIT in April 2019 when Embassy Office Parks REIT IPO got listed on the stock exchange and paved the way for retail investors to participate in commercial real estate. More recently, Mindspace Business Parks REIT IPO got listed on the exchange early August, only the second REIT to be listed in India.

RAVINDRA SUDHALKAR

CEO, Reliance Home Finance

REITs do not have the added tax benefits that are allowed on direct investments in housing

According to a study by Savills India, a premier professional property consulting firm, ever since the IPO and listing in 2019, Embassy Office Parks REIT had shown an appreciation of 8 per cent (at the end of Q1FY21), reaching a maximum appreciation of around 50 per cent in the pre-COVID phase. On the other hand, Mindspace IPO got oversubscribed by 13 times and got listed at an 11 per cent premium.

"It is just the beginning for REITs in India and with increasing clarity in regulations, significant improvements in Ease of Doing Business rankings, and strong rental performance in commercial real estate, the REIT journey would only accelerate further," says the "India REIT: A Potential Investment Window" report by Savills India. It adds that despite the COVID bump, REITs have a lot of potential in the Indian market owing to its saturation in foreign shores.

Experts feel listing of REITs makes investment in commercial real estate liquid and accessible to investors even at a small ticket size worth ₹50,000. Also tax exemption on dividend distributions by REITs also makes them very attractive.

According to Sanjay Dutt, Joint Chairman, FICCI Real Estate Committee, and MD and CEO of Tata Realty and Infrastructure, India's first REIT outperformed equity markets by around 2000 basis points in the last five quarters since launch, as opposed to the All REIT Index in the US which outperformed S&P 500 by around 440 basis points over 20 years.

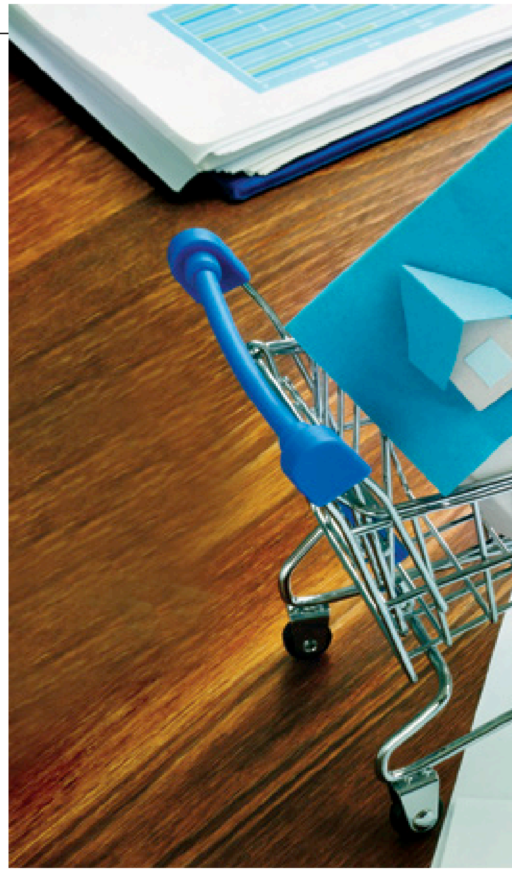


Photo: DEPOSIT PHOTOS

"India has approximately 650 million square feet of Grade A office space of which, 310-320 million square feet is REIT-able stock. India's office stock would touch one billion square feet in the next six to eight years. And in next two years, nearly 100 million square feet is expected to be listed on Indian stock exchange. Therefore, the asset class presents itself with tremendous opportunity and growth to all class of investors," Dutt says.

Investors earn in two ways from REITs. First, they get returns through stable rent-yielding cash flows, with 90 per cent of the earnings distributed to unit-holders. Second, they also benefit from the capital appreciation as the market price of the underling assets rise.

While COVID has impacted the commercial real estate sector, Dutt however believes that as India continues to be top global IT outsourcing destination, commercial real estate will continue

to be a resilient, low risk and high return asset class.

Anurag Mathur, CEO of Savills India, says Indians have had a generally positive experience from the only REIT (before Mindspace IPO) during the last one year, including the difficult phase of 2020. Agreeably, just one REIT doesn't make the complete story, but it certainly provides a glimpse into this real estate-based derivative.

Mathur believes that Embassy REIT has created some favourable ground for REITs in the near future. "Despite global and domestic economic upheavals of 2018-19, India posted its highest-ever office space absorption for two consecutive years, clearly underlining a very strong occupier demand for its office buildings. The yields from the singular REIT on the market have remained unambiguously attractive, even through the lockdown phase," he explains.

From an investor's perspective, the two factors that should determine his decision to invest in REITs or in direct real estate properties are the purpose of the investments and the understanding of the associated risk-return interplay, feels Ravindra Sudhalkar, CEO, Reliance Home Finance.

He says that for someone with real need to own a house, direct investment would make sense as the gratification of "ownership" of a property instils a sense of security in the buyer and satisfies the aspirational aspects of making the investment. On the other hand, if investment is the sole purpose of putting money in real estate, then REITs is a better option as it is a highly liquid instrument.

"However, since REITs essentially behave like mutual funds investments, it requires a certain level of sophistication for understanding the complexities of market-related instruments. The best returns can be accrued only if the investment horizon is for the long term of three to five years. Investment in REITs also doesn't have the added tax benefits (under Sections 24, 80C and 80EE) that are allowed by the government on direct investments in housing," Sudhalkar concludes. Most experts feel retail investors can consider investing up to 10 per cent of their portfolio in REITs and diversify, restricting their exposure to 5 per cent in a single REIT. A higher return always has a higher risk attached to it.

While India is a safe destination for REITs, thanks to the really small number of options against global average, a fall in realty price can affect the returns.

vishav@outlookindia.com

ANURAG MATHUR

CEO of Savills India

The yields from REIT have remained unambiguously attractive

REITs In India

2013: Sebi introduces draft regulations in line with international models

2014: Finalisation and release of REIT regulations

2015-2019: Amendments to regulations and multiple tax reworkings

2019: India's first REIT: Embassy Office Parks listed

2020: Mindspace Business Parks REIT, backed by K Raheja Corp Group and Blackstone Group, goes for IPO

Source: Savills India

USP For Retaining Clients

A good advisor can make both MF investors and industry flourish

GANESH RAM

In February the capital market regulator Securities and Exchange Board of India (Sebi) allowed investors to invest in Mutual Funds (MFs) through stock exchanges directly from the fund houses without going through distributors, to ensure a level playing field.

This was welcomed by fund houses, which could further lower the transaction expenses and skip paying the distributor's commission. Even before this announcement, there were other direct channels available to investors.

There is no doubt that investors who opted for Do it Yourself (DIY) mode or direct mode have increased from 5 per cent (12 plus months ago) to 15 per cent of current MF transactions. However, the complimentary metrics for the MF transaction undertaken during the time period is not that encouraging, which is approx 55 per cent of the redemptions is from DIY mode. This clearly shows retail investors panic and start redeeming as they lack proper advisory during crisis.

If you look at the last three months' market data, which was the best time to start a balanced SIP portfolio, with equity, debt and performance backed sectoral funds. Instead, a majority of the investors, in DIY mode, chose to pause or exit the market and those who started new SIP did only in equity. The SIP book should have grown but unfortunately it stagnated.

Investors should understand that MF is a special vehicle, which is much regulated but has lots of complex underlying data. Like fund houses have CIOs and fund managers monitoring and managing the market or scheme performance, we have advisors who are experts on investment decisions. It is disheartening to see that without adequate knowledge or information; investors choose the schemes based on some reports and information publicly available and end up criticising the MF industry and products. This also results in a panic and impacts the overall growth. Without in-depth knowledge, MF is not an investment product to play with money. Investors should choose proper advisory for their investment decisions which helps in building optimism and also significantly helps in market to stabilise and grow. This is not all for investors. Advisors and distributors should also view their prospective clients and maintain relationships with them. To have a successful client relationship management, each advisor should demonstrate five "C's" - communication, clientele, clarity, calibration with market dynamics and cognitive with technology. They result in "confident advisor". Recently, we came across many Independent Financial Advisors (IFAs), using BSE STAR MF, who have done 100, 200, 300 and even 500 SIPs per day in this pandemic. When we spoke with these advisors, we learnt that they have excellent business relationship with their clients and saw this crisis as an opportunity.

Many advisors are concerned about DIY growth but out of 40 per cent being reported, 20 per cent pertaining to corporate and institutional investors and rest 8-10 per cent are UHNI/HNI. That leaves retail DIY at only 10 per cent.

I spoke to one advisor from Chennai who has chalked out a plan for his clients by depicting how expenses have reduced for them during the current lockdown and how they can choose to invest the money saved from reduced expenses into MFs. The advisor has chosen his top 25 per cent clients and has been communicating with them. Advisors should consider platforms, which provide value addition, reducing time, cost and improve efficiency. This is one of the Unique Selling Proposition (USP) to choose and retain clients. A confident advisor makes a huge difference to investors and the MF industry, which the industry is in need for.

The author is Business Head-Mutual Funds at BSE.
The views expressed are personal

DIY Investors Have Five Disconnects

- Their decisions are based on half-cooked information/data, publicly available
- They expect double digit returns within a short span of time
- They expect to earn additional one or two per cent returns from DIY against advisory mode
- They undertake MF transactions as it is extremely convenient to do with many apps that have mushroomed
- They do not monitor fund performance and time for entry/ exit, which an advisor is qualified to do

Best Decision Has Four Data Sets

- Investor's goal, risk appetite, return expected
- Picking up the competent advisor who has rich experience and connect
- Performance of funds and other important fund/ AMC-related data
- Diversification of investment portfolio

Resilient Performance

L&T's domestic and international prospects offer revenue visibility

Larsen & Toubro

CMP: 995.85

PE: 24.15

***As on Aug 20, 2020**

By **Himali Patel**

Despite challenges, one of India's largest engineering and construction firm, Larsen & Toubro (L&T) have showcased a resilient performance for its first quarter (Q1) FY2021. L&T reported a revenue at ₹21,260 crore in Q1 FY2020, down by 28 per cent year-on-year (Y-o-Y). This was broadly in line with brokerages as the company had announced that they were operating at 40 per cent levels during the quarter. Over the last five years, the company's net sale and net profit has clocked a Compound Annual Growth Rate (CAGR) of 8 per cent and 14 per cent over FY2016-20.

The core infrastructure segment of the company was down by 53 per cent Y-o-Y, the power segment by -33 per cent and the engineering segment by -57 per cent due to the nationwide lockdown. However, its IT and Technology segment saw a growth of 58 per cent led by the consolidation of Mindtree and growth in L&T Infotech Group. "Manufacturing, construction and operating expenses were down by 49 per cent Y-o-Y, largely due to cost-control measures and the higher proportion of IT and Technology Service (TS) businesses due to the Mindtree consolidation," points out an analyst at Anand Rathi.

The net profit fell from ₹1,473 crore in Q1 FY2020 to ₹303 crore in Q1 FY2021, a degrowth of 79 per cent on the back of a lower revenue.

Although the pandemic has impacted Q1 revenues, the company's ordering activity has continued. It managed to bag orders worth ₹23,574 crore in Q1 FY2021 on the back of the domestic business in the infrastructure segment. That said, the order backlog remained diversified and healthy at ₹3,05,083 crore (76 per cent domestic) which was up by 4 per cent during the June quarter.

"Although FY2021 may be relatively weak on account of macro uncertainties, we expect L&T to bounce back during FY2022 owing to multiple levers such as strong business model, diversified order book, and healthy balance sheet," says an analyst at Sharekhan. The management of the company has also pointed out that the labour availability has improved to 1,90,00 in mid-July from the low of 70,000. L&T is expecting to improve as the situation normalise in next few quarters.

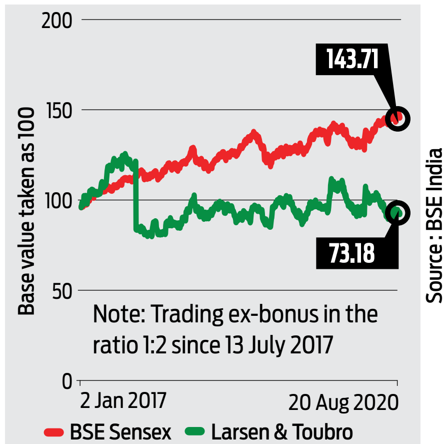
"Although there are challenges in ramping up execution due to social distancing, we believe the near-normal level of labour, coupled with a diversified and robust order book, could lead to recovery in execution. We expect L&T to report a revenue of ₹1.4/1.53 lakh crore in FY21/FY22," says an analyst at HDFC Securities. The company's domestic as well as international prospects continue to offer a revenue visibility. Many brokerages like Motilal Oswal, HDFC Securities, Sharekhan and Emkay Global among others continue to remain bullish on the company's future prospective.

Why Buy

- Strong business model, diversified order book bodes well for investors
- Healthy balance sheet with good return ratios

Watch Out For

- Delay in government infrastructure spending and slowdown in domestic environment can impact earnings



Financials

Net sales (₹ crore)	
FY20	151019.35
FY19	141313.92
FY18	119683.16

PAT (₹ crore)	
FY20	10822.32
FY19	10237.58
FY18	8440.29

OP (₹ crore)	
FY20	28045.92
FY19	25756.32
FY18	21361.67

EPS (₹)	
FY20	68.02
FY19	63.48
FY18	52.59

OP: Operating Profit; PAT: Profit After Tax; EPS: Earnings Per Share; **Source:** Ace Equity

Source : Ace Equity

Staying A Leader

HDFC AMC continues to be a preferred choice of individual investors

Two years post raising ₹2,800 crore through IPO, HDFC Asset Management Company (AMC) garnered subscription upto 83 times in July 2018, marking its journey as a publicly listed company. Being the second largest AMC by size of Asset Under Management (AUM), it is managing ₹3.57 lakh crore. Principal shareholders include Housing Development Finance Corporation Limited (HDFC) and Standard Life Investments Limited (SLI), who own 52.8 per cent and 26.9 per cent stake respectively.

HDFC AMC provides a large suite of savings and investment products across various asset classes like equity, debt and ETFs among others that provide income and wealth creation opportunities to customers. "Its diversified product mix, which includes 27 equity-oriented schemes, 98 debt schemes (including 72 Fixed Maturity Plans (FMPs)), three liquid schemes, and five other schemes (including exchange-traded and funds of fund schemes), enables it to operate through various market cycles, cater to specific customer requirements and reduce concentration risk," explains an analyst at HDFC Securities.

The company is India's largest Actively Managed Equity Fund with Quarterly Average Asset Under Management (QAAUM) in equity-oriented funds worth Rs 1.29 lakh crore with the market share of 14.5 per cent as on June 30, 2020. As per the management, the ratio of equity oriented AUM and non-equity oriented AUM is 39:61 compared to the industry ratio of 38:62. Having said that, the company continues to be a preferred choice of individual investors with 15 per cent share in individual AUM.

Its Profit After Tax (PAT) for the quarter ended June 30, 2020 was ₹302.4 crore as compared to ₹291.7 crore for the quarter ended June 30, 2019 resulting in an increase of 4 per cent. Some establishments including HDFC AMC were exempt from the lockdown and therefore were functional during the pandemic. Further, the corrections in markets from May onward has led to a spike in AUM, which signals good future revenues over the next few months.

As per the Association of Mutual Funds in India (AMFI) the Indian MF industry's AUM has grown from ₹6.69 lakh crore as on July 31, 2010 to ₹27.12 lakh crore as on July 31, 2020 which is more than a four-fold increase in a span of 10 years. This bodes well for the HDFC AMC going forward.

Courtesy its over 65,000 empanelled distribution partners across Independent Financial Advisers (IFAs), national distributors and banks, today HDFC AMC has an established distribution reach through a total of 221 branches of which 145 are in B-30 locations. "We expect the premium valuation of the AMC to continue owing to its higher operational efficiency and industry leading AUM metrics. We continue to apply a P/E of 43x on FY22 estimates (E) earnings per share (EPS)," says an analyst at KR Choksey. ■

himali@outlookindia.com

HDFC Asset Management

CMP: 2399.1

PE: 40.12

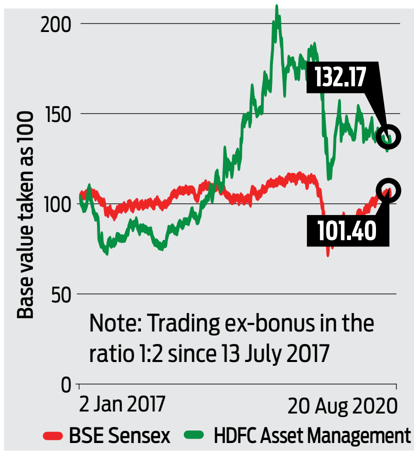
*As on July 20, 2020

Why Buy

- Superior and diversified product mix with multi-channel distribution network
- Has maintained its market share at approximately 15%

Watch Out For

- The current continued outflows in equity funds of the industry can impact the company



Financials

Net sales (₹ crore)	
FY20	2003.25
FY19	1915.18
FY18	1756.77

PAT (₹ crore)	
FY20	1262.41
FY19	930.60
FY18	711.29

OP (₹ crore)	
FY20	1712.40
FY19	1387.55
FY18	1067.59

EPS (₹)	
FY20	59.32
FY19	43.78
FY18	33.78

OP: Operating Profit; PAT: Profit After Tax; EPS: Earnings Per Share; **Source:** Ace Equity

Source : Ace Equity

Safe Route For Better Returns

Investors and traders need to focus only on quality blue chips or invest through mutual fund

AVINASH GORAKSHAKAR

Retail investors are back in the market. The huge inflow of new depositary accounts opened between March and April 2020 reflects the activity. As per records, Central Depository Services Ltd (CDSL) has opened 1.2 million new Depository Participant (DP) accounts during this period as against 4.2 million DP accounts between April 2019 and Feb 2020.

The new breed of Robin Hood investors are moving rapidly on the back of online trading activity but proper risk management and asset allocation is yet to be understood.

Some key problems and challenges include lack of knowledge, reading, networking and process. Almost 90 per cent of the retail investors and traders don't know what the company manufactures, what are its revenue and profits, dividends paid, management quality, which is like driving a car without brakes.

Compromising on asset allocation and position sizing is the second big problem where one sector or stock comprises 80 per cent of the entire portfolio. This leads to severe imbalance in the risks associated and massive losses when things go wrong.

Position sizing is often completely ignored, which leads to retaining losers and selling the winners. For an ideal asset allocation it is better to have a combination of debt and equity. Position sizing could be maintained by having a small portfolio of 5 to 10 stocks. Many face information overload and noise in the markets by seemingly complex and contradictory advice on business channels and advisory websites.

New investors may find it easy to use books to get started and stay connected.

One of the biggest challenges that new investors and traders face is having limited capital, which prompts them to buy poor quality stocks.

They need to focus only on quality blue chips or invest through mutual funds - a safe way to generate better returns over the long term. Most retail investors and traders lack the emotional mindset whether to speculate, trade or invest.

New investors may use books to get started and stay connected

A wrong speculative trade often becomes a long-term investment for a retail trader. Thus having clarity on the emotional mindset can have a huge impact on the profit and loss account.

It is better to stick to either trading or investment and not mix both as this can lead to huge losses in volatile markets.

Penny stock is another common problem with most retail traders and investors who feel they are buying at low cost.

This is the reason retail shareholding in penny stocks like JP Assoc, JP Power, Manpasand, Idea have increased significantly.

Investors must avoid penny stocks completely and focus on quality businesses, which are wealth compounders over the long term.

The author is Director Research at ProfitMart Securities

When To Exit Equity

Know how to deal with the reasons to exit from Investing in Mutual Fund

Kavita Hurry, Mom Squirrel, & **Vivek Hurry**, Pop Squirrel, of Squirrel Consulting Pvt Ltd.

It is a question that recurs periodically and is often phrased as:
"Should I book profits?" or "Should I exit now and re-enter later?"
Which is another way of asking:
"When should I sell my equity holdings?"
As with most investment questions, the answer is, "It depends."

It depends on who you are and what you hold and what stage of your life and your investing cycle you're in and so on. But it can be distilled down to three simple rules: sell for something meaningful; rebalance your portfolio; underperformance.

Sell to use the money for something meaningful

You want to pay for a new house to live in. Or you need to fund your daughter's college education. Those are meaningful uses for the money. Using the money to buy a second house that you hope will appreciate is not meaningful - it's merely changing your investment strategy, which is a whole other discussion; or to buy a swanky, flashy car that will give you temporary joy and then inevitably succumb to depreciation and potholes is not meaningful - it's an indulgence. Decide what's meaningful for you, but don't divest equity for indulgences.

Sell to rebalance your portfolio

As you get older you need to re-balance your portfolio either because your risk profile changes (you don't have the luxury of waiting for returns via capital appreciation, so you need to increase the proportion of less risky assets in your portfolio) or you need more income-generating investments to replace the salary you will no longer be paid. So, periodically review where you are in life, how your portfolio is doing, what your income needs and expense requirements are and then decide on divesting some of your equity portfolio to park the money in fixed income holdings that generate a regular income.

Sell when it's underperforming

This is a tough one relating to what psychologists call "loss aversion". A particular MF scheme is doing poorly and has been for some time. You've waited for it pick up, but it hasn't. But you still want to hang on to it in the hopes that you'll make up your money. Often, it's far better to cut your losses, take what you get and redeploy it somewhere that has better chances of making you money. What matters is that overall your portfolio gives you good returns, not that this particular investment gives you the return you envisaged. It's okay to get it wrong occasionally, so don't get emotional about it. Emotion is usually the wrong rationale for an investment decision.

Extraordinary profits in a short time?

This is rarer and trickier, because what constitutes extraordinary profits and a short time tend to be subjective, so use with caution. Decide whether the profit is extraordinary by comparing it to the rest of your life, not by some absolute number like 100% or Rs.1 lakh. How do those numbers compare to your current income, your portfolio size? A useful measure is seeing what you can do with the profits. Can it contribute enough for something meaningful? Or are you going to squander it away; or be forced to reinvest in something that's not offering a decent return; or, worse, be forced to reinvest at a higher price than you originally paid? Don't sell.

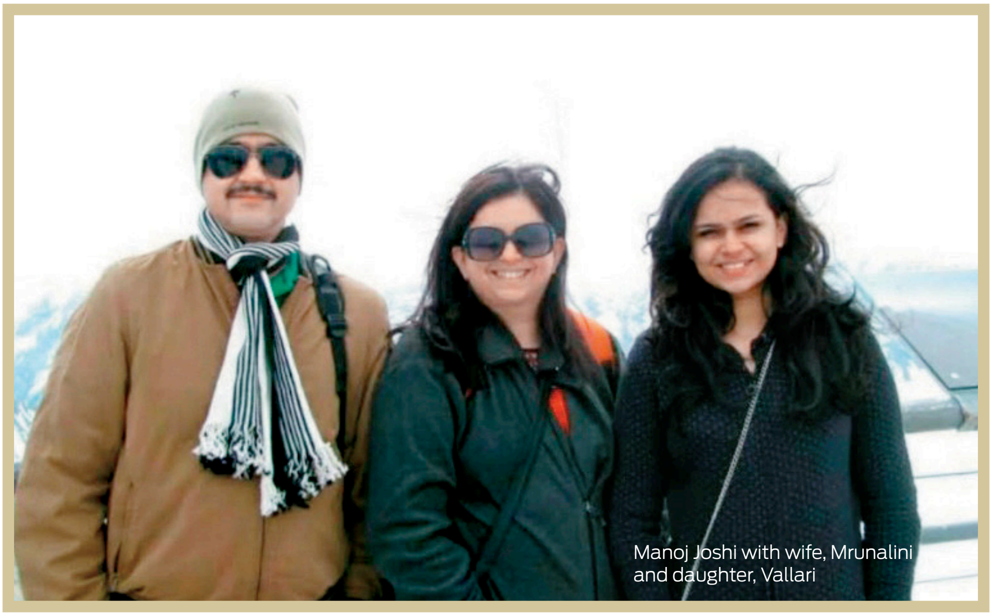
Let's get out and get back in when the market improves!

This is the most common mistake made by newbies and it never works. It's an understandable emotional reaction to uncertain or bad times: fear. But it's not rational. History has shown time and again that markets always improve in the long run: after wars, assassinations, natural disasters, whatever. It's the nature of the beast. Firstly, if you sell when markets are down, you're divesting at the lowest point and then you want to get back in when it's getting more expensive. That makes no sense. It's like saying I need a suit, but I don't want to buy it when there's a sale on; I want to wait and pay more once the sale is over! Secondly, nobody is ever able to correctly gauge when the market has hit its bottom and when it's on its rise back. Markets don't move in straight lines. Every fall and every recovery has its own set of peaks and troughs and it's impossible to really know when "the market has improved" except with hindsight.

The trick to making equity investing work for you is to give it loads of time and keep on investing systematically all the time. In the short term, equity can yo-yo more than most. In the long term, a good equity portfolio retains value and appreciates better than most investments.

Invest To Make Up For **The Lost Time**

Instead of timing the markets, spend some time in the markets



Manoj Joshi with wife, Mrunalini and daughter, Vallari

Manoj Joshi, 51, provides information systems to pharmaceutical companies. He lives with his wife, Mrunalini and daughter, Vallari, who is a lawyer-in-making. His desire for financial planning found its roots when he decided to accumulate funds for Vallari's higher education. To align his financial interest, he came in touch with Kapil Jain, Founder of Enrichwise Consultancy Services, Thane.

Kapil Jain is a gold medallist from IIM Indore and has experience of over two decades in the financial markets and advisory. He practices what he preaches, as he is a value investor and a firm believer in asset allocation principles.

When Manoj discussed his aspirations and financial goals, it turned out that retirement planning had not yet found a place in his wish list. While discussing, he informed him that his retirement was still around 15 years away, and presently, his prime focus is his daughter's educational expenses. However, his thoughts changed for good once he was made to understand the importance of time for his investments to grow. Time lost is contemplating could be covered with quick action.

He immediately started an SIP (Systematic Investment Plan) for ₹30,000 per month towards his financial goals in February 2013. Vallari was 14 yea at that time, and Manoj estimated that he had to accumulate around ₹10 lakh for her education five years later. While his investment horizon was fairly extended, the initial investments were made in large-cap funds to have a smooth investment journey for him and to build his confidence in the markets. However, as luck would have it, the equity markets were stagnant for the next three years. As such, the SIP returns in February 2016 were closer to around 5 per cent per annum. As the SIP was not yielding the desired results for the first few years, Manoj would often be at his wits' end regarding his financial

Disclaimer

Financial Planning of Manoj Joshi is based on the "personal opinion and experience" of Kapil Jain and that it should not be considered professional financial investment advice. No one should make any investment decision without first consulting his or her own financial advisor and conducting his or her own research and due diligence.

plans. He would compare such returns with traditional investment avenues and trap himself in a dilemma while deciding whether to continue his SIP investments.

At this point, it was crucial to reinforce Manoj's trust and confidence in investing in mutual funds. He was repeatedly reminded about his primary goal for starting the SIP. Being concerned about Vallari's graduation, he felt incentivized to continue accumulating the desired investment corpus. The regular guidance and handholding played an essential role in the continuation of Manoj's financial plans during the turbulent times. It was this persistence and conviction into the financial plans, which helped Manoj recover the lost returns during the market rebound. It is said, "Storms are often preceded by silence". The subsequent year post three years of stagnant returns helped the investment portfolio reflect 20 per cent annualized returns by February 2017.

Manoj was delighted as his efforts bore fruits and he could accomplish his desired corpus for Vallari's education. He further decided to continue saving towards his retirement corpus. With seven years of investment experience, Manoj shares, "The ongoing COVID-19 crisis has eroded returns significantly for investors, and the portfolio was not left untouched. However, despite the corrections in equity markets, our portfolio continues to reflect around 11 per cent annualised returns over the entire SIP duration, culminating into 120 per cent absolute returns on the initial investments."

Manoj believes that besides periodic review, placing trust in your financial advisor is important.

A financial advisor can be one's guide in the investment journey. Not only does he help chalk out the investment strategy, but also helps the investors stay focused and guide them periodically in reviewing the investment portfolio to measure the achievement of the financial goals objectively. This also keeps the portfolio healthy as the investors can identify the underperformers pulling the portfolio returns down and take further steps to replace such schemes.

While Manoj continues to stay on course to accumulate a healthy retirement corpus, it is crucial for other investors as well to incorporate his lessons into their investment strategies and make well-informed decisions towards long-term wealth creation.

The key is to correct the mistake, instead of repenting over it

Kapil Jain shares some of the lessons from the success of Manoj's investment journey

One must start investing early

The lost time is one significant financial mistake that cannot be undone, as time waits for no one. Early investments will help you achieve the desired financial goals effortlessly. When one gives more time for the investments to grow and prosper, the power of compounding does great wonders. This also helps the investors to accumulate higher corpus with lower investments, as the portfolio continues to generate returns and grow within itself. However, even if one has delayed investing and made certain financial mistakes, the key is to correct that mistake, instead of repenting over the lost opportunity.

Link your investment in mutual funds to your goals

It is often helpful when one links his/ her financial plans with specific financial goals. With a focused investment approach and spelled-out investment horizon, one can choose the mutual fund schemes best suiting the circumstances. For example, short-term goals may require more allocation towards debt for reasonable stability. In comparison, one may choose to have a higher allocation in equities while saving for long term financial goals. The linked goals often act as a hidden motivation for investors.

Have patience while investing

The investors need to stay patient in their investment journey. While there may be periods of insignificant returns, a single market rally may compensate for all such periods. However, timing such market movements is challenging and almost impractical to be achieved consistently by the retail investors. Instead, staying invested across the market cycles can be a more prudent and balanced investing strategy. This allows the investors to benefit from the market rallies as and when they happen. The investors need to ignore short-term volatility and instead focus on the financial goals when the storm is brewing.

Kapil Jain
Director, Enrichwise Consultancy Services

Kotak Gilt Investment Fund

Investment Strategy

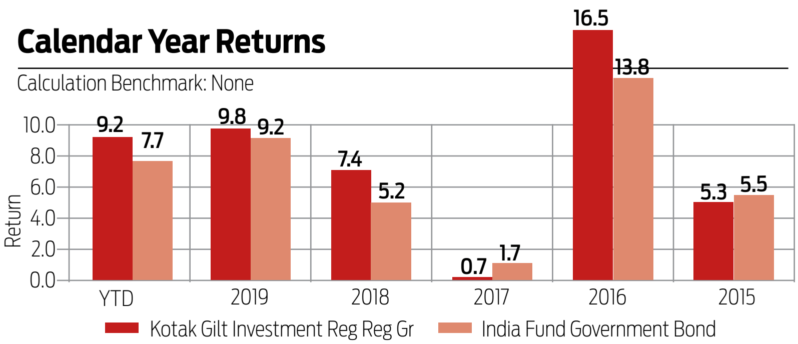
Abhishek Bisen is an experienced manager and has been with the fund house since October 2006. He is backed by an eight-member investment team. The presence of the fixed-income head--Lakshmi Iyer--is a big positive, and her contribution gives the team an edge.

Duration play and yield-curve positioning are the main sources of return. The investment process is research-based with an overlay of active trading executed through government securities. The strategy's edge resides in the team's ability to use macro views based on its research and then develop strong conviction and position the portfolio across the yield curve. The investment team incorporates views of economists and sell-side research analysts. The interest-rate direction is determined by conducting a detailed analysis of various factors such as gross domestic product, international investment position, credit and deposit growth, liquidity, currency movements, monetary and fiscal policy, global factors, and prevailing market sentiment. The manager takes tactical calls using short-term influencing factors such as liquidity conditions in the market, inflation, money supply, market sentiments, trader positions, open market operations by the Reserve Bank of India, auction/issuance of securities, and monetary. The high portfolio turnover ratio compared with peers reflects its active investment strategy.

The fund predominantly invests in mid- to long-term securities issued by the central government and has historically maintained portfolio duration above six years regardless of market conditions.

Calendar Year Returns

Calculation Benchmark: None



Trailing Returns

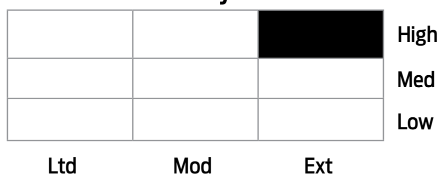
Data Point: Return Calculation Benchmark: None

	YTD	1 Year	3 Years	5 Years	10 Years
Kotak Gilt Investment Reg Reg Gr	10.04	10.12	8.03	9.26	8.90
India Fund Government Bond	8.35	9.32	6.93	8.14	7.85

Fixed-Income Statistics

Fixed Inc Style Box (Long)	High Ext
Average Eff Duration	-
Average Eff Maturity	12.3
Average Coupon	6.6
Average Price	103.5

Fixed Income Style Box



Top Holdings

Top Holdings	Portfolio Weighting (%)
6.19% Govt Stock 2034	49.75
5.79% Govt Stock 2030	18.51
6.79% Govt Stock 2027	11.48
GOVT STOCK	9.76
5.77% GOI 2030	9.21

Fund Snapshot

Morningstar Category	India Fund Government Bond
Fund Size (₹)	9.7 billion
Inception Date	29/12/1998
Annual Report Net Expense Ratio	0.99
Morningstar Rating Overall	****
Manager Name	Abhishek Bisen
Minimum Investment (₹)	5,000
Morningstar Analyst Rating	Bronze

Importance of setting up a contingency plan

Pandemic brings into focus the importance of having a contingency fund

Nitish Purohit
Partner - JNV Advisors LLP

The outbreak of the mega-pandemic has shattered several illusions over stability and taught us that it is impossible to anticipate the specificity of risk and uncertainty. Nobody would have ever envisaged that businesses across the globe collectively could come to a standstill. No one's worst-case scenario had a COVID-19 pandemic pencilled in for 2020. These were the thoughts best reserved for a movie script.

"In life's journey, having the ability to predict the future gives us an unfair advantage. If we can understand the laws of cause and effect, anyone can predict the future. What we do today leads us to tomorrow's destination. Why does this simple truth seem to be difficult for people to understand?" goes a famous saying from Celso Cukierkorn, the author of the bestseller - Secrets of Jewish Wealth Revealed!

No stratum of society was exempt from the effects of the pandemic and its associated fallouts. Everyone's cash flow was impacted, be it the salaried class, a businessman, or an industrialist. A salary cut or even job losses across sectors pinched salaried individuals and significantly impacted one's cash flow. While inflows were drying up, financial obligations in the form of EMI, rent or household expenses remained static.

Businessmen were affected on a different scale when their businesses were shuttered due to the mandatory lockdown, leaving them with a fixed cost and no income. Even large-sized companies found themselves leveraged in the form of honouring employee salaries, loan interest payments, and several other obligations related to operating costs. The events made a dent in the finances of these industrial houses, even though it may be short term in nature.

These unprecedented times have taught each one of us the importance of having a contingency fund or an emergency corpus to sail through the storm. The other paramount learning through these challenging times is the importance of planning cash flows. When times are good, most of us have a vague understanding of our cash inflow and outflow, but distressed time focuses on several aspects which we often tend to leave on the peripheries.

This is where financial planning steps in. Every individual has a variety of short term and medium-term financial goals to achieve over a period of time. Retirement, kid's higher education and marriage are a part of long term financial goals. These goals can be comfortably reached only if one makes calculative plans, using various financial products.

However, amidst all these planning we often fail to set up an emergency fund that will take care of the investor and his loved one during rainy days.

The thought process behind creating this emergency corpus should be meticulous. Never fall for the trap in setting the goal of some rounded numbers like Rs 3 lakh or Rs 5 lakh. The ideal approach is to keep aside the yearly expenses as your emergency fund. To help deliver a realist plan, tally all the items of your monthly expense plus your fixed financial obligation. The sum may look formidable but it is worth keeping aside for uncertainty emanating due to instances such as health ailment, loss of a job, or even loss of life. Just like any other financial goal, one should save a part of one's income in a planned and systematic manner for this objective. Lastly, do not let this amount lie idle in a savings bank account. Deploy this into a liquid or a short term debt mutual fund where the amount will earn you some gains, easing the burden of reaching your target figure in a profoundly disciplined manner. ■

(nitish@kcplindia.com)

Roadmap to Retirement Planning

The second edition of the investor education and awareness series held by Aditya Birla Sun Life Mutual Fund, in association with Outlook Money, focused on outlining the "Roadmap to Retirement Planning". In a conversation with Special Correspondent Vishav, valuable insights and experience-based advice were shared by K.S. Rao, Head - Investor Education and Distribution Development, Aditya Birla Sun Life AMC Limited, Amit Trivedi, Author, Speaker, Trainer, and Blogger with over 26 years in capital markets, P.V. Subramanyam, Author, Blogger and a Chartered Accountant, and Kiran Telang, also an Author, Certified Investment Adviser with SEBI and a founder member of the Financial Planners' Guild.

The discussion addressed a range of issues related to retirement planning including how to reinvent one's approach in times of COVID.

"There are some financial goals in our life which we set and there some goals which are already set by themselves. Retirement is one such goal that is already set for many and all that we need to follow with right plan of action. Destination is set and we need to focus on the road map," K.S. Rao said.

He added that the earlier one starts, the bigger a difference it makes to the size of the retirement corpus even with a smaller investment amount. "Since most people see retirement as a goal which is important, but not urgent, they tend to postpone or ignore planning for it," Rao said. He added that a ₹5,000 a month investment for someone who starts at 25 years can become a corpus of ₹1.8 crore by the time they turn 55. Whereas a delay of five years with the same investment amount would lead to around half of that corpus. "That's why one needs to start as early as possible."

P.V. Subramanyam said that one can retire with a comfortable corpus even by investing Rs 40 a day, if they start early and increase the investment amount by 10 per cent every year.

He added that nobody knows for sure how much one needs to save for retirement and that everyone is guessing. "When you are young, you don't need to bother about how much you need for retirement as long as you know you require a good corpus. Only at the age of 50-55, you would be able to estimate how much you need. Even then we are guessing," he said.

Subramanyam added that at the age of 22-23, it's better to know how much they can invest every month, instead of how much one would need at retirement. Even if one starts small and keeps increasing the investment amount, it would lead to a big enough corpus, he said.

Amit Trivedi said while most experts say that one formula doesn't work for everyone, he believes the contrary. "There is only one formula that works in case of retirement planning and that is the compound interest equation, and it works for everyone. Also, the longer the investment horizon, the better it is," he said.

Kiran Telang said that retirement is not just an event, but a phase of life. "And it might be your longest phase where you are not earning an income. The decisions you make in your working life affect how you keep yourself happy and worry-free in that phase of life. These decisions could be about how happy you are with what you are doing with your job, about your relationships and friendships, and yourself. There needs to be a balance. While earning money, one needs to be conscious about what they are doing with the rest of their life," she said, adding that the balance between financial and personal aspirations leads to a "mindful retirement". On the need to revisit one's retirement plans during the COVID crisis, Trivedi said what happened in 2020 was something no one planned for and what came as a huge surprise. Comparing the financial planning exercise to cricket, he said that what we are facing now is the "fourth or fifth day of a test cricket match when the wicket is rough and turning like anything".

"In such a case, the batsman's primary job is not to score at high rate but to stay on crease and protect the wickets. These are survival times and once you have taken care of the survival, then you can go and hit those boundaries. So first, focus on having a sufficient contingency fund, then insurance. And then, make sure you have provided for your loan EMIs. And after all that, one should look at the whole exercise of investment for various goals," Trivedi said adding that one should also reassess their goals based on the new reality. ■

To watch the complete interview, visit: **http://bit.ly/3bfEH80**

Macroeconomic
Factors

By **Himali Patel**

Retail inflation for July 2020 jumped to 6.9 per cent, from 6.2 per cent in June 2020. The rise in inflation was on the back of higher food and fuel price which rose 8.71 per cent and 2.8 per cent respectively. Rising food prices largely due to supply chain disruptions are the main reason behind such high numbers. RBI had kept the interest rate unchanged on August 6th meeting and hinted higher inflation until September. With that, the expectations of further stimulus, an ultra-low interest rate environment, and geo-political tensions are other factors that are leading investors to seek some stability for their savings through the yellow metal.

himali@outlookindia.com

As on 19th August, 2020	
Inflation (March)	6.93%
Interest / Bank Rate	4.25%
Repo Rate	4.00%
Reverse Repo	3.35%
Base Rate	7.40% - 9.00%
Savings Deposit Rate	2.70% - 3.0%
Term Deposit Rate >1 Year	5.00% - 5.40%
Current A/c Deficit (CAD)	0.9%
Fiscal Deficit 2018-19	3.39%
Estimated Fiscal Deficit 2019-20	4.60%
GDP Growth Rate -March'20 Qtr	3.10%
GDP (Trillion): Nominal	$2.94
Gross Savings Rate	30.10%
Per-Capita Income (FY 2020E)	₹11,254 Monthly
INR/USD	74.76
INR/Euro	89.28
INR/Pound	99.14
Nifty	11408.4
Sensex	38614.79
Nifty PE	32.09
Sensex PE	27.74
Gold Rate (MCX)	53185

Source: RBI, Government Data, AceEquity

Loss Aversion Behaviour Can Be A Big Hurdle

How to manage the fear of market loss and take careful decisions leading to profits

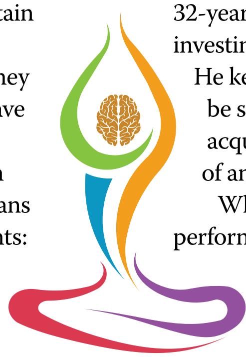
SAGNEET KAUR

"Preparedness for crisis will act as a nudge to mitigate uncertainty"

The tendency to experience losses that are psychologically twice as powerful as compared to equivalent gains, is referred to as loss aversion behaviour. It is a simple but powerful tendency, aka bias, encapsulated in the expression: "losses loom larger than gains" (Kahneman & Tversky, 1979).

External factors impacting loss aversion in individuals are correlated: positively, with three cultural traits of individualism (self-reliance), power (in-equality), and masculinity (manliness); and negatively, with higher levels of wealth and education. As Indians tend to value the three cultural traits more (Hofstede, 2011), this may explain why some researchers have found us to be more loss averse than individuals in America or Britain (Wang et.al., 2016).

As we all have limited money and resources to invest, we have a general tendency to allocate money on assets that perform or are safe. Traditionally, Indians have favoured debt investments: primarily, bank's fixed deposits followed by provident funds (public and employee), along with post office schemes; whereas, financial market investments, such as equities and mutual funds, despite being highly attractive, tend to be limited to less than 10 per cent of the total household savings (RBI, 2018).



People investing in stock markets are often referred to as gamblers by those who don't invest, or by those who invest in lower return investment assets. This shows how loss aversion or fear of losing money keep individuals away from financial market-linked investments, which leads to unbalanced asset allocation across asset types. Loss aversion can be hurtful not only while taking small losses, but also when refusing to take big losses (Kemp, 2020). Let's take the example of Rohan Sharma, a 32-year-old IT professional, who has been investing in the stock market since 2010. He keeps high aspirations, but tends to be sensitive to losses as compared to acquiring equivalent gains, arising out of any two investment scenarios.

When any of his stock investment performs bad, he holds the investment longer in anticipation of recovery. Similarly, when any asset investment goes slightly up in price, he books profit just to realise a gain of any amount. This is followed religiously even in situations where his own analysis clearly indicates that investment should be abandoned in the first case, or should have been held longer for a much larger profit in the second. These are two of the most fundamental mistakes investors make owing to loss aversion, which are the biggest wealth destroyers.

Rohan has gained a return in the range of 5-10 per cent in 10 years, whereas benchmark indices Nifty and Sensex have rallied to give over 100 per cent return in the same investment duration.

The author is the Associate Director, Behavioral Research, Morningstar, India

How to overcome loss aversion and generate wealth?

- Measure your reaction during the crisis by getting yourself profiled on risk-taking capacity. If you have higher potential for regret, more is the likelihood of taking irrational buy and sell decisions.
- Think clearly while making investment goals for your portfolio. Plan strategically and achieve specific goals (small, medium and long-term) by allocating money to different asset classes in sync with your risk taking capacity and time horizon.
- Preplan what you will do when your investments show lower returns. Preparedness for crisis will act as a nudge to mitigate uncertainty.
- Be rational while selecting relatively riskier investment opportunities. Even if one or two riskier investments perform well, it should cover for the total cost of all failed investments, which overall leaves you with a handsome return at the portfolio level.
- Trust in logically and statistically trained algorithms over people and their instincts, while making predictive judgements about "what will happen next?" Such algorithms generally give good results.

RNI NO. DELENG/2002/08292