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FundZone

Your Mutual Fund Magazine

Jan - Mar 2018

Is BITCOIN
a Bubble? 09

OUR SELECTION PROCESS IS HIGHLY SELECTIVE.

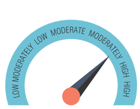
The IDFC Classic Equity Fund shortlists large and mid-cap companies that have historically registered strong performances on key variables like operating cash generation, consistent profitability and low leverage. The companies that offer more value based on Price-To-Book parameters across sectors are then selected to form the core portfolio of the fund.

IDFC MUTUAL FUND

Importance of SIP:

- Inculcates financial discipline
- Helps prioritize investments for the future
- Averages out cost of investment and reduces the long-term risk

IDFC CLASSIC EQUITY FUND



Investors understand that their principal will be at moderately high risk

This product is suitable for investors who are seeking*:

- Create wealth over a long period of time
- Invest predominantly in equity and equity related instruments across market capitalization

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

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

CEO's note

Dear Friends,

Season's Greetings!

The year 2017 has been a remarkable one in the history of Indian Capital Markets. It has seen the highest number of fresh KYCs in Mutual Funds, Equities and Depository Accounts, resulting in a healthy market rally. Most importantly, the retail money flow has been significant and continues to be so.

Going forward into 2018, the long-term outlook looks very positive and we expect continuity of all of the above trends into the new year as well.

The trends clearly indicate that the focus of Indian investors is finally moving from bank fixed deposits, gold and real estate, to mutual funds and equities. A recent report from The Times of India shows:

- In FY17, Indians invested ₹8 lac crore in stocks compared to ₹ 3.4 lac crore in FD's during the same period.
- By the end of FY17, total investments by Indians in equities is expected to be around ₹37.6 lac crore which would be just ₹2.5 lac crore short of total FD's in the country's banking system.
- Also, in FY17 the total wealth held by individuals in India grew by 11% to ₹344 lac crore, which is at an all-time high.

The article also mentions that the total investment by Indians in equities will surpass wealth in bank FD's by the end of the current fiscal helped by demonetization, GST and a buoyant stock markets.

A recent survey by 'The Economist' states that India has one of the biggest acreage of farmland in the world at 179.8 mn hectares, higher than that of US or China. This could mean invaluable data on location of crop lands and their dynamics which could lead to productive farm management.

Another article recently mentioned that by 2022 the Indian economy would double from the current levels. This would translate into a great opportunity for all of us who are part of the Indian capital markets. To ensure we are geared up to benefits from on these opportunities, we are constantly working to enhancing efficiencies and service quality.

Towards this, I would like to share with you some initiatives that are in the pipeline:

- A new and a more comprehensive Mobile App.
- A new Wealth Management Software.
- insurecorrect.com with an increased bouquet of offerings such as, Health Super Top Ups from more than 15 companies, Term Policies from over six Insurers, Traditional Life Plans, Home Insurance, Employee Benefit Portals for Corporate Customers, in addition to its current offerings.
- Aadhaar based paperless KYC for individual customers across products.
- The IPO initiatives division will be revamped in ensuring the best IPOs are brought to all our clients, through an online initiative.
- The mutual funds division will continue to churn out high quality model portfolios for our clients to take inputs from before taking a decision on their investments.

These steps would greatly enhance customer experience, and help us scale greater heights. Team Way2Wealth will do the best towards achieving these objectives and making the 2018 a memorable one.

Wishing you all a Very Happy New Year 2018.

Best regards
Shashibhushan M R

Don't ignore the big picture

Choose ELSS* over fixed return investments

5 reasons to select ELSS over other traditional saving investment options:

- ✓ Save tax by investing upto ₹1.5 lac per annum and create wealth through equities
- ✓ Returns on ELSS, i.e. dividend & capital gains are tax free
- ✓ 3 years lock-in is smaller as compared to other tax saving options
- ✓ Can start as low as ₹500 with an SIP option
- ✓ Enables long term wealth creation through compounding effect

* Equity-Linked Savings Schemes

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Hello!

This is an important edition in many ways. We launched this magazine in the previous quarter and coming out with the second edition in time gives us the belief that we can stay the course over the long term.

This is the first FundZone of 2018. We used this opportunity toask our CEO Mr. Shashibhushan to write about his expectations for the coming year. We also thought it fit to take a survey of all fund managers about their expectations for 2018. The results of this survey are published here. If it is true that there is great "wisdom of the crowd" then the results of this survey should be very useful in guiding our path for this year.

Since this is the time of the year when most investors think of Tax Saving, we have an article on how to make the most of this tax saving opportunity by investing in ELSS schemes instead of PPF. There is also an article on retirement planning called Kim Aaschariyam. One change that we have introduced with this magazine, is that the center spread is a list of our Recommended Mutual Fund Schemes in various categories along with their 1 year, 3+ year and 5 year returns. So in one glance you will get an idea about the past performance of the recommended mutual fund schemes. Real Estate vs investing in Equities is a perennial debate and we try and answer that question to the extent possible in the article on Real Estate. There is also an article on the one investment that has taken the world by storm – Bitcoin. Hate it or like it, you just cannot ignore it! We have tried to explain it for our investors.

We also have two articles from the fund managers of IDFC Mutual Fund. The articles on Equity and Debt markets have been written by two of the most respected Fund Managers of the industry and it will be worth your time to go through them.
Finally, this magazine is not a finished article, it is a work in progress. We will keep improving and we need your help. All criticism and suggestions for improvement are welcome. Do write to me at maheshbhagwat@way2wealth.com with your feedback.

We have made an effort to make this magazine informative but not pedantic. I hope that this magazine has managed to achieve that.

The coming quarters should see this magazine evolve and grow into a truly quality offering from Way2Wealth.

Mahesh Bhagwat
Vice President - Products & Advisory

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IDFC Mutual Fund
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Outlook on Debt Market

Suyash Choudhary, Head - Fixed Income
IDFC Mutual Fund

A Post Graduate Diploma in Management from the IIM – Calcutta, Suyash has over 16 years of experience in Fixed Income space. Prior to joining IDFC, he has worked with renowned names like HSBC Asset Management (India) Pvt. Ltd, Standard Chartered Asset Management Co. Pvt. Ltd. and Deutsche Bank.

Q In what ways have you aligned your duration strategies in response to the recent market developments?

Our duration strategies are largely aligned with our underlying macro-economic frameworks and do not always respond to near term price action. Such an approach has been useful multiple times in the past and has helped ensure long term consistency in performance. For instance, yields had fallen sharply just prior to the massive emergency rate hike that the RBI had to undertake in mid- 2013. However, we had chosen to largely not participate in that rally since we were concerned about India's massive current account deficit and didn't think that the rally would sustain. This enabled us to protect returns relatively when the RBI actually hiked rates. That said, it is also important to continually reassess one's framework in light of evolving developments. In that regard, we have made some adjustments in our duration strategy post the October policy as, somewhat against our hypothesis at the time, the RBI didn't seem focussed on any sort of a real rate framework at all.

Q Does it make sense now to invest in income funds and dynamic bond funds?

The general perception around these funds seems to be that they should be only looked at tactically. We think that this perception is quite unjustified. So long as the duration on these funds is run actively, they should be looked at as long term asset allocation vehicles into fixed income. This is because the fund manager will likely change duration as the view on the market changes. Thus the risk is more from the fund manager's view rather than from market trends. And this risk can somewhat be mitigated by carefully selecting fund managers basis long term consistency of performance. What is true, of course, is that these funds will have more volatility since returns are getting generated via active duration management. Also it is mostly difficult in these funds to have near term visibility of returns. This is why investors should always look at these funds only as part of their long term asset allocation investments into fixed income.

Q Should investors in credit funds assume only accrual income for the next couple of years and not consider any likely gains from capital appreciation?

Credit markets in India are hardly yet dynamic. Hence, expectations of capital gains should be based only on general interest rate movements, and not necessarily on the back of any consistent opportunities for credit spread compression on lower rated assets.

Q With the kind of market break down we saw in the past few days, where do you see the most attractive opportunities in the debt market now?

Post the recent sell-off, there are pockets of the market that are beginning to price in a rate hike. We definitely don't believe this to be the case, given that the underlying trend in CPI (excluding one-offs) is not very far from the targeted 4% and growth is still sub-optimal versus potential. This pricing of rate hike is most apparent in the front end of yield curves. To that extent, the maximum absolute value lies there. Having said that, the duration part of the curve may tactically benefit as well if some of the current market fears (including that of significant excess borrowing by the centre) were to subside.

Q Is the recent rise in core inflation something to worry about? How do you see the growth vs inflation dynamic impacting interest rates over the next 12 months? How are you positioning your duration strategies in this context?

It is important to strip out the optical impact of the rise in House Rent Allowance (HRA) post the Pay Commission implementation. Once this done, although core CPI has risen, the rise is much more modest and not very far from RBI's headline CPI target. The commentary around CPI is also getting exaggerated owing to an unseasonal rise in vegetable prices recently and because CPI has risen from an artificially low level earlier in this year. If one looks at even RBI's own medium term forecasts on CPI, it is likely that inflation remains quite contained over the foreseeable future on an average trend basis. The key underlying question is whether one should position for a significant cyclical upswing in growth that causes credit demand to spike and output gaps to close. Should this turn out to be the case then obviously interest rates will have to rise as well. However, it must be emphasized that one just doesn't have sufficient information to make this conclusion yet. This is especially true since there is a likelihood that the synchronized global growth that is currently underway may itself begin to mature over the next couple of years.

Q Dynamic bond funds as a category - which are meant to be all weather debt funds - have ceded a lot of mindshare in the retail space to accrual/credit funds. Are dynamic bond funds relevant in the retail space? How should they be managed for retail investors and how should their proposition be communicated to retail investors?

In our view, there is a very basic first principle problem in the dynamic versus credit funds debate. The former uses duration management for posting returns. By definition, then, the near term return profile tends to be volatile and hence returns need to be seen over a longer period of time. Credit funds, on the other hand, deploy more credit risk for higher returns while mostly keeping their duration contained. Thus they don't necessarily show near term volatility in returns but are rather exposed to more 'binary' outcomes should the underlying credit risk materialize. However, this doesn't necessarily mean that they have lower risk. It just means that the nature of the risk that they carry is different and this risk may not necessarily be visible as short term volatility in performance.

Given the above, investors should always look at dynamic bond funds from a long term asset allocation perspective. The only caveat is that the fund manager should have demonstrated ability over the long term of managing duration and the fund should provide for this active management. If the objective is merely to reduce duration risk, then investors should ensure that they choose short term funds of similar credit quality. Credit funds should be chosen carefully and with an explicit awareness that credit risk is being added to the portfolio; and not merely because investors don't want to hold long / active duration bond funds anymore.

Q There seem to be two schools of thought on adherence to fund mandates - one which argues for sticking within the boundaries of fund mandates irrespective of market circumstances and the other which argues for some flexibility either to capture opportunities or protect downside. What is your perspective on this debate?

Funds run passively that are mandated to not cut risk should be explicitly positioned as such. An example here is that of constant maturity funds in the government bond category. In most other cases, it makes sense for the fund manager to cut risk basis view in order to protect investor interest. This is especially true from the point of view of a non-tactical investor who is investing from an asset allocation perspective and is relying on the fund manager to manage risks.

That said, we don't subscribe to the other side of the coin. We strongly believe that funds should not overreach on risk to capture opportunities. To be clear, overreach here isn't just from the perspective of what is allowable by the offer document. Rather, it is more from perspective of fund positioning and investor perception of the product. As an example, a dynamic / income / gilt fund running high duration and getting it wrong is very much part of the mandate of the fund and the discretion of the fund manager. However an ultra short term fund overreaching on risk because the fund manager sees an opportunity should be unacceptable to investors, in our view. This had actually happened in February of 2017 when the RBI's shift in stance had exposed unacceptably high duration in some of the ultra short /short term oriented funds.

Q Do you see any global factors which can really help fixed income market to push up?

There has been some correction in metal prices and oil prices seem to at least have stabilised. Any meaningful downtick in oil prices would be welcomed by our fixed income market.

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Outlook on Equity Market

Anoop Bhaskar, Head of Equities - IDFC Mutual Fund
He has over 23 years of rich experience in Indian investment management across equity fund management & research. An MBA in Finance, Anoop has managed 3 of the 5 largest equity funds at UTI AMC. Prior to joining IDFC, he has worked with names like Sundaram AMC, and Kothari Pioneer – India's first private sector asset manager which was subsequently acquired by Franklin Templeton.

Q With the market is scaling new highs, what is your view on the market?

We remain optimistic on the market in the medium term. Broad market earnings are going to witness a comeback of cyclical sectors over next couple of years, and we see valuations catching up to this. While the gap between mid/small and large cap valuations levels has narrowed, there still remains some stock specific opportunities in a few sectors.

Q How has the 2nd Quarter FY 18 earnings been?

BSE 200 PAT grew 1% dragged down mainly by Corporate Banks & Telecom. Both these sectors were incidentally the star performers of the Oct-17 in terms of Stock Price movement. A few stocks continued to have an outsized negative impact on PAT Growth. Ex the bottom 5 stocks in BSE200, PAT Growth would have been 10.8%. Ex Corp Bank & Telecom, PAT Growth would have been 13.0%.

BSE200 Ex Financials, Sales, EBITDA and PAT Growth was 8%, 13% and 7% respectively. EBITDA Margin expanded 80 bps YoY. On account of GST-led accounting changes, the reported Sales of companies are lower and hence it is more logical to look at EBITDA growth as opposed to Sales growth. EBITDA growth was broad based with 7 of the 11 non-finance sectors posting double digit EBITDA growth For the Stable Segment of BSE200, PAT growth recovered to 5.4% after two quarters of negative growth. Consumer Discretionary segment led with a 40% YoY growth whereas Healthcare (-17%) was the weakest. Impact of GST and de-monetization seems to be receding though PAT growth is sub-10%. Last year, till the de-monetization quarter, PAT growth for stable segment was in excess of 10%. In Consumers, Jubilant and United Breweries surprised with numbers ahead of estimates. Retail Banks continued to grow at 20%+ with smaller banks - RBL (+27%), IndusInd (+25%) outpacing larger banks like HDFC Bank (20%) and Kotak (20%) Cyclical segment PAT de-grew by 3.9% largely on account of losses in PSU Banks and Telecom. Excluding these two sectors, cyclical segment PAT would have grown 24%. Commodities led the pack with 50% PAT growth followed by Industrials (48%). In commodities, Tata Steel and Vedanta were the key drivers whereas L&T and Tata Motors were the key drivers in Industrials. Corporate Banks saw a cumulative loss due to upfront provisioning whereas telecom sector continued to be under competitive pressures

Source: Bloomberg

Q Going forward what is your view on Earnings growth?

Since the GFC (Global Financial Crisis) of 2008, BSE200 earnings have grown at a CAGR of 4.2% which is well below the long term trend (13%) and the nominal GDP growth rate. If we split the index into two categories - Stable segment (comprising of Auto, Retail Banks, Consumer Staples & Discretionary, IT and Healthcare) and the rest Cyclical segment, we see that Stable companies have growth at a CAGR of 15.7% from 2008-2017, which is well above the nominal GDP growth rate. It is the cyclical companies that have suffered growing at -1.2% CAGR over the same period.

BSE 200 earnings are expected to grow 19.5% CAGR, driven by cyclical segment which is expected to grow 24% CAGR over FY 17-20E led by Corporate Banks and Commodities. Earnings for the Stable segment are expected to be 14.7% CAGR over FY 17-20E which appears reasonable given growth of 15.7% CAGR over 2008-17. 24% of the incremental earnings growth is expected to be driven by Corporate Banks and 17% is expected to be driven by Commodities - mainly Metals. However, earnings growth especially in Corporate Banks could be back-ended i.e. from 2H FY 19 onwards. Though the hopes of a cyclical turnaround have been dashed for the last 3 years with significant cut in earnings estimates, with domestic Nominal GDP growth picking up, signs of a sustained global economic growth visible along with moderate inflation, cyclical segment should potentially see a reversal in fortunes. With a high earnings delta, the growth of these companies could be significantly higher than the nominal GDP rate as was the case in 2002-2008. This remains the key driver for earnings growth to rebound over the next 2-3 years.

Source: Bloomberg

Q In the current market scenario do you think multi-cap category is a better investment category in comparison to a pure large-cap, mid-cap or small-cap category fund?

Multi-cap schemes have gained popularity in recent years due to the flexible investment mandate that they run. Multi-cap funds is a must own category but this should not be in isolation. This should be considered as a complement to the overall asset allocation plan of the individuals and not as pure substitutes. All figures and data given in the document are dated unless stated otherwise. In the preparation of the material contained in this document, the information used is publicly available, including information developed in-house. The stocks(s)/sector(s) mentioned in this communication do not constitute recommendation and schemes of IDFC Mutual Fund may or may not have any future position in these stock(s)/sector(s). Recipient alone shall be fully responsible for any decision taken based on this communication.

Q What themes and sectors are you overweight on now and why?

We are overweight on the overall consumption space. Further we are increasingly constructive on infrastructure and infrastructure related space (including cements) across portfolios, building equal weight or marginal overweight position in metals and neutral to positive on Oil & Gas.

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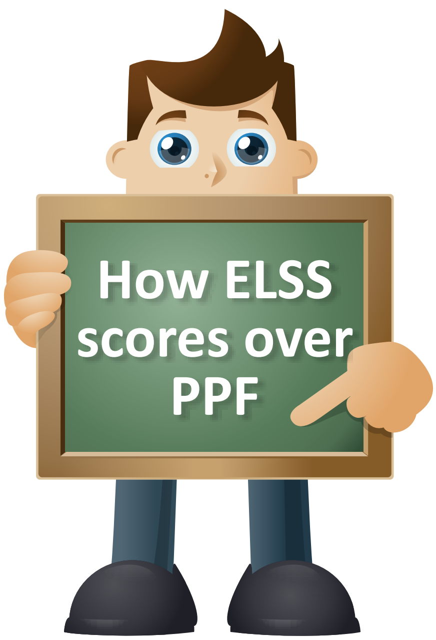
Also, should the trend of flattening of the US yield curve continue and dollar strength versus emerging market currencies remain contained, that would also help Indian bonds.

Q Do you see any global factors which can really help fixed income market to push up?

There has been some correction in metal prices and oil prices seem to at least have stabilised. Any meaningful downtick in oil prices would be welcomed by our fixed income market. Also, should the trend of flattening of the US yield curve continue and dollar strength versus emerging market currencies remain contained, that would also help Indian bonds.

Q To the end, what according to you should be a perfect mix for an investor; first time as well as experienced at this stage? Could you please advice what kind of debt schemes should one go for right from 3 months to 3 years time horizon.

Most investors into fixed income have converted from fixed deposits at some point in time. Hence, the core part of their portfolio should comprise funds that restrict both duration and credit risk. These would largely include AAA oriented ultra-short, short, and medium term products. This will help provide some element of stability to returns. For the rest of the portfolio, investors can selectively add duration and credit risk. For the former, one can choose active duration funds where the manager has a proven track record. For the latter, one can select some credit funds so long as the nature of credit risk in these funds is not too aggressive. What proportion to put in the core portfolio of low duration and credit risk can be a function of the investor's risk appetite.



Many a time, you may have come across articles that tell you the advantages of ELSS over traditional products such as PPF, NSC, etc. or provide you with a return chart that leaves you dumb-founded.

This article is not just about ELSS versus PPF, it is much more than that. After reading this article, you may be in a better position to take the right decision and invest wisely.

Let's start with a basic question ***"What is Section 80C meant for?"*** *Section 80C deductions have been introduced to boost the savings of employees on the one hand, and also save tax on the other.* Yes, it's not just about saving tax, but also about *Saving Smartly*. These savings help us to achieve our long term financial goals, such as children's education, children's marriage, retirement planning, among others. So, "Tax Saving" should be a part of your "Investment Planning" and not the other way round. Now the next question is ***"Does your savings growth rate indicate that you are on the right track to reach those goals?"*** If you have an appropriate financial plan in place, the question would be answered automatically. Now look at the available options in the tax saving space. *ELSS and PPF are the most discussed investment avenues in this segment.* ***Why only ELSS and PPF?*** *The reason is that both these instruments are eligible for tax deductions under Sec 80C of the Income Tax Act. The tax deduction under Sec 80C has been restricted to ₹1.50 lac per annum and offers the triple benefit of EEE tax regime.* ***What does EEE mean?*** *EEE stands for 'Exempt, Exempt, Exempt', which means your contribution to the scheme is exempt from tax even as it earns interest throughout its term. Also, the maturity amount (principal amount plus accumulated interest) is exempt from tax.*

Though the fundamental aspects of ELSS and PPF are similar, these investment instruments belong to different risk categories. ELSS is a market-linked product and hence it can be very volatile, while PPF provides fixed returns and has Government of India guarantee, making it a virtually risk-free product. So, would it be logical to compare a debt-oriented instrument with an equity-oriented instrument? *Certainly not.*

If you are getting safety and security of capital and a fixed rate of interest on your PPF investment, you must be losing on the other side, that is, you must be getting lower real interest rate (actual return minus inflation), higher lock-in period (15 years) or the risk of shortfall in return (that is, lesser return than expected). On the other hand, ELSS comes with lower lock-in period of 3 years (lowest in tax saving space), hence there is high liquidity after three years, but at the same time, ELSS may be subject to volatility in the short term due to the underlying asset, which is equity. No doubt, safety and security comes first when you invest for your long term goal. Here, investors should understand that short-term capital loss is not the only risk; insufficient accumulation for your long term goal is the biggest risk.

How can we conquer this? "Tax Saving" should be a part of your "Investment Planning" and your choice of an investment product for a financial goal should take into account multiple factors, including time to goal (investment horizon), risk appetite and your financial position.

In this regard, you must ask yourself ***"Why am I investing in ELSS or PPF?"*** If it's all about long term financial goal, equity should be a vital part of your investment portfolio because good equity investments over the long term do provide better risk-adjusted returns that outpace inflation too.

I will take the help of an example to explain this. If you had invested ₹1.5 lac at the start of every year in PPF and ELSS, where would you end up in different periods of time? Here we go:

What You Get

PPF **MUTUAL FUND**

The final amount you will get after considering inflationary impact on your investment

NOS. OF YEARS	INVESTMENT AMOUNT	VALUE OF INVESTMENT	EFFECTIVE VALUE OF INVESTMENT
After 10 Year	15 lac	23.68 lac	15.03 lac
		34.18 lac	22.80 lac
After 15 Year	22.5 lac	44.50 lac	24.14 lac
		1.06 crore	51.49 lac
After 20 Year	30 lac	77.97 lac	34.73 lac
		2.97 crore	1.14 crore

Period in consideration is Apr 1997 to Mar 2017
*Effective value of investment is the real value of investment *minus* inflationary cost (i.e. purchasing power of your investment).
^ We have considered average return for the ELSS category for the purpose of calculation.

In the above table, the important point is to understand the advantages of equity investing and the power of compounding. *Considering the above numbers, if you had invested ₹30 lac for 20 years in PPF, the purchasing power of your investment would be less than ₹35 lac after 20 years!! Certainly, this is not what you would have dreamt of to fulfil any of your long term goals.*

Of course, both the products are beautiful and will look more beautiful if you use them judiciously. Investors should strictly follow an optimal asset allocation strategy while investing in tax saving investment avenues.

IS THE BITCOIN BANDWAGON MOVING TOWARDS A BUBBLE?

Bitcoin is one of the most exciting and intriguing ways to make money in modern times! 'Exciting' because this cryptocurrency has opened up a new way of making a quick buck, without government restrictions, taxes or even a proper regulator. 'Intriguing' because bitcoins have a very unique way of functioning, with many not having a complete understanding of it. In fact, even the inventor of Bitcoin is a mystery.

The growing popularity of Bitcoins has given rise to many questions :

- Who is behind the invention of Bitcoins?
- How exactly does it work? Being virtual, can creation of Bitcoins be unlimited?
- If Bitcoin is only virtual, what is fuelling its demand?

What is a Bitcoin?

First things first! A Bitcoin is a virtual currency and can be used for online transfers and purchases. Now every bitcoin transaction (time and amount of bitcoins) is recorded digitally in a log called the 'blockchain'. It therefore keeps a track of the ownership of all the bitcoins in circulation. So there is no single regulator or even a third-party that is keeping a watch on these transactions. However, there are 'miners' who ensure that all the information being recorded in blockchains is correct and updating accurately. Again, these individuals are not a part of any governing body for Bitcoin; instead they are paid fees in bitcoins by the people who make transactions to ensure they are appropriately recorded.

The Mystery behind Bitcoin inventor

Satoshi Nakamoto is the name that the internet throws up when you ask to know about Bitcoin's inventor. What's the mystery here? The identity of this man remains unknown since the Bitcoin coming into existence in 2009. There have been speculations about him probably being from UK, as Nakamoto has written about 80,000 words explaining Bitcoin in fluent English. In fact, after two years of Bitcoin's invention, a well-known internet security researcher called the Bitcoin code 'an inscrutable execution that nears perfection', adding that "only the most paranoid, painstaking coder in the world could avoid makingmistakes." This flawless talent has made many wonder whether Satoshi Nakamoto is just one genius or a group of them.

How to get bitcoins?

The sensational price rise of bitcoins has attracted more attention than ever. Everyone wants to know how to own a few now. There are three main ways to do so.

- The simplest way is to buy bitcoins using your country's physical currency through an online exchange
- Accept bitcoins as payment for your goods or services
- 'Mine' bitcoins. As explained earlier, the 'miner' is a person who can ensure safe transactions and updation of the recorded logs by solving mathematical questions through code. This time consuming task is remunerated by bitcoins. (Trivia: The first miner - Satoshi Nakamoto – earned 50 bitcoins for the first such task)

How are bitcoins valued?

The number of existing bitcoins is capped at 21 million. Therefore, though virtual, its supply is limited.

Like any trading commodity, the value of a bitcoin is continuously changing. How does that happen? Every time a bitcoin changes hands, the seller and buyer have to agree on a price, as it is not fixed. The reason is that there is no regulator or centralised institution that sets relative values here. Therefore the value of bitcoin varies through supply and demand. Fluctuation of bitcoins' value is also dependent on other important factors like the value of various physical currencies.

It is also interesting to note that new bitcoins can be created only through mining. And as the number of transactions increase, the fee for mining decreases and eventually when the fee comes to zero, no new bitcoins will be issued.

What's fuelling the bitcoin demand?

Bitcoin is fast gaining popularity thanks to its growing acceptance in the form of payment, the love for quick money, transparency in transactions, along with anonymity of the buyer/seller. As is the logic, increasing demand for a commodity in limited supply brings in higher prices. And this phenomenal rise in bitcoin prices has had everyone stand up, take notice and try to join the bandwagon.Big investors and many covert buyers (who deal in black money) are the main drivers of the rally.

Governments/Central banks on Bitcoin

Meanwhile the Bitcoin surge has also grabbed the attention of governments across the globe; some are for the trend, some wary and some completely against it. The Chinese government has barred bitcoins as a form of payment. Governments of Ecuador, Bolivia, Kyrgyzstan and Bangladesh are also among the first ones that have banned bitcoin transactions. However, other large economies like the United States, Japan and even the European Union have taken a wait-and-watch stance, only discussing stricter controls as of now. Most countries permit citizens to buy and spend virtual currencies like bitcoins.

Nevertheless, national governments are also keeping a watchful eye on black markets where payments through bitcoins are commonly accepted. Back home, the Reserve Bank of India (RBI) issued a warning against Bitcoin usage, calling it unsafe due to 'potential money laundering and cyber security risks'. Though the RBI has cautioned citizens against the bitcoin trend, it has not made it illegal yet. It is interesting to note that dealing in bitcoins in India currently is comparatively difficult because the Indian Rupee is not easily convertible to any other currency.

The big question: Is this a Bitcoin bubble?

One of the most well-known investors Warren Buffett recently said “You can't value bitcoin because it's not a value-producing asset. It's a real bubble in that sort of thing. It doesn't make sense. This thing is not regulated. It's not under control. It's not under the supervision [of] any...United States Federal Reserve or any other central bank. I don't believe in this whole thing at all. I think it's going to implode."

Jamie Dimon, CEO of JPMorgan Chase too believes that this is a fraud. Speaking on the cryptocurrency, he confidently stated "It's just not a real thing, eventually it will be closed."

Billionaire Mark Cuban is slightly more considerate. He Jadvises that it is alright to invest up to 10 percent of one's savings in high-risk investments, including Bitcoin. However, he adds, “You have just got to pretend you have already lost your money."

How does one overlook the reasoning that this irrational upsurge in bitcoin prices can actually be the work of big investors and once they have achieved their set target, they take their money out and cause the 'bubble' to burst?

Nonetheless, it is also impossible to ignore that a 500 percent rise in bitcoin value this year itself has made many laugh all the way to the bank. These success stories are luring those waiting on the sidelines. However, how much will be too much for this rally? Investments in bitcoins are seen as short term and not something that one can plan a future around.

Whatever the views maybe, it is difficult to ignore the fact that this virtual currency has current market value of over $272 billion and growing. However cautious national governments may get, supporters of Bitcoin believe that once digital currencies become more common, users will make it difficult for governments to bar it.

Governments are already seeing it as a medium for money-laundering, a way to provide money to black markets, probably even transfer funds for anti-social/terror acts. Without any central regulation over bitcoin transactions, governments may face difficulty in tracking such operations. Popularity of digital currencies also lie in the fact that they avoid government restrictions on currency exchange & capital outflows, which governments enforce for political & economic benefit.

Experts feel that once bitcoins' value stabilises, it has the potential to substitute government-backed currencies, without giving the government much incentive. However, the purpose of purchasing virtual currencies like bitcoins is increasingly seeing a change. Thanks to the upward movement of bitcoin value, many are buying it more as an investment than as currency to use. This trend might fail to make the bitcoin a substitute for physical currency going ahead. Also, as of now bitcoins are a way to make quick money and not a long-term investment as it is too volatile. Along with this, keeping in mind the national governments' future actions on digital currencies, the way ahead for bitcoins is still uncertain.

Bubble or not, investing in bitcoins should be a wise decision based on an individual's knowledge of the same. As Billy Wilder has said - “Trust your own instinct. Your mistakes might as well be your own, instead of someone else's.”

Recommended Equity / Debt Funds

Jan - Mar 2018

EQUITY		Corpus (Crs.)	1 Year Returns (%)	3 Year Returns (%)	5 Year Returns (%)	Volatility	Alpha
Large Cap	BNP Paribas Equity Fund	1003	31.43	10.83	16.79	5.07	5.56
	Indiabulls Blue Chip Fund	711	28.07	11.96	13.18	2.54	4.34
	Reliance Top 200 Fund	6381	33	12.43	17.85	4.8	6.53
	Sundaram Select Focus Fund	570	33.51	9.86	12.79	3.13	1.99
	UTI Top 100 Fund	967	29.98	11.06	15.04	3.67	5.07
Mid Cap	Canara Robeco Emerging Equities Fund	2823	42.48	19.66	27.82	6.45	20.23
	DSP BlackRock Small and Midcap Fund	5112	32.67	18.26	22.87	5.55	16.66
	Kotak Emerging Equity Scheme	2809	34.52	19.23	24.18	6.24	18.69
	Motilal Oswal MOSt Focused Midcap 30 Fund	1454	23.13	16.32	-	6.14	6.04
	Sundaram Select Midcap	6246	34.66	19.97	25.04	5.23	18.01
Small Cap	Franklin India Smaller Companies Fund	7075	35.09	19.57	29.51	7.43	18.3
Mutli Cap	IDFC Classic Equity Fund	2048	31.32	14.97	14.84	3.54	5.76
	Kotak Select Focus Fund	15935	31.06	14.83	20.14	4.14	11.12
	Mirae Asset India Opportunities Fund	5600	34.2	15.43	20.61	4.18	9.85
	Motilal Oswal Most Focused Multicap 35 Fund	10508	38.97	20.92	-	3.66	12.85
	Tata Equity P/E Fund	2235	33.11	17.45	22.23	4.62	14.04
Sectoral/Thematic	Aditya Birla Sun Life MNC Fund	3316	32.5	15.38	23.73	6.41	15.59
	ICICI Prudential Banking and Financial Services Fund	2789	40.02	17.63	21.42	6.74	11.59
	ICICI Prudential Technology Fund	285	16.65	5.78	19.04	11.23	1.26
	SBI Pharma Fund	1089	-6.38	2.15	16.7	12.44	6.36
	Aditya Birla Sun Life India GenNext Fund	721	35.96	16.92	20.22	4.36	11.19
	IDFC Infrastructure Fund	815.03	55.79	20.8	17.05	5.34	9.66
	SBI Infrastructure Fund	637.51	39.01	16.71	15.17	5.04	8.09
	Sundaram Rural India Fund	1998.9	39.64	22.05	20.9	4.48	15.13
	Tata India Consumer Fund	412.86	74.73	-	-	-	-
ELSS	Birla SL Tax Relief 96 Fund	4349	37.96	16.87	21.59	4.27	11.87
	DSPBR Tax Saver Fund	3571	29.36	15.94	20.09	4.35	10.46
	Franklin India Taxshield	3417	23.97	11.95	18.27	4.61	9.28
	HDFC Long Term Advanatge Fund	1576	32.34	14.06	18.87	3.88	6.57
	IDFC Tax Advantage (ELSS) Fund	798	45.47	17.66	20.85	4.62	8.97
	Reliance Tax Saver (ELSS) Fund	10157	37.07	13.34	22.28	6.86	9.92
Balanced Fund	DSP BlackRock Balanced Fund	6543	22.61	12.65	15.44	3.17	9.38
	Franklin India Balanced Fund	2136	17.6	10.91	16.28	3.66	8.34
	HDFC Prudence Fund	36395	22.22	11.36	16.63	4.3	7.09
	Reliance RSF - Balanced	10498	26.32	13.38	16.52	3.32	8.32
	UTI Balanced Fund	4524	21.86	11.21	14.23	2.98	5.05
Equity Savings Scheme	Axis Equity Saver Fund	576	13.19	-	-	-	-
	HDFC Equity Savings Fund	4812	14.68	10.5	10.76	1.5	3.86
	Reliance Equity Savings Fund	1738	16.79	-	-	-	-
	ICICI Prudential Balanced Advantage Fund	22316	17.68	10.94	14.11	3.45	2.65
Focused	Axis Focused 25 Fund	2324	40.38	15.5	17.67	3.04	6.89
	IDFC Focused Equity Fund	965	50.51	13.85	14.86	3.08	2.93

The returns in the above mentioned funds are as per the Regular plans & Growth option

DEBT

Category	Fund	Quarterly AAUM (crs)	1 Year Returns (%)	3 Year Returns (%)	5 Year Returns (%)	Modified Duration	YTM
Debt - Short Term	DSPBR Bank and PSU Debt Fund	1893.64	5.61	8.23	-	2.15	7.11
	HDFC Banking and PSU Debt Fund	4093.37	6.54	9.12	-	3.02	7.92
	Franklin India ST Income Plan	8574.52	8.84	8.74	9.39	1.87	9.87
	HDFC Regular Savings Fund	5222.62	6.58	8.79	8.94	1.6	8.11
	IDFC SSIF - Short Term	5718.22	6.1	7.71	8.2	1.73	7.26
	Axis Short Term Fund	7288.97	5.98	7.96	8.28	1.6	7.15
	HDFC Short Term Opportunities Fund	9824.65	6.7	8.25	8.74	1.33	7.24
	UTI Short Term Income Fund	11927	6.1	8.26	9	-	7.41
Debt Long term	Invesco India Corporate Bond Opportunities Fund	391.62	7.16	9.11	-	1.74	8.59
	Kotak Medium Term Fund	4537.77	6.56	8.93	-	2.58	8.66
	Reliance Corporate Debt Fund	7224.37	7.06	9.07	-	2.91	8.41
	SBI Corporate Bond Fund	4314.33	6.98	9.08	9.64	2.17	8.42
	Aditya Birla Sun Life Dynamic Bond Fund	12881	1.55	7.99	9.2	6.49	7.73
	Tata Dynamic Bond Fund	1141.59	3.75	7.7	9.62	4.86	7.09
	UTI Dynamic Bond Fund	1619.4	4.45	9.04	9.9	--	7.46
	Axis Regular Savings Fund	525.17	7.23	8.57	9.17	2.2	8.28
	IDFC SSIF-Invest Plan	1313.04	3.39	7.42	8.7	6.02	7.39
	Tata Long Term Debt Fund	194.46	4.03	7.56	8.75	5.13	7.3
	IDFC G Sec Fund - Invt Plan	606.81	3.36	7.76	9.47	7.16	7.45
	SBI Magnum Gilt LTP	2857.21	4.04	9.24	10.97	7.04	7.22
Monthly Income Plan (MIP)	Aditya Birla Sun Life MIP II - Wealth 25	2196.77	13.44	11.29	13.4	4.25	7.16
	ICICI Pru MIP	1425.84	11.96	9.95	11.61	5.33	8.55
	SBI Magnum MIP	1375.79	8.05	9.81	10.27	5.54	7.7
Gold Fund	Kotak Gold Fund	169	0.42	0.26	-3.53	-	-
	Reliance Gold Savings Fund	744.12	0.18	0.5	-3.39	-	-

The returns in the above mentioned funds are as per the Regular plans & Growth option

EQUITY MARKETS & REAL ESTATE INVESTMENT

What could be a better bet ?

Why do we invest? A fundamental question, the answers to which, as with most of the real things in life are rather elementary –

» We invest to provide for rainy days and those Mondays when we will not be reporting in for work.
» We invest for life's important milestones and aspirations.
» We invest to build a nest egg on which to retire.
» We invest to save on tax payments.
» We invest to provide a legacy for our children with the hope that they will have a better life than ours.

We set aside money with the expectation of safety and expansion. The augmentation coming through interest accumulation or value appreciation or rentals.
For that, as investors we seek the following from our investments:

- Capital Protection
- Value Appreciation or Returns
- Convenience
- Liquidity
- Transparency
- Legacy Transfers
- Tax Benefits

Aligned with the investment needs, there are a plethora of investment vehicles ranging from what is considered by Indians to be a very secured investment namely Gold, to Fixed Deposits (with Banks and Companies), Public Provident Funds, Real Estate, Bonds (Government and Private), Mutual Funds and finally Equities.
Let us use this article to narrow down our discussion to the two most fascinating, intriguing and colorful investment options, which never fail to invoke some passionate discussions and debates – Real Estate and Equities.
We now thrive in the age of information, and almost everyone has some level of interest in Real Estate and Equities. Some of us have plunged head first into them while many more still stand on the sidelines wondering which one is the better bet. The stories which keep churning and bubbling in the media never failing to tantalize.

Traditionally in India, investing in Real Estate is considered the smartest and safest bet for securing one's future and making money. For the older generations, it would mean constructing a house on a plot of land; for today's generations it usually are residential apartments though the more enterprising ones may buy into land or commercial spaces.

The best part about investing in real estate is that there is a tangible outcome for your money. You can visualize and experience the property and derive a sense of security that you can "see" where your hard-earned money is parked. Apart from the tangible sense of invulnerability, real estate prices normally appreciate over time and are therefore seen as great vehicles for assured, high-yielding returns on investment.

Investing in equities involves buying shares of an individual company or a group of companies and earning income from the dividend payouts made. When you buy a share of a company you become a shareholder of that company. Which in turn means:

1. You are contributing to the capital of the company to the extent of the face value of the shares held by you making you a part-owner of the company.
2. As an owner entitled to a share of the company's profits to extent of the face value of your holdings.

Equities were earlier considered to be investments for niche investors who had the acumen, money power and contacts. Once online stock trading became accessible, we have more and more individuals putting their money into shares. What has further increased the reach of the share markets has been the advent of mutual funds for those investors who feel that they want to get into stocks but they lack the expertise.

So where does one have the choice, to park her money?

Let us try to answer this by weighing equities and real estate against each of the expectations that investors seek from an investment platform.

Capital Protection

To protect your capital, the secret lies in staying invested irrespective of whether you opt for equities or real estate because stock prices and real estate usually factor in inflation and market aberrations in the long run.

Historical returns for both equities and real estate in India do not show any negative returns in the ten to twenty-year period.

EQUITY

When it comes to regulation, the equity market regulator SEBI has already proved its mettle as a tough regulator which is above influence. SEBI makes full use of the cutting edge analytical and security software to monitor the market and prevent foul play.

Overall, the equity markets are far better regulated as all the transactions happen online in the electronic form which make them easier to track and regulate.

REAL ESTATE

On the other hand, RERA is a fairly new body which is still trying to find its footing and given the grey aura which still surrounds real estate in India, it has a long and tough task ahead to validate itself as a strong regulator. Real Estate regulation is yet to reach the same level of stringency and transparency as equity markets.

Value Appreciation or Returns

Just as the jury is still out on the great Mumbai Vs Delhi debate, the returns on real estate versus the returns on equities have also provided ample fodder for many a debate.

We have all heard stories of how " X" became a millionaire overnight by selling off a plot for ₹2 crore, which her grandfather had bought in the 1950s for a mere ₹20,000. Countering this would be an informed person who would state that ₹ 2,000 invested in the Infosys IPO in 1993 is worth ₹1.05 crore today
(Source: http://www.ibtimes.co.in/how-rs950-invested-infosys-1993-ipo-now-worth-over-rs50-lakh-719743)

In Real Estate, the returns accrue to an investor through price appreciation or through rentals.
While rental income is straight forward, the price appreciation in land happens over 5 phases:

Phase 1: The change in the land usage pattern from either barren or agricultural to residential or commercial. This is what triggers the spike in values of land being acquired for infrastructure, residential or commercial projects.

Phase 2: Development of infrastructure and facilities in and around the land/property which makes it attractive for business.

Phase 3: The shift of population towards the land attracted by the living conditions on offer or the commercial viability.

Phase 4: Cyclical booms

Phase 5: Inflation

The early property investors did so during the formative years of the country, when development and the population were expanding. As the country set about building its economy and setting up infrastructure, factories and housing, there was a lot of demand for land and prices surged in consequence.
In the current scenario, the old model of value generation from real estate has changed. Now the developers are reaping the benefits of Stages 1 through 3 through their deep pockets and access to information and investors are investing primarily at the end of Stage 3 or in Stage 4. The present investors are also shelling out premiums for future appreciation as well.

Another important point is that, although we have all heard "success" stories of price appreciation, they have usually been in the form of unique windfalls. If we were to look at absolute returns from real estate, the graph will show you a CAGR of 7.8% for India in the last ten years. Interestingly, the returns have been almost at par at what the bank fixed deposits offer. If do you the math, then even a gain of 100 times in the price of real estate in 50 years actually boils down to a CAGR of 9.6% per year without factoring in the costs involved in the upkeep of the property!

Returns : Sensex versus gold, land and fixed deposit, after tax

The second source of income from property is rentals, which as things stand in India is between 2% to 5% of the property value. This mainly due to the property prices and the glut of properties on offer for rent. Remember that rental income is not a secured income as there may be periods where the property is vacant and yet the maintenance expenses and taxes must be borne.

Now when it comes to equities the first source of the returns like in real estate, is price appreciation and the second is from dividends or profits distributed by the company invested in. Owning equity is akin to owning a part of the company and being a part of the company's performance.

Property prices are primarily based on the location while parameters such as the quality of construction, design etc. which are based on human competence and abilities have a very small impact on the price. However, in a company there are multiple factors which influence the success of a company and human competence plays a key role. For example, during economic downturns, a company may exercise strong cost control measures and still turn in profits or it may increase its prices when the cost of inputs increase. The revenue model from equities is extremely flexible and not susceptible to premium variations since all equity trading happens on an open platform visible to all participants. This is precisely why the equity market has been able to clock in such returns in the last two decades as shown above.

Convenience

Getting into real estate and then managing your assets calls for a lot of time and effort in paperwork, taxes, utility bills, maintenance and security.

Equities on the other hand are far easier to manage requiring little time and practically no additional expenses. Thanks to dematerialization and online trading, the information on the investor's holding is available at the click of a button. It gets even easier through a mutual fund, because then all the hard work is done by the fund manager and his team when it comes to stock selection and taking decisions.

Liquidity

Liquidity is the most essential requirement in an investment vehicle. We should be able to liquidate our assets and get the cash whenever we need it. When it comes to equities or mutual funds liquidation is simple and a ready market available. It is simple and almost instantaneous since the entire transaction happens real time and online. The pricing is completely determined by the market and visible to all participants. Liquidity at the right time is not a guarantee for real estate and prices vary a lot. Locating a buyer often involves payouts to intermediaries and involve the expense of time and money. If it is a buyer's market, then getting an ideal price for your property may be even more difficult. In addition, the element of risky cash transactions still prevails in the real estate sector. Equity investments score over real estate in this essential investment requirement by having a secure and highly regulated avenue for quick liquidation on time.

Transparency

When it comes to transparency, the equity markets beat real estate hands down. There are still too many grey areas when it comes to regulating the real estate market. The newspapers continue to carry glory stories on a near daily basis of promoters and developers renegading on their commitments and failing to deliver what they promised. We also read about encroachments, forceful occupancy and takeovers of property thanks to the various ambiguities in laws and records which often take an ugly turn. In contrast, after the great Tech Meltdown in 2000, the equity markets have not seen a single default. This is mainly because the entire operations of all the stock markets in India have been moved online. Information is uniformly available real time, plus the implementation of advanced analytical tools and factors like automatic circuit breakers have helped to keep the markets in check and prevented unscrupulous activities. Ownership clarity is there as well, since all equity holdings whether directly or through the mutual fund routes are in the electronic form.

Legacy Transfers

When it comes to equities, transfers of the assets to the next generation on the death of the investors or even simple bequests are not too difficult. The presence of nomination facilities and electronic management of the stocks or mutual fund units makes dividing the assets and transferring them quite clear cut and simple.

Sadly, it is not so in the case of real estate. Real estate is also known as a "blunt asset" since it cannot be easily carved up and divided amongst the beneficiaries causing even the most cordial of relationships to disintegrate and give real estate the dubious distinction of being the most litigious asset class.

Another important factor, which the current generation of investors need to keep in mind while creating wealth for the next generation, is the fact that the coming decades will call for a lot of flexibility-in terms of learning, careers and lifestyles. The beginning is already apparent, with advent of *"rent when needed"* companies like Uber, Ola, Furlenco, Rentmojo.com, Pepperfry Rentals and so on. In such times, being saddled with a hard asset like property which calls foreffort, money and time and does not adapt easily and quickly, may not be a very welcome bequest.

Given that there are no free lunches in life and that everything has a price, so is it with investments the returns and benefits that you may expect are directly proportional to the risk of loss that the investor is willing to assume. An investor making a choice, needs to look at her expectations from an investment and assess the investment options.
As for which is a better investment option – real estate or equity, the debate will always carry on. However, objective assessments against the essentials from an investment vehicle have clearly shown that even though the emotional experience of owning property still abounds; when it comes to the key factors such as safety, liquidity, low cost of maintenance and most significantly, returns: equity investments clearly have the upper hand over real estate.

Kim Aaschariyam

I love my epics and I have many stories to narrate but this is one of my favorites. In the Indian epic, the Mahabharata, there is a story of the time when the five Pandava brothers had been exiled to the forest for 12 years. As forest dwellers they had to be continuously on the move. In one of their journeys, they found themselves without water for an extended period of time. Tired and thirsty, they decided to take a break. The eldest of the five brothers, Yudhishthira asked the youngest brother Nakula to search around and see whether he could find some water.All the Pandavas had always accepted the eldest brother's word without question and so Nakula did not ask why he was the one who had to run around in search of water when the others just sat around waiting for him! He dutifully went out and searched for water and after a long search found himself staring at a pond of clean cool water.

He cupped his hand and was about to drink the water when he heard a voice ring out, asking him to stop. The “Voice” said that he has the owner of the pond and that he would be willing to let Nakula drink the water only if Nakula could answer his questions. I imagine that at that point Nakula got riled up and asked the “Voice” whatever was the version of the “How dare you? Do you know who I am?” statement in those days. These kind of statements don't usually end well especially when faced with a stronger adversary. Nakula ignored the “Voice” and decided to go ahead and drink from the pond. The moment the water touched his lips, he dropped dead.

When Nakula did not come back for a long time, Yudhishthira sent Sahadeva to search for him. Sahadeva also wound up at the same pond. He saw Nakula lying there dead but the lure of the water was too strong. He was about the quench his thirst when he heard the “Voice”. Again the “Voice” asked Sahadeva to desist from drinking from the pond until he answered all the questions asked of him.

Despite the warning and unmindful of the fate that befell Nakula, Sahadeva proceeded to ignore the “Voice”, drank from the pond and dropped dead. As time went by, Yudhishthira got worried and sent Arjuna to check on his brothers. When Arjuna did not return, he sent Bhīma and finally when Bhīma did not return, he had no choice but to actually go and search for his brothers himself.

Eventually, his meanderings took him to the scene of the crime- the pond with the crystal clear and cool thirst quenching water. The scene that he saw shook him to the core. His brothers who were strong enough to vanquish any human foe, lay unmoving but with no apparent injuries on their bodies. Beset with grief, he lamented on their fates. Finally, he got up to quench his thirst and then worry about how to salvage the situation.

As he approached the pond, the “Voice” again asked him to stop. It told him that he cannot drink the water until he answered all of its questions. The Voice also warned Yudhishthira of the fate that was in store for him if he ignored the warnings and drank the water. The Voice said that he had said the same thing to his brothers but they had ignored his warnings despite

seeing the fate that befell others who had reached the pond before them. Yudhishthira was different. Being a patient and a wise man, he agreed to the conditions of the Voice. He bowed before the Voice and said that he was willing to answer the questions that the Voice wanted to ask. It is then that the Voice asked him “Kim Aaschariyam”? What is surprising? The answer that Yudhishthira gave was a classic. **“Everybody sees people dying regularly around them and yet they live as if death will never visit them. That is the most surprising thing in this world”,** he said – which of course was the right answer. The Voice, pleased with this reply and by Yudhishthira's overall demeanor, proceeded to revive the Pandava brothers. The Pandavas then proceeded to spend their time in exile, demanded their share of the empire at the end of their exile period and when denied that share went on to fight the devastating war of Kurukshetra which led to unimaginable deaths and horrors on both sides. (As an aside, one wonders, if Yudhishthira was not so wise the Pandavas would not have been revived and maybe the war would have been avoided)

This story asked what was the most surprising thing and Yudhishthira gives his answer about people living as if they will never die despite knowing that death visits every single thing that is born. Despite the certainty of death people live as if they alone will live forever. But this problem is not with respect to death alone. This bias is now called “Optimism bias” **Optimism bias** (also known as **unrealistic** or **comparative optimism**) is a cognitive bias that causes a person to believe that they are at a lesser risk of experiencing a negative event compared to others. Optimism bias is quite common and transcends gender, race, nationality and age.

Four factors exist that cause a person to be optimistically biased: their desired end state, their cognitive mechanisms, the information they have about themselves versus others, and overall mood. The optimistic bias is seen in a number of situations. For example: people believing that they are less at risk of being a crime victim, smokers believing that they are less likely to contract lung cancer or disease than other smokers, traders who think they are less exposed to losses in the markets or investors who think they can make more money than others by picking individual stocks despite having little knowledge or little access to knowledge of the working of the companies that they invest in.

Although the optimism bias occurs for both positive events, such as believing oneself to be more likely to be financially successful than others, and negative events, such as being less likely to have a drinking problem, there is more research and evidence suggesting that the bias is stronger for negative events. Different consequences result from this bias positive events often lead to feelings of wellbeing and self-esteem, while negative events lead to consequences involving more risk, such as engaging in risky behaviors and not taking precautionary measures for safety.

In other words, optimism bias leads to people overestimating the positive outcomes of events and underestimating the risk that they are taking. While all that is fine, you might be wondering on how it applies to personal finance? Let me assure you that this Optimism Bias has a direct consequence on our personal finances. It has an impact on areas of our insurance, be it life or medical or general insurance. It also has a direct impact on investments and retirement and this is the area that I will emphasize on.

The bias will lead most of us to overestimate our ability to finance our retirement life and seriously underestimate our needs post retirement. Despite seeing a lot of people around us who have underfunded their retirement, we will assume that we are unlikely to fall prey to this malaise possibly due to the Optimism bias.

Unlike other countries, retirement life in India has to be almost completely self-funded. The previous generation could depend on children to finance their retirement. The basic social contract was that parents will fund their children's education and will look after the children in their childhood and youth. Once that is done, the children would look after their parents in their old age. Most often, the parents spent their entire incomes in educating the children to the exclusion of everything else and never created any wealth for themselves.

The current generation has to however, both fund their child's education and their parents old age requirements while simultaneously somehow saving and investing enough for their own post retirement life. Given these imperatives, it is more than likely that optimism bias comes into play and we end up seriously overestimating our current investment abilities while simultaneously underestimating our requirements post retirement.

This is a double whammy from which it is almost impossible to recover if it is not caught in time. Just as an example, let's say our expenses, including one time annual expenses on holidays etc. are say ₹1 lac a month. Let's also say that we are 50 years old and have another 10 years before we retire. At the average inflation rate of the last 10 years, it is safe to say that we will need ₹2 lac per month once we retire. Assuming around 10% per annum in equities, we will need a corpus of ₹2.4 crore at the age of 60 to get us an annuity of ₹2 lac per month.

To reach this corpus, we will need an investment of ₹80 lac currently. This ₹80 lac can become ₹2.4 crore in 10 years assuming a return of 10% per annum. If we have ₹80 lac today at 50, then we could assume that our retirement is taken care of.

There is however, a serious flaw in this. We could have underestimated our need of ₹2 lac per month post retirement. For one, it does not take into account inflation post retirement. For another, it does not take into account the possibility of one time and large medical expenses beyond the cover of any medical insurance. If for example, we assume that our monthly requirements will go up by just 5% per annum and that we will live for 30 years post retirement then corpus required on retirement goes up to close to 4 crore. This completely turns our minimum requirement today on its head. Instead of ₹80 lac, it means we will need ₹1.3 crore today.

If we think that this calculation gives us a clear understanding of what we need for retirement then it is possibly wrong. After all this too there is no factor of safety built into this calculation. For example, it could turn out that equity returns are lower than our calculation. Even if we only require a factor of safety of 2, then the minimum investment we need today for retirement after 10 years turns out to be ₹ 2.6 crore.

The point of all this is not to give you exact numbers of how much we require to retire in 10 years. The point is to say how it is incredibly easy to overestimate our abilities and underestimate what we require at the time of retirement.

It is so very important that all of us have this conversation with our advisor. Like we go to a doctor for our physical health, it makes sense to have this conversation with a trusted advisor or financial planner. Someone you can trust with details of your finances. Someone who can suggest ways to get to your goals whatever they are.

Kim Aschariyam - This article is written by Mahesh Bhagawat.
You may write your feedback at maheshbhagwat@way2wealth.com

WHY DO I NEED TRAVEL INSURANCE?

A foreign trip has generally been a part of most of ours wish list. Probably for same reason, number of tourists across globe has been rising every year. Indian tourists are no exception. While the graph of tourism in India has risen, the number of outbound Indian tourists too has increased. As per reports, 'the number of foreign tourist arrivals (FTAs) recorded in February2017 has shown 14.7% growth, as compared to the FTAs of 16.91 lakh with a growth of 9.0% in January- February 2016 over January-February 2015.' Similarly, the number of globetrotting Indian tourists too has been swelling every year. A report by the Associated Chambers of Commerce & Industry of India (ASSOCHAM India) states that year 2016 saw "29% rise in number of outbound Indian tourists", and going ahead, this number will only increase. Also, the United Nations World Tourism Organization estimates, "by 2020 the number of Indians heading overseas will grow to 50 million for both business and leisure travel."Whether you are travelling for business or vacation, to ensure your foreign trip remains fun and hassle free, you must buy travel insurance. Travel insurance or Overseas Travel Insurance is an insurance policy which provides you financial protection against losses / damages incurred due to unforeseen event(s) during your foreign trip. Nowadays you can also insure your trip within your own country with the help of domestic travel insurance.

Today over 20 insurance companies offer Overseas Travel insurance plans in India. One may find the idea of buying a travel insurance unnecessary and waste of time and money. Moreover, there is a common notion, especially among youngsters, that they being fit won't require any medical assistance during their international trip. However, what they fail to realise is travel insurance is much more than just a medical cover in a new place. While you are travelling abroad, being on a foreign land, you are exposed to many kinds of risks, like loss of passport, loss of baggage, accidents, etc. A good overseas travel insurance plan provides reimbursement for such and many other uncertain events.

A closer look, into the benefits of travel insurance policy will help you understand why is it important to get such a cover when planning for a trip. The offerings under travel insurance cover vary from one travel policy to other. However, on a broader note, most of the features of travel insurance are alike. Listed below are few common features covered by overseas travel insurance plans by most of the Indian Insurance companies:

Medical Expenses- This is a known fact that medical costs are very expensive in countries like the United States of America, the United Kingdom, Europe, etc.; and if for some reason, you or your loved ones fall prey to a medical emergency, not having an overseas travel insurance may cost heavy to your pocket. However, in such a situation, a travel insurance cover takes care of emergency medical expenses

Accidents- Are always uninvited, and if you meet such an unfortunate event while abroad, an overseas travel insurance will provide you a financial support in form of accidental death/disability/dismemberment cover. Under this cover, if an accident results in loss of life or disability of the insured, the travel insurance will pay the beneficiary a lump sum benefit, as mentioned in your policy document.

Delay/Interruption/Cancellation of Trip – Flights getting delayed / cancelled is quite common these days. In case your flight gets delayed due to reasons mentioned in your policy document, your travel insurance provider will reimburse the expenses incurred during those hoursupto the sum insured of the benefit/s. However, if your flight gets cancelled, your travel insurance company will reimburse you the expenses incurred on things like airline tickets and other booking amounts again upto the benefit specific Sum insured.

Loss/Theft of Belongings – While travelling you may stand a risk of losing important documents, baggage and belongings. An overseas travel insurance policy takes care of concerns around such events and provides assistance to the insured to get the required financial support.

In addition to the above list, some travel insurance plans also cover your house while you are travelling abroad. Which means, your travel insurance plan will financially cover you towards the losses occurring out of a theft/robbery taken place in your house during your foreign trip.

Nevertheless, given the competition between different insurance companies, the scope of cover offered under an overseas travel insurance plan gets even more wider; but as mentioned earlier, the additional coverages may vary. Also, opting for additional coverages under your travel insurance may also reflect on your policy premium. You may/may not need to opt for all additional covers offered by a travel insurance. Therefore, to stay aptly covered during your foreign tour, ensure the travel policy you buy is based on your needs.

So, to ensure you are well covered by your overseas travel insurance plan, before buying the policy, as a thumb rule check the below points:

Read your travel insurance policy terms & conditions carefully to understand what does your policy covers and what it does not. Yes, every travel insurance policy comes with a set of things not covered. These are called exclusions. While it is important to know the coverages included in a policy, it is equally important to know the exceptions of same.

Check for reviews and credibility of the travel insurance company before buying their travel plan. Before you buy travel insurance from a particular company it is advisable to check the credibility and service quality of that company. At the same time, remember, not all reviews available on public forum are right.

Earlier you buy travel insurance plan the better. Buy travel insurance plan as soon as your tickets are booked. If following an unavoidable situation, you have to cancel your trip, your travel insurance plan will cover you against the cancellation.

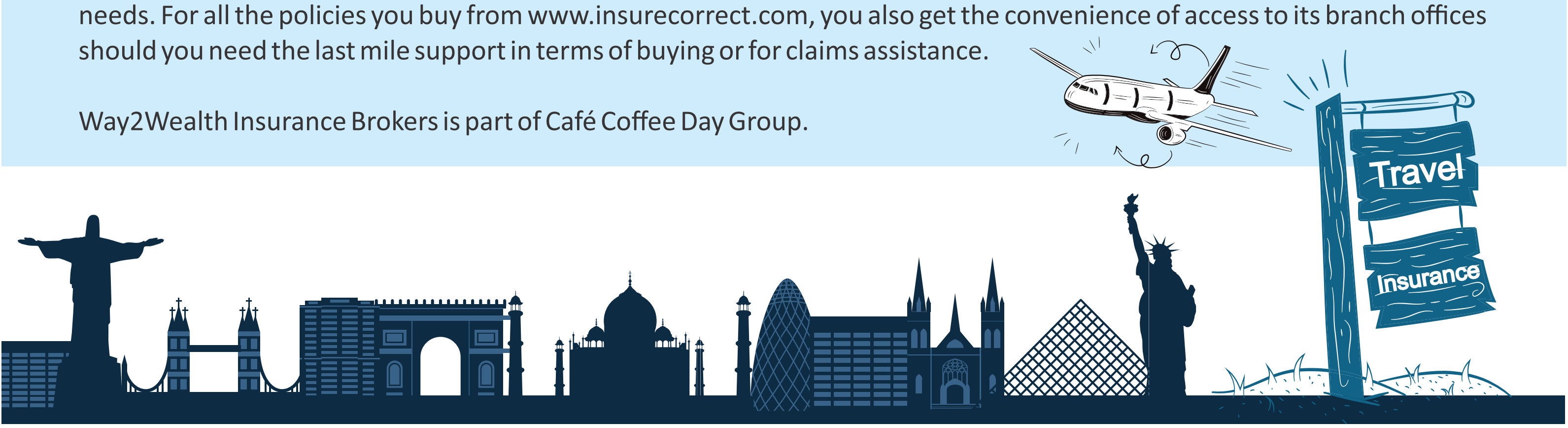
Cheap isn't always good. If a travel insurance plan costs less than other it does not mean it is better. Price should not be the only criteria to choose travel insurance plan. You should also compare other aspects of the travel insurance policies.

Last but not the least, **compare available travel insurance plans before you buy one.** Not every travel insurance offers trip cancellation cover by default. Visit insurance comparison portals like www.insurecorrect.com to compare the features, premium rates, etc. of different travel insurance plans. Insure Correct assists you to get a better understanding of the insurance policies based on your insurance needs and helps you find the right policy at the best price so that you have the satisfaction of having made an informed decision.

The portal www.insurecorrect.com is managed by IRDAI licensed, Way2Wealth Insurance Brokers Pvt. Ltd. (License number: 222), which is the insurance arm of Way2Wealth group and provides a range of risk coverage solutions for individuals, groups and corporate. The company operates in both- life and general insurance. Its core team consists of industry experts specializing in Product advisory, Claims management & Wellness programs

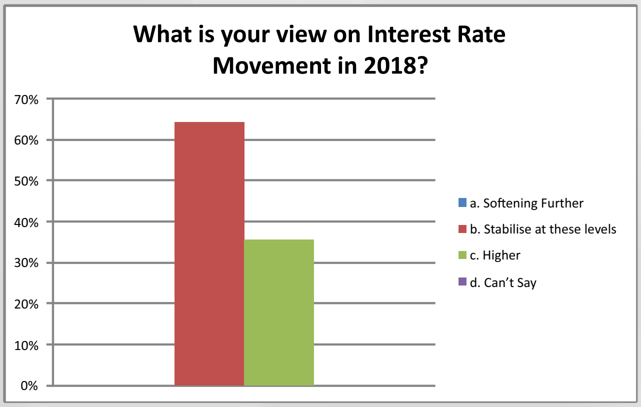
Through InsureCorrect, Way2Wealth Insurance Brokers plans to provide a unique platform to you for all your insurance needs. For all the policies you buy from www.insurecorrect.com, you also get the convenience of access to its branch offices should you need the last mile support in terms of buying or for claims assistance.

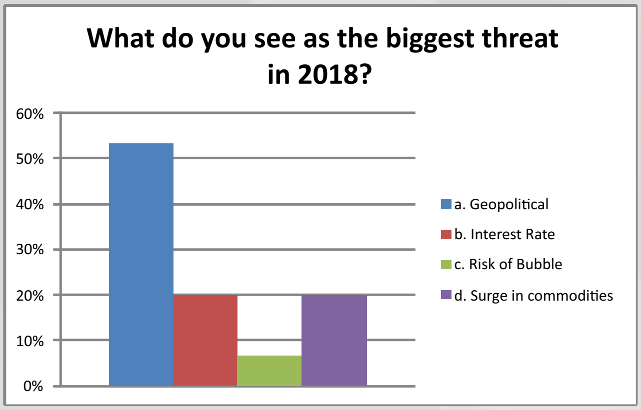
Way2Wealth Insurance Brokers is part of Café Coffee Day Group.

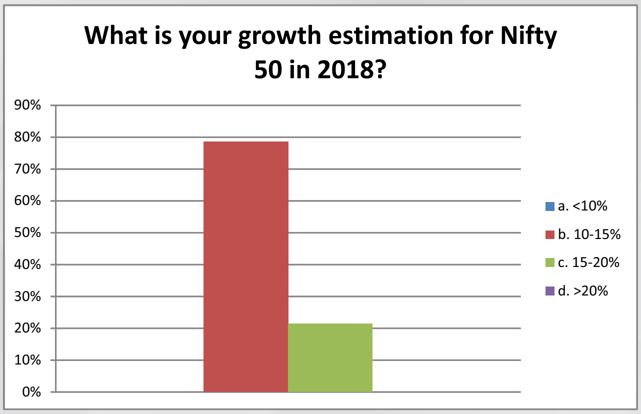


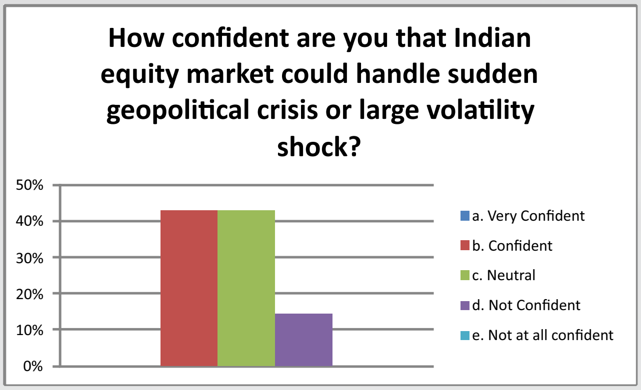
2017 WAS A GOOD YEAR FOR EQUITY MARKETS - WHAT NEXT?

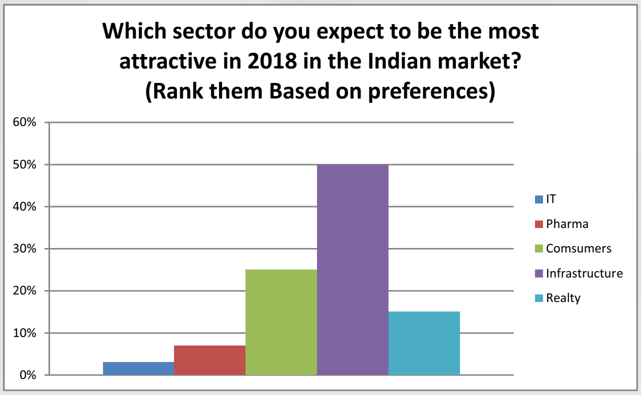
Stepping into 2018, investors would like to understand more about the broader macro view, interest rate movements, growth expectations and impact of regulatory changes in the industry. *We have taken a survey with top* Fund Managers to understand their assessment on financial markets in 2018

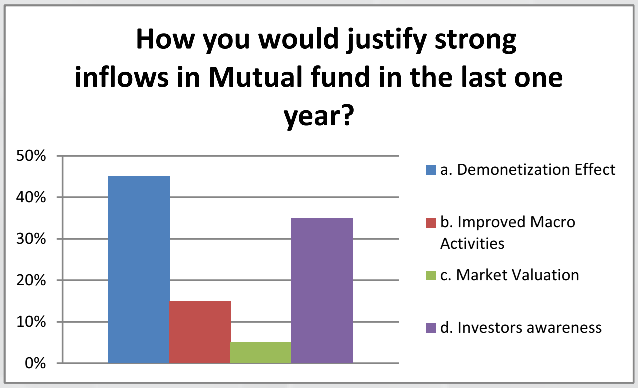


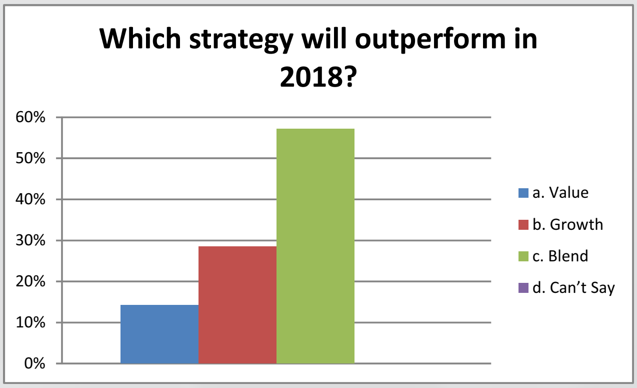


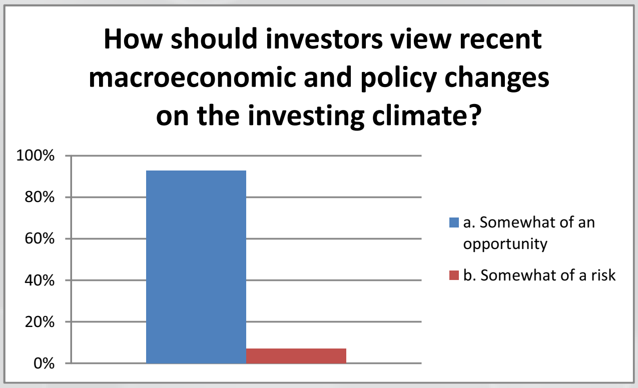


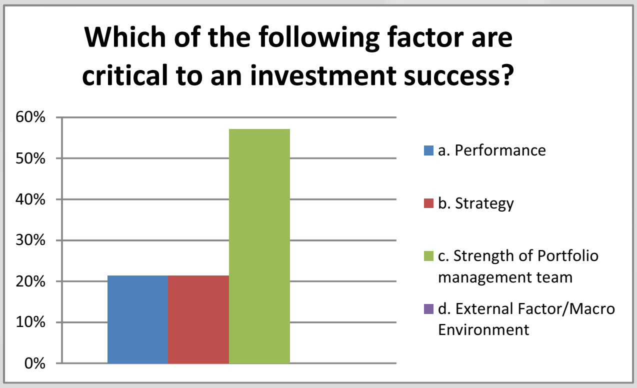


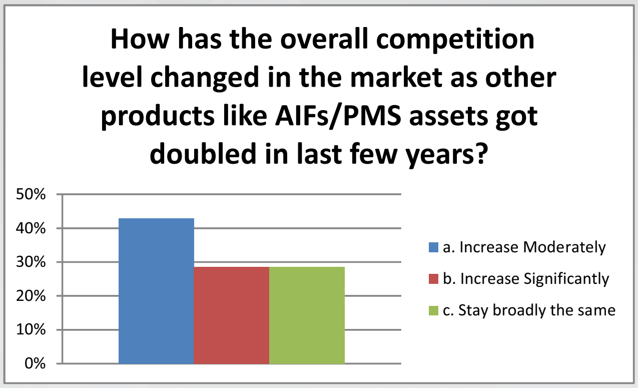


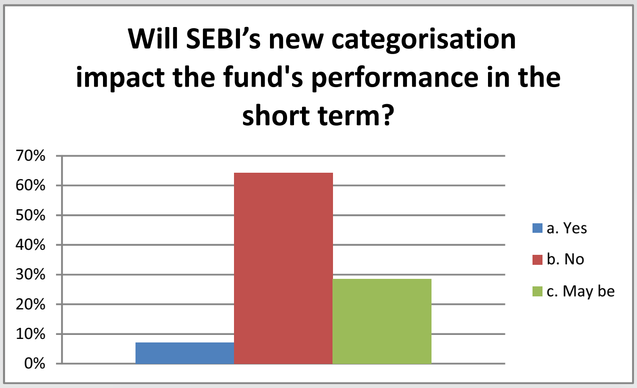

How you would justify strong inflows in Mutual fund in the last one year?
50%
40%
30%
20%
10%
0%
a. Demonetization Effect
b. Improved Macro Activities
c. Market Valuation
d. Investors awareness


Which strategy will outperform in 2018?
60%
50%
40%
30%
20%
10%
0%
a. Value
b. Growth
c. Blend
d. Can't Say


How should investors view recent macroeconomic and policy changes on the investing climate?
100%
80%
60%
40%
20%
0%
a. Somewhat of an opportunity
b. Somewhat of a risk


Which of the following factor are critical to an investment success?
60%
50%
40%
30%
20%
10%
0%
a. Performance
b. Strategy
c. Strength of Portfolio management team
d. External Factor/Macro Environment


How has the overall competition level changed in the market as other products like AIFs/PMS assets got doubled in last few years?
50%
40%
30%
20%
10%
0%
a. Increase Moderately
b. Increase Significantly
c. Stay broadly the same


Will SEBI's new categorisation impact the fund's performance in the short term?
70%
60%
50%
40%
30%
20%
10%
0%
a. Yes
b. No
c. May be

We have a PAN India Presence

State	No. of Cities	No. of Outlets
Andhra Pradesh	14	26
Bihar	1	1
Chhattisgarh	2	4
Dadra & Nagar Haveli	1	1
Goa	3	4
Gujarat	11	46
Haryana	3	7
Jammu & Kashmir	3	3
Jharkhand	2	2
Karnataka	27	119
Kerala	2	2
Madhya Pradesh	3	6
Maharashtra	13	172
New Delhi	2	19
Punjab	5	31
Rajasthan	3	3
Tamil Nadu	12	37
Telengana	3	31
Uttar Pradesh	12	22
Uttarakhand	1	1
West Bengal	3	34
Total Locations	128	571

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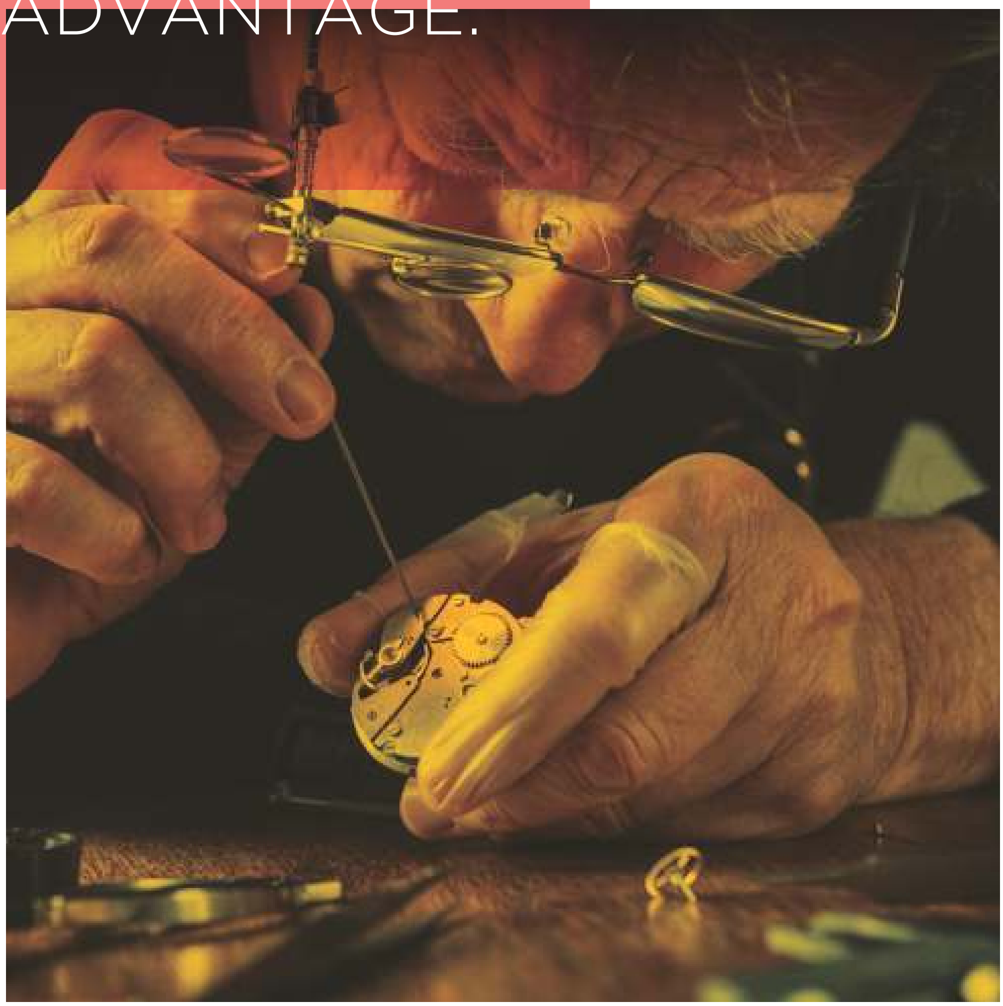
IT TAKES AN EXPERT TO FIND THE STERLING ADVANTAGE.



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To know more, talk to our representative or contact your financial advisor

IDFC MUTUAL FUND

IDFC STERLING EQUITY FUND

Investors understand that their principal will be at moderately high risk

This product is suitable for investors who are seeking*:

- Create wealth over a long period of time
- Investment predominantly in equity and equity related

*Investors should consult their financial advisers if in dou

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MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL

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