

konversation

for the wealthy and why's

“ It's not enough that we do our Best; sometimes we have to do what's Required ”

- Winston Churchill



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CEO CORNER

Dear Friends,

As we proceed into the 2nd quarter of the current financial year, the expectation of an early revival in the Indian economy continues to gain strength. The performance of the equities market - *which although is not a perfect barometer* - is still indicative, that the business sentiment regarding the economy is improving.



It just serves to refresh ourselves that in the April-June 09 quarter, the Sensex & Nifty indices have registered a growth of 49% and 42% respectively. This is the best quarterly performance in last 4 years. To complement that, there is an increasingly palpable trend which is indicative of resumption in foreign capital inflow. To give a perspective, during the Apr-June period, the FIIs have brought in nearly US\$ 2.57 bn. To consolidate and confirm the trend, the equities market await in eager anticipation of the first-quarter corporate results. Any signs of cost-efficiency in the operations numbers in these results would go extensively in verifying the shape, scale and period of the economic recovery.

The Union Budget in this aspect remains another event that has a major bearing on the performance of the economy. The size of the Budget has expanded by 36% over the previous year; graphing a spending splurge of Rs 10,20,838 crs for FY10. This is the highest such increase in budget expenditure in last five years. It's clear, that the doctrine behind the size and scope of the budget, is to provide a demand stimulus to the economy. This is despite the fact that the tax collection remains damp, and as per the budget document, may see a negative growth of -6.5% over the previous year's(FY09) budgetary estimate.

The FY10 budgetary plan outlay provides for nearly Rs 100,000 cr each (and more) for Energy sector, Social sector and Transport infrastructure. This may provide the much-needed fillip to the social and physical infrastructure; and induce demand in core industries.

On the flip-side, the budgetary spending far outpaces the internal resource accrual of the government (*by more than 40%*). Thus, the financing of the budget will be done by an aggressive borrowing programme. As per the latest release, the government borrowing, at Rs 4,51,000 cr, has increased by more than 25% over the earlier interim budget estimate. The implication can turn out to be contrary, rather than desired! For one, the hardening of the interest rate yields seems to be a possibility. Added to that, the private commercial enterprise, which up until now has been the key growth driver, may get edged-out of the debt market. A scenario that can dampen the investment cycle further. Though, it can be expected that RBI would remain proactive in managing systemic liquidity through OMO.

In conclusion: the rapidity of change in our time, is incomparable with any other point in recent history. And as an unabashed believer in the India story, I remain confident that changes, for more than one reason, will lead to a more stronger and vibrant nation.

Regards

Sandesh Kirkire
CEO



Kotak Mutual Fund ties with Bank of Baroda:

Kotak Mahindra Asset Management Company has entered into a distribution tie-up with Bank of Baroda. Under the agreement, Bank of Baroda will offer the entire bouquet of Kotak Mutual Fund products through its extensive network of branches. The MOU was signed by Mr. Sandesh Kirkire, Chief Executive Officer, Kotak Mutual Fund along with Mr. M.D.Mallya, Chair man and Executive Director and Mr. R.K.Bakshi Executive Director in Mumbai on 3rd July 2009.



Bowled Over by Kotak Mutual Fund:

On 12th June 2009 Kotak Mutual Fund organized a corporate bowling competition exclusively for its banking channel partners. The event was held in COs bowling company in Mumbai. The competition consisted of 2 rounds of bowling and the team which achieved the highest score was declared the winner. The winners were Societe Generale (winning team), BNP Paribas (1st runner up) and Deutsche Bank (2nd runner up). Congratulations to all the winners!!!



7A Side Infinity Cup 2009:

Kotak Mutual Fund had organized a day and night cricket tournament for all channel partners in Delhi on 23rd and 24th May 2009 in St. Georges School Greater Kailash II. Totally 15 teams had participated which included Kotak Mahindra Bank, SMC, Birla Sunlife Distribution Limited, DFDA and V Serve. Standard Chartered Bank won the tournament.

Equity: The risk- return relationship

To successfully invest in equities it is imperative to understand the associated risks and managing it effectively.

All investments carry an element of risk. What varies is the quantum. Though risk cannot be entirely eliminated, it can be mitigated by undertaking effective *risk management*. This holds true even in case of equities, which, are recognised as riskier when compared to other forms of investments. However, to manage risk, it is imperative to identify the different kinds of risks involved in investing and then take appropriate steps to lessen it.

Risks involved

The high investment risk associated with equities is attributed to factors such as:

- Economic slowdown (domestic and/or global),
- Existing geo-political scenario,
- Impact of government policy on a particular company/sector, impact on company's future prospects due to change in management/takeover and/or change in demand for company's product,
- Global economic situation, liquidity crunch in system, etc.

Due to these factors the market may react sharply on either side impacting the price of the equity shares taking it far higher or lower to its intrinsic value...

Markets are volatile and will remain so for the various reasons stated above. Hence, the price of equity will be rarely near its intrinsic value. Hence, many a times, even after investing in company with bright future prospects, assurance of getting fair price at a particular exit time may sometimes be difficult.

Risk-return relationship

As you would know, a higher risk comes with the possibility of making higher returns. While understanding this relationship between risk and returns, you must also bear in mind that there is no guarantee of such returns but there is the risk of capital erosion as well.

Effective risk management

Since risk is an integral part of the market, one cannot eliminate it but, its impact can be lessened by adapting various investment strategies and maintaining investment discipline. Various tools to handle risk include appropriate selection of stocks, reasonable diversification, regular investment, long term approach and an awareness of economic events impacting markets and economy in the medium to long run.

Remember, simply put, all investments are a 'trade off' between risk and returns.



Investing through Derivatives

A derivative is a financial instrument whose value is derived from an underlying security. Let's understand some basics of derivatives, which are essential for undertaking any investments in these instruments.

Ankit (name changed), a 26 year old IT professional was travelling in a local train, discussing with his friend Pratik (name changed), a derivatives trader, about how he wished to venture into investments in derivatives. Pratik replied to Ankit's queries, "It is not as easy as you may think. Before entering a derivative transaction, you should learn more about these instruments and understand how they work". Eager to start investing, Ankit asked Pratik to explain him some basics of derivatives. Pratik explained the following:

- **Future contract** – is a contract between two parties to buy or sell a specified quantity of the underlying security on or before a specified date of contract, at a particular price.
- **Options** – are contracts which give the holder the right but not the obligation to buy (call option) or sell (put option) a specified lot of underlying security on or before the expiry date of the option.
- **American option** – Option which can be exercised on or before expiry date is called American option.
- **European option** – option which can be exercised only on expiry date is known as European option.
- **Underlying** – is a security on which a derivative's value depends upon. It can be a stock, index, currency, commodity etc.
- **Premium** – is the price that the buyer of an 'option' pays to the seller of 'option' for the right but not an obligation to buy/sell the particular option contract.
- **Contract Size** – for every derivative contract, whether future or option, there is a predetermined minimum quantity of the underlying security which can be traded. This is known as single lot or contract size.
- **Expiry Date** - is the last trading date for the derivative after which the contract expires.
- **Writer of option** – this is the seller of the option, the one who receives the option premium amount and who has to oblige the sell or buy transaction, if the buyer exercises the same.
- **Strike Price** – is also known as the exercise price. This is the per unit price at which the underlying security can be bought or sold, if the option is exercised.
- **Initial margin** – is the minimum amount deposited with a broker, as a guarantee for fulfillment of the derivative contract.
- **Settlement** – when a buyer of a derivative product sells it or executes it (in the case of an option) or the seller of a product buys it back, the profit or loss that results from the transaction is calculated. This amount is then adjusted for the margins that have been already paid by the buyer and seller, if any, and the net amount is credited or debited to their trading accounts, respectively. This process is called the settlement of a derivative contract.

"Thanks a ton Pratik. These concepts will really help me understand the basics of derivatives." Ankit said. "No problem Ankit. I will explain you more about derivatives in our next meeting." said Pratik as he was getting off at the next station.

Small and Mid caps

Read to know why you can consider having an exposure to small and mid caps going forward

- **Opting for small and mid caps over the large caps**

While large cap stocks are well researched, in the present market conditions they offer a modest scope for appreciation. The possibilities of significant capital appreciation presently lie in small and mid cap stocks where the market has lesser information and the price of such stocks don't reflect their real value. Though they are not today's leaders, they can have the potential to become leaders tomorrow.

This is well observed in the following case when over the 5 month period ended 31 May 2009, while the CNX Midcap delivered an absolute return of 43.31 per cent, 27 companies forming the index outperformed the index return. *(See table 'CNX MIDCAP INDEX OUTPERFORMERS'). Of these, 15 companies outperformed the BSE Sensex return of 51.60 per cent.

(* Source: Metastocks)

- Another classic example to cite here would be of Infosys. After getting listed in 1993, the software major doubled its revenues and profits every year for the next eight years. From being a small cap, it has now become a bellwether IT stock. Similarly companies such as Reliance, Bharti Airtel, etc. have emerged as leaders in their sectors and have added to the investor's wealth over the period of time.

Following the recovery in the secondary market, many cash-starved companies (small and mid caps) are now in a position to raise funds and retire some of the expensive debt that weighed down their balance sheets, enabling them to improve their future performance.

(Source: Metastocks)

- Further, small and mid caps are largely local companies who are dependent on the domestic economic performance. This was seen in the recent market rally when the small and mid-cap indices outperformed the Sensex by quite a margin (in the period 1 March '09 to 31 May '09, while the CNX Midcap delivered an absolute return of 71.99 per cent, the Sensex delivered a return of 64.48 per cent).

(Source: Metastocks)

- Mid-cap stocks do carry a perception of larger risk and loss, especially in a bear market. However, with growing interest from FIIs (Foreign Institutional Investors) and fund houses, investment analysis and suitable research, select small and mid caps can deliver reasonable returns making them a must in an investment portfolio.

CNX MIDCAP INDEX OUTPERFORMERS

Company	Returns
Century Textiles	63.13%
HMT	61.24%
Lanco Infratech	57.99%
Aurobindo Pharma	56.59%
IVRCL Infra.	56.34%
BEML Ltd	55.41%
Shree Cement	54.81%
Mphasis	53.81%
Ashok Leyland	53.78%
Amtek Auto	53.60%
Matrix Labs.	53.56%
Bharat Forge	53.43%
Gammon India	53.20%
R C F	52.11%
Kirl. Brothers	51.79%
GVK Power Infra	51.42%
Parsvnath Devl.	51.14%
Godrej Inds	50.95%
Thermax	50.87%
Bajaj Hindusthan	48.64%
Alstom Projects	48.63%
Crompton Greaves	48.54%
Sesa Goa	48.10%
UltraTech Cem.	46.29%
Sobha Developers	45.21%
Bombay Dyeing	44.28%
Petronet LNG	43.96%



Hello.... I am
Hari Kamat Director, Investment Avenue, Panjim (Goa)

Hari Kamat with daughter Tanvi (L) and wife Varsha (R)

- My likes : Watching cricket , listening to classical songs and Marathi drama
- My hobbies : Reading and traveling
- My favourite past time : Meeting friends 😊
- I am very fond of : Fish
- Ideal holiday destination : Srinagar in Kashmir 😎
- Most memorable moment(s) : MDRT meet in USA
- Wildest / craziest thing I have ever done : Jumped in the pond without knowing how to swim 😊
- My prized possession(s) : My office in prime location in Panjim – Goa
- 3 things I can't leave home without : Mobile, driving license and of course my car
- My favorite perfume : Calvin Klien
- My favorite book : 7 Habits of Highly Effective People by S. R Covey
- If I was 18 again : would have gone bag packing around the globe 😎
- My idol : Warren Buffett
- I would like to be reborn as : Hari Kamat of course
- If I was not in this profession then : I would have been in business (trading)
- The last meal of my life will be : Fish curry rice prepared by my wife / mother
- 3 wishes from a genie :
 - 1.Possess a personal Jet
 - 2.For every one I care about to live healthy and happy.
 - 3.Three more wishes.

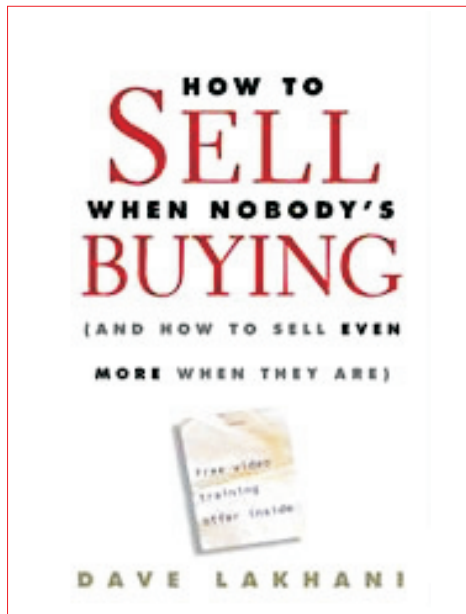


How to Sell When Nobody's Buying: (And How to Sell Even More When They Are) - Dave Lakhani

The 238-page *How to Sell When Nobody's Buying (And How to Sell Even More When They Are)* by Dave Lakhani encapsulates all the essential elements of selling effectively. This quintessential book enables a person to hone his skills on persistent selling – be it a salesperson, or an entrepreneur.

In these times of global recession, when the world is chanting cost-cutting and lay-offs and consolidation is becoming the need of the hour, the book provides a new and engrossing perspective on selling even when the tide is against the flow. The author is of the opinion, that despite the gloom that has enveloped the global economy, sales persons can tap old contacts / customers, network and rely on new technology to tap latent potential. What is interesting is that the author wants entrepreneurs and sales persons to explore the plethora of options that social networking websites can throw up

In addition to quick tips, the book contains a set of interviews with management and motivational gurus and essays, providing useful insights to their experiences. In all, *How to Sell* is a quick read with lots of practical, power-packed information for new age selling.



What's up on www.kotakyouandi.com?

Your response to our microsite www.kotakyouandi.com has been extremely encouraging. Till date we have over 900 registrations and the number continues to grow. We have made efforts to keep the site updated with relevant information, articles and sections which will add value to you and make your visit to our microsite a pleasant one. Recently we have introduced 2 new sections "Newsletters" and "Hello...I AM". While the former brings you an archive of our Konversations, the latter tries to know the "other side of you". We are sure you will enjoy going through both these sections. So just in case you have still not registered, you know what all you are missing out on!! Simply log on to www.kotakyouandi.com and register now.





CONTEST FORM

To participate in the "**BROKEN-WORDS**" contest, all you need to do is fill up the form online.

Full Name (in blocks)	:	<input type="text"/>		
		First Name	Middle Name	Last Name
ARN Code	:	<input type="text"/>		
Sub-Advisor Code	:	<input type="text"/>		
Name of Organisation	:	<input type="text"/>		
Date of Birth	:	<input type="text"/>		
		dd/mm/yyyy		
Anniversary	:	<input type="text"/>		
		dd/mm/yyyy		
Office Address	:	<input type="text"/>		
City	:	<input type="text"/>		
Pin	:	<input type="text"/>		
Phone (Office)	:	<input type="text"/>		
Phone (Mobile)	:	<input type="text"/>		
Fax	:	<input type="text"/>		
E-mail Address:	:	<input type="text"/>		

*Terms and Conditions :

- a Only AMFI registered individuals can participate, with only one entry per individual.
- b You are requested to submit the form by 10th June, 2009.
- c All fields in the form are compulsory. Forms that are incomplete or have been incorrectly filled will be invalid.
- d In case of a tie, the winner will be decided on by drawing of lots.
- e KMAMC's decision will be final and binding.
- f In case of multiple entries by an individual, all entries will be considered invalid.

" BROKEN WORDS "

Re-arrange the given pairs of letters to form words related to mutual funds. Each box should be filled with one pair of letters.

For instance : FU, MU, AL, ND, TU

Clue – You can use this as a means to invest in various asset classes, along with enjoying the benefits of professional management of your funds.

Will be re-arranged and inserted as

MUTUAL

FUND

1 RE, VI, ME, ND, ST, DI, IN, NT, DE, VE

Clue - One of the investment options in a mutual fund scheme.

(4 pairs)

(6 pairs)

2 AT, ND, TH, IC, FU, EM

Clue - This category of funds was introduced to mitigate the risks associated with investing in a single sector.

(4 pairs)

(2 pairs)

3 TI, SH, ON, SI, CA, PO

Clue - This indicates the liquidity of a mutual fund scheme.

(2 pairs)

(4 pairs)

4 RR, SK, CU, RI, EN, CY

Clue - One of the risks that a scheme investing in offshore funds would be exposed to.

(4 pairs)

(2 pairs)

5 NT, NA, ES, MA, FE, GE, ME

Clue - This is paid to the investment advisor for managing the fund's portfolio.

(5 pairs)

(2 pairs)

6 OU, ED, NU, LY, CO, AN, MP, ND, AL

Clue - It is one of the ways in which returns on a scheme are calculated.

(5 pairs)

(4 pairs)

7 OA, UP, OM, BO, CH, AP, TT, PR

Clue – It is an investment approach in which the performance of the stock is focused upon, rather than the sector or industry to which it belongs to.

(5 pairs)

(4 pairs)

8 SU, LL, TR, RY, EA, BI

Clue – This is used to fund the short term fund requirements of the Government of India.

(4 pairs)

(2 pairs)

Submit

Risk Factors :

Mutual Funds investments are subject to market risks and there is no assurance or guarantee that the objectives of the Schemes will be achieved. As with any securities investment, the NAV of the Units issued under the Schemes can go up or down depending on the factors and forces affecting the capital and money markets. Past performance of the Sponsor/ AMC/ Fund or that of existing Schemes of the Fund does not indicate the future performance of the Schemes.

Kotak Mahindra Mutual Fund has been established as a trust under the Indian Trusts Act, 1882, by Kotak Mahindra Bank Limited (liability Rs. NIL) with Kotak Mahindra Trustee Company Limited as the Trustee and with Kotak Mahindra Asset Management Company Limited as the Investment Manager. Please read the Scheme Information Document (SID) and Statement of Additional Information (SAI) before investing.