CEO CORNER

Dear Friends,

With half of the calendar year behind us, the performance of the Nifty and the SENSEX benchmark indices for the period stood at -7.94% & -8.11%, respectively. The market momentum in this period was generally languid, and remained confined to a broad range, making it one of the poorer performing markets, internationally

The momentum in the equities market was largely sluggish because of tepid FII participation, perceived lacuna in economic reforms, string of issues pertaining transparency in political and corporate space, high inflation and interest rate environment and negative to modest FII inflows. To add to that, the looming and increasingly foreboding sovereign debt crisis in PIIGS nations too kept the market sentiments subdued.

The performance in the equities market can also be partially explained on the downward reassessment of the gdp growth at around 8% (with further downward bias). The constant upward pressure in the interest rates was expected to have a restrictive effect on the industrial growth and the economy. For a perspective, the economy has seen nearly four rate hikes aggregating 125 bps in the last 6 months, with last one being on 16th June; taking the repo rate to 7.50%.

Despite this, the underlying earnings and growth potential continues to remain buoyant if the 15% growth in the advance tax filings for Q1 FY12, is any indication. Nonetheless, the markets may remain circumspect in their approach and may need further cues to charter the future direction. Typically, the markets may start looking at FY13 numbers in the third quarter, having factored in the FY12 corporate results by then.

In that regard, with the international crude oil prices moderating by around 15% in last two months, the likely-hood of inflation and interest rate cycle peaking sooner, rather than later, gains strength. There is further credence to this opinion, since; the possibility of a generic upward shifts in the interest rates in the US, Europe and Japan looks unlikely due to the global slowdown. In that context, RBI may have to co-ordinate its policy actions with other central banks in the coming months.

Moreover, while the decline in the crude oil prices may have a direct bearing in mollifying the domestic inflation trend; it may also reduce the high input costs of the manufacturing sector.

For now, the continued pressure of the high import bill and the FII disinclination towards allocation in India has resulted in a relatively suppressed Balance of Payment number of US$ 2.03 bn for Q4-FY11. The BoP suggests a robust performance in exports, software services and remittances, while negative participation was observed in FII participation.

The debt market witnessed a modest fall in the short-term yields because of a favorable demand-supply circumstance and a better than expected liquidity scenario. Moreover, the general impression that the interest rates may be near the peak than previously thought, too has fused some optimism in the market.

On the mutual funds side, while the average AUM for Q1-FY12 is higher at Rs 7,43,083 crs; in the June month the AUM may have actually contracted to around Rs 6.80 lacs crore (AMFI declares this data by the 10th of the next month). A partial decline in this AUM may be attributable to the pull out by banks in order to comply with the RBI guidelines which restricts the bank investments in mutual funds to 10% of their networth.

Regards

Sandesh Kirkire
CEO

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Q & A with Lakshmi Iyer-Sr.Vice President & Head - Products and Fixed Income

Q) Diversification is the best way to minimize risks is a well known adage. However what should a channel partner keep in mind while designing their clients portfolio?

A: A prudent advisory must engage with the aim of achieving the investment objective of the investor within a reasonable time-frame, and at a level of risk exposure that is within the appetite of the investor.

Q) Could you highlight some diversification avenues which are still emerging in India that we could look at?

A: Investments come in various forms; and range from exotic and lifestyle options like the paintings and wine vats; to more conventional options like mutual funds, bank deposits, direct equities, real estate etc.

Within mutual funds themselves, there are options like money market funds, debt income funds, balance funds, structured funds, other hybrid funds, Fund of Funds, Large-cap oriented Equity funds, Flexi-cap funds, midcap funds, smallcap funds, sectoral funds, overseas funds, Gold Funds, Index ETFs and many more. All these funds are usually designed using a certain proportion of equity securities like stocks, options, warrants, futures etc; and fixed income securities like bonds, debentures, gilts & T bills, CP/CDs, etc; all aimed at devising a portfolio mix that is appropriate for a given risk profile, so as to achieve a pre-stated investment objective.

However, the thrust of the diversification must not be just for the sake of diversification. But, rather to achieve a pre-designated purpose. That is, either to mitigate risk on the overall investment portfolio, or, to enhance the return and/or income potential of the said portfolio.

CLASSROOM

Risk: The necessary evil

'Risk' is the possibility of a result or outcome other than what is expected or desired. In the context of investing, risk is the possibility of investment returns being significantly different from expectations. The element of uncertainty with regards to the performance of an investment is what is generally denoted as risk.

Types of risk and its implications on portfolio

Investments are generally subjected to various types of risks, some of which are:

- **Credit risk:**: The possibility of a borrower defaulting on payment of interest or borrowed principal as committed. Only government securities are considered to be free from credit risk simply because the government has the authority to print money.
- **Liquidity risk:** The possibility of not being able to encash an investment when desired, not realising that not having money when required, defeats the very purpose of an investment.
- **Inflation risk:** When the return on an investment is unable to keep pace with prevailing rate of inflation, investor wealth is eroded. This is an undesirable outcome as the very purpose of investing is to create wealth.
- ***Reinvestment risk**:* The risk of not being able to re-deploy portfolio cash flows at the desired rate of return. If interest rates have declined subsequent to an investment, interest flows may have to be re-deployed at a lower interest rate
- **Systemic risk:** This is the risk associated when an entire financial market disintegrates. It refers to the risk where the failure of one or few entities leads to a domino effect culminating into a complete market downfall. .
- **Non-systemic risk:**Quite the opposite of systematic risk and is specific to the instrument /asset class/ company/country of investment. This risk stems from the performance, policies and practices of a particular investment opportunity
- **Geographical risk**:The risk of investing in a particular country/region etc. Such risk could arise due to political/social unrest, natural calamities, wars, policies, etc
- **Concentration risk:** When a portfolio is skewed towards one or a few constituents, it is rare exposed to the vagaries of that constituent(s). When this dominant constituent fails or underperforms, the portfolio is severely impacted.
- **Legislation risk:** The risk that a business or business model would become dysfunctional or crippled due to adverse government legislation
- **Volatility risk:** Wide variations in the returns generated by the investment over time would be considered volatility. The returns here are not linear but fluctuating.

The risk-return trade-off

As quite evident, risk in its true sense is inevitable and omnipresent in the investment arena. It cannot be just wished away but has to be acknowledged, respected, managed and handled wisely. Risk and return have a fairly close relationship. That is, higher return without risk may not be possible. On the other hand, risk may not automatically guarantee a higher return. It has to be a balanced and calculated trade-off between the two. Investors' goals and risk profile would be a good basis to arrive at this trade-off

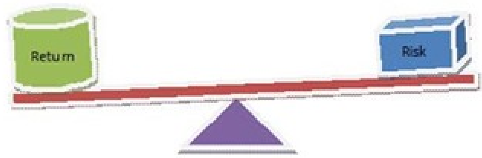
- **Risk profile of investors** : It is important that investments should be in line with the risk profile of the investor. Risk profile would normally include
- **Risk required** :A certain amount of risk would normally become necessary for the investor to achieve his financial goals and objectives with his / her limited financial resources. This minimum amount of risk would have to be taken whether he/she likes or not, to accomplish his/her financial aspirations
- **Risk capacityt**:This refers to his/her capacity to bear the risk. Sometimes, an investor may be financially weak with too little savings but huge debts. In such cases his risk capacity is considered to be low
- **Risk tolerance**:The behavioral aspect of an investor's attitude to risk. Some investors may be risk averse while

Investor's risk profile

others could be risk seeking by their very nature..

Risk mitigation through diversification and asset allocation

An obvious and convenient way of minimizing the total risk of a portfolio would be to spread the money over many constituents having varying risk characteristics so that these risks compensate and complement each other to a certain extent. This process is commonly known as diversification and the proportion of various constituents in the portfolio would constitute the asset allocation, largely depending on the investor's risk profile and financial goals.



Asset classes and vehicles to invest

- **Debt:** Fixed income instruments such as bank/company deposits, small savings schemes, bonds/debentures and debt mutual fund schemes
- **Equity:** Shares, derivatives, equity oriented mutual fund schemes are the possible vehicles for taking exposure to this asset class high on volatility
- **Physical assets:** Precious metals, property, art, antiques, collectibles, fine wines, etc. are some of the possibilities of this asset class which is visible and tangible
- **Alternate assets:** Private equity, hedge funds, venture capital, etc. are some of the alternate assets which are in fact a variant or combination of the above asset classes.

Role of mutual funds in risk mitigation

Mutual funds enable risk mitigation by offering numerous products to suit individual risk profiles with varying exposure to debt and equity and amongst various geographies. Facilities like SIP/STP/SWP; triggers, etc. are some tools in risk mitigation made available to investors by mutual funds. Professional and competent fund managers make informed investment decisions based on thorough research and data thus trying to minimize risk.

Suitability of mutual funds in managing portfolio risk

Mutual funds by nature aid in risk mitigation due to reasons like diversification, regulatory guidelines, process driven approach, adherence to prudent investment norms and principles, etc. Risk moderation is one of the primary attractions of mutual funds as even small investment amounts benefit from the professional portfolio management techniques.

HELLO I AM

UJJAWAL CHADHA

Director,
SUP INVESTMENTS (PVT) LTD, Delhi

My likes	:	Spending free time with my family and reading books

My hobbies	:	Reading and buying books on different topics though I am not able to read all
My favourite past time	:	An outing with family or an evening with likeminded friend
I am very fond of	:	I was fond of drinking but now trying to find new fondness.
Ideal holiday destination	:	Singapore , Switzerland or anywhere with family
Most memorable moment(s)	:	Many. Memories are short-lived and new ones replace the older ones
Wildest / craziest thing I have ever done	:	Para trooping with injured foot
My prized possession	:	My relationships
3 things I cant leave home without	:	Mobile, my watch and my medicine
My favourite perfume	:	Cool Water in summer ; Eternity & Chanel in winters
My favourite book	:	Rich Dad Poor Dad, Secret and Osho Preaching
If I was 18 again	:	Would try to change the ugly part of my life and make it more beautiful.
My idol	:	Warren Buffet
I would like to be reborn as	:	A daring and a focused person
If I was not in this profession then	:	Probably linked to travel industry
The last meal of my life will be	:	Water and Air
3 wishes from a genie	:	• Lamborghini Car and Farm House with all the Luxurious amenities • 500 cr mutual fund industry AUM • In all, a healthy and wealthy life

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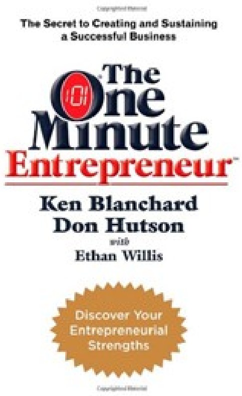
BOOK REVIEW

The One Minute Entrepreneur: The Secret to Creating and Sustaining a Successful Business, ***by Ken Blanchard, Don Hutson and Ethan Willis*****.**



Ken Blanchard is well known for his well received book 'One Minute Manager' which sold over 13 million copies. His other book, the *One Minute Entrepreneur…* has also been a runaway success. It can be safely said that Kenneth Blanchard is a successful management expert who has authored over 30 books on various topics, largely on business leadership and creating successful organizations. *One Minute Entrepreneur* looks at creating a business through the eyes of a single person who faces many challenges, from securing funds to providing excellent service to customers. This book is particularly relevant to readers in India because setting up a small business becomes difficult on account of lack of proper infrastructure and institutional support on many levels. When it comes to enterprise, Ken Blanchard lays down several points that may be of interest to the small Indian entrepreneur. Since small businesses are the backbone of the economy and there is a trend among the urban youth today to create enterprises and businesses to fulfil their aspirations, this book is a must read because it explores why certain small businesses do better than the others.The story of many a small business starts with good intentions and bullish plans. However, a bit of a reality check is sometimes just what is required to build a successful business. As a master story teller and brilliant consultant and trainer, Ken combines both storytelling and practical background information to provide the reader the stimulus to keep reading but at the same time giving information that does matter to the small businessman or entrepreneur.

Even those who are already running small businesses can too benefit from this book as Ken not only talks about building a successful business from the ground up, but, also provides insights into sustaining it. Business owners often have to deal with problems related to gaining customers, keeping them loyal to their products and services and providing impeccable service. Ken talks about finding new sources of revenue for startup entrepreneurs amongst other things. This is one of the most crucial areas for the small business owner in India because unless revenue keeps streaming in, keeping a business afloat becomes impossible.

Every single chapter in this book not only provides clues to the reader about building and sustaining a successful business, but, at the same time also emphasises to focus on family and friends. At the end, business is all about letting the people who work for you having the leeway to making decisions, striving hard to maintain profitability and never losing sight of important business goals. The book provides important lessons for achieving success in a very simple yet a remarkable storyline that will help understand how best to run your business or even to start a new one.,

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WHAT'S UP ON YOU & I?

What's up on www.kotakyouandi.com?

We, at Kotak Mutual Fund strive to build lasting relationships with our existing and potential channel partners like you. We recognize you as a valuable partner and when You & I work together we will reach greater success and create value for each other. We have launched an exclusive online platform called www.kotakyouandi.com exclusively for our existing and potential distribution partners. www.kotakyouandi.com provides you with a host of sections like key market statistics, news on the financial sector, informs you on the latest happenings in Kotak Mutual Fund, Interactive calculators, stimulated AMFI Tests and presentation skills which will surely add value to you. This site seeks to empower you with key financial lessons which may assist you to deal with your clients better. Also modules like MS Office Shortcuts will help you in your work and Skill Building Series will hone your soft skills. Catch a glimpse of all this and more only on www.kotakyouandi.com.

In case you have still not registered then do so now. As a new user you will have to first register and then login using your username and password.

Click Here to Enlarge

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CONTEST

Contest Form

To participate in the "JUMBLE" contest, all you need to do is fill up the form online.

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

*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 September 2011.

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.

"Contest"

In the previous issue of the newsletter we had carried the "JUMBLE" contest. A lucky draw of all the entries was done and 3 lucky winners were short listed.

Sr. No	Name	ARN No	Location
1	Ruchi Anilkumar Agarwal	2862	Mumbai
2	Sunil Kumar Arora	15661	Noida
3	K S Naganhushan	3075	Bangalore

Congratulations to all the lucky winners!!

To participate in the "Finance Syllacrostic" Contest you will have to use some/all of the syllables. All the syllables given can be used only once. Each blank is provided by a clue as to how many syllables will be filled in, as there can be more than one for a single Word.

For example:
Example: Third Sign of the zodiac _ _ _ _ _ _ (3)
Given syllables: A, BI, BU, GE, IG, ME, MI, NI, NORE, PASS, TAL.
Solution: GEMINI.

SYLLABLES TO CHOOSE FROM		
UE	ARB	IT
INC	BEA	INT
RAGE	BL	VI
L	PR	IPA
SK	RI	CH
RER	BE	TA
DEND	DI	IP

1 is an investment strategy of earning from price differences across 2 markets. (3,2,4)

2 Type of bond that does not have the owner's name registered on the books of the issuer (3,3)

3 A listed company known nationally for its ability to make money and pay dividends. (2,2,2,2)

4 Amount owned/invested/face value of a bond (2,3,3,1)

5 The chance an original investment may lose value (2,2)

6 Indicator used to measure a stock's risk relative to the market. (2,2)

7 A sum of money paid to shareholders of a mutual fund scheme out of earnings (2,2,4)

Submit

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