

# konversation

for the wealthy and why's

Kotak Mutual Fund  
Wishes you a very  
Happy Diwali

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## CEO CORNER

Dear Friends,

The onset of the Festivities season in India, coupled with an ebullient rise in the market and the economy, has given us many reasons to cheer about. To that sentiment, it remains our genuine wish that this festive season symbolise growth, prosperity and Joy in your endeavors. And may this truly be a Happy Diwali for you and all.

In the present state of the Indian economy, almost all the major indicators are hinting of an increased rate of growth in domestic consumption and income levels. In particular, the 15% growth in the corporate advance tax payout for the second quarter, and the rapid growth in sales of automobile and parts, is being seen as a reading of a swifter economic revival.

This, coupled with a turnaround in the foreign investment trends, has seen the Balance of Payment account turn positive in Q1-FY10. Further, the Investments surge, and a relatively benign credit regime has assisted in facilitating commercial credit-offtake for the corporate sector - promoting growth revival in the manufacturing and allied sectors.

The resultant rapid increase in the equities market is less of a validation, and more of a studied anticipation of this improvement in the economic health. The 68% increase in the key market indices in the last 6 months, with about 18% rise in the last quarter, has left a sense of deja-vu amongst market watchers.

It can be argued that the rapid growth in the Indian equities market has been the outcome of liquidity interplay, which ensued from the US\$ 13.3 bn FII inflow in H1-FY10. But the fact remains that this skewed flow of the FII money towards Indian markets is a moniker for a relatively better standing of the Indian economy vis-à-vis other emerging markets.

In the mutual funds industry, the aggregate average AUM growth has continued to remain robust. Average AUM in the mutual funds industry in the present calendar year has grown by more than 50% - An increase of more than Rs 2.4 lac crore from the March end number.

During the same period, the average AUM growth in the Kotak Mutual Fund was clocked at 99.1%. This helped the fund house increase its market share from 3.7% to almost 5% in the Mar-Sept 09 period – a market-share expansion of 120 bps. This was the fastest market-share expansion by a fund house in the said period.

The new guidelines from SEBI on the withdrawal of entry loads came into force w.e.f August 2009. These guidelines essentially affect the equity funds sales, as the debt funds traditionally have not had any entry loads. This withdrawal of entry loads has adversely influenced the equity sales for Aug-Sept period, leading to negative growth in the product component. We believe that the market would take some time to adjust to this new paradigm, where the distributors are able to charge the investors. This consequently should lead to maturity of distribution industry from being transaction led to advisory led.

Going forward, there is a near market-consensus that with a progressive middle-class base widening in India, the financial literacy, awareness and demand for investment products too would expand. This will create a huge pull-effect in the industry wherein a large body of informed middle-class investors would solicit and drive an investment decision. The distribution industry, in that case would adapt to a classic role of product dissemination, demand management and logistics support.

This may offer a sizeable opportunity to the investment sector as a whole, and mutual funds industry in particular. It is my opinion that a fund-house that is adept in innovation, ardent in channel partnerships, and consistent in performance, would lead the growth curve.

Regards

Sandesh Kirkire  
CEO





**Kotak Mutual Fund launches Kotak Select Focus Fund:**

Kotak Mutual Fund had launched Kotak Select Focus Fund - an open ended equity scheme. The New Fund Offer was from 22nd July till the 20th August 2009. The investment objective of the scheme is to generate long term capital appreciation from a portfolio of equity and equity related securities generally focused on a few selected sectors and re opens for continuous offer on 18th September 2009. The scheme mobilized Rs 311 crores during the New Fund Offer.



**Govind Damodar Madhaveti:**

Kotak Mutual Fund organized a musical evening, Govind Damodar Madhaveti with Pt. Jasraj on 12/08/2009 at Sanmukhanand Hall, Mumbai. It was a magical evening of classical music with Pt Jasraj's devotional rendering of selected stotras.

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**Hedging with Options**

In the previous edition of this newsletter we had discussed various terms pertaining to equity derivatives. In this issue, we will focus on how to use options. Options can be used effectively to help you limit the downside of your investment value, while enabling you to benefit from any price appreciation of the investment.

**How do options work?**

A 'call option' gives the buyer of the option a right but not an obligation to buy the underlying security at a specified rate on a predetermined future date. The buyer however has to pay a fee (option premium) to the option seller for bearing the risk of price fluctuation. Let's consider the following example to understand how they work... Suppose you want to buy a gold bracelet worth Rs 30,000 but are short of cash at present. The jeweller asks you to pay Rs 2000 (non-refundable) and lets you take the bracelet, provided that you pay up the balance Rs 28,000 in a week. Now, gold prices fall and the price of bracelet comes down to Rs 25,000 in a week. The jeweller asks you to either pay up the remaining Rs 28,000 as determined earlier or forego the Rs 2000 and not buy the bracelet.

Here, the jeweller can be seen as the option seller and you are the option buyer. Rs 2000 is the option premium that you pay the seller for not exercising the option. If gold prices had increased and the value of the bracelet climbed to Rs 35,000, you would have made a profit of Rs 5000.

Similarly you can use a put option, which gives you the right but not an obligation to sell the underlying at a pre determined date. You pay a premium to the option seller for the facility.

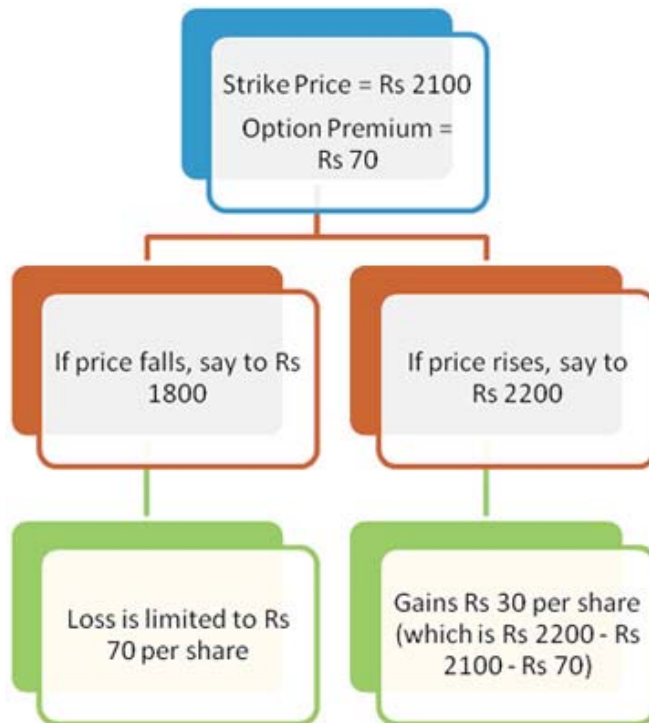
**Using Options in the current market scenario**

Markets have seen a dramatic uptrend and you anticipate a possible correction, in such an uncertain scenario, you can hedge your position against a down fall in prices by buying a 'put' option.

Suppose you hold stocks of XYZ Company:

| No. of shares held | Purchase price per share | Current market price of the share |
|--------------------|--------------------------|-----------------------------------|
| 150                | Rs 1700                  | Rs 2100                           |

To safeguard the value of your investment if the market falls, you buy one lot of XYZ Company 'put' option expiring in October. Your investment would work as follows:



In this way, you can use options to preserve the value of your investment by paying a small premium, but also benefit if the stock prices rise, since you are not liquidating your investment but just hedging it.

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## Investing in ETFs

Investing in the 'right' stocks consistently has always been a challenge for investors. To overcome this, a new category of funds called the Exchange Traded Fund (ETF) was launched, which would invest in the same securities and in same proportions as the underlying index and could be traded on an exchange, just like stocks.

ETFs saw their first day light in 1989 in the U.S. with Index Participation Shares, which mimicked the S&P 500 index and was traded on the American Stock Exchange\*. ETFs have constantly evolved since then, gaining popularity due to the flexibility they offer and the ease with which they can be monitored. Let's understand more about them. \*source: www.wikipedia.com

### How are ETFs structured?

An ETF is structured to replicate an index or an asset. Consider an index XYZ, which is structured as follows:

| Stock    | Weightage in the index XYZ (in %) |
|----------|-----------------------------------|
| <b>A</b> | 25                                |
| <b>B</b> | 15                                |
| <b>C</b> | 40                                |
| <b>D</b> | 20                                |

An ETF based on index XYZ would invest in the same stocks A, B, C and D in the same proportion i.e. 25 per cent, 15 per cent, 40 per cent and 20 per cent respectively. Similarly, in case of a commodity, each unit of the ETF would represent a particular weight of the commodity and reflect the real time prices of that commodity.

### The Indian scenario:

ETFs are relatively new to the Indian market and hence offer a comparatively simpler menu presently. They are presently based on:

- ◊ **Index:** ETFs that mirror broad based stock indices like the Sensex, Nifty and the Nifty junior are available. ETFs that mirror sectoral indices like banking are also offered.
- ◊ **Gold:** In Gold ETFs, each unit represents one or half a gram of gold, backed by an equivalent pure gold.
- ◊ **Fixed Income Securities** – Liquid ETFs invest in short term fixed income securities such as calls, treasury bills, etc.

### Why an ETF?

An investor can gain from investing in ETFs due to the following advantages that they offer.

**Low cost:** Since ETFs do not need active fund management they are less expensive due their lower transaction costs, fund management fees and other related expenses.

**Easy to monitor:** Since ETFs replicates the underlying index/commodity exactly, their performance closely matches the returns of the index/commodity, after

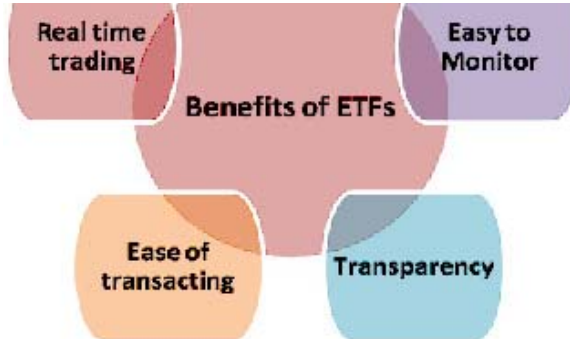
Low Cost

adjusting for the fund expenses.

**Transparency:** Since the underlying asset is already identified, ETFs have a transparent portfolio.

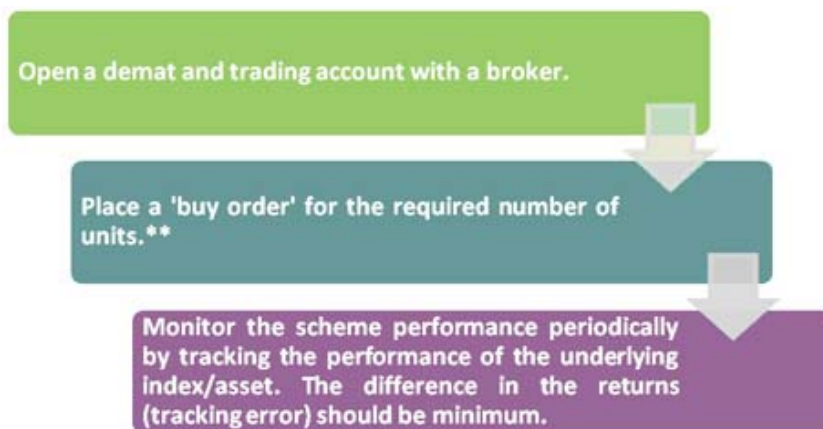
**Ease of transacting:** ETF units can be bought from stock brokers easily.

**Real time prices:** ETF units can be bought and sold on the exchange throughout the trading hours at real time prices.



### Investing in and evaluating an ETF

Investing in an ETF is quite simple and is similar to purchasing any share on the stock exchange.



*\*\*Brokerage and other charges as applicable are paid to the broker.*

### Suitability of ETF to investors

ETFs are suitable for those individuals who seek a convenient instrument to earn the returns similar to an index or commodity. Investors who are relatively new to the stock market can reap the benefit of diversification at a low cost.

The differences between ETF and Mutual Funds (MFs)

|                             | ETF                         | Other MFs                                      |
|-----------------------------|-----------------------------|--|
| <b>Transaction at</b>       | Stock exchange              | MFs and stock exchange (if allowed by the AMC) |
| <b>Management expense</b>   | Low                         | Relatively higher                              |
| <b>Transaction Price</b>    | Real time                   | End-of-day NAV                                 |
| <b>Liquidity</b>            | Dependent on trading volume | Dependent on structure (open or close ended)   |
| <b>Types available</b>      | Few                         | More   |
| <b>Portfolio disclosure</b> | Real time                   | With time lag                                  |
| <b>Exit load</b>            | Not applicable              | May be applicable                              |
| <b>Investment style</b>     | Passive                     | Active / Passive                               |
| <b>SIP / STP/ SWP</b>       | Not possible                | Possible                                       |

### ETFs from Kotak

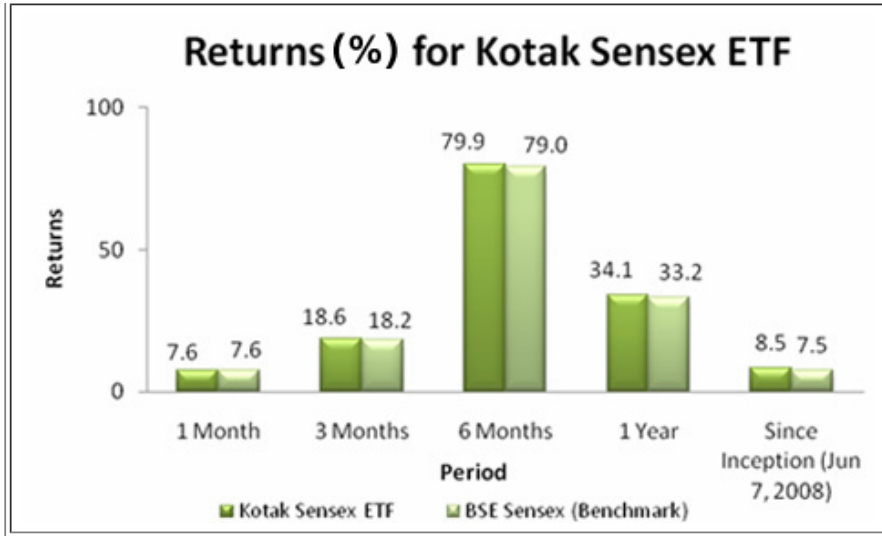
Now that you have a fair understanding of ETFs lets have a look at the offerings from Kotak Mutual Fund.

The present product portfolio of Kotak MF consists of 3 ETFs:

- ◊ **Kotak Sensex ETF**

Invests in the same securities as BSE Sensex. You can benefit from investing in ETF as compared to individual stocks due to

- ◊ Low investible sum needed
- ◊ Diversified portfolio
- ◊ No stock selection risk

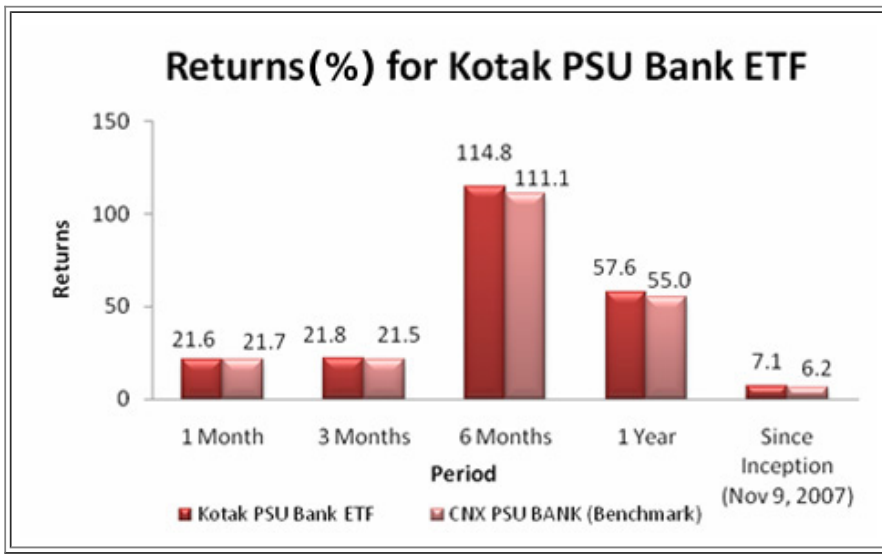


Source: MFI Explorer. Returns are as on September 30, 2009. Returns <= to 1 year are absolute returns and returns > 1 year are CAGR (Compounded Annualised Growth Rate). Past Performance may or may not be sustained in future.

• **Kotak PSU-Bank ETF**

Is a sectoral ETF replicating the PSU-Bank index. By investing in PSU banks offers:

- Perceived to be safer because of high government backing
- The public sector banks in the current environment have been leveraging their existing widespread branch network and gaining market share in business from private banks.



Source: MFI Explorer. Returns are as on September 30, 2009. Returns <= 1 year are absolute returns and returns > 1 year are CAGR (Compounded Annualised Growth Rate). Past Performance may or may not be sustained in future.

• **Kotak Gold ETF**

Offers a convenient way of owning the yellow metal. Investing in our Gold ETF offers the following benefits:

- Opportunity to invest in gold, adding more stability to your portfolio in the long term
- Eliminates the hassles of investing physical gold like storage, transaction loss, quality risk etc.
- Tax benefits with regards to wealth tax and long term capital gains.

## Returns (%) for Kotak Gold ETF



Source: MFI Explorer and Metastocks. Returns are as on September 30, 2009. Returns <= 1 year are absolute returns and returns > 1 year are CAGR (Compounded Annualised Growth Rate). Returns on gold are calculated on gold prices in Rs per 10 grams. Past Performance may or may not be sustained in future.

Happy Investing with ETFs!!!

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Manish with daughter Hrishitaa

Hello...

**I am Manish Shah**

**Director, DMS Investment Advisory (P) Ltd,  
Ahmedabad**

- My likes : Movies, historical monuments & intelligent humor
- My hobbies : Swimming and reading
- My favourite past time : Like playing online poke of Facebook & playing with my kids 😊
- I am very fond of : Food & Family
- Ideal holiday destination : Himalayas 🏔️
- Most memorable moment(s) : When my daughter was born
- Wildest / craziest thing I have ever done : In college played a prank with few students by creating false mark sheet & taking an extravagant treat from them 😊
- My prized possession(s) : My childhood photo album -- its priceless for me
- 3 things I can't leave home without : Mobile phone, kissing my wife & of course my car keys
- My favorite perfume : Drakkar Noir
- My favorite book : My all time favourite is "A Tale of Two cities" by Charles Dickens
- If I was 18 again : Would love to be a Football player 🏈
- My idol : Swami Vivekananda
- I would like to be reborn as : Good human being
- If I was not in this profession then : Would love to own a resort or hotel in Himalayas
- The last meal of my life will be : Would be able to eat with my own hands, sitting with my family on our dining table at my home
- 3 wishes from a genie : Keep me in good health, keep me financially stable & keep my family happy

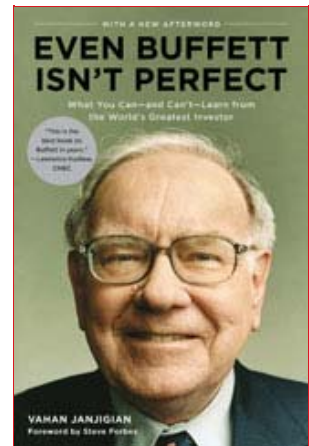
## BOOK REVIEW

### Even Buffett Isn't Perfect: by Vahan Janjigian

Even Buffett Isn't Perfect... is a thoughtful and provoking presentation of Warren Buffett's investment techniques. It scrutinizes and explains Buffett's investment fundamentals and strategies. The book communicates key investment concepts, which individual investors should be aware of, in an easy to understand manner.

Vahan Janjigian brings out Buffett's ability to utilize his research, instincts, judgment and patience for long term success in building wealth. Over the years, Buffet has managed to be a world class investor by refusing to bend to market trends. The author is of the opinion that Buffett is a star, primarily because of his ability to minimize his mistakes and maximize his successes. Apart from bringing out Buffett's different investment approaches, the author also cautions individual investors, who try to emulate Buffet that what might be good for large long term investors like Buffett, may not be good for them. Furthermore, the book advises investors on Warren Buffett's best known investment strategies and at the same time points to certain moves that may not be suitable for small time investors.

The book discusses a number of other investment strategies which are non-Buffett-like, and have been proven profitable by academic research. Even Buffett Isn't Perfect... is well researched and very informative. The summaries and key points featured at the end of each chapter make it a quick and easy read. In short, this is a Buffett book like no other.

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## WHAT'S UP ON YOU & I?

### What's up on [www.kotakyouandi.com](http://www.kotakyouandi.com)?

[www.kotakyouandi.com](http://www.kotakyouandi.com) is a unique platform for you to find your "infotainment" - a healthy mix of information and entertainment. We want you to get valuable information ranging from your profession to tips on developing your soft skills. Also there is a host of interactives such as calculators and quizzes. We have received encouraging feedback on this initiative and we have over 900 registrations till date and the number continues to grow. 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](http://www.kotakyouandi.com) and register now.



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## Contest

### Contest Winners of Konversation – Volume XIII

In our last issue of Konversation, we had carried out a "Broken Words Contest" wherein all the financial words were jumbled in a pair. A lucky draw of all the participants who submitted the correct answers was done and following are the winners:



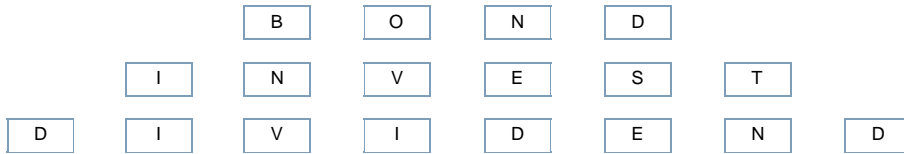
# "WORD PYRAMID"

Each clue leads to a specific term which can fit into the corresponding slot in the pyramid. A sample of this is given below.

**Clue 1– This is a type of debt security that you can invest in**

**Clue 2- This is used to earn returns on your money**

**Clue 3– This is that part of profits that a company shares with its stock holders.**



Please fill in the pyramid with the terms corresponding to the clues given below.

**Clue 1:** A plan that helps you to invest regularly (one word)

**Clue 2:** An Indian index comprising of top 50 stocks(one word)

**Clue 3:** This is what an investor earns on his investments (one word)

**Clue 4:** An investor compares the performance of a mutual fund scheme against this (one word)

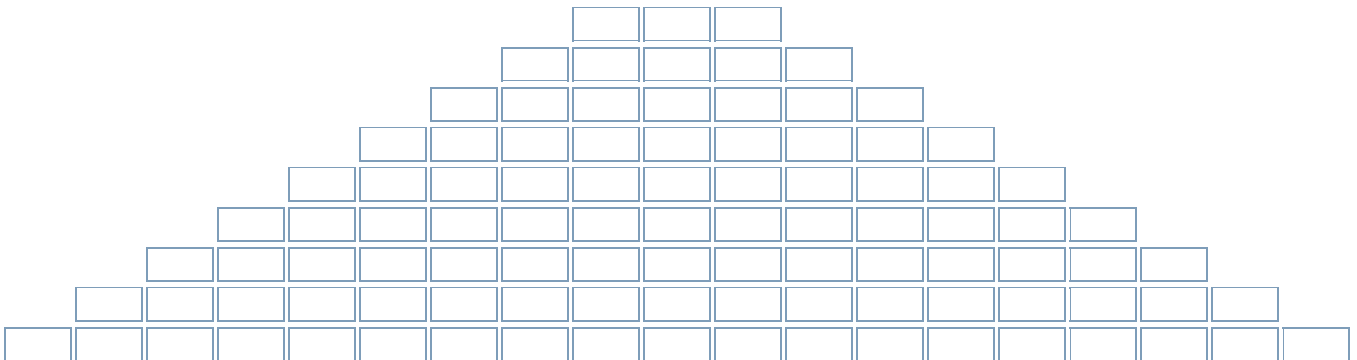
**Clue 5:** This investment plan does not declare its dividends but retains it within the scheme (two words)

**Clue 6:** This document is released when a new scheme is launched and contains all details pertaining to the scheme such as objective, associated risk with investment, fund manager, etc (two words)

**Clue 7:** An investor uses this to distribute funds across different investment classes such as stocks, bonds and other investments. (two words)

**Clue 8:** This category of mutual fund scheme offers a regular stream of income to its investors, investing primarily in debt instruments ( three words)

**Clue 9:** This category of mutual fund schemes can be traded on an exchange, just as stocks are. (three words)



**Submit**

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## Risk Factors :

**Kotak Select Focus Fund:** An open ended equity scheme. **Investment Objective:** To generate long-term capital appreciation from a portfolio of equity and equity related securities, generally focused on a few selected sectors.

**Kotak Gold ETF** is an open ended exchange traded fund. **Investment Objective:** The investment objective of the scheme is to generate returns that are in line with the returns on investment in physical gold, subject to tracking errors.

**Kotak Sensex ETF** is an open ended exchange traded fund. **Investment Objective:** - The investment objective of the scheme is to provide returns before expenses that closely correspond to the total returns of the BSE SENSEX subject to tracking errors.

**Kotak PSU Bank ETF** is an open ended exchange traded fund. **Investment Objective:** - The investment objective of the scheme is to provide returns that closely correspond to the total returns of CNX PSU Bank Index, subject to tracking errors. Kotak Select Focus, Kotak Gold ETF, Kotak Sensex ETF and Kotak PSU Bank ETF are only the names of the scheme and do not in any manner indicate their quality, future prospects or returns.

**General Risks:** 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.

**Statutory:** 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. Kotak Mahindra Bank Limited is not liable or responsible for any loss or shortfall resulting from the operations of the Scheme. Before investing, please read the Scheme Information Document (SID) and Statement of Additional Information (SAI) carefully for full understanding of the Scheme and detailed risk factors. SID and SAI available on [www.kotakmutual.com](http://www.kotakmutual.com)



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