

Wish You a Very Happy New Year

2010



Quarterly Newsletter for the Kotak Family

rishtey

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Dear Investor



Dear Investor,

The arrival of a new year is a marker for change. It provides us a moment to pause and motivates self-introspection. In that context, the New Year bears on us to self-learn and it presents us a challenge to overcome. To that belief, I wish you all a "Very Happy and a Prosperous New Year".

The year of 2009 in its essence was a year of recovery and revival. The battered global economy, trade and industrial sector received a much-needed liquidity during the period. In the Indian context, the early recovery in the economy was attributable to the prolong period of benign monetary policy, fiscal stimulus packages and resumption in foreign capital inflows. The resultant demand stimulus, coupled with low input costs, cushioned the corporate profitability from slackening private demand, heightening the attractiveness of India as an investment destination for global investors. No surprise then that in 2009, the total FII inflow nearly matched its previous all time high at US\$ 17.47 bn.

The equities market provided a grand salute to the changed circumstances of 2009. The improved money supply, a surging economy and a substantial FII inflow gave the necessary boost for an extraordinary bull-run in 2009. The key benchmark indices, Nifty and SENSEX, rallied by 75.76% and 81.03% respectively during the year.

In the year ahead, the market is expected to 'normalise', and behave in tandem with its long-term trend. The economy is expected to post an '8% plus' growth number in FY11, and the equities market may reflect the same trend. It is anticipated that equities market may provide a nominal growth of 12-15% during the period.

However some downside risks to the economy remain. The primary concern still being the high inflation in the primary goods segment and the continued sluggishness in credit-offtake. Given the mutual exclusiveness of these two phenomenons the central banker may have to do a precarious policy balancing to address the two issues.

Likewise, the growth history and future prospect of the mutual funds industry reflects the larger macroeconomic trend. The industry witnessed an AUM growth of 85.1% in 2009, during which period, the AUM of Kotak fund house expanded at 190% to Rs 41401.75 crs. This helped the fund house garner an additional 1.9% market share, aggregating to 5.3% of the total market. This made Kotak Mutual the 5th largest fund house in private sector in 2009.

In conclusion, given the stability and growth which the Indian economy has exhibited over the decade, Indian equities market presents itself as a far more long-standing investment choice than is available in most parts of the world. From an investor's point of view, wealth creating potential which the market has to offer is immense; the only condition is that an objective-driven, systematic and long-term approach to investments be adopted.

I once again wish you and your dear ones a Happy 2010.

Regards,
Sandesh Kirkire
CEO

Fund Manager Speak



Outlook - 2010

As we enter the New Year, one wonders what is in store for the markets. The year 2009 was a year of two halves wherein the sentiments changed completely by the end of the year from where it started. BSE SENSEX returns at 81% after -52% in 2008 were a big relief for all. 2009 also saw the return of the foreign institutional investor with over US\$17.5bn net inflows into the domestic equity markets.

The great performance of equity markets in 2009 often raises doubts over the sustainability of the same in 2010. So what are the key factors to watch out for in 2010?

Policy action - Monetary policy:

The key uncertainty on every investor's mind would be the possible policy action in 2010 both fiscal and monetary. All in all, the timing and the quantum of policy decisions still remains a debate and could cause some degree of market volatility.

With the revival of concerns on inflation, it is a matter of time when RBI reverses its expansionary monetary policy stance. Headline WPI inflation has started inching up with the wearing off of the high base effect. As per the latest reading, WPI inflation rose to 4.78% in Nov-09, from 1.34% in Oct-09.

While it is likely that RBI will start hiking rates, we believe the rise is likely to be rather gradual. With policy rates (CRR, reverse repo and the repo rates) already being very low, marginal increases would result in monetary policy moving back to equilibrium rather than a situation wherein tightening of rates begins to hurt economic growth.

Union Budget:

The other major event in February 2010 is likely to be the Union Budget. First, the quantum of fiscal deficit announced for FY11 would determine the direction of bond yield movement. Secondly, the extent of the widely expected roll-back of the fiscal stimulus would finally be known. However, the expected growth recovery improving tax collections and further disinvestment proceeds coming in could negate the impact of the reversal of excise duty cuts, keeping fiscal deficit under check.

The government will also have to strike a fine balance between managing fiscal pressures and keeping the market buoyant for its divestment program to go through. Without the disinvestment proceeds of Rs 20,000 crore and the receipts from the 3G auctions, there could be over shooting of the budgeted borrowing in FY10.

Economic recovery back on track:

While policy decisions may cause some near term volatility in the markets, the positive is that the economic recovery is now finally on track. The economic recovery cycle would be led in all likelihood by consumption growth in the first half of the year and then the momentum in investment growth would likely pick up in the second half.

The IIP numbers for October 09 revealed growth of 10.3% YoY. Higher industrial production was led by a pick up in activity with higher business confidence and export demand as well as low base effects. While much of the industrial recovery is still consumer led we expect investment spending to pick up pace in the coming few months.

Capex has been lagging, but signs of pick up in capex towards the second half of the year are now in place. Industrial growth has been strong in the last three months, with pick up in the capital goods index. Further, initial signs of pick up in credit off take have been visible in the month of December 2009.

Although the economic recovery is back on track but factors like Steep hike in oil prices, poor monsoons and another global economic crisis are the factors to be keenly watched as these could possibly slow down the recovery process.

In the spotlight



Kotak Mutual Fund launches 'Investor Awareness Programme':

With the objective of spreading awareness on Mutual Funds and the importance of financial planning, Kotak Mutual Fund launched its **Investor Awareness Programme** through a series of investor camps. The first round of camps was in the state of Maharashtra. The events were held in **Nagpur, Aurangabad, Jalgaon, Kolhapur and Nashik**. Over 1200 people attended the camps and showed a lot of interest in learning about Mutual Funds and how should they plan their investments keeping in mind their age, income and risk-return profiles.



Ever wondered what do major indices of a country really indicate? Which sectors do they represent and what stocks do they comprise? Let's have a look at the major world indices and understand what they really mean.

In the first part of the series, we will try to understand the most famous / reputed indices that are used worldwide.

An index is basically an indicator of the movement of stocks.

SENSEX:

SENSEX represents the top stocks of the Bombay Stock Exchange. It represents 30 most important stocks. These companies account for almost one fifth of the actual market capitalization of the Bombay Stock Exchange. The index is calculated based on a free-float capitalization method which means that it does not include restricted stocks, such as those held by promoters, government and institutional investors. If the SENSEX goes up, it means that the prices of the stocks of most of the major companies on the BSE have gone up. If the SENSEX goes down then stock price of most of the major stocks on the BSE have gone down. The BSE is located in Mumbai.

NIFTY:

Nifty represents the top stocks of the National Stock Exchange. It represents 50 most important stocks accounting for 21 sectors of the economy. It is used for a variety of purposes such as benchmarking fund portfolios, index based derivatives and index funds. Nifty is the most reputed index of the National Stock exchange and the most widely used as well. Since it consists of 50 stocks, it is a broader index compared to the SENSEX. Nifty is also calculated on a free float market capitalisation method.

Dow Jones:

Is among one of the world's most popular stock market indices. It tracks the performances of 30 important stocks in America. Most famous international American companies included here are Bank of America, DuPont, Coca-Cola, Microsoft, Pfizer etc. There are companies from every important sector like Information technology, Computers, Banking, and Pharmaceuticals etc. Dow Jones Industrial index provides industrial performance along with performance of all sectors.

NASDAQ:

NASDAQ 100 is an index developed by NASDAQ. NASDAQ is the world's first and largest electronic stock exchange and is based in New York in the United States. With approximately 3,700 companies and corporations, it has more trading volume than any other stock exchange in the world. NASDAQ 100 is an index of 100 largest domestic and international non-financial companies. These companies' weights in the index are based on their market capitalizations, with certain rules capping the influence of the largest components.

We will be back with a few more international indices and their relevance. Watch out this space for more in our next issue.

Source: - www.makemoneyideas.in/list-of-stock-indices.php; www.wikipedia.com; www.bseindia.com; www.nseindia.com

Know-a-scheme



Kotak Tax Saver:

As the last quarter of a financial year comes closer, "**Tax Planning**" becomes a buzzword in our minds. Tax planning through Mutual Funds is an option you could consider. Let's have a look at Kotak Tax Saver- an Equity Linked Savings Scheme which gives you two reasons to rejoice

- Growth Potential
- Tax saving*

Scheme Highlights:

- Income tax benefits under section 80 (C) of the Income Tax Act(subject to Income Tax regulations)
- Flexible Systematic Investment Plan (SIP) and Lumpsum investment options
- Investment amount being Rs 500 and in multiples of Rs 500 thereof

So what are you waiting for? Invest! Rejoice.

KOTAK TAX SAVER

Growth Potential

Tax saving*

*Subject to Income Tax Regulations

To know more
SMS "TAX" to
5676788
or visit our website
www.kotakmutual.com
to invest online.

Alternatively you can also
get in touch with your
financial advisor to know
more.

Did you know?



Americans on average eat **18 acres of pizza** every day.



Humans have **46 chromosomes**, peas have **14** and crayfish have **200**.



Chocolate is good for you — unfortunately, its additives aren't! **Pure cocoa** powder is full of iron and antioxidants. Add sugar or butter, though, and the **calories** begin to mount.



Human body is creating and **killing 15 million** red blood cells per second!



Honeybees have a type of hair on their eyes!



It was once against the law **to slam your car door** in a city in Switzerland!



More germs are transferred **shaking hands than kissing**.



One in **every 2000 babies** is born with a tooth.



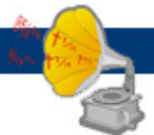
A plastic milk jug takes **1 million years to decompose**.



Seventy-three different kinds of **pesticides** have been found in **groundwater**, which is potential drinking water.

Source: www.amazingfacts.co.in

Ha ha hee hee...



An old man visits his doctor and after thorough examination the doctor tells him: "I have good news and bad news, what would you like to hear first?"

Patient: "Well, give me the bad news first."

Doctor: "You have cancer; I estimate that you have about two years left."

Patient: "Oh no! That's awful! In two years my life will be over! What kind of good news could you probably tell me, after this??"

Doctor: "You also have Alzheimer's. In about three months you are going to forget everything I told you."

Get in touch



We would love to hear from you. Please give us your feedback / suggestions on how we can make Rishtey better. Please write into rishtey@kotak.com. For any product / service related queries you can always call our service desk on 1800-222-626 (MTNL / BSNL lines)

Risk Factors

Kotak Tax Saver Fund: an open - ended equity linked savings scheme. Investment Objective: To generate long-term capital appreciation from a diversified portfolio of equity related securities and enable investors to avail the income tax rebate, as permitted from time to time. Amount invested in the scheme shall be subject to a lock-in of 3 years irrespective of whether the investments would be eligible for tax benefit or not. The above does not constitute an advice or a representation. Investors are requested to seek professional advice in this regard. Kotak Tax Saver is only the Scheme's name and does not indicate its quality, future prospects or returns.

General Risks: Mutual Fund investments are subject to market risks, there is no assurance that the Scheme's objective will be achieved. NAV of the Scheme's Units can go up / down depending on the factors and forces affecting securities markets. Past performance of Sponsor / AMC / Fund does not indicate the Scheme's future performance.

Statutory: Kotak Mahindra Mutual Fund is a Trust (Indian Trust Act, 1882). Investment Manager : Kotak Mahindra Asset Management Company Ltd. Sponsor: Kotak Mahindra Bank Ltd. (liability Rs. Nil). Trustee: Kotak Mahindra Trustee Company Ltd. Please read the Scheme Information Document (SID) and Statement of Additional Information (SAI) before investing. SID & SAI are available on www.kotakmutual.com.

Quote

"Habits change into Character"- Ovid