Enrichmentors Wealth Builder Advisory

The application of concepts for building wealth

Which asset class to invest today? Which to exit? How?

August 2013

What is in this Issue

From The Editor's Desk

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Dear Reader,

We talked about the investment strategies during July in the last issue including what are the right asset classes to invest in July as on End June 2013. We also talked about the most suitable methods and schemes to invest as well asset classes to hold and exit.

During the month of July, the equity market were quite volatile rising from 5900 to 6100 and then falling sharply to 5700. It appears that the equity market is consolidating and is poised for long term growth as and when the economy picks up. We continued o see further depreciation in the value of Rupee vs the dollar with Rupee falling to levels of Rs 61 per dollar in spite of the measures, though half hearted, by RBI. The debt market dropped sharply due to the Open market operations of RBI. Only silver lining was the rise in Gold from Rs 2400 per gram to about Rs 2600 per gram. Other silver lining was the higher FDI coming through such deals as Unilever's increase in stake and Jet Etihad deal which will bring in more dollars into the country in next 6 months.

Given these significant changes in the valuation of these asset classes you may have the following questions in your mind. Should you continue

- Investing in Gold, other commodities and equity when NIFTY is around 5500?
- Exiting from Equities when NIFTY is above 6200 and Debt to invest in Gold and Equity?
- Holding your investments in Property, Debt, Insurance and Equity when NIFTY is between 5500 and 6200?

Or should you change these overall strategies? Which ones should you change ? Which ones should you continue?

I will try and answer these questions again for you in this August 2013 issue so that you can take the right decisions.

Hope you will find this advisory useful in building your wealth! Please do contact me any time if you have any question during the month. Happy to help you build your wealth!

The application of concepts for building wealth
Which asset class to invest today? Which to exit? How?

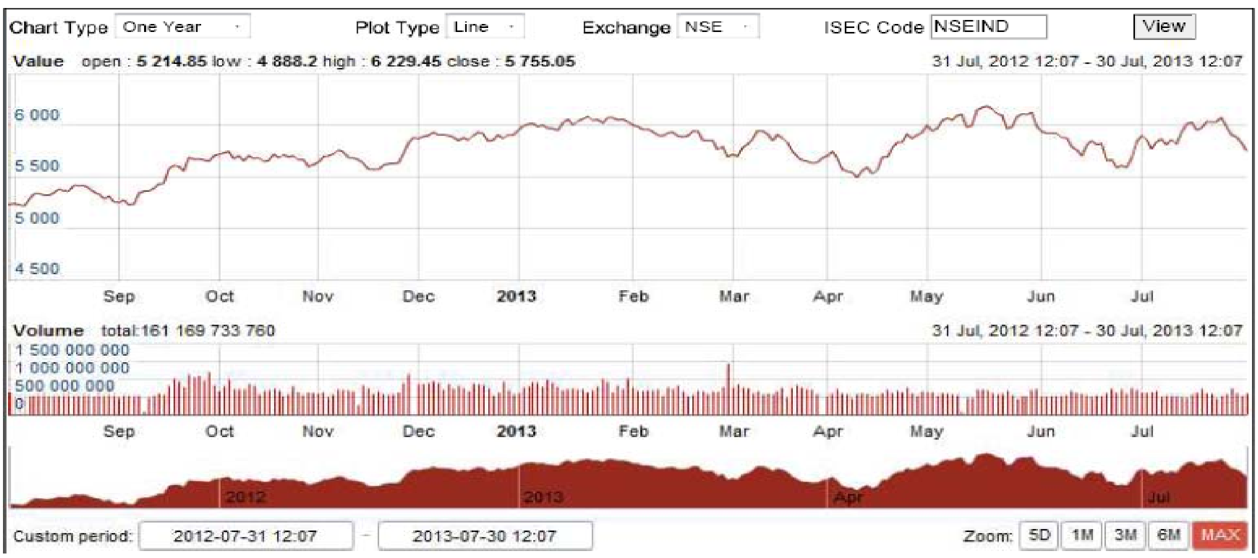
This wealth builder advisory attempts to answer the following questions.

- *What should be your strategy today for building wealth?*
- *What asset classes should you invest now? Why? How?*
- *What assets classes should you exit? Why? How?*
- *What asset classes should you hold? Why? How?*

<u>What should be your strategy for building wealth today?</u>

Equity market was quite volatile during the month of July. NIFTY rose from 5900 to 6100 and dropped down to 5700 at the end of the month.

As mentioned earlier, it appears that NIFTY is consolidating around the 5700 levels before breaking out above 6200.



So it appears that Equity market is waiting for some positive cue either in the domestic or international market to break out above 6200. Only thing uncertain is its timing!

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What should be your strategy for building wealth today?

Debt Market plunged by 10% during July driven by the RBI's Open Market Operations to reduce supply of falling Rupee vs. the USD as confirmed by the rise in the 10 year bond yield.

Interactive Chart for India Govt Bond Generic Bid Yield 10 Year (GIND10YR)

Gold provided the silver lining in otherwise gloomy market with Gold Prices rising from Rs 2400 per gm to Rs 2600 per gm

So if you were invested equally between Equity, Debt and Gold, your wealth would have marginally eroded on account of equity prices dropping during the month and gold compensating for debt. Investors with high proportion of debt would have seen significant erosion of wealth while Investors with high proportion of Gold would have been wealth build up.

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What should be your strategy for building wealth today?

Given the above situation today what should be your overall Wealth Building Strategy

- What should to invest into
- What should you exit and
- What should you hold

Invest	Exit	Hold
Gold on dips, Commodities Equity when NIFTY is around 5700	Equity when the NIFTY above 6200 Debt to invest into Equity or Gold	Debt, Property, Insurance & Gold Equity between 5700-6200

Gold continues to be good place to invest your money and build your Gold Holding in long term. With the prices now at Rs 2600 per gram any significant dip like 10% will be a good opportunity to build your long term Gold Holdings.

Commodities financing continues to be good area for investment as it was during the last month.

With the consolidation of NIFTY around 5700 and bullish outlook long term, I would recommend investing into equity at current levels. Please remember that the timing of appreciation is uncertain but sure to happen in next 3 years time horizon after it being stagnant for last three years in 5500 to 6200 range and economy still moving at about 5% rate in spite of all obstacles. If the FDI card of Government of India plays out well, it would be earlier! Of course there is a chance that it could be later as well, though remote.

If the Equities market increases and NIFTY reached 6200, again it would be prudent to exit from 50% of your profitable equity investments.

You may need to exit from your Debt holdings to the extent required to invest into equity or Gold

You can continue to hold your investments in Property, Insurance, Gold and Debt after making the required exits for investments into Gold and Equity. Continue to hold equity between 5700 to 6200 of NIFTY.

So the overall strategy will be to switch from Debt to Equity and Gold on dips and Equity to Gold or Debt on rise in equity markets, while holding Property, Insurance and Gold

With this overall wealth building strategy, let us now look at how best to execute this strategy.

How to best invest in Gold, Commodities and Equity now?

I continue to prefer to invest in Gold Funds for the investment purpose due to following reasons and as mentioned in the June 2013 EWBA

- ✓ Does not attract wealth tax as Physical and Demat Gold will
- ✓ No risk of theft or quality like Physical Gold
- ✓ No need to keep track of the price of Gold Units like Gold ETF for taking profits

I continue to recommend investing in commodities through Spot Buying for general investors like you. This method can provide a pre tax return of 11-14% with practically no risk. You buy a lot of any suitable commodity available on National Spot Exchange with an forward contract to sale at an agreed rate. This way you are really financing the commodity deal with surety of sales while buying itself.

So most suitable means for you as general investor continue to be to invest in Gold through Gold Funds and in commodities through NSEL.

Let me now spend some time on how best to invest in equity.

If you are a full time financial investor with the knowledge of the shares, you can directly buy the fairly priced company shares with valuations up to Price Earnings Ratio of 15. The buying needs to be very selective and you should be ready to further invest into these shares if the prices fall.

If you, either, are not a full time financial investor, or do not have adequate knowledge of the share market, it would be best for you to invest into Diversified Equity Fund of a large Mutual fund like HDFC, Birla Sun Life etc.

I prefer investing into HDFC Equity Fund which has performed well over a long period of time. This fund reduces your risk of investing into equity market with its diversified portfolio and large investment base.

Given below the comparative performance of the top 8 diversified equity mutual funds over a 10 year period.

June 29, 2013					Invested over the length of time								
Fund Name Sort	Risk Rating Sort	Performance Figures based on Prices as at	Minimum Initial Investment Sort	Sharpe Ratio Sort	1-wk (%) Sort	1-mth (%) Sort	3-mth (%) Sort	6-mth (%) Sort	1-yr (%) Sort	2-yr (%) Sort	3-yr (%) Sort	5-yr (%) Sort	10-yr (%) Sort
HDFC EQUITY FUND- GROWTH	6	June 28, 2013	Rs. 5,000	-0.11	0.93	-6.74	-1	-8.36	6.43	-1.89	1.98	13	24.71
BSL EQUITY FUND- GROWTH	6	June 28, 2013	Rs. 5,000	-0.27	1.63	-5.82	0.22	-7.89	10.66	0.47	-0.65	6.62	23.38
DSP BLACKROCK OPPORTUNITIES FUND- GROWTH	6	June 28, 2013	Rs. 5,000	-0.16	1.86	-3.64	3.21	-4.21	16.38	0.87	1.96	9.56	23.22
TATA EQUITY OPPORTUNITIES FUND PLAN B- GROWTH	6	June 28, 2013	Rs. 5,000	-0.12	1.49	-3.34	2.67	-1.57	12.69	5.21	2.75	6.49	23.18
HDFC GROWTH FUND- GROWTH	6	June 28, 2013	Rs. 5,000	-0.15	1.76	-4.98	-2.3	-8.34	4.05	-0.71	1.82	9.42	23.17
PRINCIPAL GROWTH FUND- GROWTH	6	June 28, 2013	Rs. 5,000	-0.17	0.97	-5.15	1.03	-7.57	13.94	4.1	1	3.15	16.6
JM EQUITY FUND- GROWTH	6	June 28, 2013	Rs. 5,000	-0.27	3.1	-3.93	4.28	-2.36	13.2	0.21	-1.36	0.67	15.1
BSL INDIA OPPORTUNITIES FUND- GROWTH	6	June 28, 2013	Rs. 5,000	-0.33	1.82	1.56	-1.4	-4.19	5.37	-0.6	-1.03	4.62	14.34

How to best exit from Equity above NIFTY 6200 and Debt Funds to invest?

As mentioned earlier, when NIFTY reaches 6200, it is time to partially exit from Equity whether held in the form of shares or Mutual Funds, through the modus operandi of exit will differ.

If your are holding equity in the forms of shares of many companies, you need to keep exiting these company shares in full one by one as and when they peak as detailed in the June 2013 EBWA

If you are holding many Mutual Funds, you can exit the mutual funds that are giving you good returns but are inherently either risky or of "not so good" quality as also elaborated in the June 2013 issue

Let me talk now about how to best exit from the debt fund if you need funds to invest in equity or gold funds.

Each of the debt funds you would have invested will have an exit charge if you exit before a certain period. The only exception is the liquid funds which have no exit charges. These charges range from 0.25% to about 1% of the invested funds.

When you want to exit from your debt funds, you should first look to exit from the Liquid Debt Funds which have no exit charges and provide you also lower return. Once you have completed your exit from such Debt Funds, you should look at exiting from those debt funds where you will not pay any exit charges on account of holding them for a period longer than the minimum period.

Such an exit plan will help you minimize your exit charges as well as keep with you the higher yielding debt funds with you.

Another important thing to remember when exiting from debt funds for investing into Gold or Equity Funds is to use "Switching" options instead of "Redemption". Switching enables you to directly convert your debt funds into the Gold or Equity funds instead of getting the money into your bank and then making the payment for the Gold or Equity Funds.

Since there is a lot of volatility in the Equity and Gold Funds prices, the switching also allows you get the "day you want to buy" prices of gold and equity funds.

How to hold Debt, Property, Gold and Insurance?

Most of what said in the June 2013 issue of the EBWA will work for hold your investments in Debt, Property, Gold and Insurance. Just remember that these are your long term investments and unless there is better option you just let them lie with you.

Let me summarize here now the investment strategies for August 2013

- **Hold your investments in Debt, Property, Gold and Insurance in general**
- **Keep watching the Gold prices and NIFTY during the month.**
- **If the Gold prices drop by about 10% from Rs 2600 per gram, switch from debt funds to Gold Funds for every 5% drop in Gold price, till your Gold Holdings as % of Total investment is about 20-25%. If Gold prices go up, hold your Gold investments at least till the previous high of Rs 3200 per gram in reached.**
- **If the NIFTY drops to <u>5700</u> or below, switch from Debt Funds to Equity in staggered manner. If it reaches 6200, Switch 50% of equity into Debt or Gold!**