

Enrichmentors Wealth Builder Advisory



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

September 2013

What is in this Issue From The Editor's Desk

Arun Singhal is the Founder and Principal Mentor & Managing Partner of Enrichmentors India. He founded Enrichmentors in 2007 to help individual investors build their wealth successfully in addition to providing business consultancy to Small and Medium Enterprises. He learned about building wealth successfully from his personal experiences in debt and equity markets in India over these years and now offers advisory services to individual investors about how to build their wealth by investing right in Debt and Equity markets in India now. He received his AMFI certification in 2011 and is an authorized mutual fund distributor for all the mutual funds. He also teaches Wealth Management at IIPM. He operates out of his office in Mumbai and can be contacted at arunsinghal@hotmail.com.



Dear Reader,

We talked about the investment strategies during Aug in the last issue including what are the right asset classes to invest in August as on End July 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 Aug, the equity market dropped sharply from 5700 to 5300 vs. my expectation of it consolidating around 5700 and preparing for growth. We saw a substantial loss of confidence of the Foreign Institutional Investors (FII) in the Indian equity market and continued sell off on account of inappropriate measures taken by RBI. We also saw sharp depreciation in the value of Rupee vs. the dollar with Rupee falling to levels of Rs 69 per dollar in spite of the measures by RBI, again half hearted and also inappropriate. Only towards the end of the month did RBI got down to serious actions of setting up alternate mechanisms like SWAP deals for PSUs to manage the dollar demand. We now have to see how does the new RBI Governor behave and that will determine the movement of the Indian Equity Market. If the new RBI Governor announces pro economic growth actions, we can see some revival in the Indian Equity Market, else the market may continue at the same levels if not go down further. The debt market also dropped further vs last month's level in the absence of any positive actions by RBI. Given these uncertainties Gold reached its previous highs and is at a stage to move in either direction depending on the further government actions.

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, on dips, other commodities and equity, 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 5700 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 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 !

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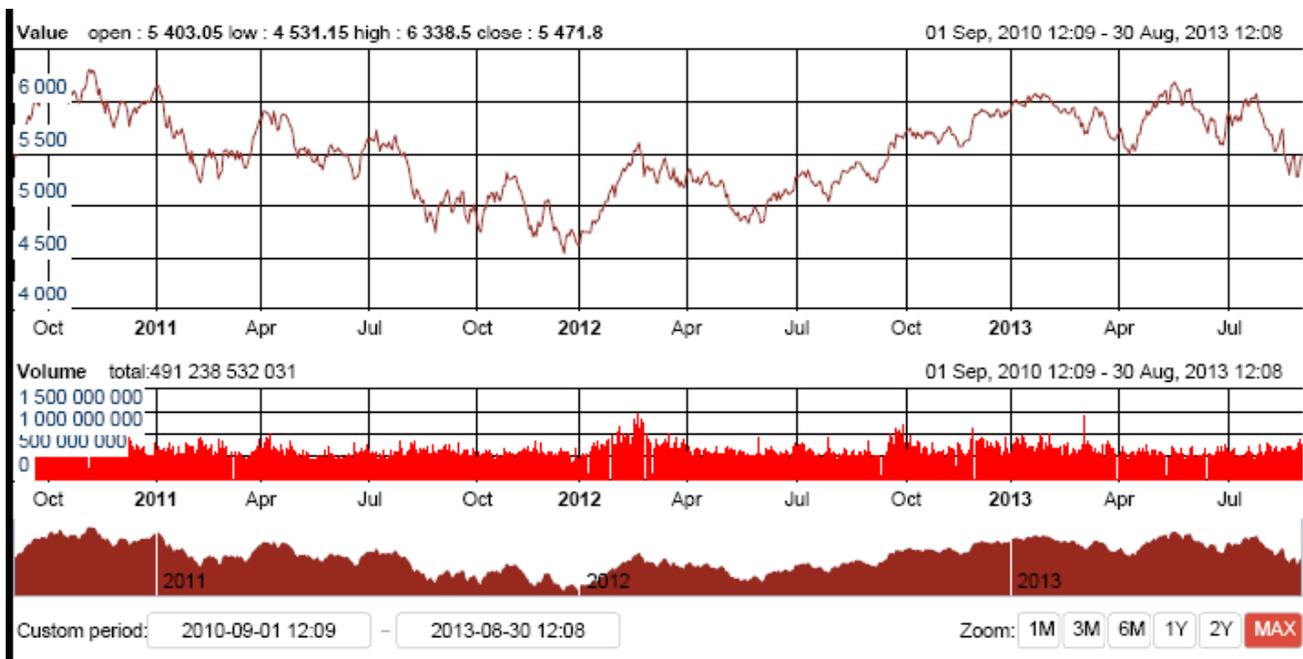
The application of concepts for building wealth Which asset class to invest today? Which to exit? How?

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?*

What should be your strategy for building wealth today?

Equity Market dropped further NIFTY touching 5300 during the month vs. my expectation of consolidating around 5700 and is at a point where it can move in either direction.



The Equity Market can move down to 4500 as the worst case in next few months if the Government of India and RBI continue to take more populist measures to win the elections instead of policy actions like reduction in interest rate to revive the economy.

It may also surprise us by moving in the positive direction up to 6200 if the policy actions are favorable and nothing untoward happens in the rest of the world.

My understanding is that the uncertainties will continue till the elections are held early next year, to say the least. If the popular mandate is for a stable government, we can hope to see some stability returning and reflecting in the government policies for economic revival on a firmer footing.

So be prepared for a roller coaster ride in the equity market and learn to enjoy and profit from it! In fact, if you play well, it may well prove to be good time to build wealth by timely switching from and to equity market but remember to have courage to invest when others fear and exit when you feel greedy to remain in it!!

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What should be your strategy for building wealth today?

Debt Market plunged by another 10% during August driven by the RBI's tight monetary policy and is expected to remain at this level until the reversal in policy happens

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



Gold continued to rise and almost touched its one year high



So Gold was the only asset class between Equity, Debt and Gold where the appreciation happened.

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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

| | Invest | Exit | Hold |
|------------------------------|---|--|-----------------------------|
| ➤ What should to invest into | Equity in staggered manner at NIFTY levels of 5000 and 4500 | 50% of Gold at current prices and more at Rs 3300 per gm | Debt, Property, Insurance |
| ➤ What should you exit and | Gold at Rs 2700 per gm and 2400 in staggered manner | Debt for investment in Equity and Gold | Equity between 5400 to 6200 |
| ➤ What should you hold | Surplus Cash in Debt | 50% Equity at 6200 NIFTY | Gold till Rs 3000 per gm |

Equity is good place to invest in staggered manner at current levels if not already done at 5500 NIFTY. Keep funds to invest equal amount more at the levels of 5000 and 4500 NIFTY incase the market reaches those levels

If Gold drops to 2700 and 2400, it will be good to reinvest in Gold and wait for its appreciation

You can sell 50% of your Gold Investments at the current levels of 3000 per gm and if it continues to rise to 3300 another 50% of your balance Gold Holdings. The cash from such exit can either be invested in Equity or parked in Debt funds

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 and Debt after making the required exits for investments into Gold and Equity. Continue to hold equity between 5400 to 6200 of NIFTY and Gold till it is below Rs 3000 per gm

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

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

How to best invest in Gold and Equity ?

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

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 | Risk Rating | Performance Figures based on Prices as at | Minimum Initial Investment | Sharpe Ratio | 1-wk (%) | 1-mth (%) | 3-mth (%) | 6-mth (%) | 1-yr (%) | 2-yr (%) | 3-yr (%) | 5-yr (%) | 10-yr (%) | |
| Sort | Sort | | Sort | Sort | Sort | Sort | Sort | Sort | Sort | Sort | Sort | Sort | 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 | 4.34 | |

For parking your funds in the Debt funds, I would recommend investing in HDFC Cash Management Treasury Advantage Plan-Growth Option as that will give you about 7-8 return post tax with the flexibility of withdrawal within 24 hours without paying any exit charges.

Please keep in mind that markets are unpredictable as of now and you need to take quick action to make best use of this volatility. Call me when you need. Happy to help!

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