

## Weekly Market Chatter @ Sensex 17,748.7

- Sunday Business Line

### Index Outlook: Thus far, how much further?

It was a closely fought contest between the bulls and bears in Indian stock market last week. The bears put their might behind preventing the Sensex from shooting past the 18,000-mark and the Nifty above 5,400. The bulls were more concerned with maintaining a firm foothold and not letting the indices slip. This tiff resulted in the indices moving in a very narrow band through the week.

Most global equity markets, including ours have had a strong run since the beginning of this calendar. The question now preying on investors' mind is how much further will this rally go? Signs of nervousness and diminishing risk appetite were reflected with the dollar index reversing higher and the steep spike in the CBOE VIX, also called the investors' fear gauge.

Cash segment turnover was unusually high on NSE last week, among the highest recorded in recent months. Derivative volumes were also strong, especially on Friday. Open interest has moved up to Rs 1, 40,000 crore.

Despite the dull sideways move in the front-line indices, individual stocks witnessed brisk action based on quarterly earnings and other announcements. Macro-economic readings on GDP, trade deficit and industrial production helped to temper the optimistic mood in the market. With the Union Budget just a month away, prognosis on the likely provisions in this document will begin dominating investor conversations.

Both the indices moved close to the ceiling of their medium-term trading range and are tantalizingly poised just below. As explained last week, the medium-term range for the Sensex is between 15,500 and 18,000 while the range for the Nifty is between 4,600 and 5,400.

Rally above current levels will make the medium-term trend positive and pave the way for rise to 18,826 in the Sensex and 5,648 in the Nifty. But reversal below 18,000 in the Sensex will mean that the index can stay volatile between 15,500 and 18,000 for the rest of this year.

The week ahead should give us clues about the medium-term intention of the indices. The fact that both the Sensex and the Nifty are holding firm above the 200-day moving average is a positive. Weekly oscillators are also signalling a reversal in medium-term trend. But daily oscillators are sagging after last week's sideways move. Signs of weakness in the charts of global benchmarks also imply that though the indices could take a step higher, some consolidation is likely in the upcoming weeks.

### Sensex (17,748.7)

The weekly candlestick chart of the Sensex is very pleasing to the eye with five consecutive green candlesticks topped by a doji. There are also no signs of weakness in the short term. The need for caution arises from the fact that the index is nearing the resistance band between 18,000 and 18,200.

Our preferred view is that the index moves a little further to 18,008 or 18,255 before declining. The correction could halt at 17,221 or 17,000. If the index manages to hold above these levels, it will mean that the uptrend will continue after a hiatus, maybe to take the index higher to 18,826 by Budget.

This positive short-term view will be altered if the index declines below 17,000. Fall to 16,600 or 16,200 will then be possible. The Sensex needs to close below 16,200 to signal that it is readying for a deep dive.

**Write the will right**

*Business Line: Feb 12, 2012 SURESH PARTHASARATHY*

*For hassle-free transfer of wealth from one generation to another, it is essential that individuals focus on estate planning.*

Family fights over the division of assets are often the subject of movie plots and soap operas. Such disputes are an increasing occurrence in the real world too.

In the last two decades, individuals have accumulated a lot of wealth and hold a number of assets, but they do not devote equal attention to estate planning.

For hassle-free transfer of wealth from one generation to another, it is essential that individuals focus on estate planning.

*What is estate planning?*

Estate planning is concerned with the distribution of your assets according to your wishes or preferences after your passing.

*Nominate*

The first and most simple step most of us can take to make sure our wealth is passed on is to nominate beneficiaries for all of our financial assets.

While buying insurance it is mandatory to fill in the nominee's name. In mutual funds too, the application form allows for nomination and investors must use it.

Even if you have not mentioned a nominee at the time of investing, you can do so later.

*Write a will*

The easiest and simplest form of transferring wealth to intended beneficiaries is by writing a will. The will takes effect upon the death of the testator (the person who wrote it).

Any person over the age of 18 and in sound mind can draft his own will. It is not mandatory that it should be written by a lawyer.

A will can be written on plain white paper in any style. According to the Hindu Succession Act, there is no formal style for writing a will. The succession of property may differ based on the religion and customs of the testator.

An individual can also register the will. In Tamil Nadu, it costs less than Rs 1,000 to register a will with the Registrar office. Registration prevents tampering of the will as a copy is preserved with the registrar.

*Conditions*

What assets can you will?

All assets accumulated through your own earnings — property, jewellery, land, shares, deposits, cars and cash along with obligations and liabilities — can be passed on through a will. For inherited property, a Hindu can only distribute his share of assets to his legal heirs.

The person who is making a will should elaborately describe assets and identify them.

If it is immovable assets, it is better to mention the location and year of purchase. To avoid litigation in future, the testator should legibly affix his signature at the end of the document with date in the presence of the witness.

The will needs to be attested by two witnesses and it should be signed in the presence of the testator. If the will runs into pages, the testator needs to sign all the pages, whereas witness need sign only on the last page. The witness should know the contents of the will.

While writing a will, it should be remembered that a new will always supersedes an existing document.

#### *Review*

It is important for the testator to review the will periodically and particularly in the event of change in the family situation, such as birth, divorce, marriage and addition to the wealth.

#### *Probate*

A probate is official recognition of the original will. As per the Indian Succession Act 1925, in cities such as Chennai, Kolkata and Mumbai, it is mandatory to probate a will. In the case of financial assets, probate is necessary. However, finance companies and bankers say that in the case of deposits, proceeds may be paid to the nominee, he is legally responsible to assign benefits as per the will to beneficiaries.

Normally the nominee or the beneficiary applies to the court for grant of probate.

The time taken to complete the process may be anywhere between six months and three years.

On the demise of the investor, to effect the transmission of shares, units or other financial assets in favour of the nominee, the following documents will be required:

A letter from the nominee claimant to the Fund or Registrar requesting for transmission of units. A format of the letter is available at the Registrar and Mutual Fund web sites.

Death Certificate in original or a photocopy duly notarised or attested by a gazetted officer or a bank manager.

Bank account details of the new first unit holder i.e. the nominee along with attestation by the bank branch manager or a cancelled cheque bearing the account details and account holders name.

The procedure is much the same for shares held in the investor's name.

#### **Four sales pitches by insurance agents that you mustn't fall for**

*Vidyalaxmi, ET Bureau Feb 7, 2012, 01.04AM IST*

The first three months of every year is very lucrative for most insurance agents. This is the period when they manage to lure financially novice tax payers into buying various insurance options that can also pass off as investment and make their moolah.

As most of the salaried people start looking for common quick-fix tax solutions during this period, insurance agents manage to push products that are beyond the comprehension level of most investors, and pocket hefty commissions and meet their business targets. There are some typical sales pitches which are necessarily factual and definitely not in your best interest. We list some common ones here.

##### *1. Pay premium only for five years*

Beware of the agent if s/he tries to sell you a Unit-Linked Insurance Plan (Ulip) as a five-year product. Factually, there is nothing wrong per se with this sales pitch, but you will not mostly make any or meaningful gains if you quit the product after five years. "It becomes easier to tap a customer for a short-term commitment such as five years.



Hence Ulips are very popular among customers than a simple term plan," says Rahul Aggarwal, CEO, Optima Insurance Brokers. Also misselling takes place when these agents promise stupendous returns within a span of five years.

"Ulips are highly rewarding only if an investor stays invested for 15 years. The front loading is so high in case of Ulips that it takes almost five years for the customer to recover the loss and it takes another 10 years to earn a decent return," says Aggarwal. "Even an agent gets maximum commission in this period.

Hence, there have been instances where agents have convinced customers to sign up for another Ulip after three years, citing reasons that they would be rewarded by opting for multiple Ulips than continuing with one for a long period of time," says Suresh Sadagopan, certified financial planner with Ladder 7 Financial Services.

### *2. Buy Ulips instead of ELSS. It's like an MF with insurance*

Does this sentence ring a bell? Anytime you walked into a bank to do a KYC or buy a tax-saving mutual fund, chances are they must have tried to sell Ulips as an attractive combination of investment bundled with insurance. "I have come across instances where Ulips are sold as unit-linked investment (not insurance) plans. It is pitched as an ELSS with an insurance cover.

For a financially non-savvy customer, this just does not occur as an insurance plan," says Pankaj Mathpal, CFP & managing director, Optima Money Managers. What an investor doesn't realise is although a Ulip works very similar to a mutual fund, it is strictly a short-term product. If an investor is looking for a 5-year investment vehicle, s/he is better off investing in a mutual fund.

### *3. Money back policy offers insurance & return on premium*

This is a fact but is still not a good enough reason to buy traditional insurance policies.

"Investors end up buying an expensive recurring product like an insurance scheme thinking that much amount will be saved from the tax perspective every year.

But this investment may not be in line with the individual's goal and the financial portfolio," says Swapnil Pawar, chief investment officer, Karvy Private Wealth. The problem with endowment policies is that a policyholder has no idea where the money is being parked.

They are not transparent compared to Ulips, which clearly give a bifurcation of all the expenses and investment corpus from the premium amount.

There are a number of such products in the system where the investor is unaware of the investment strategy of the product. But what works against an endowment plan is the long tenure of premium payments.

### *4. Don't buy term cover, you won't earning Anything in return*

This pitch will find many takers because of which the concept of term cover is yet to take off. "Today, there are several takers for term products because of their fine pricing. At the same time, there are several policyholders who feel that term products don't offer any return on premium," says Deepak Mittal, MD & CEO, Edelweiss Tokio Life.

Insurance is primarily a tool for protection. It covers the possibility of an eventuality which could land your family in a financial mess. Considering that misfortune, this is a small price a policyholder has to pay for a term cover. On an average, you can get a pure online term cover of 50 lakh at around 8,000 per annum. Even if you take on a huge liability such as a home loan or a car loan, take a term cover of the loan amount, which will pay the dues if something happens to you.

Whenever you want to buy an insurance product, you have to be clear about your objective. "When it comes to last-minute tax planning, avoid buying long-term products which have recurring payments. Go for products with one-time investment amount such as NSC, tax saver FDs, ELSS, etc," advises Mathpal.

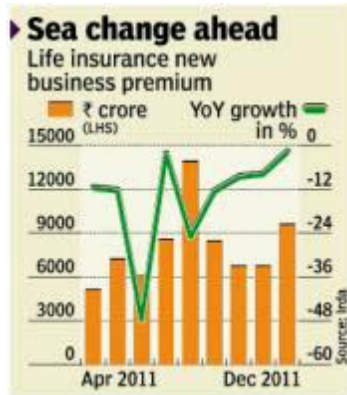


## Recent Happenings and News

### Insurance policies will go demat in a year

NSDL, Stockholding Corp in race to be the depository for paperless policies

DNA: K V Ramana / Hyderabad



If all goes well, the insurance sector will move into a paperless policy environment sometime next year. The Insurance Regulatory and Development Authority (Irda) is at an advanced stage of tying up technology-related issues and would allow the insurers to port the policies they have into a depository once the systems are in place.

“I hope it (paperless policies) will come in a year. The depository should start functioning first — in the manner it is designed to. Once it attains a certain level of capability, insurance companies are going to develop products to suit that,” J Hari Narayan, the Irda chairman, said.

The regulator is said to be finalising the depository service provider at this point.

National Securities Depository Ltd (NSDL) and Stock Holding Corporation of India Ltd (SHCIL) are said to be frontrunners to the deal, though the Irda chief has not named them.

“We have shortlisted three or four of the service providers after calling for applications,” he said.

According to him, about 5-6 crore policies are sold in the country every year and the concept of paperless insurance becomes a reality once these policies are stored in the depository in an electronic form starting with one particular year.

However, Hari Narayan said that the insurance being contractual in nature, should continue to remain enforceable even in an electronic form. In direct sales, for instance, starting from outsourcing to electronic sales there has been a significant development in the way the distribution is channelised.

“So, it is logical to move to a paperless insurance activity. For that, we need the insurance companies to maintain a strong depository where all these policies are kept in an electronic form since there is a contractual liability. Since it is an enforceable contract, there should be a record of it and should be non deniable on both sides of the transaction,” he explained.

However, the industry is still waiting to see the fine print of the paperless insurance concept since it is not just about storing the policies in electronic form but to perform the contractual obligations.

“It will take some time for the industry to understand the concept first. Though a proof of concept is already available in the stock market, the insurance industry is different and there are not many transactions as in the case of shares. Policies come up for renewal infrequently and there is also a good number of claims to be settled. So, it calls for additional investment by insurers on a robust IT backbone,” the director of a general insurance company said. He did not wish to be named.

### Parl panel moots wider slabs for personal income tax

Suggests far more generous provisions than proposed in Direct Taxes Code

Business Standard Gyan Varma / New Delhi February 10, 2012, 0:27 IST

A parliamentary panel is set to recommend sweeping changes in personal income tax slabs proposed in the Direct Taxes Code (DTC) Bill. A draft report prepared by Parliament’s standing committee on finance suggests increasing the income tax exemption limit to Rs 3 lakh a year against Rs 2 lakh proposed in the Bill.

The committee, chaired by Bharatiya Janata Party leader and former Finance Minister Yashwant Sinha, wants a 10 per cent rate to kick in for annual income of Rs 3-10 lakh, according to those in the know. The Bill proposes this rate to be imposed in a slab of Rs 2-5 lakh. The draft report also recommends 20 per cent income tax rate be paid by those earning income of Rs 10-20 lakh a year. This slab was proposed to be Rs 5-8 lakh in the Bill.

Finally, the report wants the government to impose a peak rate of 30 per cent on annual income above Rs 20 lakh, as against above Rs 10 lakh as sought in the Bill. The report is not final and minor tweaking of these suggestions could be incorporated after a meeting tomorrow, according to the persons cited earlier. Tax slabs needed to be progressive, they said, adding, "Most of the assesses would fall in the category of Rs 3-10 lakh a year, which should get a lower income tax rate of 10 per cent."

The finance ministry expects the standing committee to give its report in the Budget session of Parliament, so that DTC could be introduced from April 1, 2013.

The committee will finalise the report tomorrow and give it to the government. "It is up to the government to table the report in the Budget session or not," they said.

In fact, the suggestions in the draft report of the committee are much closer to the original discussion paper put out by the finance ministry on DTC.

That paper had suggested a 10 per cent tax rate for Rs 1.6-10 lakh a year, 20 per cent for Rs 10-25 lakh and 30 per cent for income above Rs 25 lakh a year.

But, the paper had also proposed to do away with a host of exemptions. After certain quarters protested, the ministry proposed in the Bill to give some of those exemptions but also narrowed the income tax slabs.

Currently, income of Rs 1.80-5 lakh attracts 10 per cent income tax, Rs 5-8 lakh 20 per cent and above Rs 8 lakh 30 per cent.

The standing committee's draft report wants the government to cautiously implement the General Anti-Avoidance Rules. These provisions, contained in the Bill, are aimed at authorising the tax department to demand tax in situations where the main motive of a transaction is to have a tax advantage.

These provisions have assumed importance after the government lost the Vodafone case in the Supreme Court. Many believe the Budget may incorporate the proposal, even before the introduction of DTC.

#### **IRDA clashes with industry over single premium policies**

*Moneycontrol.com Published on Wed, Feb 08, 2012 at 22:22 | Source : CNBC-TV18*

There's a battle brewing between insurance regulator IRDA and life insurance companies, and this one is over single premium policies, reports CNBC-TV18's Mitra Joshi and Payaswini Upadhyay.

Insurance regulator IRDA is going slow when it comes to approving single premium policies - policies where the policy holder makes a one-time premium payment. It believes these policies do not help the industry in the long term. On the other hand, industry body Life Council says these bring more people into the life insurance net.

"There are strong logical reasons for people to be taking single premium policies. For example, there are people who are in a job which gives seasonal income or periodical income once in two-three years and these people will like to take single premium policies," explained SB Mathur, secretary general of Life Insurance Council.

The truth is that single premium policies have found quite a few takers. In 2011, individual single premium policies contributed 16% of total premium collected by the industry while group single premium accounted for 30%. That's a whopping Rs 33,200 crore.



But IRDA argues that these policies see no customer servicing once the premium is paid and wants insurance companies to launch schemes that require regular premium payments over at least five years.

The industry, meanwhile, says these products are an agent's favourite, and should not be done away with.

According to senior vice president of strategy and product at HDFC Life, it is easier to tell a customer to pay once and forget about it. "If single premium is done away with, what you will find is an industry which is finding it difficult for agents and distributors to be able to generate volumes. You will find another avenue blocked in terms of convenience of selling," he said.

It all boils down to this - IRDA wants greater investor protection but the industry sees this as a threat to its distributor and agent workforce.

### **Manappuram Fin warned off deposits**

*Financial Express ENS Economic Bureau. Posted online: 2012-02-07 01:26:29+05:30*

Cracking the whip on the illegal activities of gold loan companies, the Reserve Bank of India (RBI) on Monday asked Manappuram Finance Limited, a leading financial services firm that provides loans using gold as collateral, not to accept or renew deposits from the public.

The RBI has stated that "acceptance of deposits either by Manappuram Finance or by Manappuram Agro Farms (MAGRO) is punishable with imprisonment and has cautioned members of public that those who deposit money with Manappuram Finance or MAGRO do so at their own risk".

It has come to the notice of the Reserve Bank that Manappuram Finance, which is not authorised to accept deposits, has been accepting deposits from the public in its branches and offices has been issuing deposit receipts in the name of Manappuram Agro Farms, a sole proprietary concern of VP Nandakumar who is the executive chairman of the company, the RBI said.

"It is further observed that in some cases instead of repaying the matured deposits, fixed deposit receipts are being issued in the name of MAGRO. In terms of Section 45-S of the RBI Act, acceptance of deposits from the public by MAGRO, which is an unincorporated body, is also prohibited," the RBI said.

Headquartered in Thrissur, Kerala, Manappuram Finance was a company registered with the RBI as a deposit taking non-banking financial company.

However, it became a non-deposit taking non-banking financial company with effect from March 22, 2011.

"Acceptance of deposits from the public, including renewal of matured deposits by that company, thus, amounts to contravention of the terms and conditions of the certificate of registration currently held by it and the directions issued to the Reserve Bank and thus punishable under the Reserve Bank of India, 1934 (RBI Act)," the RBI said.

Manappuram Finance reported a profit after tax of Rs 160 crore (up 117 per cent year-on-year) and an overall asset under management (AUM) of Rs 12,400 crore (up 90 per cent YoY) during the third quarter ended December 2011.

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*Sources: ET/valueresearchonline.com/Business Line/Business Standard/Personalfn.com /BSE /NSE/ Moneycontrol.com /SEBI/Outlook Money/Money Today/DNA/Mint/MoneyLife*

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