

Weekly Market Chatter @ Sensex 18,143.9

- Sunday Business Line

Index Outlook: Stepping beyond the barrier

The Sensex leapt above the jinxed 18,000 mark last Monday, aided by strong auto sales numbers for July and pick up in monsoon rains. Though there was a perceptible deceleration thereafter, the index managed to close the week above this level. Small-cap stocks joined the ongoing party in a big way last week; some surfacing from a multi-year hibernation to feature in the top gainers list on BSE.

As the earnings season peters out, Indian stocks will increasingly turn their eyes outward for cues. The FOMC meeting and the Federal Reserve Chairman, Mr Ben Bernanke's statement following it will set the course for stocks over the short-term.

The greenback has been spiralling lower against other currencies over the last two weeks. Erosion in value of this safe haven asset can accelerate funds inflows into high growth economies such as ours.

Foreign institutional investors continued to support stock prices over the past week while domestic institutional were selling incessantly. Turnover in the derivative segment was muted though open interest is already nudging Rs 1.5 lakh crore.

Oscillators in the daily chart moved in to bullish region in the beginning of the week but they began

sagging again as the week progressed. Momentum indicators in the weekly chart are trudging sideways in a narrow band since last August reflecting the sideways trend in the index over the medium-term.

We had briefly reviewed the long-term view last week and had arrived at the conclusion that this view is turning positive. The medium-term trend in the Sensex however continues to be sideways. If we consider the e-wave counts of the move from February low, the index has the medium-term target of 18,356 and then 19,271. Minor counts of the move from May low of 15,960 also give us a likely target around 18,600 and beyond that at 19,300.

In other words, the Sensex could meet its nemesis again in the zone between 18,300 and 18,600 and a decline toward 16,000 can then follow. If this zone is crossed, 19,300 becomes likely. But we would advise investors to move away from stocks in that scenario since speculative frenzy could then reach a crescendo.

Near-term view for the index is positive and it can rally to 18,400 or 18,574 in the days ahead. Key short-term support is at 18,013 and investors with short-term perspective should buy only as long as the index trades above this level. Close below 17,839 will denote a possible threat to the ongoing rally from May lows.

ULIPS not favourable for policyholders of pension plans

5 Jul 2010, SKANDITA AGRAWAL, ET Bureau

NEW RULES OF THE GAME

ULIP's Structural Change

	Current	New Guidelines
Lock-in period	3 years	5 years
Top up	No death benefit	Death benefit attached
Charge distribution	Loaded in first 2 years	Evenly distributed over 5 years
Cap on charges	Policy < 10 years: 3% Policy > 10 years: 2.25% Early exit cost impact not clear	Policy < 10 years: 3% Policy > 10 years: 2.25% Capping is yearly basis
Cap on surrender charges	No caps	*Premium < Rs 25000: Lower of 20% of AP/FV up to maximum of Rs 3000 *Premium > Rs 25000: Lower of 6% of AP/FV up to maximum of Rs 6000
Minimum premium paying term	3 years	5 years
INSURANCE AMOUNT		
Regular Premium	5 X AP	Age < 45 years: Higher of 10 X AP or 0.5 X Tenure X AP Age > 45 years: Higher of 7 X AP or 0.5 X Tenure X AP
Single Premium	Tenure < 10 years: 125% of SP Tenure > 10 years: 110% of SP	Age < 45 years: 125% of SP Age > 45 years: 110% of SP
Health Cover	NA	Age < 45 years: Higher of 5 X AP or Rs 100,000 p.a. Age > 45 years: Higher of 5 X AP or Rs 75,000 p.a.
Loan	Not granted	Equity exposure > 60%: 40% of FV Debt exposure > 60%: 50% of FV
Guarantees	NIL	4.5% on pension plans
On surrender of pension policies	Fund value	1/3rd of the fund value as lump sum 2/3rd in annuity
Source: IRDA website	AP=Annualised Premium , SP= Single Premium , FV=Fund Value * These charges further lower down on yearly basis and become nil by 5th policy year	

The spat between insurance regulator IRDA and equity market regulator SEBI settled in favour of the former. The government came out with an ordinance making Insurance Regulatory and Development Authority (IRDA) the sole regulator of unit-linked insurance plans (ULIPS). However, the victory for insurance industry and their regulator is mixed as ULIPS are now governed by a new set of guidelines that may change the whole ULIP story. ULIPS launching after September 1, 2010, will have lower charges, guaranteed returns and larger insurance cover.

POSITIVES

Increase in insurance cover

According to the new guidelines, insurance cover for both regular premium policy and single premium policy has increased. For those below 45 years old, the minimum death cover will be 10 times the annualised premium against five times now. For investors above 45 years of age, the cover will be 7 times the annualised premium. Also, the single premium policy cover is now based on the age of the policyholder rather than the tenure of the policy. The guidelines explicitly mention the maximum limit of health insurance cover provided by insurers. Another beneficial development is that no insurance cover (life or health) will be less than 105% of the total premiums paid by the policyholder. So investors are well insured for peril.

Cap on charges

This is one of the most vital changes that has impacted insurers hard, but has proved beneficial for investors. The cost caps that came into existence in 2009 did not stop mis-selling of plans by agents as commission were heavily loaded in the first two years of the policy. IRDA has put a check on this by spreading the front-loading

evenly over the first five years of the policy tenure. Also, earlier the guidelines proposed that the reduction in the yield on maturity for policies less than 10-year tenure would be 3% and for policies with tenure more than 10-year would be 2.25%. However, as an investor the cost could be still very high during the course of the policy. So if one surrenders in the 6th or 7th year, the impact on yield could be around 6-7%. The guidelines have addressed the issue by providing caps on the charges on yearly basis, while keeping the maturity caps unchanged. The cut in yield keeps decreasing till it becomes 2.25%.

Cap on surrender charges

Another significant aspect of the guidelines is the cap on surrender charges, which were 100% in the first year. However, these charges are now capped not only on percentage basis but also in absolute terms, leaving the investor to pay not more than Rs 6,000 in case the annualised premium is higher than Rs 25,000, and a maximum of Rs 3,000 in case of lower annualised premium. These charges go on decreasing as the years go by and become nil in the 5th policy year.

Loan

New guidelines have made provision for loans. The loan margins depend on the funds exposure to equity. In the case the premium is invested in the investment option (fund) with more than 60% of equity exposure, the loan granted would be 40% of the fund value. Whereas, in case premium is invested in high debt-oriented fund, the loan will increase to 50% of the fund value.

NEGATIVES

Increase in the lock-in period

In the new guidelines, the lock-in period of the fund has increased from three years to five years. So, in case the policyholder surrenders anytime before fifth year, the policy will be available to him only after the fifth year. Also the minimum premium paying term of limited premium policy has increased to five years, compelling investors to pay for long.

Sum assured on top-up

Top-up is the extra premium paid for investment purpose. Before, no sum assured was levied on this investment, it would only get invested in the fund and earn market returns like mutual fund investment. Now IRDA has levied death benefit on these top-ups also. So, for instance, a 50-year-old policyholder makes a top-up of Rs 10,000 per year, his death benefit will increase by Rs 70,000. This will then be followed by an increase in the mortality charges.

Minimum guarantees

Pension policies will now have to offer minimum guaranteed of returns of 4.5% a year on maturity. Though guaranteed returns sound attractive, the percentage of the return provided is very small. Fixed-income securities, such as Public Provident Fund, National Saving certificate, provide much higher returns of 8%. In order to provide guarantee returns, insurers will hold more in debt options. Also 4.5% guarantee would mean decrease in the actual worth of fund invested, as the inflation rate is running at 11%.

Compulsory annuitisation

IRDA has made insurance cover or health cover optional with pension plan, but on the other hand, annuitisation is now compulsory for all pension products. So now if one buys a pension plan, they will have to stay invested till the maturity. If the policy were surrendered within the term, then only one-third of the fund will be given as tax-free lump-sum while the rest two-third will buy an annuity, which is taxable.

These changes are a mixed bag. For policy holder of pension plans, it is not so favourable but for the rest, it is quiet a lucrative deal. Investors will gain from the high insurance cover and reduced charges.

Long Term Infrastructure Bonds u/s 80 CCF

CBDT has notified New infrastructure Bonds u/s 80CCF. An Individual or HUF can invest in these new infrastructure Bonds up to Rs 20,000/- in a financial year.

Main features of this new section and new notification is given below

1. This bonds will be called "Long Term Infrastructure Bond"
2. New section can be availed by individual or HUF only.

3. Rs. 20,000/- can be invested in a financial year to avail deduction under section 80CCF
4. Rs. 20,000/- limit is in addition to 1,00,000/- limit of section 80C, 80CCC, 80CCD
5. Tenure of the Bonds will be 10 Years.
6. However Lock in period is 5 years ,after 5 years investor can withdraw money from the bonds
7. After lock in period, Investor can take loan against these Bonds
8. Issuer of the Bonds is LIC, IFCI, IDFC and other NBFC classified as infrastructure company.
9. There is a limit of total amount of Bonds which can be issued by these companies.
10. Permanent account Number is must to apply these bonds.
11. Yield of the bond – The yield of the bond shall not exceed the yield on government securities of corresponding residual maturity, as reported by the Fixed Income Money Market and Derivatives Association of India (FIMMDA), as on the last working day of the month immediately preceding the month of the issue of the bond

NFOs: Coming Soon – as per Draft Offer documents filed with SEBI up to July 2010

Mutual Fund house	Name of fund	Type	Components / Theme
Tata	Natural Resources fund	OE Equity	Incl. companies outside India
Kotak, Birla Sun Life, IDFC, Franklin,ICICI	FMPs of various tenure	CE Debt	

OE = Open Ended, CE = Close Ended

Source: SEBI website

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

This newsletter is a compilation of news from various news sources and is meant for private circulation only. The information contained in this commentary is not a complete presentation of every material fact regarding any industry, security or the fund and is neither an offer for units nor an invitation to invest. This communication is meant for use by the recipient and not for circulation. The views do not constitute investment advice.

*If you wish to be taken off the mailing list, please reply back with the word **UNSUBSCRIBE** in the subject box.*

Knowledge
partners
CREATING VALUE FOR YOUR MONEY

