

Weekly Market Chatter @ Sensex 17,166.6

- Sunday Business Line

Index Outlook: Poised for a breakout

One of the most boring weeks in recent history has just gone by with one somnolent session following another. The NMDC share issue did nothing to lift the mood as it limped its way to full subscription. The bulls and bears are evenly matched at this point and the narrowing range in stock price movement denotes that there will be a snap any moment now; something's gotta give.

Volumes were subdued in both the cash as well as the derivative segment as market participants await clarity on the market's next move. Index put call ratio has declined to 0.89 implying that many among the trading fraternity have squared up their short positions. Open interest too is continuing to pile higher. FIIs were net buyers in all sessions though their enthusiasm waned slightly in the later half of the week.

The Sensex wandered aimlessly in the band between 17,000 and 17,250 before ending the week 1 per cent higher. The series of small stars formed in the daily candlestick chart is an apt reflection of the indecisive state in the market. Oscillators in the daily chart continue to signal a buy but weekly momentum indicators are signalling caution.

The 10-week rate of change oscillator has declined in to the bearish zone. What is more disconcerting is the fact that this oscillator has been diverging negatively since last May implying that there is serious lack of momentum over a medium-term time frame.

Let us take a step backward and try to understand the way the index is moving over the medium-term time frame. A double zigzag pattern was completed in Sensex from the March 2009 low of 8,047 to the October 2009 peak. The momentum began deteriorating from the C wave of this pattern giving the impression of a broad-based sideways movement since August last year.

The movement since October last has multiple connotations. One of the counts is that of an X wave down to 15,330 followed by a flat formation. The minor c of this flat could now be unfolding that has the targets of 17,074 or 17,954. The pattern could, of course, turn in to a triangle or a double or triple three. That would result in the index moving sideways between 14,000 and 18,000 for few more months.

We are assuming that this sideways move is a terminal corrective wave that winds up the up-move since last March. However, a strong move above 18,500 will call for a revision of this view and will imply that the index will make an attempt at getting past 20,000 this year.

As far as the short-term view is concerned, the Sensex is moving sideways with a distinct positive bias. Another spurt higher towards 17,509, 17,790 or 17,967 is possible in the near-term. Investors can however expect plenty of turbulence as the index closes in on the 18,000 mark. Subsequent target is 18,373. Supports for the week ahead would be at 16,766, 16,635 or 16,367. Short-term investors can continue to buy in declines as long as it holds above 16,600.

Tax planning - FMPs in the reckoning

Business Line, Sunday March 14, 2010, Vidya Bala

FMPs often yield superior post-tax returns when compared with bank deposits

It's that time of the year when tax-planning is on top of the mind for most investors. And it is not merely the Section 80C tax deduction that can save those few extra bucks that you may shell out. With a little planning, schemes such as Fixed Maturity Plans with maturity of a little over a year, can help investors avail double indexation benefits when they mature; provided the interest rates of debt instruments are conducive. And they seem to be.

With interest rates just commencing their upward journey, bank fixed deposit rates, although up by 75-150 basis points, have still not become lucrative enough to lock-into over a medium-term period. The one-year bank deposit rate currently available is at about 7.5 per cent.

For an individual in the peak tax slab of 30 per cent, the post-tax return on this would be 5.25 per cent. This is where Fixed Maturity Plans (FMPs) can provide superior tax-adjusted returns for investors.

Where they invest

FMPs invest in fixed income instruments such as corporate bonds, debentures, government bonds, commercial paper, certificates of deposits, money market instruments and sometimes in securitised debt. As FMPs are close-end instruments they typically lock in to those instruments that broadly coincide with their own maturity profile.

This way, the fund mitigates the risk of interest rate volatility (which open end debt funds are subject to) and ensures its return is close to the coupon rate of the underlying instruments.

Double indexation

Currently a number of fund houses have come up with FMPs ranging from 367 days to 15 months. The debt instruments in which these FMPs can currently invest have indicative yields of anywhere between 5.5-8 per cent. As the FMPs would invest in a combination of these debt options, the indicative yield on an average could be at least 6.5-7.5 per cent.

Assuming a 1 per cent expense fee and a yield of 7.5 per cent for a 370 day FMP, the post tax (at 10 per cent) return of 6.6 per cent would be superior to the bank deposit rate. If one were to instead, avail indexation (tax 20 per cent), the indexing would be for 2 years, as the FMP tenure is a little over a year. Depending on the capital gains index for 2010-11 this could even give a capital loss (notional) and curb outflow.

Option II

For those investors who do not prefer locking in to FMPs and wanting to wait for clarity to invest in open end debt funds, a three-month FMP at a possible yield of about 6 per cent (short term commercial deposits earn anywhere between 5.5-6.9 per cent currently) for 90 days, could be another option.

However, in this case, the short-term capital gains would be taxed at the regular tax slab that one suffers. This strategy is therefore suitable only for those investors in the 10 per cent tax slab.

A quarter later, when there the debt market perhaps receives direction from the inflation numbers as well as government borrowing, investors could move to debt funds or bank deposits if the later offers returns of at least 9 per cent.

Not risk-free

However, note that FMPs are not risk-free. The risks inherent in FMPs would be determined by the quality and nature of debt instruments that they invest.

FMPs with higher proportion of securitised debt or investing in papers with lower credit rating may typically carry higher risks.

At present, fund houses such as Kotak Mutual, HDFC, Sundaram BNP Paribas, Religare and Birla Sun Life have FMPs with a tenure of up to 15 months. These schemes would close anywhere between March 15 to March 18.

Tax refund delayed? Use RTI to know why

15 Mar 2010, 1238 hrs IST, TNN CHENNAI

Life just got better for millions who have ran from pillar to post for years to secure their tax refunds from the income tax (I-T) department.

In a landmark ruling, the Central Information Commissioner has passed an order which says information on refunds is covered under the Right To Information (RTI) Act.

L Lakshmi Narayanan, an assessee, had filed an RTI petition with the (I-T) department in Chennai, asking for information as to why was there a delay in the payment of his IT refunds for 2003-04, 2005-06, 2006-07 and 2008-09, amounting to Rs 3,32,457.

The department, however, refused to provide Narayanan the information contending that such information did not involve any larger public interest.

“The information sought is covered under Section 8(1)(e) of the RTI, wherein the information sought is not in larger public interest and is purely personal in nature,” the department told the petitioner.

However, the appellant received refunds for 2005-06 and 2006-07 while he was seeking information. Following this, Narayanan filed another appeal to which the income tax department replied: “Information regarding issue of one’s own refund is necessarily a personal information, the disclosure of which has no relationship to any public activity or interest.”

M L Sharma, the Central Information Commissioner, while passing the order, said: “To deny the appellant information sought by him under clause (e) or clause (j) of section 8(1) is nothing but misappreciation of law.”

The information sought by the appellant is covered under section 2(f) of the RTI Act and he has a right of seek information under section 2(j) thereof. It is clarified that the appellant has not sought any information which the public authority is holding in fiduciary capacity.”

While directing the income tax department to disclose information for the inordinate delay, he also ordered the issue of refunds within three months. The CIC also rapped the department for failing to appear in a hearing arranged by the commission where the appellant was present.

Do the due before investing in company FDs

16 Feb 2010, 1032 hrs IST, Prashant Mahesh, ET Bureau

As much as 55% of Indian savings find their way to bank fixed deposits. Over the past one year, fixed deposit interest rates from nationalised banks have gone down from 8-9% to around 6-6.5% now for a period of 1-3 years.

“With fixed deposit rates from banks coming down, investors seeking higher returns from fixed income products are investing in company fixed deposits,” says Aseem Dhru, MD & CEO of HDFC Securities, which has recently started distributing company fixed deposits. Company fixed deposits work for investors seeking assured returns higher than that offered by bank fixed deposits.

Here are some key points you need to keep in mind while investing in company fixed deposits.



Security

Company fixed deposits are unsecured. In case of bank fixed deposits, the Deposit Insurance and Credit Guarantee Corporation of India guarantees repayment of Rs 1 lakh in case of default. There is no such guarantee offered in company deposits and the safety of your deposit depends on the financial position of the company.

This means, as a depositor, you have no lien on any asset of the company, in case it goes into financial difficulties and is wound up. Your turn to get your money back would come only when secured lenders have been paid. So do not invest in unknown companies.

Risk v/s return

Today, investors could expect around 5-8% from income funds, depending upon whether it's an ultra liquid fund or a long-dated income fund. Schemes like the post office NSC and PPF give you a 8% return, but are locked in for six years and 15 years, respectively.

A corporate like Tata Motors or Mahindra & Mahindra would offer you an interest rate of 8-8.5% while smaller companies like Avon Corporation or Ind Swift offer you an interest of 11-12% for a year. It's a simple investment philosophy. "You trade return for risk".

Definitely, the risk involved while investing in smaller companies is higher. Unless you need income regularly, you should prefer cumulative schemes to regular income options since the interest earned automatically gets reinvested at the same coupon rate, resulting in better yields.

Check parentage & financials

You can check with distributors or with friends about the credentials of the promoters and their past track record. Opt for companies that pay dividends and are profit making. Avoid loss-making companies or those who do not pay dividends. If a company has made a one-off exceptional loss in a particular year, but has a good parentage and past track record, you could consider it.

Also, it is important to check the servicing standards of the company. How quick are they in dispatching interest warrants and principal amount is something you should know. However, if the company is relatively new, or has been making losses continuously and its promoters are relatively unknown, then it would be better to avoid it.

Ratings are important

For NBFCs, RBI has made it mandatory to have an 'A' rating to be eligible to accept public deposits. Investors should go only for AAA or AA-rated schemes. Go for shorter tenures such as 1-3 years. This way, you can keep a watch on the company's rating and servicing, and also have your money back in case of an emergency. Watch out for any adverse news on the company you have invested in and take necessary action if need be.

Liquidity

Most companies accept fixed deposits for a period ranging from 1-5 years. Compared to mutual funds or bank fixed deposits, company fixed deposits are rather illiquid. In most cases, premature withdrawal is not allowed before completion of three months. If you wish to withdraw between the third and the sixth month, you get zero interest income.

If you wish to withdraw between the sixth and the 12th month, you get 3% less than the guaranteed return. Also, for those staying in non-metros, in case the company's banker does not have an account in their respective city, they would have to get a demand draft (DD) issued at a location where the company head office is located.

Similarly, when the company pays back the principal amount, the cheque may take time to clear. FDs are not listed and non-transferable. Interest income from fixed deposits is taxable. So if you are in the highest tax bracket, weigh your options accordingly. If there is a probability, you may need the money before a year, it is beset not to park it in company fixed deposits.



Do not put all eggs in one basket

“Depending on an investor’s risk profile, s/he could consider putting 5-15% of his or her investments in company fixed deposits,” says Anup Bhaiya, MD of Money Honey Financial Services. So if you have Rs 10 lakh to invest, it would then be worthwhile putting around Rs 1 lakh in company deposits for the extra Rs 3,000 per annum.

However, if you have a mere Rs 10,000 to invest, it may not make sense to invest it in company fixed deposits for the extra Rs 300, especially when your next door bank offers you more convenience and flexibility of investments. While opting for company deposits, diversify your risk by spreading your deposit over a large number of companies engaged in different industries. “Overall, investors could have as much as 10% of the total FD investments in one particular company,” says Harish Sabharwal, chief operating officer of Bajaj Capital.

NFOs: Coming Soon – as per Draft Offer documents filed with SEBI up to Mar 14, 2010

Mutual Fund house	Name of fund	Type	Components / Theme
HSBC	Brazil Equity fund	OE Fund of Fund scheme	Investing predominantly in units / shares of HGIF Brazil Equity Fund.
AXIS	Triple Advantage fund	OE Hybrid scheme	Maximum allocation: Equity - 40%. Debt - 40%, Gold ETFs - 30%
TATA	PSU Equity	OE Equity scheme	Primarily in PSU stocks
DWS	Gold Advantage fund	OE debt fund	Debt – 65% and Gold ETFs – 35%
Motilal Oswal	MOST Shares M 50 - Motilal Oswal ETF	OE Index Exchange Traded fund	Invest in the securities which are constituents of MOST 50 Index
Quantum	Gold Savings fund	OE Fund of Fund scheme	Predominantly investing in units of Quantum Gold Fund – Exchange Traded Fund
Taurus	Sector Rotation fund	OE Equity Growth scheme	Investing in a minimum of 4 and maximum of 6 high conviction sectors only.
Taurus	Rural India Opportunities fund	OE Equity Growth scheme	Companies catering to ‘rural India’
Taurus	Gold-Edged Monthly Income Plan	OE Income scheme	Debt, Equity, Gold ETFs

OE = Open 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

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