Back to School
Volume 39 / January 2010

FINANCIAL ADVISOR PRACTICE JOURNAL

JOURNAL OF THE SECURITY ACEDEMY AND FACULTY OF e-EDUCATION

SAFE UPDATES – KEEP INFORMED

The Securities Academy and Faculty of e-Education
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Editorial preamble:

1.1 BACK TO SCHOOL

Learn Unlearn and Relearn

It's that time of the year when everyone sits back and takes stock of life, the universe and everything around them. We make resolutions, wish everyone a great and wonderful year to come, and predictions rain heavier than the most elusive monsoons. 2010, however, as the ancient Chinese would say promises to provide interesting times to live in. There's just so much change happening around the world, politically, economically and sociologically, that most of us are not even going to realise we're living history until much later. It's also the time of the year when listmania rules, best of, worst of, *et al*. So we thought we'd compile our own list of trends we want to watch out for, at home and abroad.

Miles to go

Despite all the optimistic projections about economic recovery and the end of global recession, keep a very, very wary eye out for that double dip. Or a slow, grinding, painful recovery, something they used to call 'structural adjustment' in the early 1990s. The Indian economy was never as busted as the rest, so the recovery now does not at all reflect what's happening around the world.

The trouble with teenagers

That famous demographic, the one India Inc is so proud of, should soon start to make itself heard, felt and seen. One of the biggest challenges for Indian business and government will be dealing with a young, restless and demanding workforce, not to mention an equally-young and aggressive poor and disenfranchised population. Besides, the world is going to become a much more difficult place to travel around and work in. Every border is tightening, in both economic and security terms.

The rise and rise of China

Sorry, Chindia, as they used to call it, or even Bric, is dead as a dodo. Despite all the talk about balance of economic power shifting east etc, don't imagine India and China are still in the same bracket. The sheer global economic clout of China, now puts China in a league way beyond anything India or the other Bric nations can touch in the near future. It's the G2 now, US and China. Expect a lot more from 'Obama in Beijing' moments. The writing on the wall is in Chinese.

The return of ideology

Capitalism, like many thought, isn't going away. But perhaps the single-biggest change to business after the global recession is the return of ideology - concepts like social utility, justice, public good, human costs and role of corporates in society. These supposedly soft issues are keeping corporate boards awake these nights. CSR moves from glossy brochures to the front of annual reports.

Those bankers, again

On the same lines, banking has dominated much of the last year. Next year, they can kick, scream, threaten and plot as much as they like, and hope the issue will go away when things improve, but too much lasting damage would have been done. Maybe later than sooner, they're going to accept that those arteries are clogged, and they need to change their lifestyle. As a corollary, casino financial activities will move into even more arcane, private and mysterious entities, and we suspect we'll have yet another scam at any time sooner or later.

An overconfident India Inc

This one's easy. After some ridiculous panic, India Inc is likely to go on a heady high, announce another few dozen pie-in-the sky plans, go back to wringing about 'talent problems', and not realise that some big-time competition is snapping at their heels. Global big business, the kind which makes 10-year plans, usually likes systems and legislation in a market to suit them. But when it's a matter of survival, they won't wait around for reforms.

Stock markets hit by record low buys

Investment strategists are cutting recommendations on India at a record pace, after the country's stocks surpassed China as the most expensive major emerging market for the first time since 2006. The Bombay Stock Exchange's (BSE) Sensex is valued at 20 times estimated profits, higher than China for the first time since November 2006 and the second-most expensive among the 25 biggest markets after Japan, according to monthly data compiled by Bloomberg. Rising valuations prompted analysts to cut 'buy' ratings on Indian equities to a record low as there are better opportunities in other emerging markets.

The rally pushed the Sensex's valuation above China's Shanghai Composite Index, which trades for 18 times analysts' earnings estimates. Chinese valuations are falling as faster growth adds pressure on policy makers to slow the rise in asset prices. The Chinese government reported last week that the economy expanded 10.7% in the fourth quarter, the fastest pace since 2007. Brazil's Bovespa trades at 13 times earnings estimates and Russia's Micex is valued at 9.2 times. Japan's Nikkei-225 Stock Average has a ratio of 40, compared with 14 for the Standard & Poor's 500 Index.

Tata Motors, maker of the world's cheapest car, led the Sensex's advance since March with a 470% gain. The Mumbai-based company is valued at 27 times analysts' earnings estimates, compared with 23 times for Shanghai-based SAIC Motor Corp, China's largest carmaker. Surging equity valuations prompted India stock analysts to drop their "buy" ratings to 49% of total recommendations , the lowest level since Bloomberg began tracking the data in 1997 and down from 59% a year ago.

The rise in price-to-earnings ratios may prompt companies to sell shares in stock offerings. Indian firms have plans to raise as much as $30 billion while the government may sell about $10 billion of shares in state-controlled companies, according to Kotak Securities.

Indian stocks risk a "tactical correction" because investors have failed to price in the effect of rising interest rates and inflation, according to Goldman's Hong Kong based strategist Timothy Moe.

Inflation Surge

India's wholesale-price index climbed 7.3% in December 2009, the fastest pace in more than a year. RBI governor Duvvuri Subbarao raised the cash reserve ratio by 75 basis points at the policy announcement on January 29, 2010. Subbarao said, "He aims to support the nation's economic recovery without compromising on price stability. Overseas investors sold shares as the food inflation stayed above 15%. The financial shares from Housing Development Finance Corp. to ICICI Bank were dragged down. Inflation pressures are rising swiftly. India seems most vulnerable.

The Sensex posted an average drop of 5.6% during periods when wholesale inflation climbed above its long-term average of 5.2%, Bloomberg data show. That compares with an average decline of 3.4% in rupee terms for the MSCI emerging index during the same periods.

Risk of tightening

India's market hasn't factored in the risk of tightening whereas China has already begun to. So the macro backdrop in India and the share market valuations are less favourable. The Shanghai Composite has dropped 10% from its 2009 peak in August as the People's Bank of China raised the proportion of deposits that banks must set aside as reserves and allowed three-month bill yields to rise. Policy makers are trying to reduce funds in the banking system on concern that bubbles will form in the equity and property markets. Stocks plunged around the world as concern grew that China will do more to cool its economy. It's already having a negative effect on the stock market. Investors appear to be concerned about the impact of cooling measures.

A tepid 2010

The benchmark BSE Sensex, which returned 81% last year, its second best in two decades, looks set for a tepid 2010 as investors limit exposure to India with its shares becoming the most expensive among the BRIC countries, a popular acronym among investors for the best emerging markets to invest in. Add to this other concerns such as RBI may raise policy rates to counter inflationary pressures, the government may increase taxes to cut fiscal deficit, and profitability may fall as raw material costs jump.

Agriculture GDP, which grew a mere 1.7% in H1, given the severe drought during the kharif season this year, is likely to see negative growth in the second half of the year.

Earnings of some key companies such as L&T, the country's biggest engineering firm, and M&M, the largest utility vehicles maker, have also caused concern. While L&T has cut its full-year revenue forecast after some clients withdrew orders, Mahindra sees pressure on its profit margins. M&M said, "Inflation has leapfrogged" because of soaring commodity prices and "margins are expected to be under pressure in the months to come". While the government is attempting to talk down inflationary expectations, the loose monetary policy and fiscal profligacy with deficit at a 16-year high are limiting the impact.

Finance minister Pranab Mukherjee is expected to raise tax rates when he announces the annual budget. Also, he may raise record funds by selling stakes in state-run companies as he tries to bridge the deficit gap. The government has planned to raise $5.5 billion selling part stakes in NTPC and NMDC.

But some are optimistic that the Indian economy is poised to grow stronger in the years ahead. The prospects are probably even better than in China.

Niall Ferguson, historian and author of the Ascent of Money says, "One reason that I'm long on India than China is that India has a better institutional basis of development than China does. I think that representative government, rule of law, meaningful private property – these are the keys to success. They were keys to Western success. China doesn't have these things. In the end, if you don't have these things, you are just a planned economy, with a market wrapped around that".

Kaushik Basu, chief economic adviser to India's finance ministry, had said, "Economic growth in India may rise to 10% in a "couple of years". This optimism makes some analysts justify higher valuation for Indian stocks. They say, "Earnings growth looks solid and economic growth, even post-tightening, still looks pretty good; India simply trades at a premium because it strongly delivers on that earnings growth.

1.2 STOCK MARKETS

Have a Plan and Watch Your Investments Grow

By the end of 2008, for most salaried individuals, the resolution was to save their jobs. Within a year, many are thinking of growth opportunities as smiling faces have replaced worry wrinkles. As the stock markets end the year on a high note, there is a need to sit down and plan for the year ahead.

Discipline

In 2010, your discipline will make a difference. Having a discipline and planning for the future is a must. One must adopt a method and stick to asset allocation without getting swayed due to short-term volatility. At a time when everything from job market to India's GDP and from equities to real estate looks optimistic, the discipline becomes the key determinant of investment success in 2010.

Financial Plan

As the markets move, we come across many new products and new promises. Investors will come across investment proposals that promise to double their money in a year. There is a need to filter the noise and stick to their financial plan. If you do not have a financial plan ready, get it now. Investing without a plan is like driving without a map in a desert. One should clearly identify his short-term and long-term needs. Accordingly, one should invest taking into account long-term inflation-adjusted returns of asset classes.

Portfolio Rebalance

There are cases where investors get a financial plan and execute it. However, as markets move, investors start thinking of moving with the markets. As equities move up, the asset allocation tilts towards equities. Under such circumstances, there is a need to rebalance your portfolio. You should have conviction in your ideas and a roadmap towards wealth creation.

Fundamental principles

The fundamental principles of wealth creation never change. However, there are many changes in the environment. One should aim to manage change in a better manner. Dynamic economic variables need not alter one's stance. However, there are many learning opportunities. And we may have to learn to live with. Each year leaves us with some lessons. We come across new products, new concepts and new skills that may be helpful in propelling our boat towards the financial goals. There is a need to aspire to seek knowledge and find out better ways to apply the acquired knowledge for one's benefit. There are instances where we may have to unlearn before we learn the new knowledge. Investors must understand that the process of learning and unlearning is an ongoing one and an approach with an open mind in 2010.

For instance, when an asset delivers returns, one should be in a position to ascertain the contribution of both fundamental returns and speculative returns. Fundamental returns come from the fundamental changes whereas speculative returns are attributed to the change in the investor perception. Fundamental returns are influenced by the speculative elements. Over the years, speculative elements backed rallies in markets have led to increased volatility.

Emotions play a big role in volatile markets. The debate of 'Emotions or intelligence' is over. It is the time to go for 'intelligence-backed by emotions'. Year 2010 will reward those who work harder for gaining the intellect and simultaneously improve their ability to control their emotions.

1st week of January 2010 – Sensex up over hopes of economic growth

Daily review	31/12/09	04/01/10	05/01/10	06/01/10	07/01/10	08/01/10
Sensex	17,464.81	93.92	127.51	14.89	(85.41)	(75.43)
Nifty	5,201.05	31.15	45.70	3.90	(18.70)	(18.35)

Weekly review	31/12/09	08/01/10	Points	%
Sensex	17,464.81	17,540.29	75.48	0.43%
Nifty	5,201.05	5,244.75	43.70	0.84%

Stocks kicked off 2010 on an upbeat note on Monday with the key benchmark indices hitting multi-month highs on the back of strong auto sales, jump in manufacturing activity in December 2009 and a surge in exports in November 2009. Realty, small-cap, mid-cap and metal sectors rose on hopes of healthy economic growth.

Sensex ended the first week of 2010 on a positive note with most indices posting gains, despite fag-end selling in IT and auto sectors. Key benchmark indices touched a 22-month high as investors bet on strong third-quarter results coupled with Prime Minister Manmohan Singh's comments that India will return to 9-10 per cent economic growth in a couple of years. He also said India's economy had fared well despite an unprecedented global financial crisis and recorded seven per cent growth last fiscal.

2nd week of January 2010 – Rally in IT, PSU shares lifts stock market

Daily review	08/01/10	11/01/10	12/01/10	13/01/10	14/01/10	15/01/10
Sensex	17,540.29	(13.58)	(104.20)	87.29	75.07	(30.57)
Nifty	5,244.75	4.65	(39.00)	23.55	25.95	(7.70)

Weekly review	08/01/10	15/01/10	Points	%
Sensex	17,540.29	17,554.30	14.01	0.08%
Nifty	5,244.75	5,252.20	7.45	0.14%

Markets ended on a positive note for the fourth week as the Sensex gained 14 points to reach 17,554.30 following a sharp rise in IT shares on the back of higher earnings reported by Infosys. Public sector stocks too ended with gains on renewed support from investors following talks of stake sale in some of them.

Small-cap and mid-cap shares also moved up on persistent buying. However, banking shares became the major losers of the week on fears that Reserve Bank of India (RBI) might tighten monetary policy due to a likely surge in inflation. The BSE-IT index rose by 446.26 points or 9% after encouraging third quarter results from Infosys, which registered a gain of 8.56% in its share prices. India's largest software services exporter TCS firmed up by 13.03%, while third-largest IT services exporter Wipro shot up 9.80%.

The BSE-small cap index outperformed the Sensex, rising by 272.82 points or 3.14%, while the mid-cap index shot up 104.41 points or 1.50%. The BSE-PSU index vaulted by 204.42 points or 2.10%. However, BSE-Bankex dropped by 230.28 points or 2.27% followed by the BSE-Metal index, which fell 138.91 points or 0.77% and BSE-FMCG, which lost 51.50 points or 1.81%.

3rd week of January 2010 – Sensex snaps four week winning streak

Daily review	15/01/10	18/01/10	19/01/10	20/01/10	21/01/10	22/01/10
Sensex	17,554.30	86.78	(155.02)	16.83	(423.35)	(191.46)
Nifty	5,252.20	22.65	(49.20)	1.00	(127.55)	(58.15)

Weekly review	15/01/10	22/01/10	Points	%
Sensex	17,554.30	16,859.68	(694.62)	(3.96%)
Nifty	5,252.20	5,036.00	(216.20)	(4.12%)

The BSE benchmark Sensex snapped its four-week winning streak on all-round selling pressure. Poor show by some of the key corporate houses that announced their Q3 results past week infused selling pressure. Global stocks tumbled after US President Barack Obama proposed new restrictions on banks, which would prevent bank or financial institutions (that own banks) from investing in, owning or sponsoring a hedge fund or private equity fund. Global markets had already recoiled in recent weeks on fears that demand from China would slowdown as Beijing taps the breaks on its roaring growth to stave-off inflation and to keep the economy from overheating.

4th week of January 2010 – Sensex down on fear of monetary policy shocks

Daily review	22/01/10	25/01/10	26/01/10	27/01/10	28/01/10	29/01/10
Sensex	16,859.68	(79.22)	Holiday	(490.64)	17.05	51.09
Nifty	5,036.00	(28.10)		(154.80)	14.15	14.80

Indian shares were the worst performers in the world on Wednesday as investors sold off fearing higher interest rates, potentially reducing the funds government could raise through sale of stakes in state-run companies. The divestment was to go towards funding the plan programmes of the governments and thereby reduce the pressure on budgetary funding.

Weekly review	22/01/10	29/01/10	Points	%
Sensex	16,859.68	16,357.96	(501.72)	(2.98%)
Nifty	5,036.00	4,882.05	(153.95)	(3.06%)

Minutes after RBI announced measures to squeeze money supply on Friday, the Sensex tumbled below the psychological 16,000 mark. But it recouped shortly. The markets discarded the RBI move to choke money supply with the BSE benchmark Sensex closing 51 points higher as better growth forecast lifted investor sentiment, helping it pare early sharp losses.

The RBI in its third quarter monetary policy hiked the amount of money that banks have to park with it (CRR) by 75 basis points to 5.75 per cent from 5 per cent to contain the rising inflation. But as the policy announcement offered a better GDP forecast besides paring the key policy rates such as banks lending and borrowing rates (which determine the interest rates), triggered keen buying interest in interest-sensitive sectors like banking and realty, helping the market correct the deep reverses in the early trade.

The RBI revised upwards its GDP outlook for the current fiscal 7.5 per cent from 6 per cent. The day also marked a good beginning for the February series derivatives contracts.

Monthly Review

The Sensex dropped 1107 points or 6.34% in the month of January 2010. Interest rate related counters from realty and auto were the worst hit by heavy sell-off, while metal stocks too bore the burnt of selling on fall in prices at London Metal Exchange and reports that China would further cool down its economy with policy actions.

Rating Agency S&P downgraded the outlook for the Japanese economy to negative in the last week and warned it would revise its rating for the Japanese debt if the world's second-largest economy did not bring down its huge deficit. This affected the marker sentiments in Asia.

US regulators planned to curb risk taking by financial institutions, stunned markets by unveiling new rules for US banks that would restrict their size and prohibit them from certain business activities.

US President Barack Obama warned that US deficit could hit recovery hard. Obama renewed his pledge to make job creation his top priority in 2010 but said it was also critical to rein in a record budget deficit.

He said, "As we work to create jobs, it is critical that we rein in the budget deficits we've been accumulating for far too long – deficits that won't just burden our children and grandchildren, but could damage our markets, drive up our interest rates, and jeopardise our recovery."

Obama noted that new data released on last Friday showing the economy grew at a 5.7% rate in the fourth quarter, calling it a sign of progress and evidence that his policies to stimulate the economy were working.

Obama is due on Monday to unveil his proposed budget for fiscal 2011 that begins October 1, and has said it will include a three-year spending freeze on some domestic programs.

At home, after easing for three weeks in a raw, food inflation inched up to 17.40% for the week ended January 16, a development that prompted the Reserve Bank to increase cash reserve ratio (CRR).

Month	December 2007	December 2008	December 2009	January 2010
Date	28/12/07	31/12/08	31/12/2009	31/01/09
Sensex	20,206.95	9,647.31	17,464.81	16,357.96
Points	Base	(10,559.64)	7,817.50	(1,106.88)
%	Base	(52.26%)	81.03%	(6.34%)

Capital market: On the global circuit

Strong economic growth has put Indian equity markets on the world map and a solid market infrastructure and quality regulation have helped add to India's allure as an investment destination in the emerging market space.

The KP scam; As the decade unfolded, the technology shares-led rally neared its climax. The bull-run culminated in what came to be known as the securities market scam 2000-01, with broker Ketan Parekh at the centre.

End of weekly settlement; Among the casualties of the stock market scam were the weekly settlement and the carry forward mechanisms. Badla was banned in 2002, and other carry forward mechanisms like ALBM and BLESS were scrapped too. The market moved to a rolling settlement system.

Demat's the way to go: Will Indians relinquish the physical possession of shares? That was the question veteran market watchers asked when dematerialisation was introduced. From a few thousands, the number of demat accounts in the country has now swelled to 1.6 crore at last count.

Futures & options shoot ahead: This too was a concept few players gave a chance of success, saying it was too sophisticated for Indian investors. Average daily turnover on the NSE's equity derivative segment is now $12-14 billion.

No poster boy here: The Sensex and Nifty rose seven-fold between May 2003 and January 2008. Unlike the previous rallies of 1991 (Harshad Mehta) and 2000 (Ketan Parekh), there was no one player or entity who could be credited for having sparked off the boom – a sign of the Indian markets coming of age.

The rise of MFs: From less than Rs 1 lakh crore of assets in 2000, domestic mutual funds manage assets of roughly Rs 8 lakh crore. While nearly three-fourths of that is institutional, an increasing number of retail investors invest in equities through mutual funds.

FIIs pump it in: From net inflows of $1-2 billion at the start of the decade, overseas investors have pumped in a net $15 billion-plus in two of the past three years. The central bank and government have to, at times; think in terms of moderating capital flows.

Circuit-breakers: India's economy may not have a high correlation with the world economy, but that cannot be said of its equity market, which sways to global moods in the short run. On a few occasions in the past five years, trading had to be suspended after benchmark indices hit the lower end of the intra-day circuit filter. For the first time, the indices hit the upper end of the intra-day circuit filter too, following better-than-expected general election results.

Power drive: For all the record FII inflows, India remains a relatively shallow market with liquidity restricted to the top 50 stocks. That could change in the coming decade, as Indian companies go in for huge equity issuances to create capacity and keep pace with an economy that is expected to be among the fastest growing in the world.

Also, as income levels rise, a larger proportion of household savings is likely to find its way into equities, from the current 8-9%.

Before the end of the coming decade, domestic institutional investors will decide the direction of the stock market, while foreign investors will play copycat – the reverse of what is happening now.

2.1 INDIAN ECONOMY

It Is No Longer a Flat World Out There

Thomas Friedman, in his celebrated book The World is Flat, propounded that the chasm in relation to opportunities for entrepreneurs in the developed and developing countries has been largely bridged with the collapse of communism, improved communication, the spread of the internet and economic globalisation. There is, thus, a level playing field or a flat world, for entrepreneurs irrespective of their geographic location. Since the book became a bestseller, there has been a sea change in the state of the world after the global financial meltdown of 2007, and it is worth examining if the world is still flat.

Currency reserves

With the bulk of international currency reserves now being held by countries in the emerging-market universe – in addition to relatively-stronger economies with high levels of domestic savings and economic growth rates – the larger emerging markets have become the biggest creditors of the developed world and, in a manner of speaking, the world has possibly got a little slanted in their favour. Probably in recognition of these changing dynamics, global investors have been quietly putting their money to work into these markets that offer profitable growth opportunities.

Market re-rating

Nearer home, after the near-collapse of the global financial markets in 2007 and the stock market in India in early 2008, we have seen a remarkable resilience over the last one year with investor confidence returning in good measure. If consensus earnings estimates are anything to go by, 2009-10 is unlikely to see a remarkable earnings recovery in India after the hiccup in 2008-09 and, hence, the rise in the market is largely attributable to market re-rating.

Near-infinite liquidity

An important contributory factor in the market re-rating in 2009 is the record inflow from foreign portfolio investors. This record inflow of $17 billion, despite the huge uncertainties regarding the economic turnaround in the global economy, is caused almost entirely by the magic of near-zero interest rates in the US economy and the near-infinite liquidity that has been pumped into the global economy by the members of the Organisation for Economic Cooperation and Development (OECD).

Near-zero interest rate policy

The near-zero interest rate policy adopted by the US has been the most important catalyst for equity market performance as investors seeking better returns rush to riskier assets, thus running up the prices of financial assets – whether equities or riskier bonds – in markets around the globe.

A relief rally

Although some of the rise in equities can be explained as a relief rally with the prophecies of doomsdayers not coming true, near-term earnings have not been supporting the relentless rise of equities. Even in the developed markets, a significant portion of the earnings growth is on account of the banking and financial services sector that has been a beneficiary of the zero interest rate policy and has raked in profits by trading in risky assets. All eyes are now focused on the next moves by the central banks that are currently risking bubble formation in financial markets by continuing with their soft interest rate and easy liquidity policies for possibly a bit too long.

Rapid economic growth

Given that the near-zero interest policy is likely to be reversed some time in future, would foreign portfolio investors continue to pour in money into emerging markets even after a policy change? Chances are that inflows would continue on the back of the rapid economic growth that countries like India have been able to generate, aided by several companies that have now become world class. These are the companies that have been attracting the attention of the foreign portfolio investors that have been funding their aspirations to service the global markets, including international acquisitions.

Emerging-market multinational

A fact worth emphasising is that most of the growth in the global economy now comes from emerging markets. These countries now supply most of the oil and gas needs of the developed world. One in every six companies in the Fortune 500 list is now an emerging-market multinational and with every passing year, more of these have been joining the list. Yesterday's second-rate producers of cheap goods from the emerging markets are fast becoming world-class companies.

Outsourcing

Despite high unemployment levels in the west, outsourcing of manufacturing, IT, and other services to emerging markets is here to stay and has become an integral part of the global production chain.

New consumers

With increasing purchasing power, the investment opportunity in profitably servicing a billion-plus new consumer from the emerging markets over the next few years cannot be ignored by any large investor.

Modernising infrastructure

While in the developed world, record levels of the government's borrowings are being used to bail out privately-owned banks and financial institutions, the larger emerging-market countries have been steadily investing in modernising their infrastructure: roads, rail, ports, electricity and gas networks, water and sewerage systems, broadband rollout etc. Investment in these public goods has not only been stimulating these economies but has complemented the rest of the economy in addressing productivity and competitiveness issues by ultimately helping lower the cost structure of goods in the economy.

Healthier balance-sheets

Unlike the past, when countries in the emerging-market universe were dependent on foreign loans for their sustenance, they now own $5 trillion in foreign reserves, and have lesser, if any, budget and current account deficits than their western counterparts, while their governments, businesses and consumers have healthier balance-sheets with a lower debt burden than is the case in much of the developed world.

It is, therefore, no longer a flat world out there but a world tilted in favour of the larger emerging-market countries. Analysts are right in saying that at the current market levels, there is not much of a valuation comfort in India and there is a real prospect of some monetary and fiscal action that can harm market sentiment. However, the lesson from 2009 is clearly that it is unwise to bet against the continuing inflow of foreign portfolios any time soon.

A wealthier India, China good for world's innovators

It may not feel that way right now, but the past 10 years may go down in world history as a big success. That idea may be hard to accept in the US. After all, it was the decade of 9/11, the wars in Iraq and Afghanistan, and the financial crisis, all dramatic and painful events. But in economic terms, at least, the decade was a remarkably good one for many people around the globe.

The raging economic growth rates of China and India are well known, though their rise is part of a broader trend in the economic development of poorer countries. Ideals of prosperity, freedom and the rule of law have probably never been more resonant globally than they've been over the past 10 years, even if practice often falls short. And for all of the anti-capitalistic rhetoric that has emerged from the financial crisis, national leaders around the world are embracing the commercialisation of their economies.

The four countries: China, India, Indonesia and Brazil – accounting for more than 40% of the world's people – have made a great stride. Indonesia had solid economic growth during the entire decade, mostly in the 5 to 6% annual range. That came after its very turbulent 1990s, marked by a disastrous financial crisis and plummeting standards of living. Brazil also had a good decade, with growth at times exceeding 5% a year. Elsewhere in South America, Colombia and Peru have made enormous progress and Chile is on the verge of becoming a "developed" country. In Africa, there is still enormous misery. But overall standards of living rose in a wide variety of countries there, with economic growth for the continent as a whole at more than 5% in most years. Many basic essentials, like water, sanitation, electricity and especially telephones, are more commonly available.

In a given year, an extra percentage point of economic growth may not seem to matter much. But, over time, the difference between annual growth of 1% and 2% determines whether you can double your standard of living every 35 years or every 70 years. At 5% annual economic growth, living standards double about every 14 years.

Nonetheless, despite the positive news in much of the world, it's questionable whether the decade as a whole has been good for Americans, economically speaking. Median wages have not risen much, if at all, and the costs of the financial crisis and irresponsible fiscal policies have become increasingly obvious. Those facts support a pessimistic interpretation.

Most economic models suggest that the fundamental source of growth is new ideas, which enable us to produce more from a given set of resources. To the extent that the rest of the world becomes wealthier, there's more innovation. China, for instance, is moving toward the research frontier in areas such as solar power, scientific instruments, engineering and nanoscience.

Unlike the situation of just a few decades ago, a genius born in Mumbai now stands a good chance of becoming a notable scientist, whether at home or abroad. It might be pleasant to boast that America is – or should be – a world leader in every area, but the practical reality is that if some other country solves the problem, say for green energy, so much the better for us. The subtler point is that a wealthier China, India, Brazil and Indonesia will lead to more customers for new innovations, thereby producing greater rewards for successful entrepreneurs, no matter where they live. In fact, so many improvements in cell phones these days because there are so many cell phone customers in so many countries.

When asked what he thought of the French Revolution, Zhou Enlai, the premier of China from 1949 until his death in 1976, reportedly replied, "It is too soon to tell." That is also a fair response to the past 10 years, and it will be for some time to come. The point remains that if we look beneath the surface just a bit, the picture is a good deal rosier than we might otherwise think.

2.2 INDIA

Boosting Prosperity without Asset Bubbles

Loose monetary policy around the world post-Lehman has averted another Great Depression, and growth is reviving, but along with it, the threat of inflation. With fears of the economic slowdown still lurking, governments should focus on a growth strategy.

India has the potential to grow at a rate of 10%. As seen a few years ago, double-digit growth on the back of supply constraints fuels inflation to undesired levels. In response, the RBI usually tightens monetary policy. Measures such as CRR hikes withdraw liquidity, might meet limited objectives, but also take away cheap capital for investment that would increase industrial production, and tackle the core issue: the supply constraint. Pragmatically, we need a host of both short- and longer-term measures to effectively balance the country's growth and inflation objectives. During an inflationary period, we need measures that curb access to credit that creates excess consumption demand. At the same time, we need to ensure adequate liquidity for expanding industrial capacities and meet investment demands in the country.

In other words, we need appropriate and prudent restrictions on lending toward activities that are inflating prices. For instance, a key regulatory change could be that the RBI makes it mandatory for banks to ask for more equity investment from home loan borrowers by progressively increasing margin requirements as prices start overheating. These changes should remain in place until prices cool down.

Apart from deterring speculative build-up, the government should take serious steps to increase supply of assets. For instance, in real estate, the government should increase land supply by releasing the vast tracts of land it owns for development use, possibly even creating a focused commission for speedy execution. Moreover, all future-township planning should pre-emptively include infrastructure support that can allow significantly higher floor space index (FSI) – say, 4-5 times the existing levels – which will go a long way in keeping property inflation in check.

Moreover, in a young, growing country like India, numerous savings are likely to enter into equities in the coming years. To prevent spiralling stock prices, the supply of paper needs to be robust to absorb all these savings. The government should continue to divest its stake in listed and unlisted PSUs aggressively, creating an immense supply of paper considering the large number of PSU behemoths. Besides, the government should actively encourage foreign companies to list in India, especially from other emerging markets with shallower capital markets. The very critical change that governments have to adopt to avoid future bubbles is to evolve beyond the Greenspan era and start considering asset prices, apart from prices of goods and services, as determinants of monetary policy.

However, there's a caveat: during the past decade, the relatively-unrestricted flow of global capital to emerging markets, resulted in a structural and sustainable fall in interest rates, which naturally increased the real returns from assets, property and stocks, and thereby, re-rated or increased their valuations to match the new reality. This structural increase in valuation should not be viewed as a bubble.

Although, currently, inflationary numbers cause concern, the CPI – which has a 45% weightage to food – do not depict the true spending patterns of households since weightages are based on a decades-old spending structure. Most of India's inflation is attributed to supply shortage, such as shortage in food essentials, logistics, and a poor storage and distribution network. Tackling such inflation effectively would require policymakers to focus on increasing the supply of essential goods in the country and encouraging industry growth. The government acknowledges that the current inflation is related to supply constraints; if it remains focused on implementing pro-growth reform measures rather than succumbing to noises and adopting a hawkish stance, we can expect to see prosperity for decades to come.

What India will look like in 2020?

In the past decades, India has been world number one in starvation deaths, foreign aid and bribery. In the 2000s, it was transformed from a chronic under-performer to a potential superpower. Here are eight predictions of what it will look like in 2020:

India will overtake China as the fastest-growing economy in the world. China will start ageing and suffering from a declining workforce, and will be forced to revalue its currency.

So its growth will decelerate, just as Japan decelerated in the 1990s after looking unstoppable in the 1980s. Having become the world's second-biggest economy, China's export-oriented model will erode sharply – the world will no longer be able to absorb its exports at the earlier pace.

Meanwhile, India will gain demographically with a growing workforce that is more literate than ever before. The poorer Indian states will start catching up with the richer ones. This will take India's GDP growth to 10% by 2020, while China's growth will dip to 7-8%.

India will become the largest English-speaking nation in the world, overtaking the US. So, the global publishing industry will shift in a big way to India. Rupert Murdoch's heirs will sell his collapsing media empire to Indian buyers. The New York Times will become a subsidiary of an Indian publishing giant.

In the 2000s, India finally gained entry into the nuclear club, and sanctions against it were lifted. *By 2020, Indian companies will be major exporters of nuclear equipment*, a vital link in the global supply chain. So, India will be in a position to impose nuclear sanctions on others.

India, along with the US and Canada, will develop new technology to extract natural gas from gas hydrates – a solidified form of gas lying on ocean floors. India has the largest gas hydrate deposits in the world, and so will become the biggest global producer. This will enable India to substitute gas for coal in power generation, hugely reducing carbon emissions.

India will also discover enormous deposits of shale gas in its vast shale formations running through the Gangetic plain, Assam, Rajasthan and Gujarat. New technology has made the extraction of shale gas economic, so India will become a major gas producer and exporter.

More and more regions of India will demand separate statehood. *By 2020, India will have 50 states instead of the current 28.* The new states will not exactly be small. With 50 states and a population of almost 1.5 billion, India will average 30 million people per state, far higher than the current US average of 6 million per state.

China, alarmed at India's rise, will raise tensions along the Himalayan border. China will threaten to divert the waters of the Brahmaputra from Tibet to water-scarce northern China. India will threaten to bomb any such project. The issue will go to the Security Council.

Islamic fundamentalists will take over in Afghanistan and Pakistan. The US will withdraw from the region, leaving India to bear the brunt of consequences. Terrorism will rise in India, but the economy will still keep growing. How so? Well, 3000 people die every year falling off Mumbai's suburban trains, and that does not stop Mumbai's growth. Terrorism will bruise India, but not halt its growth.

2.3 INTERNATIONAL

The Challenges in the New Year

There is something predictable about how widespread doomsday predictions get when things are tough; as things improve there is a competition to paint the picture rosy. So through the winter of 2008 and the first half of 2009, the refrain was how much deeper the pit could get. The pit dug by the financial crisis which pulled the globe into it without the option. But the doomsayers were wrong: No surprise, they usually are. The danger today is that the improvement in conditions may encourage adoption of an outlook which, in its unqualified optimism, may prove dangerous.

The economies, that did not have their banking systems caught in the mess, like the US and Europe did, have recovered nicely. That includes India, China, South-East Asia and some Latin American nations; as also Canada and Australia. Most of the world's developed economies are out of recession. India and China are of course set to record significantly higher growth in calendar 2009 that most experts had opined. Asset and commodity markets have revived and the loan market is functional.

However, there are several missing elements in all of this. *The first is the revival of import demand from the US.* This is unlikely to happen for most of 2010 and even when it does, there are doubts whether it will be as robust as in the pre-crisis years. In the first 10 months of 2009, imports into the US from the rest of the world declined by 30%. Imports from the EU fell by 27%, that from Japan by 36% and from South America by 37%. Exports from Africa fell by a massive 52%. China and India fared better with declines of 15% and 19% respectively. Some of this will come back in 2010, but it would be prudent to expect that import demand from the US and Europe will remain subdued for some time.

The second missing element is jobs. The US economy continues to lose jobs. Unemployment rates are about 10% in both the US and the EU. If "discouraged" workers who have left the work force are counted, the rate would be higher still in the US. While the unemployment rate is seen as a trailing indicator, it is hard to infer from the available evidence that the developed economies are showing any sign other than that of weak recovery.

The third element – not a missing one – but one that is distinctly and uncomfortably in evidence, is the extent of continued fiscal and monetary support. In response to the financial crisis of 2008, the developed world's governments and central banks eased fiscal and monetary policy to an unprecedented extent. It perhaps saved the world economy from going into a tailspin, but has resulted in vast fallout. The Fed increased its balance sheet from somewhere around 6% to 20% of GDP. It was mostly the US Federal Reserve which effectively financed the US fiscal deficit. China bought about $100 billion of the federal deficit. So how will the US government finance its deficit next year if it also has to "exit" extra-ordinary monetary easing? Putting it in another way, the US and UK markets may suffer from the absence of the near $2 trillion of government cheques written in 2009.

The problem of precipitate fiscal easing, is that once out, the genie is hard to put back into the bottle. So, for that matter, is monetary easing, but the first one is much tougher, with fiscal policy being closely tied up with politics. The initiatives, including new legislation, adopted by the US government over the past year points towards larger deficits, not smaller ones. To add to problems, several states are in serious fiscal trouble. No central bank can finance a large fiscal deficit on a sustained basis without invoking the wrath of the gods. So on this score for all of us there is going to be a bumpy ride through 2010 and may be 2011, impacting short-term money and loan, foreign exchange and commodity markets. When the ride looks to be rough, best to keep seatbelts fastened.

2.4 WARNING SIGNALS

Emerging Markets Are Prime Candidates for the Next Bubble

The way a year or decade begins tells us nothing about how it will end. After all, the dominant trends that marked the onset of both 2009 and the past decade were turned on their head. Investors feared a deflationary death spiral at the start of 2009 but the year ended up as the best for stocks this decade. Yet, the decade itself – now tagged as noughties – will go down in history as *the worst 10-year period* for global equities even though it began with the tech bang.

Nothing lasts forever*, but the duration of any trend seems to have become even shorter in recent times*. The markets, to use actor Robert Redford's words, now have the attention span of a lightening bolt.

The dramatic rise in stock turnover ratios indicates that long-term investing is passé.

Data from Bernstein Research show that on average, the top 100 stocks in a US portfolio are barely held for a quarter these days compared to the 1960s when the time horizon stretched six to seven years.

Extrapolating current trends is, therefore, fraught with risk and it pays to be wary of the herd. In this regard, it is worth enlisting the various conventional wisdoms deeply entrenched in investor psychology and to see how they could possibly go wrong before the year is out:

A 3-speed economic recovery will continue to unfold.

The consensus expects economic growth in emerging markets such as China and India to return to levels similar to the 2003-07 boom years.

As for the US, the current economic momentum should sustain with the economy expanding 3% in 2010. This pace is sub-par compared to previous recoveries in the US, but in line with past economic cycles associated with banking crises.

Meanwhile, Europe and Japan are widely expected to remain economic laggards with both regions experiencing a gently upward-sloping L-shaped recovery.

Emerging markets is the asset class of choice and the prime candidate for the next bubble.

Investors have all come to appreciate the superior growth profile of emerging markets and expect the asset class to continue to outperform in the near future. Even though emerging market equities are now trading at a premium to developed markets on some metrics, the popular thinking is that easy global money conditions and the growth appeal of the emerging economies will keep propelling these stocks higher, eventually taking their valuations to bubble-like levels.

The first half of 2010 will be strong for equity markets but policy tightening will erode some gains in the second half.

An accelerating growth momentum and an accommodative monetary policy provided a sweet spot for equities over the past few months. Investors expect the good times to roll on for much of the first half of the year but fear some sort of a setback in the second half when rising interest rates and richer valuations pose a problem for equities.

Analysts, therefore, expect '*a year of two halves'*, with net gains of 10-15% for global equities.

It will become more of a stock-picker's market as earnings, rather than valuations, will drive the rally.

Macro was all that mattered over the past couple of years as a one-dimensional view of the world dictated the performance of various asset classes, sectors and stocks.

Following the stabilisation in the global macroeconomic environment, the importance of country, sector and stock-specific factors should increase with growth commanding a premium – especially as valuations have converged across many sections of the market.

Huge capital flows into developing countries will put appreciation pressure on their currencies.

After the sudden stop in capital inflows in 2008, policymakers in most emerging markets expect the main challenge this year to be massive inflows, comparable to levels in 2006 and 2007.

The biggest recipient of hot money flows could be China and, consequently, an inevitable revaluation of the yuan. The only debate amongst the forecasters is what will be the magnitude of the revaluation.

Government bonds are not the place to be.

Most economic models suggest real yields on government debt are too low, particularly given the large fiscal deficits, and a pick up in private sector credit demand can lead to a rout in government bonds.

Financial analysts believe that any 'next crisis' will be the inability of governments in many economies to fund their deficits. Fiscal problems in Greece and Dubai could be just a teaser with similar funding problems spreading to the UK, Japan and even the US.

Credit spreads will continue to tighten.

In contrast to government bonds, yields on corporate credit and particularly in high-yield debt are attractive, according to most sell-side analysts. The past year was one of the best ever for investment-grade debt, but with spreads still high by historical standards and the quality of balance-sheets improving, apparently the spread tightening trade still has enough juice.

Gold and oil are the best stores of value.

The bulls and the bears on the global economy think gold and oil can hold their own under almost any scenario. Gold could keep performing well in a liquidity-abundant world but also act as insurance in the event of a debt or currency crisis.

Oil too has acquired similar characteristics with the added angle of supply constraints.

Commodities are in a secular uptrend.

The commodities 'super-cycle' theory that has many believers is rooted in the view that emerging markets such as China and India will be large commodity buyers for a long time to come due to greater urbanisation and industrialisation in these countries. The sharp rebound in commodity prices this year on the back of China's growth has only reinforced this view.

China's policymakers will never let its growth slip below 8%.

The government's staggeringly-large policy response to the global financial crisis left both the Chinese middle class and foreign investors stunned. The traction those steps gained in reviving investment makes the dramatic events of 2008 seem like a blip in the country's long march toward more prosperity. China has not recorded growth of less than 8% in any calendar year since 1998 and economists do not see the pace slipping below that auspicious number any time soon.

The common thread running through these consensus views is the optimism on global growth prospects, particularly about the developing world. A bolt from the blue in China or a double dip in the US economy would undermine all current beliefs.

To be sure, it is currently difficult to construct a scenario under which Chinese growth disappoints on the downside this year and the news out of the US economy too has had a stronger bias of late.

However, investing involves thinking through the tail risks. A double dip in the global economy is the left field event to worry about the most now just as a synchronous global recovery was the outcome with the lowest expected probability at this time last year.

Other potential market dislocations are a full-scale bubble in emerging markets or a debt-funding crisis in the developed economies.

The history of markets shows that such outlier events are usually not widely predicted and there is too much talk of an emerging market bubble for it to materialise.

Similarly, while a blowout recovery in the US would be a major surprise in itself, other conventional wisdoms – from higher interest rates to firmer commodity prices – would all still play out and hardly make for the unexpected.

A growth relapse is the true contrarian view to engage in 2010.

Of course, kneejerk contrarianism does not have a great track record, as fundamentals don't always keep turning on a dime. But the most money is indeed made or saved by staying away from the herd.

3.1 MUTUAL FUNDS

The Logic behind Investing in Them

Mutual funds are investment companies that pool money from investors at large and offer to sell and buy back its shares on a continuous basis and use the capital thus raised to invest in securities of different companies. Mutual funds have an upper hand in terms of diversity and liquidity at lower cost in comparison to bonds and stocks.

Mutual funds can be either or both of open ended and closed ended investment companies depending on their fund management pattern. An open-end fund offers to sell its shares (units) continuously to investors either in retail or in bulk without a limit on the number as opposed to a closed-end fund. Closed end funds have limited number of shares.

Mutual funds have diversified investments spread in calculated proportions amongst securities of various economic sectors. Mutual funds get their earnings in two ways. First is the most organic way, which is the dividend they get on the securities they hold. Second is by the redemption of their shares by investors will be at a discount to the current NAVs (net asset values).

Any one who is aware of stock market is not new to mutual funds. Mutual funds have gained in popularity with the investing public especially in the last two decades following what is now known as the longest bull run of twenty years.

At the out set mutual funds have created wealth for retirees and general safe financial players with the rise in stock prices. But why invest in mutual funds and why is investing in mutual funds a popular option? How beneficial are they and what are the risk factors involved in mutual funds investing? After all they are also a kind of instruments of investments.

One must not forget the fundamentals of investment that no investment is insulated from risk. Then it becomes interesting to answer why mutual funds are so popular.

To begin with, we can say mutual funds are relatively risk free in the way they invest and manage the funds. The investment from the pool is well diversified across securities and shares from various sectors. The fundamental understanding behind this is not all corporations and sectors fail to perform at a time. And in the event of a security of a corporation or a whole sector doing badly then the possible losses from that would be balanced by the returns from other shares.

This logic has seen the mutual funds to be perceived as risk free investments in the market.

Yes, this is not entirely untrue if one takes a look at performances of various mutual funds. This relative freedom from risk is in addition to a couple of advantages mutual funds carry with them.

So, if you are a retail investor and planning an investment in securities, you will certainly want to consider the advantages of investing in mutual funds.

Lowest per unit investment in almost all the cases

Your investment will be diversified

Your investment will be managed by professional money managers

3.2 ASSET ALLOCATION

Returns, liquidity, risk must decide asset allocation

Flashback to the start of 2008: The markets are roaring and everyone's who's been left out of the equity ride up is rushing to enter. Cut to the start of 2009: Equity is worse than a four-letter bad word by now. Nobody can get it right 100% of the time; and, at both these times, the investor would have been protected with the asset allocation approach – taken out profits when his weightage of equity shot up beyond his risk-taking ability; and entered when no one dared to even look towards the markets in 2009.

Look at the Whole Picture: The allocation to debt is met for the salaried class through regular deductions and investment in the employee provident fund (EPF) scheme; and others create their safety net through Public Provident Fund, bank deposits, Post Office deposits, National Savings Certificates and the like. We all spend more time on analysing why we made a loss of 10% on one share, even when that share is a minuscule proportion of one's total financial assets. The focus needs to move away from making a profit in every transaction to having a suitable risk-adjusted return portfolio.

Beyond just debt and equity: Asset allocation is a way to reduce risks but it goes beyond the accepted debt and equity allocation. The starting point of reducing risks is to spread your assets across different countries and currencies. While we all believe that India is the place to invest in for the long-term, we do understand that in case of a war-like situation on India's borders, the price of all assets – debt and equity, as well as real estate – will fall.

The Liquidity Factor: Assets can also be classified based on their liquidity. Why investors like property as an asset class is because there is no price ticker and a 'Fill it; shut it; forget it' approach works. However, you may have realised during 2008, the value of this asset was just on paper, as there were just no transactions taking place. And you cannot manage your daughter's wedding expenses from a piece of paper that will gain value only on her first wedding anniversary.

How much sugar do you take in your tea? This is a question I have often asked my prospective clients, and I get a straight-forward answer almost always. My logical mind wants to ask two questions instead:

What is the size of the cup? What is the size of the spoon?

When your cup of worries is huge (for example, in 2008), the spoon (of investments) that you dip into your equi-'tea' definitely needs to be larger.

How your financial planner will address asset allocation: There are three key factors that need to be considered and communicated correctly:

Financial objectives (returns required),
Liquidity requirements (a factor of the time horizon for investments) and
Risk profile (what is the loss the investor can bear).

Let us assume that fixed deposit rates for 3 years or more are at 7.5% pa, or 5% pa, post-tax. If 86% of the total funds are invested in deposits, the portfolio will be capital protected at the end of three years. If the period of investment is 10 years, only 61% of the funds need to be locked into fixed deposits.

The incremental benefit of investing the 'riskable' funds in equity will be huge, and you do not want to miss this opportunity.

3.3 THEMES FOR THE NEXT DECADES

Investing for Wealth: Themes for Next Decade

Each of the last few decades has presented thematic investment opportunities that have been quite unique. The first decade of the new millennium was similar, yet different as markets were tumultuous both at the beginning and the end of this decade. Here's an attempt to provide some investment themes that could provide significant opportunity over the next decade.

Energy: The International Energy Agency (IEA) released its World Energy Outlook in late 2008. The IEA estimates that every fossil fuel resource we rely on today will simply not be able to keep pace with demand. Coal reserves are expected to be over in less than a 100 years; natural gas production is expected to go into a decline after 2020; and uranium mines will not be able to keep pace with demand, and current oil production from a majority of oil fields are past their peaks and beginning their decline.

The next alternative to traditional energy is alternative energy or renewable energy. Whether it's solar, wind, photovoltaic, geothermal, bio-fuel or hydropower, these alternative sources of energy will gradually replace more conventional sources.

Commodities: Recent money supply growth with central banks around the world printing money, higher inflation is likely to stay for some time.

In this scenario gold, silver and other commodities are a good destination. Developed economies such as the US, France and Germany have over 65% of their forex reserves in gold. On the other hand, Bric countries and other South-east Asian economies have less than 5% of reserves in gold. Over time as their levels go up, gold prices will be driven higher.

Fertiliser and food-grain will also remain attractive through the decade as we try to feed the world's growing population and combat the decline of oil with biofuels.

Infrastructure: Whether its roads, power, ports, internet telecommunication or water supply, not many will argue against the notion that there is huge need to increase infrastructure spending in India. As per estimates, India may require $1.7 trillion in the next decade starting 2010 to meet its infrastructure demand. In addition to primary infrastructure, this will create demand for ancillary industries like construction equipment, mobile phone providers, etc.

Other themes: Clean freshwater would be in demand since there is water shortage expected throughout the world. Biotechnology & healthcare would be a big play since these sectors would produce drugs for curing many of the new diseases we are continuing to discover. Nanotechnology, the science of building machines on an atomic scale, promises ways to make many products lighter, stronger and cheaper. Nanotech has already done that with clothing, cosmetics and even golf clubs, but it could make a real difference in building materials, communications equipment and medicine.

It can be easy to get distracted with the diversity of investment ideas. Yet, prudent investors must stay focused on long term investing, and the time-tested benefits of an efficient asset allocation will continue to prove a smart strategy for building wealth. Depending on how comfortable you are with risk, you should choose an appropriate combination of assets that can help you optimally benefit from the growth opportunities over the coming decade.

3.4 GOLD

China Sends Gold Prices Soaring

India is no longer the elephant in the world's gold dealing rooms. The Dragon has edged it out. In 2009, China bought more gold than India, making it the world's top consumer. China pipped South Africa in 2007 as the world's largest gold producer. Reviving up production to take advantage of record prices is understandable. But why have the Chinese sudden fallen in love with gold? And does this affect the price we pay? We help you join the dots.

China is buying gold for the same reason we buy life insurance policies: peace of mind. The Chinese government has a kitty of over $2 trillion, mostly greenbacks. Unfortunately, Beijing is not terribly fond of this currency right now. It believes the dollar may well become a dud, given Uncle Sam's economic troubles. So, it wants to stock up on something whose value does not change with one country's policy moves. Gold fits the bill. Since 2003, Beijing has been buying most of the gold excavated and refined locally. It was a perfect strategy. No one in the international market became the wiser and the bill was paid in yuans. Today, China has more than 1,000 tonnes in its official vaults, up 75% in six years. Its gold reserves are now the fifth-largest among national central banks after US, Germany, France and Italy. This insurance helped mandarins in Beijing sleep easier at night.

But the public still no such hedge. So, Beijing has begun actively encouraging people to invest up to 5% of their income in gold and silver. The biddable Chinese have diligently followed this advice. Full-year 2009 private demand in mainland China could outstrip India by a fifth. Cheng Binghai, chairman of the Shanghai Gold & Jewellery Trade Association said, "China is stepping up efforts to extend consumption in rural area, including the newly-wealthy people who are trying to own top brand gold for social status purposes." Of course, each Chinese family is still buying only a few grams, given high prices and limited incomes. But added up, consumption would cross 430 tonnes this year, 10 tonnes more than India. Over the next decade, more Chinese will buy gold, at a time when inflation is almost certain to be high, adding to its appeal. In short, China can permanently alter gold's global demand-supply equation.

As top producer and consumer, surely China should control gold prices the same way it has changed the game in metals and soft commodities. But it didn't. That's because with no real end use, gold's price is derived more from the nebulous value the market ascribes it and competing investment opportunities rather than the iron laws of physical demand-supply. China's impressive physical numbers tend to leave traders cold. Instead, what really gets them jiving is the 'sentiment' that China signals to the world. China is buying gold because it is nervous about the US dollar, and this fear is contagious. Investors in India and round the world have started accumulating gold too. The subsequent price spike, itself fraught with risk, then becomes almost a self fulfilling prophecy. So, China's buying definitely added to the 28% (in rupee terms) spurt in gold prices last year.

Ultimately, China's real power comes from its hard-headed attitude. Chinese families may have just figured the virtues of gold as a safe haven, while we have passed it down generations to survive war, unemployment, debt, crop failure and marital break-up. But here is the nub: we hate selling gold. For the Chinese, sentiment doesn't come into it, at least for now. Plus, they are far more market-savvy.

If the timing is right, they may well encash their investment. No fund manager or trader can afford to ignore this chilling fact. China's growing presence in the physical gold market is awe-inspiring. But China's pragmatic approach to gold makes it the really big kahuna.

4.0 FINANCIAL SECTOR: TRANSFORMING TOMORROW

Back to School

This is not a pontification by any stretch of imagination. What I seek to deliver is a bunch of simple, ready-to-use tips which will apply possibly to each one of us, not only in 2010, but beyond.

4.1 FINANCIAL ADVISORS:

Weigh impact on investors

Nine tips for better financial health

1. Pay full credit card bills on due date: Remember, if you do not pay the entire bill amount on the due date, interest is charged from the date of spending, and not the due date for payment. That factor alone can push up credit rates to over 40 per cent per annum; and this makes it probably the most expensive form of credit. Kill the credit with a personal loan if required – and follow the discipline of no more rollover of credit henceforth.

2. Close all unnecessary bank accounts: How many of us open new bank accounts with each new job, and haven't even checked the balance in the dormant ones in the past one year?

3. Keep one month's expenses in bank a/c: As you may have realised, the bank pays interest on your savings bank account at a rate lower than that of inflation. That's not to say that the rest needs to be invested for the long-term. I am only stating that you can earn a bit more through fixed deposits or short-term mutual funds for funds needed more than 30 days later.

4. Buy life insurance: You buy life insurance to benefit your loved ones, not yourself. Buy the cover that you need today – get the term plans first so that the sum assured is adequate for your family's needs.

5. Start investing early: The power of compounding is phenomenal. A 25-year old investing Rs 10,000 per month for 20 years, and then letting the money stay invested, all at 10% pa accumulates Rs 3.3 crore at the age of 60. A person starting 10 years later (at age 35) needs to invest 2.5 times the amount (Rs 25,000 per month) for 25 years to reach the same corpus of Rs 3.3 crore.

6. Invest regularly: Systematic investment where the long-term trend is upwards (as in India) is the best way to eliminate risks of investing in equity markets. Those who continued doing so in 2008 and early 2009 when the chips seemed down and out have more than seen value in this investment philosophy.

7. Make a financial plan: Determine your financial goals. Locate a certified financial planner. Get a plan made to help you reach your financial goals, based on the risks that you can take; not just the risks that you wish to take.

8. Stick to the financial plan: Financial plans result in arriving at an asset allocation which takes into account risks, returns as well as liquidity. Ensure that the allocation is reviewed periodically and balance it so that you can cut risks when the market is over-heated and enter boldly when all others are dancing barefoot on a hot tin roof!

9. Review first 9 commandments regularly: Discipline is the key to managing your money better. Go over these commandments and add others.

4.2 FINANCIAL PLANNERS

Value unlocking for all stakeholders: Pay full credit card bills on due dates

Borrow to finance your needs, not your wants

Neither a borrower nor a lender be". That was the advice from Polonius to Laertes in Shakespeare's Hamlet. Conventional wisdom has always frowned upon making purchases that are unaffordable, as it amounts to living beyond one's means. By extension, borrowing, particularly to spend, has been berated too. Yet, it is difficult to resist the temptation of offers promising loans with 'zero' interest to help you purchase a washing machine or an LCD television, or to fund a holiday to an exotic destination abroad. Borrowings they may be, but they also help the loan-seekers fulfil a need that would not have otherwise been possible. The key to strike a balance, therefore, is to separate needs from wants, and sign up for only those loans that either create an asset or finance a must-have

Buying appliances and gadgets: Consumer durables, though, would fall somewhere in between. A refrigerator, for instance, is a necessity, rather than a fanciful desire, in cities. Therefore, affordability cannot be the only deciding factor here. It would also depend on the intensity of the need, the cost of the loan and your ability to service the same. It also depends on how expensive the scheme is – if the interest rate is, say, 12% per annum, you could consider it, but the deal could be termed unviable if it is over 18%. This apart, you need to consider your earning capacity as well. An individual with an annual income of Rs 10 lakh should avoid taking a loan for say a washing machine costing Rs 15,000, as s/he can easily afford the same by saving enough. However, those earning Rs 2 lakh per year with a genuine need for the appliance could opt for a loan entailing an EMI of Rs 2,000, for the sheer convenience it offers.

Purchasing a house: When it comes to housing loan, there is no doubt about the category it falls under. Given the property prices in the metros, buying a house outright is next to impossible, unless you already own a property that can be sold for the purpose. Thus, there is no substitute for a home loan. Besides, these loans are available at a lower rate of interest and also for longer tenures, thus putting relatively less strain on your finances. Also, the tax benefits home loans offer – Rs 1 lakh on principal repayment under section 80C and Rs 1.5 lakh on interest paid under section 24 – make them attractive

Desire for a car: Car is another asset that carries high aspirational value in India, next only to a house property. Moreover, it offers immense convenience too. Taking a car loan, therefore, need not be seen as a sign of fiscal imprudence, even if it is depreciable asset. A car loan would make sense if you get a good deal as it results in the creation of an asset whose utility value is high.

A loaned vacation: When it comes to travel loans, it is advisable to abide by conventional wisdom to the T. If you can't afford the holiday you have planned, change your plans. Set your sights on the one you that can be funded out of your savings. Spending on exotic holidays would qualify as a discretionary expense – a luxury, not a need. Since these are unsecured loans, the rate of interest is high, which means that your borrowed time-off could give you more grief than joy.

Personal loans and credit cards: Banks don't think twice about dangling such loans if they find your profile to be suitable, but it is advisable to stay away from them if the purpose is spending. These debts come with exorbitant interest rates and demand extreme caution while availing of the same. Ideally, these should be tapped only in the event of emergencies. In short, viewing borrowing as a precursor to a disastrous financial situation may not be the right approach to adopt. Instead, evaluating each debt on its merit could provide the right balance between fulfilling your needs and living within your means.

4.3 WEALTH MANAGERS

Map out the details to translate into benefits: Start investing early

Start Investing Early

When you take your first steps into the working world, a step that usually comes hand in hand with finally moving out on your own, there are a lot of places you suddenly find your money disappearing to.

Not only is there an onset of bills of the like you may have never imagined but there is the desire to buy all those things you always wanted to buy. Now that you finally have the money to get that bigger TV, the car and gadgets you have always wanted it's hard to stop yourself.

The problem that many people have when they first get to this position is that in doing all of this spending the money vanishes faster than they would have ever thought. The value of a rupee never seems to fully show itself until you are making what you think is a lot of money and then watch it add up to nothing.

In essence there is nothing wrong with this.

It is a stage of life like any other and it comes with its own lessons to be learned. Truly, the most important thing to keep track of in this period is avoiding any significant debt; this is doubly true if you are just getting out of school and already have that education debt hanging over you.

If you are one of the lucky people who learn how to handle that and manage their money properly then there are other steps, just as important, to take. Most of us are never taught just what we are supposed to do with our money and how we can make that money work for us. Many people manage to avoid debt and even find a way of saving chunks of each pay check in a bank account but too few of them do anything more with their savings than that.

For so many reasons, just leaving money sitting in a bank is a bad idea; if only because by the end of each year the bank is likely to take more fees than it gives interest. While leaving enough liquid funds to get by each month is important, taking excess funds and investing them is just as important. For people that do not have excess funds it is even more important that they find a way to create them.

By investing the money wisely, typically starting off with investments that build slowly but steadily, you are able to better ensure you have money for your later years. And just because your later years are far away doesn't mean you should wait to invest.

The thing is that the best investments are the ones that take time to pay off.

The ones that make you rich over night are few and far between and are also the ones that are risky enough to make you broke overnight as well.

When you invest those few extra rupees you are able to put aside early they are able to turn into bigger amounts in the years that follow.

One thousand rupees a week going into an average paying fund will not turn into lakhs after a few years; but if you start that one thousand rupees a week when your young, then it will be worth something significant when you really need it.

4.4 CREDIT COUNSELORS

Resolve convertibility and recompensation issue: Invest Regularly …

Rupee Cost Averaging

Stock markets world over are characterised by ups and downs. Predicting right moment to enter and exit the market consistently is virtually impossible. Best of fund managers also find it difficult to predict stock markets. This unpredictability is both an opportunity and threat depending upon how you use it. Here is a proven investment strategy that attempts to take advantage of this volatile nature of the stock markets. This strategy is called Rupee Cost Averaging.

Simply put, Rupee Cost Averaging is a disciplined investment practice that takes the guesswork out of "timing" the markets. This strategy involves investing a fixed amount in the same investment at regular intervals - say, every month or every quarter. The essence of this strategy is that more units are purchased automatically when prices are low and fewer units when prices are high. Over time, this result in the average cost per unit - the money you pay - being lower than the average price per unit.

How It Works? It is important to note that although Rupee Cost Averaging eliminates the guesswork involved in market timing, it does not guarantee a profit or guarantee against loss in a declining market. However, with Rupee Cost Averaging you avoid investing too much when the market is high or too little when the market is low.

How to Make It Work for You? Decide on an amount that you are comfortable investing regularly over a period of time. (Any amount say from Rs. 2000 onwards)

- Choose how often you want to invest, say, monthly or quarterly.
- Maintain a long-term perspective. Rupee Cost Averaging works best over extended period of time.
- Invest regularly; do not be influenced by short-term fluctuations in the markets.

The Power of Compounding

Inflation can steadily erode the value of your income. However, long-term investing can provide returns that outpace inflation-through the power of compounding.

Year after year, any money that you invest may earn interest, dividends, or capital gains. When you re-invest those earnings, they help generate additional earnings; those additional earnings help generate more earnings, and so on. This is called compounding. For example, if an investment earns 8% per year and these earnings are re-invested annually:

- After one year, your total return will be 8%
- After five years, your cumulative total return will be 47%
- After 10 years, your cumulative total return will be 116%

Best of all, the sooner you begin investing, the greater the compounding effect.

4.5 TECH SAVVY PROFESSIONALS

Take first step to ensure efficient and reliable system: Make a financial plan

Make Your Financial Plan Profitable

A curious thing happens to investors in the spring of every year. You wake up one day and realise you had better figure out how much money was made last year in order to pay your taxes. But wait, shouldn't an investor already know how much money he or she made last year, last quarter, or last month?

Don't wait. Develop your financial plan today.

If you don't keep track of how much money you're making, you have no idea whether your investment is successful or not. You can't tell how well your investment strategies are working. You need to know what your net profit is. If you don't, there's no way you can know how to increase it.

To be successful in investing, you need to make a financial plan and check it against the facts on a monthly basis, then take immediate action to correct any problems. Here are 6 steps you should take:

Create a financial plan:

Estimate how much profit you expect to bring in each month.

Review the plan monthly:

Even if time is taken to prepare a financial plan with profit projections, it often sits in a desk drawer. It's not enough to have a plan – you have to review it regularly.

Lost profits can’t be recovered:

When comparing your projections to reality and finding profits too low, the conclusion often is, "I'll make it up later." The problem is that you really can't make it up later; every month profits are too low is a month that is gone forever.

Make adjustments right away:

If revenues are lower than expected, increase efforts in investment strategies. There are other investors like yours around. What is their secret for operating profitably?

Think before you Invest:

When considering any new investment, evaluate the increased earnings you expect to bring in against its cost before you proceed to make a purchase.

Don't be afraid to hire:

Financial Advisors wouldn't consider available without cost. Almost any activity can benefit from hired or contracted help. You can better use your talents with his help.

Strategies for Successful Stock Market Investing

Stock trading is a sale/purchase of shares in a volatile market (with no precise way} to continually experience ongoing profits. No investor can yield ongoing growth year after year, with every stock purchased because it is impossible statistically.

The stock market is unpredictable so there is no sure-fire way to ensure growth with all investments.

Other conditions compound the difficulty faced by stock market investors including no consistent winning trend shown for stocks. The majority of people believe successful trading is merely the need for an investor to accurately predict the movements of the stock market. An incorrect assumption is made by many that stocks bounce around the range forever, thus they need to be able to predict trends in movement to purchase stocks during the lowest value and sell them at the highest peak possible.

The bottom line about this popular belief is it's simply wrong. The best way to realise a profit in the stock market is to steer clear of approaches that rely on making accurate stock market predictions. The reason predictions are a poor technique is because there is no absolute way to predict stock market performance with complete accuracy for every investment. When considered, consciously attempting to predict the stock market is a technique no better than purchasing a stock and holding on to it for a long time.

A professional analyst might have the ability to predict a stock's performance in the near future but very rarely in the long term. An analyst may predict stock performance for the next quarter or even for the upcoming year. However, it is statistically impossible to predict stock movement accurately quarter after quarter. The best way to do stock trading is to develop your own strategy by considering the following:

1. Remain abreast of the latest stock market reports and current news.

2. Make the effort to carefully evaluate the history of a stock's performance prior to making investments.

3. The best stocks to invest in show good dividend and growth.

4. Learn the structure of successful mutual funds and study them to see how they developed their investment strategy. Choose those particular funds to build your own personal mutual fund portfolio.

5. Evaluate the sector the company deals with.

6. Choose to put your money into stocks with a history of progressive gain.

These basic strategies will help you get started on developing your own strategy for stock market investing. There are no proven strategies and specific methods that consistently yield benefits for any investor, no matter how experienced. Strategies that are reliable today may wind up worthless tomorrow, proving the volatile nature of stocks. No guarantee exists when you invest in the stock market.

The best way to do the stock market is to carefully study several stocks and consider them as long term investments, rather than looking for a fast profit. These types of investments may take long to realise profits, but it is definitely more lucrative in the long run than putting all your eggs in one basket.

4.7 INCLUSIVE CEOs

Innovative responses to problems: Investment Guru

Buffett's Philosophy

Warren Buffett descends from the Benjamin Graham School of value investing. Value investors look for securities with prices that are unjustifiably low based on their intrinsic worth. When discussing stocks, determining intrinsic value can be a bit tricky as there is no universally accepted way to obtain this figure. Most often intrinsic worth is estimated by analysing a company's fundamentals.

Like bargain hunters, value investors seek products that are beneficial and of high quality but underpriced. In other words, the value investor searches for stocks that he or she believes are undervalued by the market. Like the bargain hunter, the value investor tries to find those items that are valuable but not recognised as such by the majority of other buyers.

Warren Buffett takes this value investing approach to another level. Many value investors aren't supporters of the efficient market hypothesis, but they do trust that the market will eventually start to favour those quality stocks that were, for a time, undervalued.

Buffett, however, doesn't think in these terms. He isn't concerned with the supply and demand intricacies of the stock market. In fact, he's not really concerned with the activities of the stock market at all. This is the implication this paraphrase of his famous quote: "In the short term the market is a popularity contest; in the long term it is a weighing machine.

He chooses stocks solely on the basis of their overall potential as a company - he looks at each as a whole. Holding these stocks as a long-term play, Buffett seeks not capital gain but ownership in quality companies extremely capable of generating earnings. When Buffett invests in a company, he isn't concerned with whether the market will eventually recognise its worth; he is concerned with how well that company can make money as a business.

Buffett's Methodology

Here we look at how Buffett finds low-priced value by asking himself some questions when he evaluates the relationship between a stock's level of excellence and its price. Keep in mind that these are not the only things he analyses but rather a brief summary of what Buffett looks for:

1. Has the company consistently performed well?

Sometimes return on equity (ROE) is referred to as "stockholder's return on investment". It reveals the rate at which shareholders are earning income on their shares. Buffett always looks at ROE to see whether or not a company has consistently performed well in comparison to other companies in the same industry. ROE is calculated as follows:

= **Net Income** / **Shareholder's Equity**

Looking at the ROE in just the last year isn't enough. The investor should view the ROE from the past five to 10 years to get a good idea of historical performance.

2. Has the company avoided excess debt?

The debt/equity ratio is another key characteristic Buffett considers carefully. Buffett prefers to see a small amount of debt so that earnings growth is being generated from shareholders' equity as opposed to borrowed money. The debt/equity ratio is calculated as follows:

= Total Liabilities / Shareholders' Equity

This ratio shows the proportion of equity and debt the company is using to finance its assets and the higher the ratio, the more debt - rather than equity - is financing the company. A high level of debt compared to equity can result in volatile earnings and large interest expenses. For a more stringent test, investors sometimes use only long-term debt instead of total liabilities in the calculation above.

3. Are profit margins high? Are they increasing?

The profitability of a company depends not only on having a good profit margin but also on consistently increasing this profit margin. This margin is calculated by dividing net income by net sales. To get a good indication of historical profit margins, investors should look back at least five years. A high profit margin indicates the company is executing its business well, but increasing margins means management has been extremely efficient and successful at controlling expenses.

4. How long has the company been public?

Buffett typically considers only companies that have been around for at least 10 years. As a result, most of the technology companies that have had their initial public offerings (IPOs) in the past decade wouldn't get on Buffett's radar (not to mention the fact that Buffett will invest only in a business that he fully understands, and he admittedly does not understand what a lot of today's technology companies actually do). It makes sense that one of Buffet's criteria is longevity: value investing means looking at companies that have stood the test of time but are currently undervalued. Never underestimate the value of historical performance, which demonstrates the company's ability (or inability) to increase shareholder value. Do keep in mind, however, that the past performance of a stock does not guarantee future performance - the job of the value investor is to determine how well the company can perform as well as it did in the past. Determining this is inherently tricky, but evidently Buffett is very good at it.

5. Do the company's products rely on a commodity?

Initially you might think of this question as a radical approach to narrowing down a company. Buffett, however, sees this question as an important one. He tends to shy away (but not always) from companies whose products are indistinguishable from those of competitors, and those that rely solely on a commodity such as oil and gas. If the company does not offer anything different than another firm within the same industry, Buffett sees little that sets the company apart. Any characteristic that is hard to replicate is what Buffett calls a company's economic moat, or competitive advantage. The wider the moat, the tougher it is for a competitor to gain market share.

6. Is the stock selling at a 25% discount to its real value?

This is the kicker. Finding companies that meet the other five criteria is one thing, but determining whether they are undervalued is the most difficult part of value investing, and Buffett's most important skill. To check this, an investor must determine the intrinsic value of a company by analysing a number of business fundamentals, including earnings, revenues and assets.

A company's intrinsic value is usually higher (and more complicated) than its liquidation value - what a company would be worth if it were broken up and sold today. The liquidation value doesn't include intangibles such as the value of a brand name, which is not directly stated on the financial statements.

Once Buffett determines the intrinsic value of the company as a whole, he compares it to its current market capitalisation - the current total worth (price). If his measurement of intrinsic value is at least 25% higher than the company's market capitalisation, Buffett sees the company as one that has value. Sounds easy, doesn't it? Well, Buffett's success, however, depends on his unmatched skill in accurately determining this intrinsic value. While we can outline some of his criteria, we have no way of knowing exactly how he gained such precise mastery of calculating value.

Conclusion

As you have probably noticed, Buffett's investing style, like the shopping style of a bargain hunter, reflects a practical, down-to-earth attitude. Buffett maintains this attitude in other areas of his life: he doesn't live in a huge house, he doesn't collect cars and he doesn't take a limousine to work. The value-investing style is not without its critics, but whether you support Buffett or not, the proof is in the pudding. As of 2004, he holds the title of the second-richest man in the world, with a net worth of more $40 billion (Forbes 2004). Do note that the most difficult thing for any value investor, including Buffett, is in accurately determining a company's intrinsic value.

Two words for the efficient market hypothesis: Warren Buffett

An interesting academic study illustrates Buffett's amazing investment genius. During the period from 1980 to 2003, the stock portfolio of Berkshire Hathaway beat the S&P 500 index in 20 out of 24 years. During that same period, Berkshire Hathaway's average annual return from its stock portfolio outperformed the index by 12.24 percentage points.

The efficient market theory predicts this is impossible, but the theory is clearly wrong in this case – and as Casey Stengel said, "You can look it up."

Buffett has delivered these outstanding returns by buying undervalued shares in great companies such as **Gillette** (now owned by Procter & Gamble) and **Washington Post**. Over the years, Berkshire has also taken a chance on companies such as Nike (NYSE: NKE), **M&T Bank** (NYSE: MTB), and **Wesco Financial** (AMEX: WSC). Indeed, his investment in Gillette increased threefold during the 1990s.

Who'd have guessed you could get such stratospheric returns from razors?

Do-it-yourself outperformance

Beginning investors will need to develop their skills in identifying profitable companies and determining intrinsic values before they'll be able to capture Buffett-like returns. In the meantime, one place to look for stock ideas might be among Berkshire's own holdings. In the past year, the company disclosed increased or new positions in railroad stocks like **Burlington Northern Santa** Fe (NYSE: BNI) and **Norfolk Southern** (NYSE: NSC). At the very least, you might consider taking a closer look at some of these stocks. If investing in wonderful companies at fair prices is good enough for Warren Buffett – arguably the finest investor on the planet – it should be good enough for the rest of us.

4.8 CONTINUING LEARNING CENTRES

Take informed decisions: Investment Options

Select the Best Investment Options

Choosing investments for your portfolio can be overwhelming. What will be most beneficial to you depends on the age at which you start, the tenure and how much you can afford to contribute.

Step 1

Work with your advisor or determine on your own the best plan of action. Gather recent market trends, what other customers your age and income bracket are doing, how much you should be investing and what risks are involved with each type of investment.

Step 2

Select a variety of different investment types that will diversify your portfolio. Diversification is the financial equivalent of not putting all your eggs in one basket. If one of your stocks fails, you will not lose all your money if you have other assets as well, such as money market investments, gold and bonds.

Step 3

Put precious metals such as Gold, silver and platinum into your portfolio as a good way to diversify your holdings. When stock prices drop, the value of precious metals tends to rise. Having both types of investments in your portfolio can easily achieve ideal diversification.

Step 4

Invest in certificates of deposit (CDs) for a conservative approach. A CD earns a comparatively high interest rate, yet involves very little risk.

Step 5

Consider money market funds as you get older. The interest rate is lower than that of a CD, but unlike a CD, there is no specified term of the deposit.

Step 6

Choose mutual funds as another conservative way to diversify your portfolio. Your money is combined with that of other investors. The larger sum is used to buy stocks from more than one company.

Step 7

Play the stock market and invest in stocks and bonds. This is an aggressive and riskier approach. However, there is more potential for a large return on stocks than with CDs or money market funds.

4.9 ONE-STOP-SHOPS

Dedicated to offer related services under a roof; Long Term Investment:

Long Term Investment Strategies that Work!

Planning for your future and retirement relies on planning the right kinds of long term investments. There are many different types of long term financing investments, and everyone needs to have some sort of alternative investments for their future. Let's face it. You will not be able to work forever. No matter how healthy you are, there will come a time when you will not be able to work, due to health problems or simply aging. What will you do for an income when the time comes to retire?

Maybe you think you will be able to rely on Medicare and social security to take care of you during your retirement. Well, if that is your plan, it is time to look at the news. Social security is in trouble. Politicians are trying to repair the problem, but chances are in another twenty years, or even less, there will be little to nothing left for you in the social security budget. Finally, you never know what the future is going to hold. Will you stay healthy? Or, will you have some serious medical expenses that you will need to have finances for. Long term investments give you the security to know that in dire circumstances, money is there. So, you realise that you need to start looking into long term investments. But where do you start? How do you know which investments are the best long term investments? Should you use a broker, or do it on your own. Here are some of the most tried and true long term investment strategies.

Start by Setting Goals: As with any other type of investing, proper long term investments start by setting proper goals. How much do you want to have when you retire? What age do you want to retire? How much should you invest monthly to reach that goal? Are you willing to do your own investing, or do you want someone to show you the ropes. Write these goals down to help guide you as you choose your investments. If you decide to seek help looking for your investments, choosing the right firm is important. Make sure you choose a firm that will follow your investment goals.

Invest at Regular Intervals: If you can invest a little every month, that is better than investing a huge lump sum at the end of the year. Remember; pay yourself before you pay anyone else. A good goal is to invest around fifteen percent of your income each month. Do this before you shop, or pay off other bills.

Increase Your Paycheck: Yes, you can increase your paycheck, even if your boss is not offering a raise. Consider claiming a few more deductions on your taxable income. There are some arrears payments that you will receive. In that case, consider investing your arrears, rather than spending it on a large purchase.

Use Your Noggin!; Make sure you are investing wisely. Do not take on too much risk, but on the flip side, make sure your investments are earning interest. Choose funds that consistently bring in profit. That is the best way to make sure your money is safe!

Pros and Cons of Investing: Long term investments do have some negatives. If your investment portfolio is limited to one or two investments, you could lose everything, if those investments should not pan out. Not only that, but you do not have access to the money in your long term investments until the investments come to maturity. But the pros far outweigh the cons. If you are going to invest for your future, you are going to have a secure financial future. You will not be a burden to your family when you are older this is why you need to make long term financing investments a priority. Find a broker to help you, and get started on your long term investments today. Your future is waiting!

4.10 MICRO-FINANCE PROFESSIONALS

Developing alternative credit delivery models: Short Term Investment:

Short Term Investments - Which Are Best?

If you need to make money quickly, consider short term investments. Short term investments allow you to invest an amount of money at a high yield interest rate, and gain access to the return sooner rather than later. There are several short term investment options out there, and the key to making money successfully is finding the best short term investments. And that starts with learning the answer to the question you probably have: what are short term investments?

Defining Short Term Investments: A short tern investment is an investment option that earns you a return on your money in a short period of time, such as one to three years. This is different than retirement investing, and it can be a challenge to find short team, high yield investments. Good short term investments will have a high interest rate, allowing you to earn substantial money immediately.

The Need for Short Term Investments: You might need short term investments if you have a pressing need coming up in the near future. If, for example, you might need to have a down payment for a house or car in a year or two, you could make use out of short term investment options. Also, you might use this type of fund in replacement of a traditional savings account, because you will earn a higher rate of return.

How to Use Short Term Investments: If you are interested in short term investments, talk to your financial advisor. He or she can tell you what the best short term investment opportunity you can use will be. Then, invest your money, and leave it alone. Allow it to gain interest (appreciate) for the course of the investment period. When the fund comes to term, you will have earned interest (short-term profit) on the money you invested. You can decide the amount of your total income to be invested in short-term investment. Most people are comfortable with investing around ten percent of their total income. Then, choose the investment to use. It is best to take the amount and invest it into one particular investment. Your long term investments are where diversification is helpful.

Good Short Term Investments: A money market is an example of one of the good short term investment options. Money markets have higher interest rates than traditional savings accounts, but they limit the access to the money for a period of time. Investing in gold is another short-term investment option, when the price is low, and then selling it when the price is high. This works well because gold and silver both change quickly, and you can almost always find a time when the rate is low, and then hold onto your shares of gold or silver until the rate goes back up.

Pros and Cons of Short Term Investments: There are pros and cons of short term, high yield investments. One of the cons is that the short term investments that carry high interest rates are often high risk type accounts. This means that you stand to lose money. Another con is that some types of short term investment options come with penalties should you need access to them early.

The pros of short term investments are that they allow you to make money for those expenses that you have right away. Unlike long term loans, you will have access to the money in a few short years. These short term investments actually work to protect your long term financial goals. This is because you have money available when you need it right away, rather than having to break into your other retirement plans early when an emergency occurs. So no more excuses! Start working on your short term investments.

4.11 ISSUES OF THE PRESENT

Freedom to get & fail in the system of free enterprise: Wealth Creation

Wealth creation: A long-term exercise

Wealth creation is a long-term exercise, and choosing products for wealth creation is an integral component of the whole exercise. Interestingly, the intermittent boom runs in different asset products make many believe that timing is more crucial than the investment process. However, history and the recent events in the global markets have once again reiterated the fact that wealth creation is a mere scientific process which requires endurance and patience. For instance, the recent short bull-run in the domestic stock markets would have benefited those who picked their stocks after the October crash. Some of their stocks have managed to offer three-digit returns. The same can't be said of those who chased short-term profits on the belief that the markets are in a trading zone more than in an investment

Choose right kind of assets: It is worth focusing on the fact that besides the right process, an investor also needs the right kind of assets to build his wealth. Interestingly, the choice of assets need not be static as newer products emerge at regular intervals and the choice itself varies in line with the changing needs of the investor. For instance, a decade ago, a fixed deposit was the primary option for an investor looking at risk free returns. Today, the list has expanded with new entrants such as arbitrage funds, floaters and liquid funds. Hence, besides focusing on the process of investment, an investor also needs to track the emerging options in the marketplace.

Ideal situation for building wealth: Many young investors often ask the question what is the ideal situation for building wealth? Should it be taken up right at the beginning with smaller amounts or should the whole exercise begin when the investor is free of his commitments and has the ability to enjoy better cash flows. The answer lies in the comfort of the investor, though earlier the better is the general consensus. While no doubt an investor should begin the process of investing at an early stage in life, the greater focus has to be on its review. For instance, an investor who signs up for a systematic investment plan of Rs 2,000 pm can not afford to continue with the same amount, irrespective of the changes in his earnings pattern. Such investors, in fact, would be required to review their savings potential every 2nd year to build the corpus. That brings us to the other important component of wealth creation - creation of goals.

Motivation is necessary: It is always much easier to chase a known target as it inspires the individual to go after it. The same logic can be extended to wealth creation as it motivates the investor to stay committed. Those who find the task of goal-setting tedious or challenging can take comfort under short and medium terms as their achievement spurs the investor to commit fresh investments. For instance, it is hard to motivate a 22-year-old to set aside a sum for retirement planning for a period of 35 years, whereas he can be easily cajoled to save for a new car for a period of 2-3 years.

Allocate funds with caution: Once the goals are in place, the allocation of funds into different instruments is a lesser challenge. An investor, building a portfolio over 2-3 decades, is unlikely to be perturbed by short-term events. On the other hand, he has to be cautious with his fund allocation for expenses which could come up in the next 12-18 months.

As pointed out earlier, portfolio creation is a culmination of classification of goals and creation of the right set of products for the fulfilment of those goals.

5.0 BANKING SECTOR

RBI Sets the Pace for Exit with 75-Bps Hike in CRR

On January 29 2010 in the quarterly monetary policy review, RBI governor Duvvuri Subbarao sent out an unequivocal call for help to the government, likening his dilemma of exiting from an expansionary monetary policy to that of the Pandava warrior Abhimanyu in the Mahabharata war. In an strong message, the RBI governor told the government that it should help prevent a monetary policy trap by returning to the path of fiscal consolidation, as the central bank began to hasten its exit with a 75 basis points (bps) increase in banks' cash reserve ratio (CRR), or the portion of deposits banks must keep with RBI.

He kept interest rates at record lows and raised growth and inflation forecasts for the current fiscal, as business sentiments improve, industrial recovery gains momentum and the services sector grows with improved financing and easing global markets. Economic expansion is inflating commodity and asset prices too. Abhimanyu, the star-crossed son of Arjuna, penetrated the labyrinthine 'Chakra Vyuha' defensive formation erected by the Kauravas, but lost his life not knowing how to get out. Arjuna, the only other warrior capable of breaching the formation as well as escaping from it, could not come to his son's aid as he was distracted fighting another battle.

Getting out of an expansionary policy is much more difficult than getting into it. It is like 'Chakra Vyuha' in Mahabharata – you know how to get in but not many people know how to get out. The RBI governor is attempting a deft exit from the ultra-loose monetary policy which he walked into to avoid a serious economic crisis after the bankruptcy of Lehman Brothers in 2008. While the measures have mostly paid dividends, their sudden withdrawal could act as a drag on the improving growth rate.

As RBI attempts to contain inflation expectations to pre-crisis levels of 4-4.5% and the medium-term objective of 3%, its aim could be frustrated by a large fiscal deficit, Mr Subbarao said in his policy statement. "As the recovery gains momentum, it is important that there is co-ordination in the fiscal and monetary exits. The reversal of monetary accommodation can't be effective unless there is also a rollback of government borrowing." He suggested that the government should begin the process of fiscal consolidation by rolling back in a phased manner the measures announced as part of the stimulus.

The 75-bps increase in the cash reserve ratio (CRR) to 5.75% will be implemented in two steps, starting February 13, to suck Rs 36,000 crore from banks. A basis point is 0.01 percentage point. Although the central bank has left its key repurchase rate untouched at a record low of 4.75% and the reverse repo rate at 3.25%, it has promised to respond "swiftly and effectively'' to temper inflationary expectations, if it crosses the raised tolerance level. "If we had used an interest rate measure, the amount of liquidity we would have absorbed on a day-to-day basis would have been uncertain. Given the large amount of liquidity, we wanted to be more certain how much liquidity we would absorb," Mr Subbarao explained, justifying the increase in CRR and not in any other rate measure.

YM Deosthalee, CFO, Larsen & Toubro, interpreted RBI's move as a signal that the tightening of money supply is called for in the backdrop of a rising inflationary scenario. "But the central bank did not raise interest rates because it thinks that the recovery is still fragile. It will certainly introduce stricter measures to curb inflation," he said.

Chanda Kochhar, MD and chief executive of the country's second-largest lender ICICI Bank described RBI's action as a "balanced approach" that tries to maintain growth and manage inflation. "I don't see it hurting growth in the long term, and I don't expect any immediate impact on interest rates."

But in the markets, expectations are building for a rise in rates, perhaps after next month's Budget and almost certainly before the next monetary policy review in April.

Meanwhile, RBI was upbeat about the economy despite some caution on early withdrawal of stimuli by policymakers globally. "Looking ahead to 2010-11, our preliminary assessment of the baseline scenario is that the current growth will be sustained," Mr Subbarao said. "Increased business optimism also reflects brighter prospects for the industrial sector. Services sector activities have improved. Domestic and international financing conditions have eased considerably, and this too should support demand."

The RBI governor is moving slowly, but steadily, in reversing the easy monetary policy, as dynamics in emerging markets and developed ones begin to diverge. As credit markets thaw and growth picks up, easy policies across the globe have led to soaring commodity and asset prices, pushing inflation up in emerging markets and threatening their long-term prosperity. China, which grew more than 10% in the December quarter, is tightening lending to prevent a bubble from bursting, while central banks in developed nations promise to keep rates at record lows to lift their economies from high unemployment.

The RBI's GDP growth forecast has been raised to 7.5% for the 2009-10 fiscal from 6%. Industrial production rose at its fastest rate in two years in November at 11.7% and second-quarter economic growth was 7.9%. Sales at companies such as Maruti Suzuki and TVS Motor are at near record levels and exports have begun to grow in November after 13 straight months of contraction.

But the revival of fortunes is also bringing problems for policymakers. Inflation, as measured by the wholesale price index, jumped to 7.3% in December from 1.2% in March 2009. Food inflation is at 17.4%. And fiscal deficit is at a 16-year high of 6.8% of the GDP. Mr Subbarao said both needs to be reined in for a stable economy. "The inflation risk looms larger when viewed in the context of global price movements. As growth accelerates and the output gap closes, excess liquidity, if allowed to persist, may exacerbate inflation expectations.''

While RBI did not provide an inflation target for the next fiscal beginning April, it said prices "will moderate'' from July 2010 assuming a normal monsoon and oil prices at current levels. It also depends on "the measures taken and to be taken by RBI as a part of the normalisation process". The inflation forecast for the current fiscal has been raised to 8.5% by March-end from 6.5%.

Finance Minister Pranab Mukherjee, who has borrowed record amounts, has agreed with the need for fiscal discipline and may target a fiscal deficit of 3% of GDP in five years. He is selling stakes in many state-owned companies such as utility NTPC and miner NMDC to raise funds for the government's welfare schemes. He has said that it is "imperative to come back to the path of fiscal prudence as soon as the current economic circumstances permit us to do so".

The RBI governor said in the review, "If Mr Mukherjee does not rein in the fiscal deficit, he may not have the comfort of low interest rates, as private demand for loans and inflation rise and RBI is left with few instruments to manage rates. In fiscal 2009-10, the government's record borrowings "could be managed through a host of measures that bolstered liquidity. Those liquidity infusion options will not be available to the same extent next year. But the recovery, which is underway, may also be at risk and the stimulus rollback should be measured. There is still uncertainty about the pace and shape of global recovery. There are concerns that it is too dependent on public spending and will unravel if governments around the world withdraw their fiscal stimuli prematurely."

Back to School

6.1 TAX UPDATES

It Pays To Utilise Your Capital Loss Effectively

As we are approaching the end of the tax year, it is important to understand the treatment in respect of capital loss as many individuals may have incurred a capital loss in realty or capital markets. Further, there may be instances where tax payers might have disposed off their assets to meet their immediate financial commitments as their investments might have been blocked or yielded very low returns keeping in view the general economic downturn.

Before we proceed to discuss capital losses and their treatment as to set-off and carry forward under the provisions of the Income-tax Act, 1961 (the 'Act'), it is important to understand how income and losses are computed under the Act.

Heads of Income: Under the provisions of the Income Tax Act, all incomes are classified under one of the specified heads and taxed accordingly. These include salaries, income from house property, profits and gains of business or profession, capital gains and income from other sources. Income under each of these heads is computed and expenses, deductions/exemptions are claimed. The net result could either be positive income – that is where income exceeds the expenditure, or a loss where the expenditure exceeds the income. In case the tax payer has incurred a loss under any of the heads of income, then he is entitled to set off such a loss against his other incomes or/and allowed to carry forward such a loss to set-off in future years, subject to the provisions of the Act.

What is a capital asset: Capital assets include house property, shares, mutual funds, jewellery, drawings, paintings, any work of art, etc., as specified under the Act. In other words, capital assets include property of any kind held by the tax payer.

Capital loss: Capital loss would arise in case the cost of acquisition of the capital asset (plus the cost of improvement thereto) exceeds the net sale consideration. It can be either short-term or long-term, depending on the period of holding. Tax treatment in respect of set-off and carry-forward varies considerably between short-term assets and long-term capital assets.

Short & Long-term: A short-term capital asset is one that is held for not more than 36 months immediately preceding the date of its transfer. In case of shares and mutual funds, short-term capital gains would arise if such shares and mutual funds are held for not more than 12 months. Therefore, gains from sale of shares and mutual funds held for over 12 months or other property held for over 36 months or more, is classified as long-term capital gains.

Set-off of Capital Loss: Short-term capital loss suffered in any financial year can be set-off against both short-term capital gains as well as long-term capital gains in that financial year. On the other hand, long-term capital loss can be set-off only against long-term capital gains. There is a view that long-term capital loss arising from sale of shares or equity-oriented mutual funds on which the Securities Transaction Tax (STT) has been paid may not be allowed to be set-off against long-term capital gains, since the capital gains from these per se, are exempt under the Income-Tax Act. Therefore, caution needs to be exercised in such cases.

Carry forward of Capital Loss: If capital loss (both long and short-term) cannot be wholly set-off in a particular tax year, then the amount of loss not set-off can be carried forward to the next eight financial years and set-off against short-term capital gains or long-term capital gains in those years in the same manner as discussed above under the heading 'Set-off of capital loss'.

Back to School

Tax planning & availing deduction benefits

As we now approach the end of the financial year, it is time to review whether you have smartly utilised all avenues of tax savings. In this article we discuss the various tax benefits available to an individual.

Section 80C of the Income-Tax Act, 1961 (Act), provides for a deduction of up to Rs 100,000 in relation to certain investments (tax saving instruments)/expenditure incurred by the individual during the financial year. Some of the tax saving instruments qualifying for deduction include contribution to Provident Fund (PF), Public Provident Fund, investment in equity-linked savings schemes, National Saving Certificates, Senior Citizen Savings Scheme, five-year time deposit with the Post Office, five-year terms deposits with a scheduled bank, premium paid on life insurance or unit-linked insurance polices (Ulips) of self, spouse and/or children and the repayment of the principal portion of the housing loan etc. The category of expenditure includes payment of tuition fees for a full time education in any school, university, college etc. limited to maximum of two children.

While planning taxes, an individual needs to make sure that he fully avails the deduction of Rs 100,000 as available under the Act. The choice of the appropriate investment(s) would depend on the specific situation of the individual such as age, marital status, investment objective etc. Consider another situation, where the same individual is staying in his own house which he purchased or constructed with the borrowed funds, then he would also need to consider the principal amount he would repay during the year before arriving at the amount to be invested for tax saving purposes. Moreover, in such a case, the amount of interest paid on such loan is also separately deductible under the Act up to maximum of Rs 150,000.

It may be noted that the investments have to be made within the FY and the proof is required to be submitted with the employer to enable the employer to grant you the deduction for the said FY at the time of withholding tax from the salaries. Where you have provided the estimated amount of tuition fees and/or repayment of principal and interest on the housing loan, you will need to review the estimates. For example where school/college raised the fees for your children or where the bank increased/reduced the floating interest rate during the year on the housing loan, your estimate may undergo a change and the amount to be invested in tax saving instruments would also need to be reworked.

In case you have taken a medical insurance for self and/or family (spouse and dependent children), you are eligible to claim a deduction up to Rs 15,000 (Rs 20,000 if any of the family member is a senior citizen). Further, where the medical insurance is taken for your parents, you will get an additional deduction of Rs 15,000 (Rs 20,000 if any of the parent is senior citizen).

If you have done any charity or plan to do so, deduction is available up to 50% (in some cases 100%) of the amount donated to specified funds/institutions. In case you have borrowed money to pursue higher education for self and/or your spouse/children, interest repaid on such loan during the year is also deductible. Such deduction is allowed over eight FYs, starting with the year when you start paying the interest or tenure of the loan, whichever is earlier.

In case you have incurred any sum on the medical treatment of self or dependent family members (spouse, children, brothers, sisters or parents) of the specified diseases or ailments, you can claim deduction of up to Rs 40,000 (Rs 60,000 where such person/dependent is a senior citizen). Further, in case you have incurred any expenditure on medical treatment including nursing etc or have taken a specified annuity policy for the maintenance of the dependent disabled person, you are eligible to claim a deduction of up to Rs 50,000 (Rs 100,000 where the dependent is suffering from severe disability).

To sum up, an individual needs to look at a specific situation in a more analytical manner as discussed above to optimise their taxes.

Protection of Investors Rights and Interest

The Securities and Exchange Board of India (SEBI) has been mandated to protect the interests of investors in securities and to promote the development of and to regulate the securities market so as to establish a dynamic and efficient Securities Market contributing to Indian Economy. SEBI strongly believes that investors are the backbone of the securities market. They not only determine the level of activity in the securities market but also the level of activity in the economy.

However, many investors may not possess adequate expertise/knowledge to take informed investment decisions. Some of them may not be aware of the complete risk-return profile of the different investment options. Some investors may not be fully aware of the precautions they should take while dealing with market intermediaries and dealing in different securities. They may not be familiar with the market mechanism and the practices as well as their rights and obligations.

Rights as a shareholder

- To receive the share certificates, on allotment or transfer (if opted for transaction in physical mode) as the case may be, in due time;
- To receive copies of the Annual Report containing the Balance Sheet, the Profit & Loss account and the Auditor's Report;
- To participate and vote in general meetings either personally or through proxy;
- To receive dividends in due time once approved in general meetings.
- To receive corporate benefits like rights, bonus, etc. once approved.
- To apply to Company Law Board (CLB) to call or direct the Annual General Meeting;
- To inspect the minute books of the general meetings and to receive copies thereof;
- To proceed against the company by way of civil or criminal proceedings;
- To apply for the winding up of the company;
- To receive the residual proceeds;
- To receive offer to subscribe to rights shares in case of further issues of shares;
- To receive offer under takeover or buyback offer under SEBI Regulations;

Besides the above rights, which you enjoy as an individual shareholder, you also enjoy the following rights as a group:

- To requisite an Extra-ordinary General meeting;
- To demand a poll on any resolution;
- To apply to CLB to investigate the affairs of the company; and
- To apply to CLB for relief in cases of oppression and/or mismanagement

7.0 INFLATION

India’s high growth offset by rising food Inflation

The acceleration of the WPI for December 2009 to 7.31% from a year ago, has been led mostly by food inflation and, therefore, the government must focus on addressing supply-side constraints on a priority basis. Import of items that are in short supply is not a long-term solution, and even in the short term, imports can do little to cool domestic inflation when prices of food around the globe are high.

Policymakers will first need to look inwards to address structural and political problems that prevent speedy movement of food from producing parts of the country to the consuming parts. Wastage of fresh vegetables and fruit due to non-development of farm-to-store cold chains and rotting of food grains due to poor storage facilities also need to be addressed on an urgent basis.

The rise in prices of manufactured goods is not much of a concern yet. However, with crude oil prices climbing, an upward revision of petroleum product prices in the domestic market looks inevitable. Increased power and transportation costs will then exert upward pressure on headline inflation numbers, and also push up prices of manufactured products.

Headline numbers are clearly in an uncomfortable zone, and monetary policy need not cool food prices but it can check second-round effects. The Reserve Bank of India should be prepared to act, but mostly to suck out excess liquidity that can potentially drive up asset prices. It can do this by raising the cash reserve ratio later this month. Lifting policy rates at this stage could threaten economic recovery. Growth is still tenuous and needs to be supported.

Food inflation at 18.22%

The inflation in food articles dropped to **18.22% for the week ended 26 December 2009** from 19.83% the week before, data released by the commerce ministry showed. Though food inflation has started to moderate, the increase in commodity prices following a recovery in global economy could now lead to prices of manufactured products going up. Carmakers and consumer durable manufacturers could increase prices as cost of key inputs such as fuel, copper, aluminium and steel is on the rise. Prices of most are near 12-month highs. Inflation in fuel segment increased to 4.85% from 4.45% in the week before as decontrolled industrial fuels became dearer following a rally in crude prices.

After food, inflation bites industrial goods

Steel, and zinc joined sugar and potatoes to take inflation in December 2009 beyond the RBI target for the fiscal year, even as Prime Minister plans to meet state chief ministers seeking their co-operation to curb prices that are threatening to get out of hand. Inflation, as measured by the WPI, rose the most in over 12 months to 7.31 % from a year earlier, ahead of RBI’s revised FY10 target of 6.5%. It was 6.15% last year.

The acceleration in price rise, which began with food products due to the poor monsoon, is spreading to industrial goods too as the economic growth sponsored by cheap money policy and low taxes lifts demand for cement, cars and steel. A majority of economists expect RBI to follow China in raising the reserve requirement and leaving policy rates unchanged for the time being. Indian policymakers are caught in a dilemma about reversing easy policy measures such as low taxes and interest rates, which have helped the country, overcome the worst global economic crisis since Great Depression. Any reversal could hurt corporate profits and the urban banks-funded demand, but keeping them “too low for too long” can lead to a spiralling of prices, hurting more than three-fourths of the billion-plus population.

8.1 MISCELLANEOUS UPDATES

Five espresso words

Is it possible to capture the essence of the year gone by and the promise of the New Year? Should one even try? 'A picture is worth a thousand words,' said Napoleon Bonaparte. Alas! Columns are the stuff of words, not pictures, so let me add a one-liner of my own: A few words can encapsulate a whole year. After all, this is the age of espresso stories!

So what are the words that best describe the world of business and finance last year? A random check of the business dailies in 2009 shows they were liberally sprinkled with words like recession, depression, financial meltdown, corporate fraud, inflation, ponzi schemes, inflation, job losses, stimulus package and so on. Not quite guaranteed to lift your spirits when you picked up the paper in the morning but then that was what 2009 was all about – a year of reckoning after years of irrational exuberance.

Will 2010 be any different? It's hard to say. But looking at the way the world has recovered in the past two months, I'm prepared to stick my neck out and hazard a guess. The good thing is that unlike 2009 when the most-frequently used words referred directly or obliquely to doom and bust, 2010 is likely to be marked by words that are more cheery, in keeping with the spirit of a reviving global economy and more resilient Indian economy. So what are these words? Here's my take.

Top of the list is a four letter word, '**exit**.' Agreed that's not a particularly cheery word as it refers to withdrawing artificial boosters that spurred the economy in 2009. But it's unavoidable. Just as one can't live forever on steroids, there is a limit to how long an economy can live beyond its means. The US might, but that's because the rest of the world is willing to hold its currency. We don't have that luxury so we will have to seriously think about an exit policy.

The Finance Minister Pranab Mukherjee is already off the block on that though for now his constant refrain is that it's still too early to exit the stimulus package. And that - **stimulus package** - is the next phrase you're going to read very often in the papers. Not only in the Indian context, but globally!

However, the world economy cannot continue like a junkie. So the next most common word in business dailies is likely to be '**deficit**'. Any talk of 'exit' will be followed by pious pronouncements of how failure to exit will impact the government's deficit. The FM has set out a fresh roadmap to rein in the deficit; never mind that he conveniently junked targets set out in the Fiscal Responsibility and Budget Management Act. But my guess is that there will be more talk than action.

Next on my list is **inflation.** There's no escaping the consequences of a life of excesses. So if the economy continued to do well in 2009 thanks to artificial boosters it is but inevitable that we should suffer a hangover in 2010. The second half of the year might see some respite but that is likely to be more a statistical illusion, caused by the base effect - high inflation in 2009 will make any price rise in 2010 appear subdued in contrast.

Interest rates are my next choice. With interest rates set to rise, savers will at last have something to look forward to. After months of negative real interest rates, it is time they were rewarded; but savers don't have the clout of borrowers so expect to see a lot of brouhaha about rising rates. So that's my take on the five words/phrases we're likely to see repeatedly in our papers throughout 2010. Are they the same as what I'd like to see? Unfortunately not! Top on that list are recovery, fiscal responsibility, price stability, employment and disinvestment. Will we see them? I'm keeping my fingers crossed!

8.2 INSURANCE SECTOR

Cover to Cover

At the beginning of the decade, insurance buyers had two choices, both government monopolies – Life Insurance Corporation and General Insurance Corporation through its arms. Ten years later, 23 life insurers and 24 non-life companies are allowing consumers to decide what they need and how much they will pay.

Perestroika and Glasnost:

More than five years after the Malhotra Committee recommended allowing private life insurers, the government passed the IRD Act, which gave the regulator the power to licence private companies. ICICI Pru, HDFC Standard Life, Max New York Life, Birla Sun Life, Royal Sundaram and Tata AIG, were among the first movers. It's now possible to buy a Rs 1-crore policy for a premium of a few thousand rupees.

Detariffing:

Non-life insurers no longer refer to their little black book to decide how much premium you need to pay for insuring your car or your property. You decide how much to pay.

War on Charges:

Where competition did not succeed, the regulator stepped in by introducing a cap on charges insurers could apply on insurance policies.

Innovation:

ULIPs make an entry: Birla sun life, which introduced unit-linked insurance plans, also decided to make ULIPs the mainstay of its product base. The gamble paid off.

Bancassurance:

This French word became a part of every insurer's lexicon after SBI Life and foreign banks demonstrated that given enough incentive, banks could sell life insurance.

Riders:

Toppings were only for pizzas. That was till ULIPs came along and insurers started offering schemes where policyholders could build plan over a basic ULIP by purchasing add-on covers called riders.

Anywhere Anytime:

There was a time when you needed to use influence in LIC to know your policy status. Today, most of your transactions are online.

The Action's here:

A middle-class Indian beginnings his career today would need to create a kitty of nearly Rs 1 crore by the time he turns 60 to take care of his post-retirement life, considering the increase in life expectancy. No other industry has the capacity to manage long-term savings. With a population of one billion, this is the biggest emerging market for life insurance companies worldwide. China may be a bigger economy, but when it comes to the distribution of financial products, India has a far more developed market. And as the value of these policies grows – so will the significance of the life insurance market in India.

Know the Basics before Buying a Health Cover

Generally, while buying a health cover, insurance seekers tend to rely on their agents. Many policyholders get acquainted with what their policy doesn't cover, only if their claims are rejected. Here are a few tips to ensure a relatively hassle-free claim settlement procedure.

Scrutinise your policy document: Before signing up for the policy, you need to ascertain the terms and conditions specified. If you are aware of exactly what your policy covers, that would nip many potential disputes in the bud. What usually happens is, individuals are dependent on their agents or brokers and take their views at face value. The intermediaries are mainly concerned about their commission. Therefore, neither the insured nor the broker adequately analyses the policy's content.

Declare pre-existing ill: Some policyholders tend to avoid declaring pre-existing illnesses while buying a health cover, which is an unwise approach to adopt. Individual policies typically exclude pre-existing illnesses. After all, you will have to reveal the same to the doctor. If the third party administrator (TPA) stumbles upon this fact while studying your medical history, your claim could be rejected, leaving you with a huge burden of cash outgo to deal with.

Know the exclusions: While getting a health cover, you should focus on the exclusions — illnesses and ancillary expenses that are not covered. Usually, insurers do not agree to pay expenses incurred for piles, cataract, etc., in the first year. Pregnancy too is not covered under standalone mediclaim policies. The same goes for dental treatment, crutches, etc. Some other insurers exclude the cost of external aids like pacemaker and wheelchair, or tonics and vitamins prescribed by the doctor. This apart, claims pertaining to outpatient department and diagnostic costs are also not entertained in India.

Reasonability clause: Keep an eye for the reasonability clause in your policy, which states that only those expenses that are 'reasonably and necessarily' incurred will be reimbursed. Insurance companies are using this clause to restrict payments, wherever they feel that the hospital has overcharged under a particular head. For instance, you could have received a treatment from a doctor who has charged a fee of Rs 1 lakh. Now, if it so happens that other hospitals or doctors provide the same treatment for a lower amount – say Rs 50,000 –the TPA will sanction a claim of only Rs 50,000.

Sub-limits, deductibles, co-payments: Most policies prescribe a ceiling on the expenses that can be approved under the policy. For example, your insurer could put a cap on operation theatre charges, room rent, etc, even if the total claim made does not exceed your policy's sum insured. Similarly, some policies could ask the insured to share a part of the costs incurred. It is also advisable to check whether the extent to which expenses incurred during the pre- and post-hospitalisation periods can be reimbursed. Typically, claims pertaining to 30 days prior to hospitalisation and 60 days post-discharge are admissible.

Keep the TPA in the loop: If you are opting for the cashless facility, you could inform the TPA in advance regarding your hospitalisation (48 hours before admission), during an emergency. You could speak to the TPA before admission to understand the procedure and requirements. You can also enquire about the availability of any help desk from the TPA at the hospital.

Get a grip on documents: Make sure you collect the discharge summary, diagnostic reports, medical advice for the post-hospitalisation period and a copy of bill and cash receipts from the hospital. You should verify the duly completed bill from the hospital and sign the same. Any erroneous entry in the bill could eat away your precious sum insured for the rest of the policy period. It also makes immense sense to submit all the documents at one go, to avoid any possible delay in claims processing.

9.1 KNOWLEDGE RESOURCE

Dragon's $2.4-Trillion Weapon

China has disclosed that its foreign exchange reserves had increased to about $2.4 trillion in 2009, a gain of $453 billion for the year. These stupendous figures – and the likelihood that the country's reserves will rise by a comparable amount this year – have now become a financial, economic and geopolitical reality of surpassing significance.

The significance is not, as many imagine, that China might suddenly 'dump' the dollar and dethrone it as the world's major international currency, undermining American economic power and prestige.

Two-thirds or more of China's reserves are estimated to be held in dollars. As an economic strategy, dumping the dollar would boomerang. It would amount to a declaration of economic war in which everyone – Chinese, Americans and many others – would lose.

Consider what would happen, hypothetically. China would first sell securities in which its dollars are invested. This would include an estimated $800 billion in US Treasury bonds and securities, plus billions of American stocks and corporate bonds.

After unloading the securities and collecting dollars, it would sell the dollars on foreign exchange markets for other currencies: the euro, the yen and who knows what else.

The massive disgorging of dollars could trigger another global economic collapse. As China's selling became known, other foreign and American investors might jump on to the bandwagon, abandoning dollar securities and shifting currencies. If panic ensued, markets would fall sharply.

Banks and investors would see their capital and wealth erode. The resumption of the global recession, even depression, would shrink foreign markets for China's exports – in 2009, its exports fell 16%. To protect jobs, other countries might impose quotas or tariffs on Chinese imports.

Why would China do this to itself?

The answer: it wouldn't.

Look elsewhere for the significance of the huge foreign exchange reserves.

For starters, they confirm China's mercantilist trade policies. A country that practices mercantilism strives to increase exports at the expense of its trading partners.

China has done this by keeping its currency, the renminbi, at an artificially-low rate that gives its exports a competitive advantage on world markets. Huge trade surpluses have resulted, although last year's surplus declined as a result of the global slump.

It's often said that the US 'borrows' from China, because the Chinese hold so many Treasury bonds. This inaccurately describes reality.

When China receives dollars, it could use those dollars to buy imports. Or it could limit the dollar inflow by allowing the renminbi to appreciate, making its exports more expensive and its imports cheaper. In 2005, China began a modest appreciation of the renminbi against the dollar; in mid-2008, it stopped.

Since then, the renminbi has depreciated against many currencies, reports economist Nicholas Lardy of the Peterson Institute. In 2010, Lardy expects the trade surplus to grow. So, China accumulates dollars, which must be invested. The large surpluses cause China to 'lend' to us and other countries, regardless of whether we want the 'loans'.

Even if China had no trade surplus, its foreign exchange reserves would probably grow because it receives earnings on its existing reserves. These reserves serve other Chinese strategic purposes. They're used to make investments in raw materials — oil, food and minerals — and important technologies around the world; or they buy political influence with foreign aid or favourable loans.

In effect, China has a $2.4-trillion stash to use as it pleases. The irony: despite complaints about big Treasury holdings, these holdings advance China's economic aims of job creation through exports and protection against scarcities of vital commodities.

The underlying purpose is to bolster the government's grip on power by ensuring rapid economic growth. Granted, China is tying to generate more growth from domestic spending; still, it is promoting strong exports until that happens.

But what's good for China may not be good for the rest of the world, including the US. It's not simply a redirection of economic power but a question of how that power will be used, consciously or unconsciously, to shape the global economic order.

Lopsided economic expansion poses many dangers. Already, China's huge reserves — invested in US bonds — are cited as one reason for the low interest rates that brought on the financial crisis. The artificially-depressed renminbi hurts exports from developing countries and not just the US, Europe and Japan.

China grows at others' expense. The manipulation of trade subverts support elsewhere for open trading policies. For now, China has no desire to substitute the renminbi for the dollar as the primary global currency. Its ambition is more sweeping: to create a world economy that serves China's interests and, only as an afterthought, anyone else's.

Friends Are Different.

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