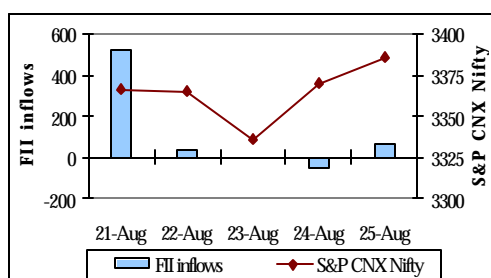


### Quote of the week:

Stocks are a safe bet, but only if you stay invested long enough to ride out the corrections.

-Peter Lynch

### FII Movement relative to Nifty



FII inflows in Rs. Crores

Source: NSE, SEBI

### Weekly FII transactions (equities)

|                 | Aug 21 to Aug 25 | Aug 14 to Aug 18 |
|-----------------|------------------|------------------|
| Gross purchases | 5939.4           | 6290.2           |
| Gross sales     | 5371.9           | 4455.3           |
| Net inflows     | 567.6            | 1834.9           |

Amt in Rs. crores

Data source: SEBI

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### Highlights

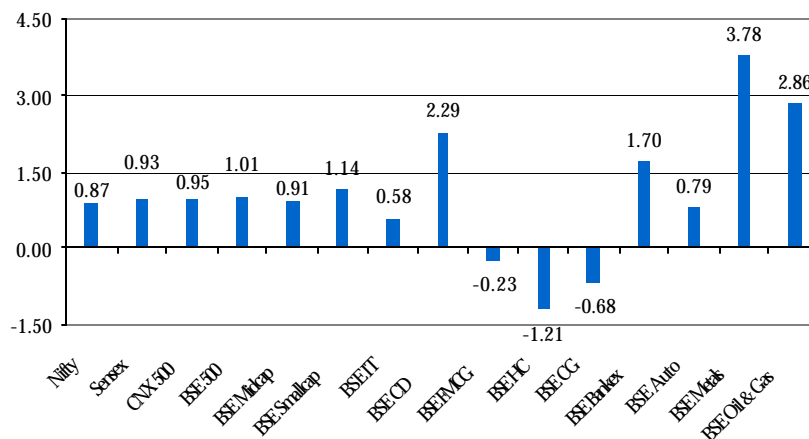
- ◆ Markets end on a positive note
- ◆ Government decision on domestic fuel rates awaited
- ◆ Bond yield dip to a 2-month low level
- ◆ Government auction next week to determine market direction

### The week in retrospect-Equity Funds

During last week, the markets continued their northwards journey amidst volatility on the back of mixed global markets. On Friday, the speech of Fed chairman Ben Bernanke lacked the clarity on future interest rate direction. Further, the weak housing data intensified concerns over slowing U.S. economy. BSE Sensex gained 106.48 points to settle at 11572.20 and Nifty gained 29.2 points to close at 3385.95 during the week. On Thursday, the markets surged up, triggered by the expectations that domestic fuel prices may not rise in the near future. On Wednesday, heavy profit-booking saw the markets slightly lose their ground. On the sectoral front, tracking LME, BSE Metals jumped up by 3.78%. Oil & Gas stocks surged on the back of rising crude oil prices (\$72.73 per barrel) and the news that the government will issue state-run oil firms late this month to cut losses. This took the BSE Oil & Gas index up by 2.86%. The news of the follow-on public issue of SBI, wherein the RBI holding in the bank will be lowered and further, the bank's board decision to raise PLR by 25 basis points took the scrip up by 2.9%.

FII's emerged as net buyers in the equity market amounting to Rs. 567.6 crores. Mutual funds, on the other hand turned out to be net sellers in the equity market to the tune of Rs. 193.59 crores. They made significant purchases in the debt market as well.

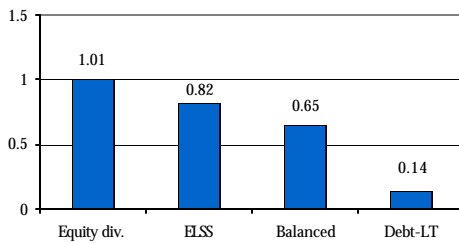
### Weekly Equity Indices Return (absolute %)



As on Aug 25

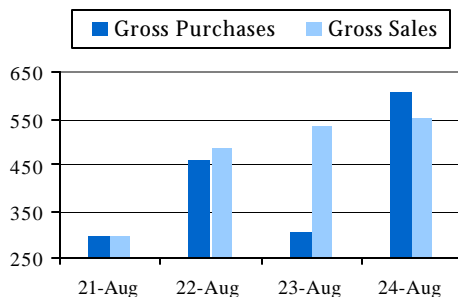
Datasource: BSE, NSE

## Weekly category returns (%)



Abs. returns as on Aug 25 Datasource: Bloomberg

## Weekly MF transactions (equities)



Amt in Rs. crores

Data source: SEBI

Mutual funds turned out to be net sellers by an amount of Rs. 193.59 crores.

## Outlook:

Markets may remain range bound in the coming week. Volatility may be in store ahead of expiry of August 2006 derivatives contracts. The review of domestic oil prices by the government on September 1, 2006 is awaited which may determine the market direction for the coming week. Worries over Iran blocking its oil exports due to UN sanctions over its nuclear program may account for higher crude oil prices. There are expectations of the fifth tropical storm of the Atlantic hurricane season edging towards Gulf of Mexico. This may raise concerns over crude oil supply, further taking crude oil prices up. FII inflows may be a crucial factor for market direction in the coming weeks on the basis of fed rate decision on September 20, 2006. Market may remain on volatile on account of these factors.

| Recommended schemes to invest |                               | Historical returns as on August 25 (%) |        |        | Crisil Ranking for qtr end June 06 |
|-------------------------------|-------------------------------|--|--------|--------|------------------------------------|
|                               |                               | 6 months                               | 1 year | 3 year |                                    |
|                               |                               | (abs)                                  |        | (ann)  |                                    |
| <b>Aggressive (Equity)</b>    | DSP ML Opportunities          | 9.13                                   | 47.11  | 54.85  | 2                                  |
|                               | Tata Infrastructure           | 13.10                                  | 51.91  | N.A.   | -                                  |
|                               | Reliance Growth               | 6.72                                   | 36.88  | 66.48  | 1                                  |
|                               | Sundaram Select Midcap        | 19.83                                  | 60.62  | 72.79  | 1                                  |
| <b>Moderate (Equity)</b>      | Fidelity Equity Fund          | 7.74                                   | 38.17  | N.A.   | -                                  |
|                               | HDFC Equity                   | 10.24                                  | 51.50  | 53.82  | 2                                  |
|                               | Reliance Equity               | N.A.                                   | N.A.   | N.A.   | -                                  |
|                               | SBI Magnum Contra             | 13.45                                  | 47.35  | 76.66  | 1                                  |
| <b>Conservative (Equity)</b>  | DSP ML Top 100                | 11.69                                  | 52.29  | 50.26  | 3                                  |
|                               | Sundaram India Leadership     | 2.09                                   | 39.29  | N.A.   | 2                                  |
|                               | Franklin India Bluechip       | 10.05                                  | 47.42  | 49.66  | 4                                  |
|                               | Templeton India Equity Income | N.A.                                   | N.A.   | N.A.   | -                                  |
| <b>ELSS</b>                   | Franklin India Taxshield      | 1.17                                   | 31.72  | 48.85  | 3                                  |
|                               | HDFC Tax saver                | 9.52                                   | 34.37  | 65.34  | 2                                  |
|                               | SBI Magnum Tax Gain           | 8.70                                   | 32.86  | 86.47  | 1                                  |
| <b>Balanced</b>               | DSP ML Balanced               | 7.24                                   | 34.35  | 35.94  | 3                                  |
|                               | HDFC Prudence                 | 9.06                                   | 34.02  | 40.65  | 1                                  |
|                               | Kotak Balance                 | 4.96                                   | 33.35  | 40.49  | 2                                  |

Datasource: MFI Explorer

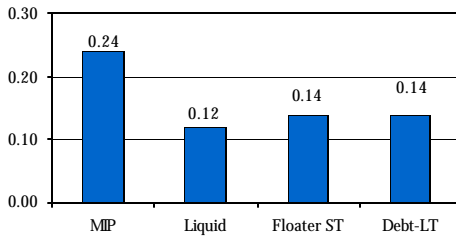
Note 1: \*Tata Infrastructure, Fidelity Equity, Reliance Equity, Sundaram India Leadership and Templeton India Equity Income funds have been chosen on the basis of their fundamentally strong portfolios.

2. Funds have been classified as aggressive, moderate and conservative on the basis of their portfolio concentration and exposure to various market segments.

## Recommendations:

Although the market is on an uptrend, volatility may be in store in the near future. At this point of time, long-term investing is a safer bet. Further, investors should pick fundamentally strong stocks and invest in funds which limit the downside. Investing in contra funds and derivatives funds could prove to be a good bet.

## Weekly category returns (%)

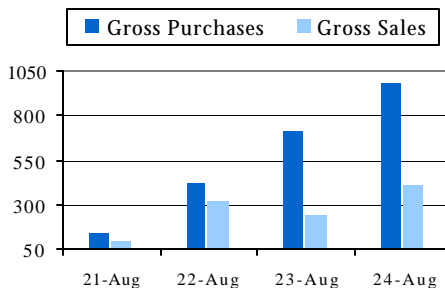


Abs. returns as on Aug 25 Data source: Bloomberg

## Key statistics

|  | Aug 25          | Aug 18          |
|--|-----------------|-----------------|
| 7.59% GOI 2016 yield                               | 7.98%           | 8.02%           |
| Call rate  | 6.1%            | 6.1%            |
| WPI inflation (week ending August 12 and August 5) | 4.92%           | 4.82%           |
| Dollar exchange rate                               | 46.55           | 46.47           |
| Forex reserves (\$ bn)                             | 165.37 (Aug 18) | 165.09 (Aug 11) |

## Weekly MF transactions (debt)



Amt in Rs. crores

Data source: SEBI

In debt market, mutual funds emerged as net buyers to the tune of Rs. 1210.14 crores.

## The week in retrospect-Debt Funds

The week witnessed a rally in the bond market on the back of expectations that Federal Reserve may not increase the fed rate next month. This decision may be based on the release of weaker-than-expected U.S. economic data. However, on Friday the bond prices decreased on account of expectations that domestic rates may rise in order to curb the increasing inflation. Further, on Friday, government auctioned 10-year state loans for Rs. 10.51 billion. The outflow was offset by the inflow of Rs. 10-11 billion from bond and coupon redemption. The benchmark 10-year bond yield decreased from 8.02% to 7.98% last week.

WPI inflation increased from 4.82% to 4.92% for the week ending August 12 on account of rising prices of food and manufactured products. India's forex reserves increased from \$165.09 billions to \$165.37 billions as on Aug 18. Rupee depreciated from 46.47 to 46.55 during the week on the back of rise in oil prices and a sharp fall in the Japanese yen. Further, a drop in the rupee was exhibited as state-run banks sold dollars.

### Outlook:

The markets may witness increase in bond yields on account of tightening in liquidity in the market. This tightening is likely to be displayed on the back of the upcoming bond auctions and the advance tax outflows for Q2, 2006. Tightening liquidity in the banking system may reduce the appetite for bonds, pushing longer-dated yields higher. Issue of government bonds worth Rs. 90 billion during September 4 2006 - September 12, 2006 is likely to determine the market directions in the coming week. With the government trying to keep inflation below the psychological 5% mark, an increase in interest rates may be witnessed. High crude oil prices may further keep the market volatile.

|                   | Recommended schemes to invest | Historical return as on August 25(%) |         |        | Expense ratio | Crisil ranking for qtr end June 06 |
|-------------------|-------------------------------|--------------------------------------|---------|--------|---------------|------------------------------------|
|                   |                               | 1 month                              | 3 month | 1 year |               |                                    |
| Floaters          | JM Floater ST                 | 0.56                                 | 1.62    | 6.12   | 0.50          | 3                                  |
|                   | Reliance Floating R           | 0.57                                 | 1.63    | 6.04   | 0.55          | -                                  |
| Liquid            | HDFC Cash Mgt-Savings         | 0.56                                 | 1.65    | 6.10   | 0.38          | 2                                  |
|                   | Birla Cash Plus-Retail        | 0.54                                 | 1.59    | 5.99   | 0.34          | 2                                  |
| Income Funds - LT | UTI Bond Fund                 | 0.70                                 | 1.21    | 4.38   | 1.37          | 1                                  |
|                   | Grindlays SSI-MT              | 0.67                                 | 1.95    | 5.90   | 1.77          | -                                  |

Datasource: Bloomberg

### Recommendations:

**Long-term investors:** With 10-year g-sec yield trading above 8%, it is quite likely that rates may peak out in the coming few months. Therefore, slightly aggressive investors can start building position in funds (having high maturity) gradually to benefit from lower acquisition prices of bonds.

**Short-term investors:** Investing in floaters and liquid funds could yield returns between 5.50% to 6.20% p.a.

## **New Fund Offers open for subscription:**

### **Equity**

- ◆ Birla MF has launched Birla Long Term Advantage Fund on August 7, 2006. It will be available for subscription till September 8, 2006. The equity fund is a 5-year close-ended scheme.
- ◆ JM MF has extended the NFO period of JM Fixed Maturity Plan- Series III. The fund will be open for subscription till August 28, 2006.
- ◆ HDFC MF has extended has extended the NFO period for HDFC Fixed Maturity Plan 26 Months August 2006 (1). The NFO would now close on September 6, 2006 instead of August 31, 2006.

## **Happenings**

### **News Briefs:**

- ◆ Lotus India Asset Management is short of a chief investment officer (CIO) even before it has launched its first scheme. Its CIO Sandip Sabharwal, who joined the AMC last year resigned on August 25.
- ◆ Ranbaxy -promoted Religare plans to form an asset management company in joint venture (JV) with the Netherlands-based Aegon.
- ◆ Collection under fixed-maturity plans doubles to Rs 28,571 cr. Mutual funds seem to be stealing a march over banks that have started luring investors with higher fixed-deposit rates. The total assets under management under fixed-maturity plans (FMPs) have nearly doubled this year.

### **Forthcoming New Fund Offers:**

- ◆ JM MF filed offer document of its JM Entrepreneur Fund. The 3 year close-ended equity scheme will invest in equity, debt and money market instruments. The scheme will automatically convert into an open-ended scheme at the end of its maturity period of three years.
- ◆ DSP Merrill Lynch MF has mooted an equity fund that will invest chiefly in small- and midcap stocks. The fund will aim to invest in scrips that are not part of top 100 stocks in terms of market capitalization.
- ◆ Tata MF is launching Tata SIP Equity Fund. It is a 3 year close ended fund that will initially invest in debt instruments and will systematically allocate the assets to equities over the close ended period.
- ◆ Reliance MF is coming up with Reliance Long Term Equity Fund. It is a 3 year close ended scheme that seeks to achieve capital appreciation by investing in a basket of equities and derivatives.

**For more information on MUTUAL FUNDS call 1800 42582 83 contact your nearest Karvy branch.**

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