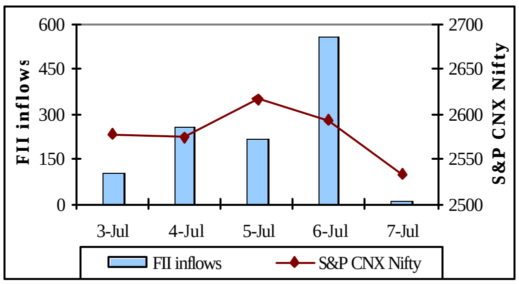
Quote of the week:

We're absolutely sure that a fair proportion of mutual-fund managers are closet tarot-card investors and that maybe two-thirds of the major wire houses have their own psychics. If nothing else, that explains why so many asset-allocation recommendations and stock picks defy rational analysis."

-Alan Abelson

FII Movement relative to Nifty



FII inflows in Rs. Crores *Source:* NSE, SEBI

Weekly FII transactions (equities)

	July 3 to July 7	Jun 26 to Jun 30
Gross purchases	7570	7750.4
Gross sales	6429.2	8200.5
Net inflows	1140.8	-450.1

Amt in Rs. crores *Data source:* SEBI

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Highlights

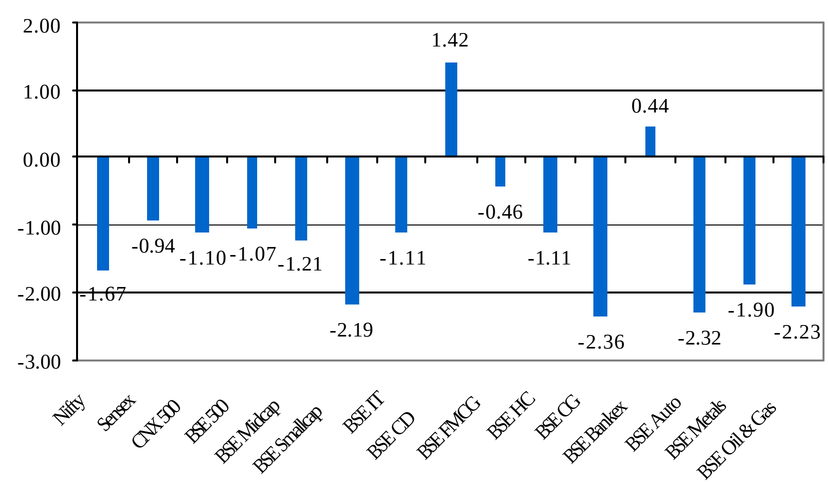
- **Markets ended on a negative note**
- **Eyes on Q1 results**
- **Yields still at higher levels**
- **Bond market movement rely on next auction**

The week in retrospect-Equity Funds

After gaining for three consecutive weeks, the markets ended on a negative note last week on account of expected US job data rates, rising crude oil prices and the government's decision to put all divestment plans on hold. Rumours that Prime Minister Manmohan Singh may resign following a decision of not proceeding with disinvestment in state-run firms led to a sell off on the last trading day of the week. BSE Sensex fell 100 points to settle at 10,509.53 and Nifty lost 52.35 points, to close at 3,075.85. On the sectoral front, banking sector and consumer durable stocks were the only gainers. BSE CD gained 1.42% and BSE Bankex was up 0.44%. Capital Goods, Metal and Oil & Gas sectors were among the top losers. Neyveli Lignite Corporation (NLC) lost 7.78%, to settle at Rs 58.05 on account of government's decision to put its divestment on hold.

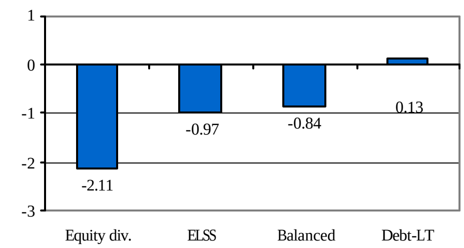
FIIs resumed buying this week and emerged as net buyers to the tune of Rs.1140.8 crores. However, the expectations of weaker US job data rates, led to heavy offloading during the later half of week-ending Friday. On the other hand, mutual funds turned out to be net sellers in the equity markets to the tune of Rs. 446.98 crores.

Weekly Equity Indices Return (absolute %)



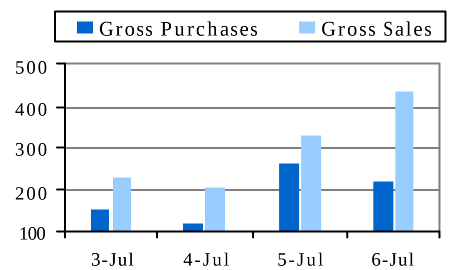
As on July 7 *Datasource:* BSE, NSE

Weekly category returns (%)



Abs. returns as on July 7   Datasource: Bloomberg

Weekly MF transactions (equities)



Amt in Rs. crores   Data source: SEBI

Mutual funds remained net sellers for last week. They offloaded to the tune of Rs. 446.98 crores.

Outlook:

Volatility is in store for the markets in the near future. Rising crude oil prices ($75 per barrel) may contribute to volatility. The government's decision to put all divestment plans is likely to keep the markets on edge. On the other hand, Q1 corporate results and the reports that India's monsoon rains in the crucial sowing month of July are likely to be 90% to 100% of the long-term average, will give support to the markets. All eyes are set on the RBI meet on July 25 and the markets will take cue from any changes in the interest rates. Investors should adopt a cautious approach in this volatile scenario.

Recommended schemes to invest		Historical returns as on July 7 (%) 6 months (abs)	1 year	3 year (ann)	Crisil Ranking for qtr end Mar 06
Aggressive (Equity)	DSP ML Tiger	5.29	57.90	N.A.	-
	Tata Infrastructure	13.30	54.57	N.A.	-
	Reliance Growth	0.55	44.55	69.82	1
	Sundaram Select Midcap	24.37	76.09	75.18	1
Moderate (Equity)	Fidelity Equity Fund	1.42	35.69	N.A.	-
	HDFC Core & Satellite	5.58	49.85	N.A.	-
	Reliance Vision	5.82	47.20	55.91	3
	SBI Magnum Contra	12.69	60.74	77.86	-
Conservative (Equity)	HDFC Top 200	4.20	49.70	53.38	3
	Sundaram India Leadership	1.96	53.64	N.A.	-
	SBI Magnum Multi Cap	6.29	N.A.	N.A.	-
	Tata Equity P/E	-5.38	27.67	N.A.	-
ELSS	Franklin India Taxshield	0.26	36.03	50.11	3
	HDFC Taxsaver	1.91	40.50	65.93	1
	SBI Magnum Tax Gain	3.94	46.04	85.21	1
Balanced	DSP ML Balanced	4.29	33.58	35.54	3
	HDFC Prudence	2.69	35.39	40.63	2
	Kotak Balance	9.34	39.66	40.98	2

Datasource: MFI Explorer

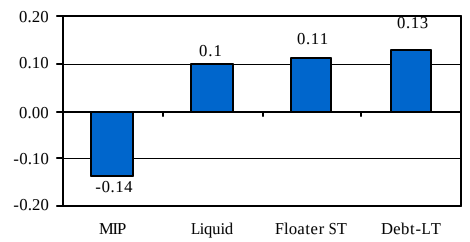
*Note 1: *DSP ML TI.G.E.R, Tata Infrastructure, Fidelity Equity, Sundaram India Leadership, Magnum Multi-cap and Tata Equity P/E funds have been chosen on the basis of their fundamentally strong portfolios.*

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

Recommendations:

At this point, long-term investing could prove a safer strategy than momentum investing. Selection of fundamentally strong stocks is suggested. Contra investing, diversification in international markets (by investing in Templeton India Equity Income Fund) are apt due to short-term uncertainty of the market.

Weekly category returns (%)

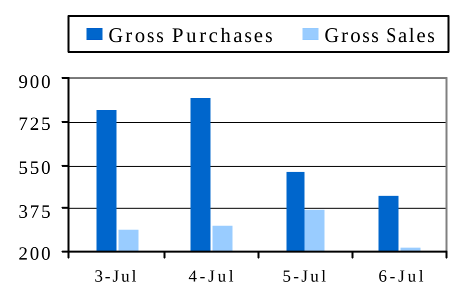


Abs. returns as on July 07 Datasource: Bloomberg

Key statistics

	July 7	June 30
7.59% GOI 2016 yield	8.22%	8.15%
Call rate	5.85%	5.85%
WPI inflation (week ending June 24 and June 17)	4.84%	5.44%
Dollar exchange rate	46.06	46.04
Forex reserves ($ bn)	162.91 (Jun 30)	161.96 (Jun 23)

Weekly MF transactions (debt)



Amt in Rs. crores *Data source: SEBI*

In the debt market, total purchases by mutual funds were higher than the total sales by a significant margin of Rs. 1364.67 crores.

The week in retrospect-Debt Funds

The bond prices touched a 4 ½-year low on Friday on the back of weak sentiment due to fresh sale of bonds and continuing worries of further rise in interest rates on domestic as well as global front. Investors were not willing to build any new positions ahead of US job data. The market was down on Friday and this factored in the bond yields. The benchmark 10-year bond ended at 8.22%, its highest level since December 2001. The government will auction a 7.59%, 2016 bond for Rs.50 billion and a 7.50%, 2034 bond for Rs.20 billion on July 11.

At the same time inflation fell to 4.84% for the week ended June 24 from 5.44% in previous week despite increase in the prices of food and manufactured items. It was 4.3% during the corresponding week of last year. Inflation declined by 0.6% in the last week though fuel index remained unchanged. Crude oil prices touched a new record high of $75.78 per barrel on Friday.

On the forex front, Finance Minister announced that the government has set a target of $15 billion in foreign investment by 2007/08. Rupee surged slightly higher than previous week. The dollar fell against the major currencies ahead of US job data. There was some selling in rupees on the rumours that Prime Minister Manmohan Singh will be resigning.

Outlook:

The bond market expects that the government may lower the size of its July 3-11 auction from the scheduled 100 billion rupees ($2.16 billion). Hence, the sentiment across the market lies on the upcoming auction. Also the market will be closely watching the statement on the RBI monetary policy on July 25. Further rise in oil prices may create panic in the market. It's the time to watch out for FII activity in the coming weeks which may impact the rupee valuation.

Recommended schemes to invest		Historical return as on July 7 (%)			Expense ratio	Crisil ranking for qtr end Mar 06
		1 month	3 month	1 year		
Floaters	JM Floater ST	0.51	1.55	5.97	0.50	2
	Reliance Floating R	0.51	1.55	5.87	0.55	1
	Grindlays Floating R. - ST	0.48	1.41	5.41	0.32	4
Liquid	HDFC Cash Mgt-Savings	0.53	1.61	5.93	0.38	2
	Birla Cash Plus-Retail	0.51	1.55	5.82	0.34	2
	UTI Liquid Cash Regular	0.50	1.50	5.79	0.30	1

Datasource: Bloomberg

Recommendations:

Long-term investors: As yields are near their 4-year historic highs, products such as FMPs are best suited to be locked at these levels. Investing in funds having high duration should be avoided.

Short-term investors: As short-term yields are at relatively high levels, investing in floaters and liquid funds could yield returns between 5.60% to 5.90% p.a.

Happenings

News Briefs:

- Mihir Vohra has resigned from ABN Amro AMC. He will be replaced by Mr. Prateek Aggarwal as Head (Equities), effective July 1, 2006.
- The regulators are considering a cap on the total exposure of the corporate sector in the new fund offers (NFOs) made by mutual funds. Here the aim is to enhance retail investor participation in the NFOs since there is no upper limit for retail investors in this proposal for mutual funds
- UTI MF plans to get into the real estate fund management business following Sebi's permission to mutual fund companies to enter the field.
- DBS Cholamandalam Asset Management Ltd has announced that Mr Rajnish Narula is the company's new Chief Executive, with effect from June 23.

Forthcoming New Fund Offers:

- Sundaram BNP Paribas Mutual would soon launch its Small Cap Mutual Fund in the market. A close-ended fund, it is being launched against the backdrop of the recent fall in the markets. The Small-cap index has fallen by 38 per cent since May 10 and current valuations of most shares are attractive for mutual fund investors.
- Fidelity MF is planning to launch Fidelity Short Term Income Fund. The fund aims to offer a fixed income portfolio constructed using credit research and quantitative analysis, tuned to take advantage of the market dynamics, suitable for short to medium term asset allocation in fixed income asset class.
- UTI Mutual and Benchmark Asset Management Co. are seeking approval from the market regulator to sell India's first gold exchange-traded funds.

For more information on MUTUAL FUNDS call 1600 4258283 or contact your nearest Karvy branch.