

— Advisor's Guide —

FIN 360°

July, 07 to September, 07



 **KARVY** *the* **Finapolis**
Your Personal Finance Advisor

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Gyaan Darshan

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1 Karvy Financial Planning

1.1 Karvy Financial Planning (KFP)

Introduction:

Planning is an integral part of financial success. This is where Karvy Financial Planning (KFP) service comes in, that would help every individual transform their dreams to reality.

KFP systematically helps an individual to prioritize their financial goals and accordingly realize them one after another that would eventually lead to Financial Nirvana. The journey towards Financial Independence is long and tiring but its pursuit will be made fruitful with KFP service. So be part of it!

Objective of Financial Planning:

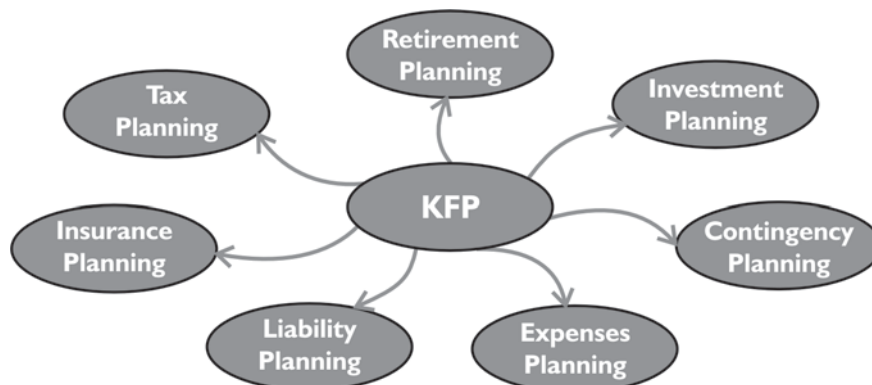
The objective of financial planning is to find ways to increase the client's net worth and help the client accomplish all his financial goals. It identifies financial problems that create barriers to achieving financial

independence. Problem areas can include too little or too much insurance coverage, or a high tax burden. The client's cash flow may be inadequate, or the current investments may not be winning the battle with changing economic times.

What is Financial Planning?

Financial planning is the process of meeting your life goals through the proper management of your finances. Life goals can include buying a home, saving for your child's education or planning for retirement. While embarking on a journey to achieve the financial objectives, it is necessary to prioritize amongst them. Making investments in a haphazard manner may not yield the desired results. Any investment choice should ideally depend upon one's own profile and requirements. Any investment choice should be preceded by a careful introspection of one's one needs and requirements, analysis of income and expenditure and last but not least, an objective prioritization of the goals.

KFP comprises of 7 elements such as:



1. Investment Planning:

Investments can be defined as the part of funds foregone today for future goals. The objective is to ensure that returns generated from these investments is sufficient for becoming a High Net worth Individual. Investments may be further classified into risk capital and core capital. While core capital refers to the building blocks of wealth creation and its returns would serve to meet one's long term goals, risk capital refers to opportunities that can be exploited to accelerate the process of wealth creation. Investment planning would help a client to allocate his finances into core and risk capital and methodically achieving his/her short term long term goals.

Investments can take the form of the traditional route such as Public Provident Funds, National Saving Certificates, recurring deposits, etc. or follow relatively an aggressive route such as equities, mutual funds, real estate and commodities.

2. Contingency Planning:

It is always advisable to set aside 2 – 3 months' expenses in liquid avenues to meet any unforeseen eventualities. These liquid avenues may be bank deposits, liquid mutual funds, short term floaters or even credit cards where the preferred credit limit is equal to 3 months expense. KFP service will help the client to accordingly plan for any such contingencies so that his/her financial journey is not deterred.

3. Expenses Planning:

Expenditure can be broadly classified into Current expenditure and Lifestyle expenditure. Current expenditure would include the day to day expenses which primarily cater to one's basic needs like food, clothing, shelter, transportation etc. Lifestyle expenditure would refer to the amount left after current expenditure and savings which a person spends towards luxury and leisure like lifestyle assets including cars, entertainment, tourism and travel, clubs, etc. KFP service takes stock of the different expenses that an individual would have and accordingly makes recommendations on the ideal amount that needs to be sent and how things can be managed better. It facilitates in bringing financial discipline into a person's life.

4. Liability Planning:

One can not only create core capital by one's own investments, the same can also be done by taking loans. In the larger framework of personal financial planning, it is always advisable to include a debt component. For example, it makes financial sense to take housing loan to purchase a house property as home loans are endowed with attractive tax benefits i.e. under section 80C and section 24. Mortgages may fetch twofold returns- one, they may reduce one's expenses incurred on a rented accommodation and also give one the opportunity to earn rent and long term capital gain on the property purchased. KFP takes into account any further liabilities that a person has and the ideal balance that one needs to have so that his/her debt component is kept on check.

5. Insurance Planning:

Insurance plays a pivotal role in wealth protection and wealth creation and hence it is a necessary investment option for every individual. Hence KFP gives equal attention to planning of a person's insurance. A person faces number of risks in life concerning him, his belongings, his liabilities or even his profession. Though none of them can be avoided in reality, the negative effects of such risks can certainly to be minimized by choosing an appropriate insurance policy.

The risks a person may face in life could be:

- a. Risk of living too long
- b. Risk of dying early
- c. Risk of illness
- d. Risk of accidents
- e. Risk of property
- f. Risk of professional liability

Insurance can help an individual in creating wealth which forms a part of the core capital. Many insurance plans offer maturity benefits which could be in the form of bonuses or the market linked returns. Insurance acts as a shield to protect an individual (and his dependants) from future uncertainties like death, accidents, illness, etc. thus facilitating risk mitigation. It helps a family maintain a similar standard of living even after the death of the bread winner.

6. Tax Planning:

Tax planning is an integrated part of financial planning and could increase the effective return on investment. Several exemptions and deductions are available on different investments for the benefit of the citizens. Some of the major benefits are available in equity-linked saving schemes, life insurance and pension plans, health insurance, loans taken and capital gains. The tax planning under the Income Tax Act is done under the following heads:

Exemptions: An income is said to be exempt when it is not included in the computation of income tax. Few important exemptions under IT Act are as under:

- ❖ Any sum received under life insurance policy (be it withdrawal from ULIP schemes or maturity value recd or death benefits received) is exempt u/s 10(10D)
- ❖ Any income received in the form of dividend is exempt in the hands of the investor
- ❖ House rent allowance, children education allowance and few other allowance received as a part of salary are exempt to certain extent subject to certain restrictions
- ❖ Death-cum-retirement gratuity received is exempt to certain extent
- ❖ Retrenchment compensation and voluntary retirement compensation are exempt to certain extent

Deductions: Deductions refer to certain payments or prescribed investment which will be reduced from the total taxable income thereby reducing the tax payment required.

- ❖ Equity Linked Saving Schemes (ELSS) is approved mutual fund schemes wherein the invested amount is eligible for deduction u/s 80C (max Rs.1 Lac).
- ❖ Life insurance premium paid including ULIP is also eligible for a deduction u/s 80C
- ❖ Health insurance premium paid is eligible for deduction u/s 80D up to Rs.10,000.
- ❖ Principal repayment of home loan is eligible for deduction u/s 80C
- ❖ Tuition fees for school children is eligible for deduction u/s 80C
- ❖ Interest payment on home loan is eligible for deduction u/s 24 to certain extent

KFP service helps in aligning the salary structure of an individual through deductions and exemptions as pointed out above and by recommending best possible investments that could help the individual to save taxes at optimum level. Tax planning becomes one of the most important functions that a person has to undertake to help oneself pay as less tax as possible.

7. Retirement Planning:

Retirement planning is one of the key facets of KFP service. Earning individuals need to do more than the traditional form of investments such as Provident Funds contributions as part of their retirement planning. If a person is 25 years of age and spending Rs.30000 p.m. as discussed earlier would need a retirement corpus of Rs.2.6 crore to sustain a comfortable lifestyle post-retirement. An ad hoc overview cannot bring out such facts and figures that would play a vital role in ensuring the comfort in a person's life. A lot of parameters have to be considered that could range from economic indicators to personal priorities and only after thorough research can such findings be brought out. KFP with its expert team of planners bring out such analysis that would help a client plan his/her post retirement expenditure comprehensively.

Financial Planning process

The personal financial planning process consists of the following six steps:

1. Establish and define the client-planner relationship:

The personal financial planner should clearly explain and document the services that he or she will provide to you and define both his/her and your responsibilities during the personal financial planning engagement. The personal financial planner should explain fully how he or she will be paid and by whom. You and the planner should agree on how long the professional relationship should last and on how decisions will be made.

2. Gather client data, including goals:

The personal financial planner should ask for information about your financial situation. You and the planner should mutually define your personal and financial goals, understand your time frame for results and discuss, if relevant, how you feel about risk. The personal financial planner should gather all the necessary documents before giving you the advice you need.

3. Analyze and evaluate your financial status:

The personal financial planner should analyze your information to assess your current situation and determine what you must do to meet your goals. Depending on what services you have asked for, this could include analyzing your assets, liabilities and cash flow, current insurance coverage, investments or tax strategies.

4. Develop and present financial planning recommendations and/or alternatives:

The personal financial planner should offer financial planning recommendations that address your goals, based on the information you provide. The planner should go over the recommendations with you to help you understand them so that you can make informed decisions. The planner should also listen to your concerns and revise the recommendations as appropriate.

5. Implement the financial planning recommendations:

You and the personal financial planner should agree on how the recommendations will be carried out. The planner may carry out the recommendations or serve as your coach, coordinating the process with you and other professionals such as attorneys, accountants or stockbrokers.

6. Monitor the financial planning recommendations:

You and the personal financial planner should agree on who will monitor your progress towards your goals. If the planner is in charge of the process, he or she should report to you periodically to review your situation and adjust the recommendations, if needed, as your life changes.

Execution @ Karvy

The KFP service is a four step process that focuses on seamless execution. The steps are:

1. Pre plan Interaction
2. Actual plan making
3. Product specific recommendation through research support
4. Follow up

Let us look into each of the process in detail:

1. Pre plan interaction:

- a. There is one to one meeting that is had with the Planner and the Client which makes the activity a personalized process
- b. The planner takes the Input Sheet along with him/her while meeting the client and takes him/her through the Input Sheet and helps him/her for getting it filled
- c. A risk profiling test is conducted for the client to understand his/her risk appetite. This helps the planner to define the client's financial shock absorbers that would go a long way in making the client's investment plan
- d. As the Input sheet is filled further clarity is brought by the planner to the client as he/she helps him/her to identify, quantify and prioritize the financial goals at different life stages. For e.g. if the client has a goal of getting his daughter married in the year 2025, then the plan approximates the amount that would be required then considering economic indicators, say if it works out to 20 lakhs, then the planner makes the plan in such a way that looks at different investments that has to be made so that in the year 2025 the client has the available cash of 20 lakhs for a grandiose wedding of his/her daughter

2. Actual Plan Making

- a. Once the Input Sheet is filled the next step in the plan process, is to study the client details along with a group of other planners so further analysis could be done
- b. After a through group discussion the planner who had interacted with the client sets onto the act a actual plan making where different analysis are shown in the plan document such as Ratio analysis, Net worth Analysis, Open risk position etc.

❖ **Ratio Analysis:** Different ratios are analyzed as the situation demands. For e.g. if one takes Liquidity Ratio then it describes the amount of liquid assets that the client has in proportion to his/her total assets. This explains that in case of a contingency happening does the client has enough liquid funds that would help him/her to face the situation. On the contrary if a client has high liquidity then it

would mean there is significant percentage of funds parked in his bank a/c as idle cash and hence they have to be routed to different channels of investments

- ❖ **Net worth Analysis:** This is like a balance sheet that is prepared for the client taking into account his/her different assets and liabilities and computes the actual Net worth of the client
- ❖ **Open risk position:** This describes the amount of exposure that the client has towards risky investments. To judge this his/her age, income, investments and other parameters are taken into account and accordingly recommendations are made

3. Product specific recommendations through research support

- a. Once the actual plan is made, it is handed over to the client
- b. The next step based on the recommendations in the plan the client is guided about the different investment options that needs to be made for achieving different financial goals listed
- c. The advantage that is there with the client by availing KFP service is he/she can utilize Karvy's experience in dealing with different financial products and more importantly utilize research recommendations that comes from an experienced research support team that is present for Equities, Futures & Options, Commodities, Insurance, Mutual funds, Tax planning and Real estate

4. Follow-up

In the course of the plan period, the client can always get back to the planner for any further clarifications or in the event of any change that he intends to make due to change in his/her income levels. The plan offers adequate flexibility to the client and the planner is always accessible to take the service forward. There is a quarterly review of client's portfolio that is submitted every quarter. The client is also assessed in intermittent intervals on the change in risk appetite of the client and accordingly different investments are suggested based on research recommendations. Insurance needs of the client are also assessed at regular

intervals that enable the client to take stock of the sum assured from different policies.

An overall annual review of the plan is done at the end of the plan period where the entire plan process is repeated that helps in taking stock of financial goals that the client has set for himself/herself based on the continuance of service from the client's end.

Value Adds

Apart from the features that are provided by the Karvy Financial Plan there are some value additions that would further in delighting the customer.

- **Need based review:** The client based on his need can always get back to the planner even after the plan document is handed over to the client. Based on client's requirement the financial planner sits with the client and understands the change in situation and customizes the plan accordingly.
- **Exclusive log-in ID:** The client is provided with an exclusive Client log in ID, using which he can have online access to his comprehensive plan document, portfolio review report, asset wise investment status, exclusive research reports among others.
- **Investment calendar:** This is an overall calendar provided to the client that marks the specific dates where he is expected to make payments for his investments in different financial products.
- **Service hours:** The accessibility time all through out the year can be computed as follows: (8.75 man hours per day x 261 weekdays per year) + (4.5 man hours per day x 52 Saturdays per year) = 2517.75 man hours of service by a planner that is available at client's disposal.
- **Access to exclusive research reports:** There are three different kinds of research reports that are sent to clients on a regular basis such as: mutual funds report called 'Fund-o-meter' that is sent weekly, tax based report called 'Hum-Tum' that is sent every fortnightly, insurance report called 'Insurance Perspective' sent every month.
- **Online portfolio:** The client is provided with an online portfolio under his exclusive login that talks in detail about the client's current market value of his/her investment across different asset classes

and it also gives a comprehensive summary report of the different investments of the client.

- **Premium and Investment reminders:** The client is also sent reminders for his/her payments to different products that he/she has invested in. This serves as an effective reminder for clients' investment options.
- **Birthday / Anniversary greetings:** Wishes are sent on behalf of Karvy as a token of love and affection on important occasions in clients' life.

Target Customers & Opportunities

The idea here is to provide you with a perspective of who our target customer is and how we can utilize the opportunities available to us in selling Karvy Financial Planning. It would have a three way benefit. One of creating a win-win situation for the branch as all the investments made by the client would be routed through the branch. Secondly it would double up in the form of more revenues for the organization. Thirdly it would lead to acquisition of newer clients and hence an increment to our existing client base.

Target segments in terms of age

- **Age group of 21 – 26:** Young professionals with high disposable income which can be channeled to various investments avenues. The only difficulty in tapping this client group is that financial goals are not set, there is lack of financial discipline and hence planning for a life is not the idea.
- **Age group of 27 – 36:** This forms the most attractive client group because the importance of financial planning is understood in a much

better way. The critical issue is to tap him just when they are looking for financial advice. They possess a high Customer Lifetime Value owing to the requirement of financial planning for the next 25 to 30 years. Hence building a long term relationship would help in generating revenue via an annual maintenance fee as well as cross selling. Products across various segments such as mutual funds, equities, insurance can be pushed.

- **Age groups of 37 – 50:** This is yet another attractive group of people who have delayed financial planning for their life. This group of people has to be convinced that they immediately need to address this issue.
- **Age group of 50 and above:** A group of clients who have almost missed the bus. These are the clients who would be looking at retirement planning and fulfilling a few other financial goals. The problem in targeting this group is that clients who are retired may not have too many financial goals to fulfill.

Target segments in terms of income

Looking at the broader perspective our target segment is the salaried class. To put it more precisely it is for anyone who is earning 4 lakh p.a. and above.

Opportunities

We have already discussed about the age and income groups that we are targeting for Karvy Financial Planning. Now let us take a look at the opportunities that could help us generate value proposition for our product.

Table – 1: Number of employees in the IT industry in India

Sector	FY 2004	FY 2005	FY 2006	FY 2007E
IT Services	2,15,000	2,97,000	3,98,000	5,62,000
ITES-BPO	2,16,000	3,16,000	4,15,000	5,45,000
Engineering Services and R & D and Software Products	81,000	93,000	1,15,000	1,44,000
Domestic Market (including user organizations)	3,18,000	3,52,000	3,65,000	3,78,000
TOTAL	8,30,000	10,58,000	12,93,000	16,30,000

The burgeoning IT/ITES industry in the country has led to a rise in the number of individuals with high disposable income levels. Clubbed with this is the lack of time that such individuals face. The presence of a large number of asset classes being offered by different distribution houses could perplex them even more. This mass affluence is of great importance to us as it would allow us to channel their investments based on prudent and unbiased advice.

Table – 2: Number of employees in the top six IT companies in India

Company name	Number of employees
TCS	95,000
Wipro	68,000
HCL Technologies	45,000
Infosys	72,241
CTS	45,000
Satyam	38,908
Total	3,64,149

These IT companies are actually present in several IT hubs which make them easy to approach. These companies have also ensured the growth of several ancillary units which would again double up as our customer group.

Several other factors which are indicative of the huge potential that financial planning has are:

1. Emergence of India as a major hub for Business Process Outsourcing with companies like Convergys, WNS, Infosys BPO, EXL, Wipro BPO, vCustomer and Mphasis.
2. Growth of India as a major player in automobile manufacturing and the entry of several automobile behemoths have again led to a rise in the target customer group.
3. Growth of heavy industries, manufacturing sector as well as the services sector.

The entry of several financial institutions in the financial planning arena suggests two things (a) there is huge potential for this product in the country (b) these companies will help us create the necessary buzz in the market. As far as competitors are concerned, several banks claim that they do financial planning but the prime motive here is cross selling. Our objective is to create the necessary differentiation in the minds of customer that Karvy financial planning is far more customized and personalized as compared to any other financial planning service available in the market.

Sales Strategies

There are two broad channels identified for client acquisition in the Karvy Financial Planning service. They are:

1. Direct Channel

The direct channel would include direct sales through our vast network of branches spread across various regions. The branch executives should be actively

involved in taking this service forward. This would not only generate direct revenue for the KFP service, but will further generate revenue through cross selling of different financial products as well.

2. Alternate Channel

Alternate channel for KFP could comprise of anybody who can be converted into an associate for taking the service forward. These would ideally be people who have their own networks and capitalize on the same for business development.

The identified set of most attractive categories of associates is as follows:

1. Practicing Chartered Accountants (C.A.s)
2. College Students
3. Housewives
4. Career Counselors

The objective is to draw on their personal as well as professional networks and information to exploit the enormous potential for getting access to a gigantic customer base for financial planning.

Business Development Strategies

Business development under both the channels may be ensued through following strategies:

1. Financial Planning Workshops
2. Telemarketing
3. Corporate
4. Advertising
5. Kiosks

1. Financial Planning Workshop

Objective: The primary objective of conducting a Karvy Financial Planning workshop is to acquire individual clients. The allied objectives would be to spread awareness about financial planning and also create a database for future businesses. The exercise can be carried out with two categories of prospects, one - the existing clientele of Karvy and two - non-Karvy clients. The workshop should focus more on the fresh client database who should be acquired through this channel and accordingly cross sold other financial products.

Resource needed:

- a) Training to conduct the workshop including the game and the presentation.

- b) Fresh databases through which calls could be made to non Karvy clients and invited for the workshop.

Resource available:

- a) Online invitation cards
- b) Brochures
- c) Registration kit

2. Telemarketing

Objective: The primary objective here is to call existing clientele or non-Karvy clients and explain to them about the basics of Karvy financial planning. This should be followed with a one-one interaction with the prospect after receiving their appointments and accordingly the sale should be closed.

Resources needed:

- a) Database for fresh clients acquisition
- b) Tele-caller who can carry out the task of calling and getting appointments with the prospect

Resources available:

- a) Existing clientele list
- b) Sales collateral
- c) Sales guide

3. Corporate presentations

Objective: The primary objective is to approach companies and make presentations at their premises and create an interest through which the employees of the company become registered clients of Karvy Financial Planning. There can be cases where the corporate do not agree for a presentation at their premise and in such cases interested employees could be called to branches so that a financial planning workshop could be conducted.

Resources needed:

- a) Corporate Databases with HR contacts
- b) Laptops or other technological support on a case to case basis

Resources available:

- a) Brochures
- b) Pamphlets

- c) Covering letter
- d) Sales collateral
- e) Sales guide

4. Advertising and Promotion

Objective: The objective of the entire exercise is to create awareness in the minds of the general populace that would facilitate business development of the service.

Medium: The different mediums that need to be explored for effectively promoting the service could be as follows:

- **Print** – Advertisements can be given on different newspapers and magazines, brochures and pamphlets could be distributed to as diverse populace as possible
- **Online** – Mailers could be sent to available contacts
- **Visual** – Advertisements on different business channels can also be explored; posters and billboards at important spots in the city could be explored

Resources needed:

- a) Contacts
- b) Budget

Resources available:

- a) Mailers
- b) Brochures
- c) Pamphlets
- d) Posters

5. Kiosks

Objective: The primary objective would be to spread more awareness at both retail and corporate places so that not only it serves as a medium of advertising but also to build on the database front.

Resources needed:

- a) Tent for setting up the kiosk
- b) Banners

Resources available:

- a) Brochures
- b) Pamphlets

HO Support

1. Online Interface

The registered client is provided with a unique user ID and password using which he gets the privilege to have access to:



Fig-1: Log in Screen

a) Portfolio Summary

This is the opening page of the interface, where the client can view his net worth statement. Some of the items in the statement which are highlighted are hyperlinks to allow the clients to view details on that particular asset class.

Net Worth Statement as on 21-May-2007			
Liabilities Created	Amount (Rs.)	Worth Created	Amount (Rs.)
Current Liabilities		Liquid Assets	
Utilities (Cumulative)	0	Cash & bank balance	180231
Insurance Premium	0	Liquid Mutual Fund	0
EMI	0		
Credit Card Balance	0		
Long-term Liabilities		Investments	
Home Loan Grs Balance	0	Mutual Fund - Equity	21889
Car Loan Grs Balance	0	Mutual Fund - Debt	0
Educational Loan Grs Balance	0	Mutual Fund - Balanced	0
Personal Loan Grs Balance	38900	Stocks	188844.4
		Commodities Margin balance	0
		Derivatives Margin balance	0
		NBC / KVP / FD / Bonds etc.	93282
		Gold	0
Net worth	1483738.2	Real Estate	700000

Fig-2: Net worth statement summary

b) My Plan

In this option, the client is given the provision of downloading the entire plan that is also provided to him as a hard copy.

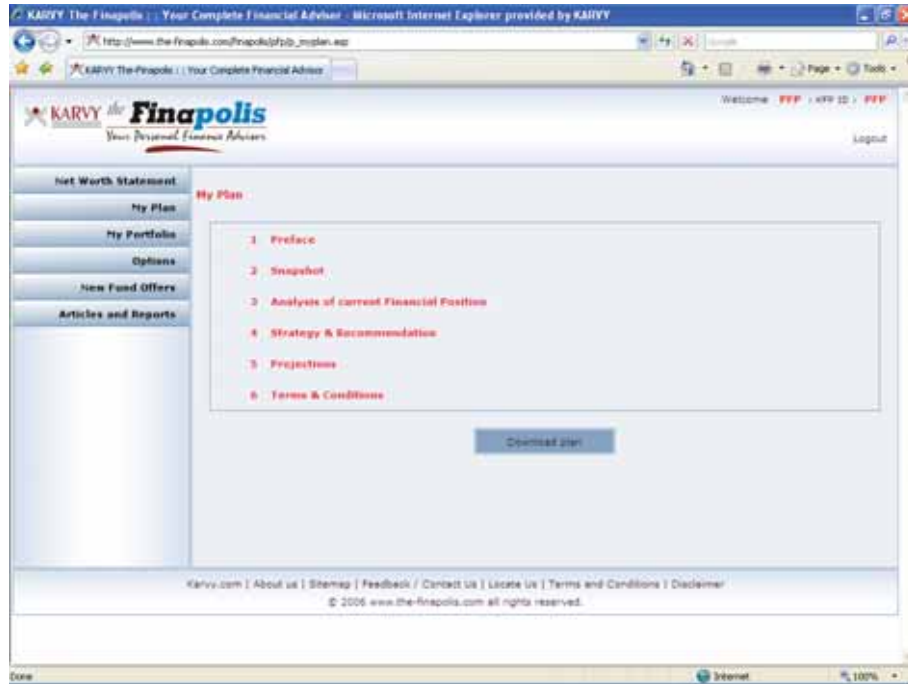


Fig-3: Download Plan option

c) My Portfolio

This page provides the client with an overview of the asset allocation of the client across various asset classes.



Fig-4: Your asset allocation

d) Options

This gives the client access to the response that the client has offered while answering the risk profiler test. The client can also contact his financial planner as well as set reminders for himself.

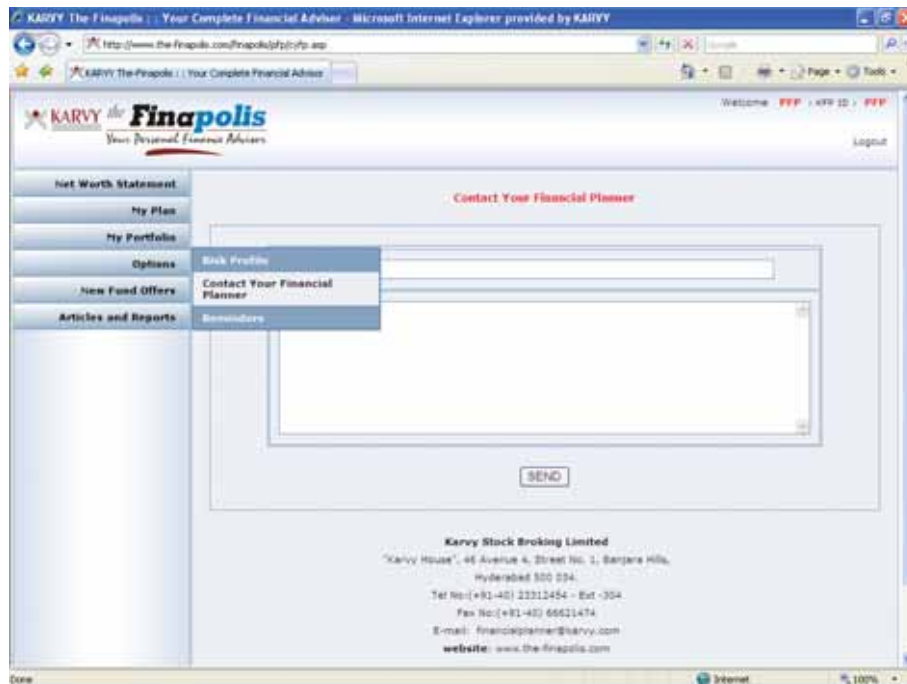


Fig-5: Your asset allocation

Case Study

All of us have dreams. The dreams could vary from buying a house, doing the best for our children, or a great holiday abroad, etc. Although the priorities may vary from person to person, dreams still infinite. The more we get the more we want. Being ambitious is not wrong, however just being ambitious and not working towards fulfilling the same may be wrong. People who dare to fulfill their dream are more successful than people who are satisfied by building mansions in the air. We are concerned with the former category of people who dare to fulfill their dreams and leave the latter dreaming. Achieving dreams may be difficult, but not an impossible process. Through systematic and disciplined approach towards investment the impossible becomes possible. This planning process is coined 'personal finance planning'.

Personal finance planning is one of the most little understood or rather more often misunderstood to be investment planning. However, personal financial planning is the process of meeting your life goals

through the proper management of your finances. This is not a one time process, but an iterative process which is dynamic in nature. The changing needs are to be incorporated with changing income level and lifestyle. Hence the investment mix needs to be considered at regular intervals.

The exercise of personal financial planning involves answering the following critical questions:

How will I become an HNI?

How will I build enough wealth to live a luxurious life post retirement?

How will I preserve my wealth?

Am I in a position to provide the best of medical care for me and my family?

Am I exploiting various investment options?

How can I make my money work hard for me?

One of the cornerstones of financial planning is to facilitate every individual into becoming an HNI. We define HNI as a person whose investment income is sufficient to meet his lifestyle expenses and he does not have to depend upon his professional income to meet the same. The following table illustrates this aspect:

Investor category	Professional income	Investment income
Retail non-investor	<input type="checkbox"/>	<input type="checkbox"/>
Retail investor	<input type="checkbox"/>	<input type="checkbox"/>
HNI	<input type="checkbox"/>	<input type="checkbox"/>
Retired HNI	<input type="checkbox"/>	<input type="checkbox"/>
Retired retail investor	<input type="checkbox"/>	<input type="checkbox"/>

Let us analyze the portfolio of Mr. Rahul Gupta and see whether he is on the right track for being an HNI and attain his financial goals comfortably.

Name: Mr. Rahul Gupta

Age: 30 years

Dependants: Spouse, son, mother and younger sister (studying)

Post-tax income: 38,200 monthly

Outflow:

Grocery: 7000/-

Transportation: 3500/-

Electricity & Telephone: 3000/-

Tuition fees: 2500/-

Health expense: 5500/-

Insurance premium: 3200/-

SIP: 2000

Miscellaneous: 3,500/-

Recurring surplus: 8000/- pm

Accumulated wealth:

Shares: 1000000/-

Mutual funds: Equity 100000/-,
Debt 350000/-

Fixed Deposit: 100000/-

Bank a/c: 200000/-

Jewelry: 500000/-

Plot: 2200000

Financial planning undertaken:

Insurance

Endowment: SA 500000,
Premium – 38500/- annual

Mediclam: SA – 150000/-,
Premium – 2000/- annual

SIP: 2000/- pm

ELSS: 20000/- annual

PF: 50000/- annual

Future financial goals and constraints:

Meet education and development expense of child

Sister's higher education and marriage – Target amount reqd 300000/-, 700000/-

Retirement planning – 45000/- monthly

Retirement age: 45 years

Observation

As far as Rahul is concerned, he is partially disciplined with his finances. Although he is insured, that amount does not give him an adequate cover. Given the responsibilities he has, in case of any unfortunate incident the family will be left in a financially crunch. Further, he would like to retire at an early age of 45 years. Given his current obligations it is advisable to work for a few more years. Further, his investments are more skewed towards debt instruments. Given the buoyant movement in the equity markets, and his liabilities he can park him money in the equity markets for better returns in order to achieve his goals comfortably.

Contingency Planning

Prudent financial planning requires every person to maintain a cash reserve of at least 3 months of expenditure. The rationale behind such a reserve is to ensure that in case of an unforeseen calamity or unfortunate event, the client will have the required buffer to withstand the additional expenditure quite comfortably. Not necessary this could be a bad event.

In case of unexpected guests where a party has to be thrown, the contingency reserve comes handy. In order to receive this money on call, it is advised this reserve should be maintained in liquid investment avenues like bank deposits, liquid funds, short term floaters, etc. In case of Mr. Rahul, he has taken necessary steps in this regard, though unknowingly. His monthly expenditure, apart from financial planning needs, is Rs.24000. Accordingly he should have a cash reserve of at least Rs.72000. This is taken care of by the savings in bank account. However, excess liquidity is also not advisable as it leads to loss of interest income. He should transfer a portion of his bank account deposit into equity market schemes which are also quite liquid and provide better returns as well.

Investment Planning

The two major financial objectives that Mr. Rahul needs to fulfill are:

1. His younger sister's marriage and education
2. His daughter's education and marriage

His younger sister's marriage and education:

As this objective is in the near term, he would have to dilute all his investments in the plot and fixed deposits. Further the jewelry worth Rs.500000 owned by his mother can be used for his sister's marriage rather than purchasing new jewelry for her.

His daughter's education and marriage

For meeting his financial objectives related to his daughter, he has to make appropriate investments. He should increase his SIP investment from current levels of Rs.2000 pm to Rs.5000 pm. Given the power of compounding and time he has to plan for his daughter, the SIP amount would grow into a bigger corpus which would enable Mr. Rahul to plan for his daughter' education and marriage comfortably.

Further, it is advised that his investment in debt mutual funds have to be diverted in to equity oriented funds as his investments are for a long term and equity will definitely fare better than debt. Moreover, his bank balance stands at Rs.200000 and contingency reserve required is Rs.75000. Hence, the remaining Rs.125000 can be channelised in to equity oriented avenues to earn better returns.

Retirement Planning

One of the most important aspects of financial planning is retirement planning. Retirement planning would help the individual maintain a similar lifestyle even after retirement. The individual in this case is a moderate risk taker. Mr. Rahul intends to retire at the age of 45 years, however will continue working as consultant till the age of 60. Taking into consideration the inflationary effects and his present life style, his expenses at the age of 60 would be around Rs.51000 per month. Assuming a life expectancy of 80 years for him and his wife and a post-retirement investment yield of 7%, Mr. Rahul should have a corpus of Rs.1.11 crore at the age of 60. He presently has a monthly surplus of Rs.6000. As suggested above of increasing his SIP from Rs.2000 to Rs.5000 would enable his to meet his daughter's requirements and to a certain extent his retirement needs as well.

Risk Cover

Though there is an endowment plan in place but we would suggest Mr. Rahul to increase the sum assured from Rs.5 lacs to Rs.15 lacs and further take a Term insurance for Rs.50 lacs. This would help Mr. Rahul to mitigate the risk arising out of any unforeseen event. The increased sum assured would yield greater survival benefits which could be utilized towards retirement corpus generation. Moreover, in an unfortunate event, the endowment and term plans would leave sufficient amount for his family. However, the maturity benefits of the endowment plan can be used for his retirement.

Tax Planning

Considering Mr. Rahul's current income level, he has taken maximum benefits u/s 80C. Further, the amount expected to be received under insurance would be tax-exempted u/s 10(10D). The investment in equity-oriented SIP would also get the benefit of long term capital gains. However, this section would be reviewed further with change in income levels as and when required.

If Rahul would have followed his plan of utilizing all his investments to meets his goals, he would have ended in a mess. He was of the least idea that a mere Rs.5000 SIP would create him a corpus of half a crore in 20 years. Rahul was still in a comfortable position given his current financial income and need. However,

more often than not there are many who realize this late. Rahul was among the lucky lot where he woke early to work towards his goals. But most of us will not have this time also, so wake up and work towards becoming an HNI soon.

Focus SIP

1. Modes of investing — Lump sum and Systematic Investment

Investment should be a discipline and not an addiction. However, often than not it is not so. Discipline is generally believed to be absent unless enforced. And investors can enroll in that discipline by making systematic investments. As they are popularly known in the mutual fund industry, SIP is the popular investment style pervasive in the investment industry. For a segment of investors, SIP has become synonymous to mutual fund investment.

The beauty of mutual fund lies in its flexibility. One can make a lump sum investment as well as make a disciplined systematic investment for a long duration. Regular investment installs a financial discipline in the investor. Normally people take care of investments only while planning for tax. However, investment should be an ongoing process. SIP is a boon for such financial discipline. SIP stands for Systematic Investment Plan wherein an investor identifies a particular mutual fund scheme with a long term investment perspective and then invests at regular intervals throughout that investment horizon.

2. Advantages of SIP

Systematic investment has several advantages:

Firstly, it enables hassle free regular investment. An investor can give several post-dated cheques at once or give an ECS instruction in his bank to acquire units of the mutual fund at regular intervals.

Secondly, it does not require the investor to time the market. Everyone wants to invest at the lowest possible price and redeem the investment at the highest possible price. However, one is rarely fortunate enough to time the market correctly.

On the contrary one may end up buying very high and incur loss by selling at lower levels. Systematic investment average-outs the investment cost. Regular investment at different prices leads to averaging of the cost. Since one invests a fixed amount at regular intervals, he gets more units in a falling market and lesser number of units in a rising scenario. In an overpriced bullish scenario the investor is protected from buying more units whereas in an under-priced fallen market the investor accumulates more units. Hence his cost falls with a higher weightage but rises with a lower weightage.

Thirdly, SIP in equity markets of emerging countries having a positive long term economic outlook that enables a client to accumulate substantial wealth. It could be used for retirement planning and generational wealth creation purpose. For example, if a person of age 23 wants to have a substantial wealth on retirement at the age of 60, he can opt for an SIP. Assuming a 12% effective annual returns in the equity market in the long term, the person can generate a wealth of around 70 lakh on retirement by making a monthly investment of just Rs.1000. The amount of wealth depends on the regular investment account, the tenure of investment and returns generated by the equity markets in the long term. And historically equity markets have outperformed other modes of investments.

Fourthly, SIP has the flexibility of duration of investment. The regular investment could be stopped at any time and continued again any time without any penalty. Such flexibility is not available in several other forms of regular investment like ULIP, Endowment etc.

Fifthly, a commitment for SIP ensures an investor to have a regular flow of income. For example a businessman might earn good returns in his business but without keeping the risk factor into consideration ploughs back the returns he has earned into the same business. Where as a committed SIP would require him to set aside a definite sum regularly and get it invested into diversified sectors.

3. Risk analysis of SIP

Apart from the before-mentioned advantages of SIP, the upside probability is more than downside probability. According to several studies, the probability of positive returns is more than that of negative returns. As one knows, correctly timing the market for entry and exit is almost impossible. As an alternative if one goes for a systematic investment in equity mutual funds for duration of say 1, 5, or 10 years, the chances for his return from investment being positive are more than that of being negative. For example, if the investor has a 3 year SIP investment horizon anywhere in between June 1995 to June 2006, chances of him getting a positive returns are more than 60%.

4. Channels of Systematic investments

Though the most important feature of SIP is often promoted to be 'cutting through the volatility', the best feature is the financial discipline imposed by it. An investor can attain financial discipline by adopting SIP in not only mutual funds but also in other investment avenues like ULIPs, Recurring deposits, direct equity, child plans etc.

Unit Linked Insurance Plans are ideal for people interested in a product which combines financial discipline, returns, risk coverage and tax benefits. These are plans which combine the best of mutual funds and insurance – the ideal combination for risk mitigation and wealth creation. In such schemes, a portion of the premium is invested in market linked instruments which depend on the choice of the investor (aggressive, conservative or balanced based on the investor's risk appetite).

Child plans are insurance schemes which provide for expenses (lump sum/recurring) related to education, marriage, etc. of children or for the benefit of disabled children, in the event of death of the parent. Importance of child plans is that these plans come as a relief to individuals who have growing children especially daughters and want to save for their daughter's marriage or son's education. These plans help ones systematically invest and plan for expenses of children in a way that an individual's unfortunate death doesn't affect the life of his/her children. The life insured under these plans being usually that of the parent, the plans provide benefit payments as lump sum or in installments to provide for expenses related to education, marriage, etc. of children.

Recurring Deposits are meant for investors who cannot afford to take risk in the equity markets but want to preserve the money value of their earnings. Though such investors avoid equity investments, in a growing economy they might miss out on higher returns potential.

Yet another form of SIP explored by certain investors is buy shares of companies with good fundamentals. They accumulate certain amount of blue chip equity on a regular basis. Confidence in the economy and growth potential of the emerging markets have proved the potential of this SIP strategy to generate handsome returns.

The crux of the whole understanding is that, investing systematically in the capital markets offer several advantages to the investor and relieves him from the mental torture of hap hazardous and irregular investments. It is often argued that Eeny, Meeny, Miny, Mo investment strategy is not the right investment strategy. However, SIPs has the power to make even this strategy work wonders.

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2 SIP your way to Riches

Individual investors have often found themselves standing at crossroads when it comes to investing in equity markets; more so, when the markets have been exhibiting an extremely volatile trend. Increasing awareness and growing participation of individual investors in mutual funds have brought into limelight the concept of Systematic Investment Plan (SIP) from some time. Being a disciplined approach of investment, SIP has encouraged individual investors to invest periodically and therefore smoothen out the ups and downs of the market.

This report is in continuation with our first report on SIP- "*SIP your way to riches*" and addresses some questions which frequently trouble the minds of investors:

- 1) **I have invested in post office schemes and bank deposits, as I am comfortable with these avenues. My relationship manager is asking me to invest in SIP of equity funds. Is SIP suitable for me?**

It is true that equity funds are more risky than post office schemes and bank deposits. However, one need to appreciate SIP reduces the volatility associated with equities as one does not enter into the market in one go. By avoiding equities, you can avoid the risk of volatility at the cost of lower rate of wealth creation. Consider the growth of value of Rs.5,000 per month over a period of 5 years in the table below. The wealth accumulated under SIP in Nifty is almost double than that under other avenues. If a 5-year period results in so much of difference imagine how much difference it can make to the growth of your savings over a period of say 10 or 20 years.

Investment avenue	Rate of return	Investment value of Rs.5000 per month after 5 years
PPF	8.00%	Rs. 3,67,069.89
Post Office Recurring Deposit	7.50% (compounded quarterly)	Rs. 3,64,448.61
SBI Recurring Deposit	8.00%*	Rs. 3,67,069.89
SIP in Nifty	37.26%**	Rs. 7,51,373.29

*Interest rate for recurring deposit in SBI has been considered if investment had been made five years back, i.e. July 20, 2002.

** IRR if SIP is done on 15th of every month. The redemption is assumed on July 3, 07.

You should also consider the point that if one stays invested with equities for long-term; the risk of losing money reduces. The following table shows that for the period under study as one's investment period increased, the number of negative return occurrences also decreased.

Holding period (in years)	Lumpsum investment	
	% of negative occurrences	% of positive occurrences
1	29.36	70.64
2	20.95	79.05

3	14.85	85.15
4	13.75	86.25
5	10.75	89.25
6	9.74	90.26
7	9.80	90.20
8	7.41	92.59
9	5.19	94.81
10	1.37	98.63

Notes:

1. Returns computed on Sensex values for time period: April 1979 to June 2007
2. Returns for the said period have been computed on a monthly basis.

One more point that should be mentioned here is that we are overall bullish on the Indian economy for the next 5-7 years. No doubt there will be some intermittent corrections, but overall we expect the markets to move higher (SIPs are expected to reduce the risk of this volatility). This means that one should expose himself to Indian equities through SIP.

2) Should aggressive equity funds like sector or thematic funds be considered for SIP or investment in relatively conservative equity funds like diversified or largecap funds would be better?

For SIP investment, both types of funds i.e. more aggressive funds (like thematic/midcap) and less aggressive funds (like diversified/largecap) could be considered. However, the key factor here is investment duration. If your investment duration is say, 3 years, then a less aggressive fund would be more suitable. However, if the investment horizon is 5 years or so, funds which are high on aggression could be preferred.

Hence higher the aggression of the fund; more should be the investment duration.

3) I have heard that if I opt for an SIP date falling in the beginning/ending of the month, I am benefited as markets display a certain trend. Please suggest.

Over the last few months, Nifty and Sensex have hovered at higher levels compared to the beginning of the month. The following table shows how many times month-end value is more than month-beginning value over the past 5 years. It is clear that cases of month-end value being at premium over month-beginning value are more than 50%.

Indices	No. of cases			Average of difference between month-end and month-beginning values (in %)
	Total	Month-end value < month-beginning value	Month-end value > month-beginning value	
S&P Nifty	60	25	35	0.81
CNX500	60	25	35	1.00
CNX Midcap	60	23	37	1.26

Note: Period under consideration June 2002 till June 2007.

The following table indicates that there is a marginal difference in returns if the investment period is 3 years. This could be due to the fact that markets may exhibit certain trends over a short period of time. It should be noted that there is no guarantee that such trends may continue over a longer term.

SIP returns	investment made at	S&P Nifty	CNX500	CNX Midcap
3 years	beginning of the month ^	32.11%	31.21%	32.35%
	mid of the month#	31.92%	30.89%	31.84%
	end of the month*	31.40%	30.47%	31.49%
5 years	beginning of the month ^	31.58%	33.32%	36.88%
	mid of the month#	31.54%	33.17%	36.61%
	end of the month*	31.42%	33.08%	36.57%

Note:

Period under consideration for 5 years SIP returns is June 2002 till June 2007 and for 3 years SIP is June 2004 till June 2007.

^ SIP is done at 2nd of every month

SIP is done at 15th of every month

* SIP is done at 25th of every month

Here, we would like to highlight that investing at the beginning or end of a month would not make any significant impact on returns if the investment period is 5 years. This happens because such volatilities are evened if the investment horizon is long-term. Also, various studies have proven that timing of market does not contribute significantly to the returns when the investment duration is long-term. If we are trying to enter in the markets at lower levels, it results in an attempt of timing the market. (You can refer 'SIP your way to Riches-I' where it was clearly shown that time in the market is more important than timing the market.)

3) There are also talks of daily SIP/STP being more favourable than monthly SIP/STP. As per your opinion, which method is more beneficial?

Daily STP plan is being offered in the market which allows an investor to invest a pre-fixed amount (as indicated by the investor) on a daily basis in equity funds. A lump sum amount will be invested in a liquid scheme. On daily basis, amount specified by the investor is transferred to equity scheme of the same AMC.

Daily STP helps in capturing daily movements of the market unlike SIP where investments are made on a monthly basis.

The following table shows the result of returns made via daily and monthly STP over 1-year, 2-year and 3-year periods. It is very clear from the above table that there is not a significant difference in returns between investments made through daily and monthly STPs. It should be noted that the instalment amount under daily STP is lower than that of the monthly STP to ensure that fund transfer is spread over the same period (1-year, 2-year and 3-year) in both the cases.

	1-year	2-year	3-year	instalment amount
Amount invested	1,00,000	2,00,000	3,00,000	N.A.
Daily SIP	28.07%	29.36%	31.87%	273.97
Monthly SIP	28.34%	29.20%	31.83%	8,333.33

Note:

1. STP start date July 5, monthly STP done as on the 5th day of every month.

2. IRR Returns as on July 5, 2007.

3. It is assumed that funds are shifted on all the 365 days of the year.

4. Returns on liquid funds assumed at 6% p.a.

Here, we would like to clarify that in workings shown by some fund houses, daily STP offers a significant out-performance over monthly STP. In these computations, the instalment amounts under both daily and monthly route are same. Let's take a case where the initial investment amount in a liquid fund is Rs. 24,000 and instalment amount is Rs. 2,000. While it will take 12 monthly STPs to ensure that complete money is deployed in an equity fund, it will be only 12 working days in case of daily STP. Thus, in a bullish market, a strategy which deploys funds in equities before another is bound to give better returns.

Therefore, there is not much difference between the returns offered by daily and monthly STP/SIP in case investments are spread over the same period.

Recommended schemes which could be considered for SIP

Aggressive category

Scheme	SIP returns (%)			Min. SIP amount	Entry load	Exit load
	1-year	2-year	3-year			
DSP ML Opportunitie	39.93	38.55	44.60	Rs.2,000	1%	1.25% if redeemed before 2 years
DSP ML India Tiger	57.48	50.96	54.86	Rs.2,000	1%	1.25% if redeemed before 2 years
DSP ML Small & Midcap	--	--	--	Rs.2,000	1%	1.25% if redeemed before 2 years
DSP ML Technology.com	79.71	62.60	58.51	Rs.2,000	1%	1.25% if redeemed before 2 years
Franklin India Prima	40.80	27.81	35.53	Rs.500	2.25%	1% if redeemed before 6 months & 0.5% if redeemed after 6 months and before 1 year
ICICI Prudential Service Industries	61.45	--	--	Rs.1,000	2.25%	0.25% if redeemed before 6 months
JM Small & Midcap	--	--	--	Rs.500	Nil	2.25% if redeemed before 1 year
Reliance Diversified Power	81.13	61.48	65.49	Rs.100	2.25%	Nil
Reliance Equity Opportunities	39.94	40.12	--	Rs.100	2.25%	1% if redeemed before 6 months & 0.5% if redeemed after 6 months and before 1 year
Reliance Growth	56.82	45.03	52.82	Rs.100	2.25%	1% if redeemed before 6 months & 0.5% if redeemed after 6 months and before 1 year
Tata Infrastructure	58.71	50.94	--	Rs.1,000	1.00%	1.25% if redeemed before 1 year

Moderately aggressive category

Scheme	SIP returns (%)			Min. SIP amount	Entry load	Exit load
	1-year	2-year	3-year			
Fidelity Equity	51.00	44.40	--	Rs.500	2.25%	1% if redeemed before 6 months
Fidelity India Special Situations	42.41	--	--	Rs.500	2.25%	1% if redeemed before 6 months
Franklin India Flexi Cap	37.26	37.36	--	Rs.500	2.25%	1% if redeemed before 6 months & 0.5% if redeemed after 6 months and before 1 year
Franklin India Prima Plus	45.54	44.19	47.25	Rs.500	2.25%	1% if redeemed before 6 months & 0.5% if redeemed after 6 months and before 1 year
ICICI Prudential Dynamic Plan	36.22	41.00	50.91	Rs.1,000	2.25%	0.25% if redeemed before 6 months

Reliance Equity	37.12	--	--	Rs.100	2.25%	1% if redeemed before 6 months & 0.5% if redeemed after 6 months and before 1 year
Reliance Vision	52.70	45.12	48.55	Rs.100	2.25%	1% if redeemed before 6 months & 0.5% if redeemed after 6 months and before 1 year
SBI Magnum Contra	46.43	43.39	54.87	Rs.500	2.25%	1% if redeemed before 6 months

Least aggressive category

Scheme	SIP returns (%)			Min. SIP amount	Entry load	Exit load
	1-year	2-year	3-year			
DSP ML Top 100 Equity	46.08	44.36	47.07	Rs.2,000	1%	1.25% if redeemed before 2 years
Franklin India Bluechip	35.77	36.77	41.30	Rs.500	2.25%	Nil
HSBC Equity	35.18	34.77	38.83	Rs.1,000	2.25%	0.5% if redeemed before 6 months
Principal Large Cap	44.86	--	--	Rs.1,000	2.25%	1% if redeemed before 6 months & 0.5% if redeemed after 6 months and before 1 year
Templeton India Equity Income	44.35	--	--	Rs.500	2.25%	1% if redeemed before 6 months & 0.5% if redeemed after 6 months and before 1 year

Source: MFI Explorer

Note:

All the SIP returns are taken as on 5th June, 2007.

3 Performance Review of Recommended Schemes

3.1 Equity Funds

Least Aggressive Funds										
Scheme Name	Weightage (%)	Crisil Ranking #	Returns (%) *			Risk ^		Load Structure		Preferred Investment Duration
			6-months	1-year	3-year (ann.)	Downside probability	Sortino ratio	Entry load	Exit load	
DSP ML Top 100 Equity Fund	30	2	12.7967	49.2695	50.0268	0.2742	3.1568	2.25	Nil	>1Yr
Franklin India Bluechip	10	4	7.2543	41.1264	44.8217	0.2944	2.408	2.25	Nil	>1Yr
HSBC Equity Fund	10	4	5.6962	40.1332	45.3801	0.2874	2.6183	2.25	0.5	>1Yr
Principal Large Cap Fund	10	N.A	12.5887	47.021	--	0.3158	2.3877	2.25	Nil	>1Yr
Templeton India Equity Income Fund	30	N.A	14.9239	41.15	--	0.2713	2.8273	2.25	0-180 days 1%&180-360 days 0.5%	>1Yr
UTI Leadership Equity Fund	10	N.A	7.377	44.4599	--	0.2944	2.6188	2.25	1% or 0.5%	>1Yr
	100									

Least Aggressive Funds: These funds offer low return with low risk. Selection of these funds mainly depends on the defensive strategy taken by mutual funds. Like large cap funds are exposed large companies which generally offers a low return and the risk involved in these funds are low. Also, PE and dividend yield funds fall under this category since it follows a conservative approach by investing more in low P/E stocks or high dividend yield stocks.

Moderately Aggressive Funds

Scheme Name	Weightage (%)	Crisil Ranking #	Returns (%) *			Risk ^		Load Structure		Preferred Investment Duration
			6-months	1-year	3-year (ann.)	Downside probability	Sortino ratio	Entry load	Exit load	
DSP ML Equity Fund - Growth	20	1	--	--	--	0.13	14.67	2.25	Nil	2-3yrs
Fidelity Equity Fund - Growth	15	N.A	15.85	56.84	--	0.29	3.32	2.25	1% upto 180 days	2-3yrs
Fidelity India Special Situations Fund - Growth	15	N.A	9.79	50.96	--	0.33	2.73	2.25	1% upto 180 days	2-3yrs
Franklin India Prima Plus - Growth	8	4	14.45	53.66	50.32	0.28	3.17	2.25	1% or 0.5%	2-3yrs
ICICI Prudential Dynamic Plan - Growth	17	1	8.32	48.01	61.93	0.30	3.12	2.25	Nil	2-3yrs
Reliance Equity Fund - Growth	8	N.A	9.15	34.75	--	0.32	2.94	2.25 or 1.25	1% or 0.5%	More than 1 yr
Reliance Vision - Growth	12	3	14.46	49.87	55.47	0.32	2.82	2.25 or 1.25	1% or 0.5%	2-3yrs
SBI Magnum Sector Umbrella - Contra - Growth	5	2	12.13	42.03	60.21	0.32	2.33	2.25%	1% upto 180 days	2-3yrs
	100									

Moderately Aggressive Funds: These funds are typically purely diversified funds which do not have any bias towards any sector, theme or market segment. At the same time, these funds do not adopt the strategy of taking very concentrated exposure. This means that due to high degree of diversification, such funds are meant to be more consistent than the one's belonging to the aggressive category. This category also includes contrarian funds. Such funds invest in stocks which are out of favour, thus offering a potential to deliver higher risk-adjusted returns over a long-term.

Highly Aggressive Funds

Scheme Name	Weightage (%)	Crisil Ranking #	Returns (%) *			Risk ^		Load Structure		Preferred Investment Duration	
			6- months	1-year	3-year (ann.)	Downside probability	Sortino ratio	Entry load	Exit load		
DSP Merrill Lynch Small and Midcap Fund	8	N.A	9.52	--	--	0.27	5.15	2.25%	0-90 days	0.5%	3-5 Yrs
DSP ML India Tiger Fund	10	1	15.41	57.52	55.66	0.30	2.36	2.25%	Nil	Nil	More than 1yr
DSP ML Opportunities Fund	8	3	8.11	40.78	51.15	0.30	2.89	2.25%	Nil	Nil	More than 3yrs
DSP ML Technology.com Fund	12	1	25.32	90.58	57.66	0.35	1.05	2.25%	Nil	Nil	More than 3yrs
Franklin India Prima Fund	6	3	6.94	36.84	49.17	0.36	2.33	2.25%	1% or 0.5%	1% or 0.5%	More than 1yr
ICICI Prudential Service Industries Fund	10	N.A	14.79	72.76	--	0.33	2.84	2.25%	0.50%	0.50%	More than 5yrs
JM Small & Mid-Cap Fund - Regular	10	N.A	--	--	--	0.32	3.95	2.25%	0.50%	0.50%	3-5 yrs
Reliance Diversified Power Fund	12	N.A	19.09	76.60	64.65	0.31	2.94	2.25% or 1.25	Nil	Nil	More than 5yrs
Reliance Equity Opportunities Fund	8	2	8.43	42.52	--	0.32	3.70	2.25% or 1.25	1% or 0.5%	1% or 0.5%	More than 1yr
Reliance Growth	8	1	16.46	51.77	65.26	0.31	2.62	2.25% or 1.25	1% or 0.5%	1% or 0.5%	3-5 yrs
Tata Infrastructure Fund	8	2	12.03	50.82	--	0.30	2.46	2.25%	0-180 days	1%	More than 3yrs
	100										

Highly Aggressive Funds: These funds are considered as high risk-high return funds. Selection of these funds depends on various parameters which are discussed below. Stocks exposure- Aggressive funds have more exposure in mid cap stocks which are considered riskier and at the same time they have the potential of offering good returns. Sector funds are also considered more risky as they have concentrated exposure in a particular sector; such as FMCG funds, power sector funds, commodities fund etc. Thematic funds such as services, infrastructure and capex are expected to generate good returns due to the govt. initiatives on infrastructure projects. This may result in growing revenues of capital goods companies.

For the quarter ending Mar, 2007.

* as on June 25, 2007.

^ Risk analysis is computed on 1-week daily rolling return for 1 year period, risk free rate is assumed as 6%.

3.2 Balanced Funds

Scheme Name	Crisil Ranking #	Asset Allocation (% of corpus) @			Returns (%) *				Load Structure		Preferred Investment Duration
		Equity	Debt	Others	3-months	6-months	1-year	3-year (ann.)	Entry load	Exit load	
DSP ML Balanced Fund	3	71.18	25.57	3.25	15.55	13.20	37.91	36.00	1%	1.25% if redeemed within 365 days	More than 1 year
FT India Balanced Fund	3	67.62	27.08	5.3	9.17	9.75	37.09	32.86	2.25%	Nil	More than 1 year
HDFC Prudence Fund	1	75.06	11.67	13.27	11.81	9.85	38.30	43.10	2.25%	1% if redeemed within 365 days	More than 1 year
ICICI Prudential Equity & Derivatives Fund - W O - Regular	1	69.5	0	30.5	6.18	N.A.	N.A.	N.A.	2.25%	1% if redeemed within 180 days	More than 1 year
SBI Magnum Balanced Fund	N.A.	66.8	23.65	9.55	10.28	6.80	30.38	44.44	2.25%	0.5% if redeemed within 180 days	More than 1 year

For quarter ending Mar, 2007

@ As on June 25, 07

* as on June 25, 2007.

Note: For equity-oriented schemes, average monthly exposure to equities should be more than 65% of the net assets.

The fund selection approach: Balanced funds

Asset allocation and risk adjusted performance have been considered for selecting existing funds. For selecting new funds, their investment strategy and other qualitative factors such as fund house's credentials and performance of their funds have been considered.

3.3 ELSS Funds

ELSS Funds										
Degree of aggression	Scheme Name	Crisil Ranking #	Returns (%) *			Risk ^		Load Structure		Preferred Investment Duration
			6-months	1-year	3-year (ann.)	Downside probability	Sortino ratio	Entry load	Exit load	
Most aggressive	ICICI Prudential Taxplan	3	1.37	21.87	55.58	0.36	1.42	2.25%	Nil	3 Yrs
	Reliance Tax Saver Fund	N.A	2.34	34.39	--	0.34	1.99	2.25%	Nil	3 Yrs
	PRINCIPAL Tax Savings Fund	2	10.50	44.63	51.28	0.29	2.39	2.25%	Nil	3 Yrs
Moderately aggressive	DSP Merrill Lynch Tax Saver Fund	N.A	--	--	--	0.39	1.62	2.25%	Nil	3 Yrs
	SBI Magnum Tax Gain Scheme 93	1	--	--	--	0.22	6.15	2.25%	Nil	3 Yrs
Least aggressive	Franklin India Taxshield	3	10.27	33.61	43.78	0.35	2.08	2.25%	Nil	3 Yrs
	Fidelity Tax Advantage Fund	N.A	15.98	50.85	--	0.27	3.20	2.25%	Nil	3 Yrs

For the quarter ending Mar, 2007

* As on June 25, 2007.

^ Risk analysis is computed on 1-week daily rolling return for 1 year period, risk free rate is assumed as 6%.

The fund selection approach: ELSS

ELSS are classified into most aggressive, moderately aggressive and least aggressive categories on the basis of focus on market-capitalisation, schemes' portfolio concentration (historical and current) and consistency in returns. Funds have been selected based on their historical performance and qualitative factor such as portfolios held, fund managers performance, etc.

3.4 Debt Funds: For long-term (more than 1 year)

Category	Scheme Name	Crisil Ranking #	Asset Allocation (% of corpus) @			Returns (%) *				Expense ratio (%) @	Average maturity (years) @	Load Structure		Preferred Investment Duration
			Equity	Debt	Others	1-month	3-months	6-months	1-year			Entry load	Exit load	
MIP	DSP ML Savings Plus - Moderate Fund	3	15.26	74.57	10.17	0.81	3.56	3.94	10.96	2.02	N.A.	Nil	0.6% if redeemed within 30 days; 0.5% if redeemed between 31-60 days; 0.4% if redeemed between 61-90 days; 0.3% if redeemed between 91-120 days; 0.2% if redeemed between 121-150 days; 0.1% if redeemed between 151-180 days	1-2 years
	HDFC MIP - LTP	1	25.01	46.56	28.43	1.50	4.18	5.56	14.66	1.77	1.26	Nil	1% if redeemed before 12 months	1-2 years
	ICICI Prudential MIP	1	15.08	50.78	34.14	0.66	2.45	2.34	9.85	1.94	2.13	Nil	0.5% if redeemed before 6 months	1-2 years
Income-LT	Reliance MIP	3	18.83	60.03	21.14	0.66	1.61	-0.47	8.52	1.94	2.40	Nil	0.75% if redeemed before 3 months; 0.6% if redeemed between 3-6 months; 0.5% if redeemed between 6-9 months; 0.25% if redeemed between 9-12 months	1-2 years
	ABN AMRO Flexi Debt Fund	1	0.00	33.30	66.70	0.15	1.93	3.97	9.25	0.49	1.35	Nil	0.6% for redemption between 0 - 180 days	More than 1 year
	Birla SunLife Income Fund	3	0.00	49.09	50.91	0.88	3.04	3.79	9.35	1.5	2.011	Nil	0.5% for redemption before 6 months	More than 1 year
FMP	ICICI Prudential LTP	N.A.	0.00	10.59	89.41	0.56	2.21	3.92	7.63	0.75	0.0301	Nil	Nil	More than 1 year
	depending on the availability of NFOs													

The fund selection approach

Funds having low exit load and low CDSC period have been preferred. For MIPs, asset allocation and performance analysis are the main criteria for fund selection.

Debt Funds: For medium-term (3 months to 1 year)

Category	Scheme Name	Crisil Ranking#	Corpus Size in Rs. Cr. @	Returns (%) *				Expense ratio (%) @	Average maturity (years)@	Load Structure		Preferred Investment Duration
				1-mnt	3-mnts	6-mnts	1-yr			Entry load	Exit load	
Floaters-LT	Birla Floating Rate Fund - LTP	N.A.	663.73	0.68	2.49	4.39	7.90	0.65	0.51	Nil	0.5% if redeemed before 90 days	More than 6 months
	Kotak Floater - LT	N.A.	47.18	0.75	2.22	3.89	7.70	0.60	0.38	Nil	0.5% if redeemed before 6 months	More than 6 months
Income-ST	PRINCIPAL Floating Rate Fund - FMP	1	1697.82	0.66	2.37	4.32	8.18	0.72	0.34	Nil	0.25% if redeemed before 3 months	More than 6 months
	Birla SunLife Liquid Plus - Retail	3	1500.83	0.93	2.48	3.64	7.39	0.65	1.28	Nil	0.25% if redeemed before 1 month	More than 3 months
	Reliance Short Term Fund	2	245.20	0.79	2.48	4.17	8.19	0.64	1.13	Nil	Nil	More than 3 months
Arbitrage	UTI Liquid Fund - Short Term Plan	4	8.83	0.69	2.33	2.99	6.45	0.75	1.19	Nil	Nil	More than 3 months
	ICICI Prudential Blended Plan - Option B	N.A.	42.05	0.89	2.30	3.82	7.19	1.50	1.31	Nil	0.25% if redeemed before 30 days	More than 3 months
FMP	Standard Chartered Arbitrage	N.A.	892.01	0.84	2.25	4.72	N.A.	1.54	N.A.	Nil	0.5% if redeemed before 30 days	More than 3 months
depending on the availability of NFOs												
Note: Birla Bond plus fund has been renamed as Birla Sunlife Liquid Plus Fund												

Revision of portfolio

Dropped schemes	Rationale
Templeton Floating Rate-ST	Dropped due to its inconsistent performance

The fund selection approach: Debt Funds: For medium-term (3 months to 1 year)

Income funds and floaters: Historical returns, average maturity of the portfolio held and expenses ratios have been considered for the selection of funds. The weight assigned to each parameter differs for different categories. While expense ratio has been assigned more weight in short-term funds, average maturity has been assigned more weight in case of long-term income funds.

Arbitrage Funds: Fund performance, tax treatment and liquidity have been considered for selecting these funds.

Debt Funds: For short-term (upto 3 months)

Category	Scheme Name	Crisil Ranking #	Corpus Size@	Returns (%) *				Expense ratio (%)\$	Average maturity (years) @	Load Structure		Preferred Investment Duration
				1- month	3- months	6- months	1- year			Entry load	Exit load	
Floaters- ST	JM Floater Fund - S T P	3	47.36	0.54	1.83	3.66	7.23	0.33	0.21	Nil	Nil	1-3 months
	Reliance FRF	N.A.	1703.87	0.61	2.27	4.37	8.07	0.55	0.59	Nil	Nil	1-3 months
	Templeton FRIF - Short Term	3	800.56	0.61	2.22	4.19	7.70	0.75	0.38	Nil	Nil	1-3 months
Liquid Funds	Canliquid Fund	N.A.	842.23	0.54	1.99	3.92	7.47	0.45	0.18	Nil	Nil	up to 1 month
	HDFC Cash Mgmt Fund - Savings Plus - Retail	1	4345.49	0.63	2.21	4.14	7.92	0.33	0.30	Nil	Nil	up to 1 month
	LIC MF Liquid Fund	2	5454.42	0.58	2.07	4.08	7.89	0.50	0.28	Nil	Nil	up to 1 month
Liquid Plus Funds	HSBC Liquid Plus Fund - Regular	N.A.	4335.28	0.63	2.21	4.14	N.A.	0.65	0.25	Nil	If redeemed bet. 0 Days to 7 Days; Exit Load is 0.10%	1-3 months
	Reliance Liquid Plus	N.A.	3411.24	0.64	2.44	N.A.	N.A.	0.83	0.46	Nil	If redeemed bet. 0 Days to 15 Days; Exit Load is 0.15%	15dys - 3mths
FMP	depending on the availability of NFOs											matching with FMP duration

For quarter ending Mar, 2007

@ As on May 30, 2007

\$ As on April, 2007

* As on June 25, 2007

Revision of portfolio

Newly added schemes	Reliance Liquid Plus	Rationale
	Reliance Liquid Plus	Included due to its high performance

Notes:

1. Others include cash and money market instruments
2. Entry and exit load have been mentioned for the amount less than Rs. 2 crores. The amount restriction for the load structure may vary according to the AMC.

The fund selection approach: Debt Funds: For short-term (upto 3 months)

Liquid funds: Performance, expenses ratios and corpus size of the fund are the main parameters for the selection of the funds.

Liquid plus funds: Performance, loads, expense ratios and corpus size have been considered.

Floater ST: Performance and expense ratio were main parameters behind the selection of schemes.



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