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WEALTHWISE

Inside

Wealthwise

"Wealthwise" is a monthly publication brought to you by Wiseinvest Advisors. Wiseinvest Advisors is a quality investment advisory firm that specializes in mutual funds. Though mutual funds are a simple way to invest money, you can get the best only if you get professional advice. Our CEO, Mr. Hemant Rustagi, is a well known mutual fund expert. He brings with him an experience of more than 24 years in this field. He regularly writes articles for major national dailies and business magazines as well as appears as a mutual fund expert on many investments related TV shows. Besides, our team of advisors has professionals who have spent years in the mutual fund industry. In the last seven years, thousands of our clients have benefitted from our quality advice and have made mutual funds as the mainstay of their portfolio. You can benefit too from our expertise for your existing as well as new investments in mutual funds. All you need to do is to just call up any of the branches or email your requirements at **information@wiseinvestadvisors.com** and our professional advisors will do the rest.

Dear Investor,

The month of October saw a sense of caution coming into the stock market. Some of the factors that contributed to this cautious mood were the slowdown in the FII inflows and the markets awaiting the implementation of some of the reforms announced by the government in the last couple of months. During the month, the benchmark BSE Sensex fell by 1.69 percent. The mid-cap and small cap indices of the BSE were also down by 1.50 percent and 1.80 percent respectively.

The earnings season has been quite good so far. A large number of companies have performed better than analysts' estimates for the second quarter of the current financial year. This was is in sharp contrast to the previous quarter when almost 40% of sensex companies trailed the forecasts on profits.

The finance minister unveiled a five-year road map for fiscal consolidation to promote investments, contain inflation and take the economy to high growth trajectory. The government will continue efforts to restrict fiscal deficit in the current financial year to 5.3 per cent of the Gross Domestic Product (GDP) and reduce it to 3 per cent by 2016-17. The fiscal deficit was 5.8 per cent in 2011-12.

Despite this, the RBI left interest rates unchanged for the fourth time a row in its second quarter review of the monetary policy. It however, cut CRR by 25bp, which would inject Rs.17,500 crore into the financial system. The RBI lowered its FY13 growth forecast to 5.8% (6.5% earlier) and also upped its Mar-13 inflation forecast to 7.5% (from 7% earlier). The Central bank highlighted the persistent and trend deviation of inflation from India's threshold inflation level of 4.0-4.5% and the average of 5.5% seen during the last decade. India's inflation soared to 7.81 percent in September, the highest this financial year, from 7.55 percent in August. Inflation based on wholesale price index (WPI) was 10 percent in September 2011.

As for the investment strategy, we believe that if you can withstand some volatility, it is time to invest in income funds/dynamic bond funds with a time horizon of 18-24 months. The short term income funds continue to be a good option for a time horizon of 12 months or so.

Warm regards,

Hemant Rustagi
Editor

Wiseinvest
With YOU, in meeting FINANCIAL CHALLENGES

Address to be affixed here

The Stock Market performance during October 2012.

Indices	1st October 2012	31st October 2012	Change in (%)
Sensex	18823.91	18505.38	-1.69%
MIDCAP	6665.85	6565.99	-1.50%
SMLCAP	7117.36	6989.17	-1.80%
BSE-100	5723.48	5620.99	-1.79%
BSE-200	2317.60	2276.15	-1.79%
BSE-500	7241.46	7118.77	-1.69%

Factors That Can Make Or Break Your Portfolio

Mutual funds allow investors to allocate investments across different fund categories to achieve a variety of risk/reward objective, thereby reducing overall portfolio risk. However, the level of success that an investor may achieve from his/her mutual fund investments would depend upon the ability to focus on factors that are crucial in ensuring the right portfolio mix as well as to avoid those that can adversely affect the portfolio in the long run. Outlined here are a few of these factors and how they impact your investments:

Risk Tolerance

It is important for every investor to understand the right meaning of risk. For a mutual fund investor, risk refers to the fluctuations in the NAVs and can range from stable to very volatile. This is why identifying the right level of risk tolerance and deciding a suitable asset allocation remain the most crucial factors in the investment process.

In other words, the asset allocation in one's risk profile should reflect one's risk profile. Asset allocation not only reflects the kind of risk one is taking, but also the kind of returns one can expect. For example, if one decides to invest in equity funds, one must have the risk appetite as well as the time horizon required for such an investment. Besides, fund managers have different philosophies and styles. To curtail risk in the portfolio, one must include funds following different investment philosophies as well as strategies. If investors are not sure about the right way to do this, they must take help of a professional.

Over-Diversification

It is quite common to see portfolios that have a large number of funds. Over-diversification is generally the result of following a haphazard approach. As a result, one may end up building a portfolio consisting of funds with good as well as poor performance. Needless to say, the presence of non-performing funds pulls down the overall portfolio performance.

Investors faced with such a situation must take a stock of the portfolio mix and take steps to weed out the non-performing funds. Besides, it would pay to realign the portfolio to ensure that funds investing in aggressive segments such as mid-cap and small cap do not have a very high exposure in the portfolio.

While redesigning the portfolio, the focus should be on funds that have been performing consistently and have a good quality portfolio.

Short-Term Market Trends

While it is natural for investors to get affected by the short-term performance of the stock market, it is vital that they don't allow it to influence their long-term investment strategy. In a falling market, for example, investors may either get tempted to invest aggressively or abandon an asset class like equity completely. Both these actions can be detrimental to the long-term prospects of a portfolio. While making regular investments is the perfect way to benefit from equity or equity related investments, a haphazard approach to realign the portfolio amidst short-term volatility is most likely to backfire.

When investors make an attempt to speed up the process of recovering losses in the portfolio by investing short-term surplus money, many a times the result may not be as per their expectations. The main reason for that is the unpredictable nature of markets over the short term. Over the long-term, however, these short-term fluctuations tend to smooth out.

Besides, investors often get disillusioned by negative returns of equity funds. The fact remains that negative returns do not necessarily mean poor performance. Even the best of the fund managers are likely to deliver negative returns during period when the markets go down significantly. For example, short-term negative returns (in line with the market) from a fund that has been doing well for years means nothing. Similarly, even a bad fund manager can give decent returns when the markets are doing well. Besides, it is possible that a fund manager gives impressive returns by exposing investors to a higher risk than they can withstand.

One way to avoid extreme reactions is to rebalance your portfolio to maintain the asset allocation originally decided. No doubt, it can be tough to redeem in a rising market or to invest in a falling market, but rebalancing imposes discipline and ensures that the portfolio remains diversified at all times.

(This article written by our CEO, Hemant Rustagi, was published in Dalal Street Investment Journal - Issue dated October 8 - 21, 2012).

Avoid Shortcuts To Achieve Investment Success

Every investor aspires to get the best returns on his /her investments. However, in order to achieve this, one must follow a disciplined approach to investing and opt for the right investment products. A collective investment vehicle like a mutual fund has all the ingredients that are essential to achieve investment success. It is a well known fact that MFs offer the best in terms of transparency, tax efficiency, liquidity and professional fund management. However, to get the best out of this wonderful investment vehicle, it is important to resist the temptations to resort to shortcuts. More often than not, "get rich quick ideas" backfire.

Here are a few situations that require an investor to guard against such temptations:

Buying Low, Selling High

All investors would like to buy low and sell high. However, very few investors are able to do so. That's because short term market movements can be quite unpredictable. In fact, even the most experienced of fund managers find it difficult to time the market successfully on a consistent basis. No wonder then, when common investors try to do this, they invariably find the market moving in the opposite direction.

The best strategy for a common investor is to invest for the long term and have a disciplined approach towards investing. If one selects the funds carefully and invest with a clear time horizon, the "buy and hold" strategy can work wonders.

Even more important is the need for investors to ensure that the portfolio mix does not take them beyond their risk-taking capacity. Hence, rebalancing the portfolio, probably once a year, not only keeps the risk levels within one's acceptable limits but also ensures that one remains invested in different asset classes at all times and does not move into or out of an asset class completely.

Investing in Award-Winning Funds

Investors often get tempted to invest in award winning funds. The common belief is that an award winning fund can be a great bet to earn fantastic returns. While such a fund can add value to the portfolio, the key is to establish the suitability of the fund to one's investment goals. Equally relevant is the methodology followed to choose winners. Some of the criteria often used to decide winners are consistent performance, risk - adjusted returns, total returns and protection of capital.

Each of these factors is very important and has its own significance for different categories of funds. Besides, each of these factors has a varying degree of significance for different kinds of investors. For example, consistent return really focuses on risk. For a risk-averse investor, consistency will be a more important measure then total return, i.e. growth in NAV as well as dividend received. A fund can have very impressive total returns overtime, but can be very volatile and therefore tough for a risk-averse investor. Therefore, not all the award - winning funds across different categories may be suitable for everyone.

Investing In International Funds

To add a dash of glamour to their investment portfolios, retail investors some time rush to invest in international funds. In the Indian context, these funds are basically domestic fund of funds that invest in an international fund. No doubt, for someone who has a well diversified portfolio of domestic funds, global diversification can undoubtedly add value as international markets are diverse and some of them have excellent growth potential. In other words, by investing outside India, one can expand pool of potential investment opportunities. Besides, some of the factors influencing international markets could be different from the ones that affect Indian markets. Before investing, however, one must consider the potential of the markets in which the fund proposes to invest.

For a retail investor, though, it may not be a great idea to invest in an international fund right away. They will do well by focusing on developing a portfolio of domestic funds with different philosophies as well as by having the right mix of large cap, mid-cap and small cap stocks. Once that is done, they can gradually include specialty funds and funds investing in international markets.

(This article written by our CEO, Hemant Rustagi, was published in Dalal Street Investment Journal- Issue dated October 22- November 4, 2012).

Performance of Select Funds

Data as on October 26, 2012

EQUITY FUNDS

Diversified

Fund	Launch	1-Month*	3-Month*	6-Month*	1-Year*	2-Year**	3-Year**	5-Year**
Birla Sun Life Frontline Equity	Aug-02	1.67	13.39	12.66	13.82	-1.32	7.5	5.16
Canara Robeco Equity Diversified	Sep-03	1.32	10.58	10.43	14.99	1.87	10.93	5.65
DSPBR Top 100 Equity Reg	Mar-03	0.08	10.54	4.89	9.97	-1.67	6.32	4.35
DSPBR Equity	Apr-97	0.99	10.71	5.14	8.62	-4.6	6.95	5.11
Fidelity Equity	May-05	0.58	10.68	8.35	7.97	-2.67	8.77	4.42
Fidelity India Growth	Oct-07	0.29	10.22	7.89	6.64	-3	8.19	4.32
Franklin India Flexi Cap	Mar-05	1.33	11.23	9.58	9.43	-3.25	7.5	2.79
HDFC Equity	Jan-95	1.08	11.56	7.69	11.18	-4.36	8.47	6.3
HDFC Top 200	Oct-96	0.55	11.59	8.05	10.8	-3.22	7.35	6.4
ICICI Prudential Dynamic	Oct-02	-0.69	7.71	7.18	10.87	0.04	9.47	5.78
ICICI Prudential Focused Bluechip	May-08	-0.29	11.04	8.95	9.92	0.26	10.42	—
Kotak 50	Dec-98	-0.73	9.34	9.52	7.74	-3.53	4.51	0.6
Kotak Opportunities	Sep-04	0.34	11.28	10.24	12	-4.57	5.56	1.68
Reliance Regular Savings Equity	Jun-05	1.76	16.62	15.08	17.95	-4.56	7.15	7.57
Reliance Equity Opportunities	Mar-05	2.13	13.69	13.71	22.81	3.31	17.38	8.84
Tata Equity PE	Jun-04	1.29	12.02	7.55	11.05	-3.87	6.41	3.96

Sector, Specialty & Tax Saving

ICICI Prudential FMCG	Mar-99	5.14	12.28	13.28	33.67	24.17	26.35	16.43
Reliance Banking Retail	May-03	4.15	16.26	19.06	24.9	-4.46	13.11	14.42
Reliance Pharma	Jun-04	0.77	8.23	11.26	19.31	7.29	20.94	19.91
Canara Robeco Equity Tax Saver	Mar-93	1.02	10.5	9.78	14.29	0.51	10.99	7.41
Fidelity Tax Advantage	Feb-06	0.66	10.51	8.53	8.4	-2.79	9.26	5.15
HDFC Taxsaver	Mar-96	1.57	10.82	6.1	9.65	-4.35	8.29	3.5

Midcap & Smallcap

Birla Sun Life Dividend Yield Plus	Feb-03	1.67	9.64	5.94	9.54	-3.19	10.25	11.49
DSPBR Small and Mid Cap Reg	Nov-06	2.74	13.33	9.59	11.69	-3.94	12.18	6.81
HDFC Mid-Cap Opportunities	Jun-07	0.93	9.32	8.5	18.29	2.43	16.02	8.98
ICICI Prudential Discovery	Aug-04	0.8	8.85	8.61	21.47	0.99	13.11	11.76
IDFC Premier Equity	Sep-05	0.97	12.33	9.1	12.17	0.71	14.62	11.36
IDFC Sterling Equity	Mar-08	1.26	11.65	8.3	16.31	-0.23	13.33	—
Sundaram Select Midcap Reg	Jul-02	1.05	14.19	14.74	15.77	-2.95	9.67	6.03
UTI Dividend Yield	May-05	0.63	9.53	9.13	7.41	-1.82	9.3	7.41
UTI Master Value	Jul-98	1.22	11.15	6.29	5.61	-5.58	10.32	5.86

Hybrid: Equity Oriented

Axis Triple Advantage	Aug-10	0.2929	6.6458	8.2239	12.7148	9.1938	—	—
Canara Robeco Balance	Feb-93	1.28	7.62	8.59	14.15	3.64	10.47	6.26
HDFC Balanced	Sep-00	0.49	7.28	6.32	12.17	3.89	13.97	11
HDFC Prudence	Feb-94	1.22	9.4	6.84	12.14	1.3	11.62	9.23
Reliance Regular Savings Balanced	Jun-05	0.02	9.76	11.23	16.82	-0.24	9.97	8.99

Gold: Fund of Funds

Fund	Launch	1-Month*	3-Month*	6-Month*	1-Year*	2-Year**	3-Year**	5-Year**
Kotak Gold	Mar-11	-2.5996	3.8097	6.5378	13.6962	—	—	—
Reliance Gold Savings	Mar-11	-2.4375	3.976	7.5229	14.0077	—	—	—

Hybrid: Debt Oriented

Canara Robeco MIP	Apr-01	1.4391	3.4646	5.0716	10.0835	6.9629	8.1478	7.7437
HDFC MIP Long-term	Dec-03	1.1767	4.3852	5.9816	11.1177	5.9645	8.3077	9.3097
L&T MIP	Jul-03	0.768	3.3058	5.1786	9.1646	5.8144	6.0513	9.2413
Reliance MIP	Dec-03	1.2531	4.34	5.7687	12.8868	6.8335	8.5258	11.1354
FT India Dynamic PE Ratio FoF	Oct-03	0.5332	6.5268	7.3693	9.3662	4.727	7.8882	7.8887

Debt Oriented & Ultra Short Term Debt Fund

Funds	Launch	1 Week*	1 Month*	3 Months*	6 Months*	1 Year*	2 year**	3 Year**
Birla Sun Life Dynamic Bond Ret	Sep-04	0.0821	1.0181	2.9075	5.5429	11.174	9.5534	8.2949
BNP Paribas Flexi Debt	Sep-04	0.0958	1.2065	2.5061	4.8563	11.5066	7.6921	6.6961
L&T Select Income-Flexi Debt Ret	Oct-09	0.1337	0.6341	2.0448	4.4038	9.2432	9.0212	7.6453
L&T Ultra Short Term	Mar-02	0.1359	0.6592	2.0863	4.4894	9.4985	9.0989	7.5714
Templeton India Short-term Income Ret	Jan-02	0.0638	0.9713	2.8289	5.3928	10.2074	9.153	8.3366
Templeton India Income Opportunities	Dec-09	0.0572	0.9505	2.9309	5.5085	10.3503	9.1404	—
BNP Paribas Money Plus Reg	Oct-05	0.1204	0.6487	2.1054	4.4894	9.4066	8.955	7.6459
Kotak Floater LT	Aug-04	0.1425	0.7006	2.3413	4.8107	9.6819	9.2724	7.8998

*Absolute ** Annualised. Past performance may or may not be sustained in future.

Dividends declared by equity and equity-oriented funds during the month of October 2012

Scheme name	Date	Dividend declared in ₹ Per unit
UTI MNC Fund (D)	3/10/2012	2.20
Franklin Infotech Fund (D)	12/10/2012	1.00
Tata Equity P/E Fund (D) (TO-A 5%)	12/10/2012	0.40
Tata Equity P/E Fund (D) (TO-B 10%)	12/10/2012	0.80
Tata Balanced Fund (MD)	12/10/2012	0.35
Franklin India Oppor. (D)	19/10/2012	0.70
SBI Magnum Contra Fund (D)	19/10/2012	2.00
Edelweiss E.D.G.E. Top 100 -A (D)	29/10/2012	1.00
Mirae Emerging Bluechip Fund (D)	29/10/2012	1.10
Edelweiss Absolute Return Fund (D)	29/10/2012	0.18

Please check whether you have received dividend for the fund/s that you may have in your portfolio out of this list. In case, you do not maintain any portfolio statement, Wiseinvest Advisors can do that for you free of charge. Once we have the details, we would send your updated statement every month. You can contact our corporate office or any of the branches to avail of this free service.

Mutual funds, like securities investments, are subject to market and other risks. As with any investments in securities, the NAV of units can go up or down depending on the factors and forces affecting capital markets.

Look Beyond Equity Funds While Investing Through SIP

Most investors, when they invest through SIP opt for equity and balanced fund. Over the last couple of years, even the gold funds have become a preferred option. The focus on equity/balanced funds has basically been for two reasons. First, a disciplined approach is considered to be the best way to tackle the volatility that exists in the market place every now and then. Second, since most of the long-term investment goals generally require investors to accumulate a large corpus and considering that equity has the potential to beat inflation over the longer term, investors aim to achieve these goals by making smaller contributions systematically in equity and equity oriented balanced funds.

While there are sound reasons for investing in equity and equity oriented balanced funds through SIP, not every investor benefits from the true potential of these funds as well as the strategy of systematic investing. That's because many investors start investing in these funds either without a defined time horizon or invest for the short-term. Therefore, it is quite common to see a number of investors stopping their SIPs every time the market goes down. This demonstrates total indiscretion of investors towards a strategy that requires a total discipline. It is quite evident that investors do not realize the fact that equity investment is for the long-term and they need to continue.

In other words, many investors feel that the only option for them to invest through SIP in mutual funds is equity oriented funds. The time has come for them to realize that the mutual funds offer much more than equity funds. There is a variety of debt funds on offer from mutual funds. For short term parking of funds, there are liquid and ultra short-term debt funds. Then there are short-term debt funds for those who intend to invest for a period of 6-12 months. There are income funds for those who have a time horizon of around 18 months or more.

Mutual funds also offer debt oriented hybrid funds. Monthly Income Plans (MIPs) are the most prominent funds under this category. These funds typically invest around 75-80 percent of the corpus in debt and debt oriented securities and the rest is invested in equities. These are ideally suited for those investors who are comfortable with some bouts of volatility in order to earn higher returns over time.

Investors need to also understand that SIP is actually a mechanism that encourages investor to not only follow a disciplined approach, but also inculcates regular saving habit. Therefore, the fund selection clearly has to be dependent on the time horizon that investor has on hand and also the objective that he wants to achieve.

If the fund selection is appropriate, the factors such as the benefits of systematic investing, tax efficiency of mutual funds and easy liquidity can get investors much better results as compared to traditional options like a recurring deposit. Besides, appropriate selection also ensures that there are no disappointments in term of volatility of returns. No doubt, the major attraction in traditional investment option is guaranteed returns. However, considering that these options offer low return and that tax efficiency of returns is crucial for both short term and long-term investing, options like mutual funds can be a much better bet.

Let us try to understand the impact of tax efficiency on returns by way of an example. Assuming that an investor in the highest tax bracket of 30 percent earns an annualized return 9 percent from a recurring deposit, his post-tax return is going to be only 6.3 percent. If he earns the same returns from a short term fund, he will be required to pay capital gains at a flat rate of 10 percent provided each of the SIP instalment completes one year. In that case, his post tax return is going to be 8.10 percent. Besides, if he claims indexation in a higher inflation scenario, his post tax returns are likely to be even better.

It is quite evident that if investors can move away from the charm of guaranteed returns and start realizing that it is post tax returns and not gross returns that matters, they will find it easier to include mutual funds in their debt portfolio.

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Index Funds vs Actively Managed Funds

Index fund is basically a passively managed fund, because its aim is to track the performance of an index. Therefore, the fund manager invests only in the stocks that are a part of this particular benchmark index. The level of exposure to each of the stocks depends upon the weightage given to the stock in the index. The offer document of the index fund clearly states as to which index it is going to track.

There are few advantages of investing in an index fund. To begin with, expenses are lower as compared to an actively managed fund. Secondly, investors at the time of investment as well as throughout the investment horizon know exactly which stocks are going to be there in the portfolio and in what proportion. Thirdly, is it is very easy to track the performance of an index fund because it is tracking a particular benchmark index.

On the negative side, an investor forfeits his chances of getting better than market returns. Besides, an index fund is practically run by a computer and hence does not take into account price sensitive information that keeps coming into the market. Although one may be required to align the portfolio in the wake of this information, an index fund can do nothing. Moreover, an index fund has to contend with the tracking error.

On the other hand, an actively managed fund allows investors to benefit from its philosophy, strategy as well as the capability of the fund manager. In an actively managed fund, the fund manager has the freedom to move in and move out of stocks depending on the market condition in line with its investment objective. Investors also have the freedom to choose an appropriate fund out of a variety of funds that are available in this space. There are pure large cap funds, midcap funds, thematic as well as sector funds.

Of course, actively managed fund can expose investors to higher risk than index funds. Therefore, the mix of funds in the portfolio would depend upon one's risk profile. As a thumb rule, a portfolio can be indexed to the extent of 10-15 percent.

A Note to our esteemed readers

Wealthwise is being sent to some of you on a Complimentary basis as a part of our humble effort to ensure that more and more investors benefit from the potential of mutual funds. We sincerely hope that you would like the contents of Wealthwise and in some way benefit from it. However, if you do not wish to receive "Wealthwise" on a regular basis, please let us know either by sending us a mail on information@wiseinvestadvisors.com or by calling us on (022) 65281507/09. You can also write to us at our Corporate Office address mentioned below.

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