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THE FINANCIAL EXPRESS

IT'S ALL ABOUT MONEY - FROM SPENDING TO INVESTMENT. WE EXPLORE TWO SIDES OF THE COIN IN THE BACKDROP OF THE ECONOMIC MELTDOWN

Back to basics

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THE FINANCIAL EXPRESS

Sarika Malhotra

WITH Mutual Fund investors pulling out as much as Rs 47,000 crore in October, the highest redemption from MF sector so far this fiscal year, the worst fears of Bangalore-based independent filmmaker Nina Subramanian and her environmental activist husband Sanjeev Gopal are coming true. As they share, "Much of our fears arise from the fact that we have invested a lot of money in mutual funds, and now we are just not sure of what to do. If we pull out right now, we will lose a lot of our money for sure. When the markets are good, people give you solid directions on what you should do, but now things are very ambiguous." And Nina and Sanjeev are not the only ones sailing in the sinking boat of the market.

PHOTO: BLOOMBERG

Market mayhem

Panic and pessimism is what the market is all about today. As Manoj Vohra, India Director (Research), Economist Intelligence Unit (EIU) puts forth, "With the global economic scenario looking increasingly gloomy, there is indeed a massive pull out by investors from risky assets. The global risk aversion has escalated to exceptionally high levels. The slump in world trade growth, expected in 2009 as a result of demand destruction in the industrialised world, will hit export-oriented emerging markets hard, including India."

India is mainly suffering from the liquidity implications of the global financial crisis. As Foreign Institutional Investors (FIIs) have been the major players pulling out of the equity markets, Sanjay Matai from The Wealth Architects reasons that as a result the Sensex and Nifty have seen a sharp correction of more than 50%. This has naturally affected the NAVs of the equity MFs too. Broadly (a) sectors such as textile, IT etc, which are dependent on the export market and (b) interest-rate sensitive and capital intensive sectors such as housing, real-estate and infrastructure have been badly affected. As withdrawal and depression in equity go hand in hand, Jehil Thakkar, Executive Director, KPMG opines, "Correction measures have to be undertaken with respect to providing stimuli packages in terms of injecting liquidity as China did and of course rescue package announced by the US should surely have a positive impact on the markets." The future though would obviously depend on the overall economic situation, GDP and corporate growth, which are expected to be less for the coming year.

> New shocks will lead to temporary flare-ups, but should not lead to a further worsening of financial conditions on a global scale

Time machine

Experts believe that a moderate stabilisation in the global financial system should set in relatively soon. However, there are a number of triggers for renewed turmoil. As Vohra from EIU affirms, "The impact of the credit crisis is increasingly feeding through to the real economy in US, which should lead to rising defaults on many types of loans. Defaults of major non-financial companies could cause a new panic. The weakening of countries other than the US, including emerging markets, could also send new shockwaves through the international financial system."

He adds that any new shocks will lead to temporary flare-ups, but should not lead to a further worsening of financial conditions on a global scale. A moderate improvement is possible, although a full normalisation of financial conditions is unlikely before 2010.

With Barack Obama's election as President, market sentiment, which is severely dented at present may improve. His key election words 'Hope' and 'Change' may sooth the frayed nerves across the world and bring some sanity to the situation. Though Matai cautions, it is difficult to assess the time frame for how long will it take for things to normalise. "One must break the issue into two. One, the crisis in the financial markets - this may possibly last for a short-term, say six months to one year. The more serious and long-term issue is the impact of this crisis on the real economy. US and Europe are already talking of a recession which could last for maybe 1-2 years. In India, the problem may not be as serious. We may, at best see a slowdown from 9%+ growth rates, but a recession is not likely to happen."

Investment trends

With fears and uncertainty looming large, there is a marked shift in investor preferences. In view of the market meltdown investors are scared and skeptical. Dhirendra Kumar, Chief Executive, Value Research India points out that the first timers are keeping away and the active ones are not putting in new money. Swing in prices of equity is adding to investor woes. One can notice a considerable outflow of money from fixed income funds to banks.

As a senior officer with SBI confirms, people who use to crib about the services of PSU banks are back. The deposit ratio has substantially gone up in the past three months. In unstable market conditions, return is not the top priority for the investor and FD has emerged as the best bet. FDs operate on the LSR model, that cover the liquidity, security and return factor for the investor. A view echoed by another senior officer from PNB, respectability of PSU banks has increased and they are proving to be safe havens. We are expecting a 20% plus growth in deposits. To top it all we are not alluring depositors by any new schemes, but they queuing in. It's a simple mantra, today 'Cash is King' and Fixed Deposits top the list here.

Dipen Shah, Vice President, Private Client Group, Research, Kotak Securities adds, "The fact remains that nothing gives and would give a better return than equity but for the coming six months investors would prefer other assets and FD and gold would be highly explored options. FD because of its risk aversion component and as it gives net of tax a 7-8% return and gold which remains a natural hedge for investors." Though options such as land and gold are also attractive, but they do have their share of shortfalls. For one, land involves huge amount of money and with EMI options and the current job scenario, it is not a very feasible option. Gold prices also are affected by the volatile market conditions.

Timely tips

In such troubled times there is no clear-cut formula for the investor. With investors withdrawing large sums, Thakkar from KPMG cautions, "Unless you are a trader, I would say do not pull out from the market, take a long-term view. Identify your stocks and do not change with every dip and fluctuation."

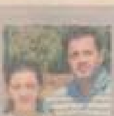
As Kotak Securities' Shah advises, Mutual Funds are a stable option as they offer a diversified portfolio, invest in top tier companies and are managed by fund managers. The mistake individual investors tend to make at a time when the prices are at an all time low is that they invest in second and third tier companies that incur heavier losses. Invest in a gradual manner. Every fall is an opportunity to invest; so individual investors should be careful and not get carried away by low values. They should keep the fundamentals of the company and the economy in view. Follow a case-by-case approach. And look at a broader picture. Don't panic and pull out at the moment."

As for in the personal view of Shivam, Chief Manager, SBI Mutual Funds, though money has eroded from the market, it would not be a wise move to withdraw at this time. One should follow a wait and watch approach and stay put, SIPs can be rewarding. For a smart investor he says, it could actually be the best time to buy.

Irrespective of the market scenario, one must always have a well-diversified and balanced portfolio - there should be a suitable division between the wealth-creators (viz. equity, real-estate) and wealth-preservers (viz. debt, gold). Words of wisdom, do not keep all your eggs in one basket!

> Fixed Deposits operate on the LSR model, that cover the liquidity, security and return factor for the investor

SPEND WISE: COUPLES DO THE BALANCING ACT

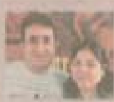


Sharad and Kruti Bagde, Pune

At work we are battling a liquidity problem and refusing projects. We have curtailed our weekly entertainment budget by 50% and will have to control our indulgences. We are rediscovering the joy of candle light dinners at home and some serious DVD watching! We had planned a vacation after Diwali, but deferred it to New Year's and now will postpone it further. It's definitely time to hold on to your cash.

Varuna and Hemant Dawat, Delhi

Our once a week movie outing still remains intact, but our travel plans have been the worst hit. Having decided to go on an annual trip to a foreign destination, it's time to give that a miss. We went to Singapore earlier this year. But our next international holiday plan is in jeopardy. With uncertainty looming across sectors, right investments and savings for the future is our top priority at the moment.



Asheesh and Meenakshi Raina, Mumbai

We now compare prices of products before buying. Earlier we used to ignore the volume schemes but now follow them closely. We have curtailed about 15-20% of our shopping budget. We are not too keen on short term trading and would prefer to invest in fixed deposit schemes than trading in the stock market. We would also keep away from investing in real estate or buying a property.

Ruchi and Mayank Mohan, New York

The US recession has had a direct impact on our lives. Most of our decisions are taken keeping in mind that this year may be a 'no bonus year'. While it's difficult to cut down expenses on a daily level, we are cautious of indulgence and spending on impulses. Major decisions like staying in Manhattan which is more expensive in terms of rent, amenities and living expenses have been influenced by the recession.

Minesh Raja and Rasilian, Mumbai

When we had purchased our flat the rate of interest was 10%. The interest rates have now shot up to 12.75% and we have had to rechart our financial graph. Earlier we would not think twice before giving in to an impulse purchase. Not any longer. The last time we went out for a film was a month and a half ago. Our major shopping was during Diwali and for Christmas but we have pruned it down. It's time to save.

Suman and Sanjeev Dhaulta, Delhi

With incentives being reduced by almost 20%, we have had to cut-down on family outings. Earlier we used to go for movies and eat out every fortnight but now we go out only once in a month. We have curtailed our budget for shopping by about 25%. Our family home is at Shimla and it's good that we don't prefer touring much. Or else, recession would have disrupted our plans without any doubt.