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MONEY

The Focus Right Funds are vying to manage your money, but their sheer numbers are turning fund selection into a complex exercise. Here's a simple way to build a sound fund portfolio. By Mahesh Nayak

It isn't because funds have peculiar names nor is it due to terms like net asset value that housewives like Poonam Chaudhury (not her real name) are wary of investing in funds. Neither is she nervous about investing in equity funds at these high market levels. "It's just that there are so many funds that it is confusing which fund to choose," says Poonam. What adds to the confusion is that most funds seem to have the same objective. "Choosing between so many similar funds is not easy," she says

Poonam's is not an isolated case. There are a variety of funds in the equity space-large caps, mid-caps, flexi-caps, tax savers, balanced funds and derivative funds-and any one looking to invest in them can get inundated by their sheer numbers. Add to that, there are a large number of new fund offers (NFOs) with fancy names and objectives hitting the market almost every week, further baffling the mutual fund investor. Consider this, there were merely 67 diversified open-end equity funds in 2003. Today, there are 160 diversified equity funds, nearly two-and-a-half times more, making it that much more difficult to narrow down to the fund of your choice. But if you want a complete and well-diversified portfolio, you may want to look at segments such as sector, debt and liquid funds as well. There are enough options already, so all that's needed is a simple strategy that's primed for returns.

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Set Objectives

Before we suggest any strategy, you must outline an investment objective and spell out your goals. Investment needs of an individual vary over time, so identifying financial goals is the key to financial security. Having identified your investment objectives, you need to plan carefully to achieve them. Usually there are few common investment objectives-retirement, children education and marriage, house and emergency reserves. After you have determined the goals you wish to accomplish, determine your position on the risk-reward spectrum and eliminate funds that are too aggressive or too conservative. Once you have a list of funds that meet your goals and risk tolerance, review the funds' prospectus to ensure that the funds' investment objectives and risks meet your individual investment goals.

Your age will help you determine what kind of a portfolio mix would suit you. These aren't hard and fast allocations, just guidelines to get you thinking about how your portfolio should look like. Your risk profile will give you more equities or more fixed income depending on your aggressive or conservative bias. However, it's important to always have some equities in your portfolio (or equity funds), no matter what your age. In times of inflation, this will be the portion of your investment that protects you from the damage, not your fixed income. Also, the fixed income of your portfolio should be diversified.

Having said that, there's really no need to buy all and sundry funds as it's difficult to keep a tab on all the funds and their performances. Pick and choose between a few funds in the sectors that you want to allocate. We have drawn an illustrative asset allocation strategy (see A Wholesome Strategy) keeping in mind different age profiles. If, for instance, you are in the 25-40 age group, then a bulk of 70 per cent of your funds could be invested in equities for the long haul. But it's in these funds that you should exercise caution in diversifying. If you are a taxpayer, you would need to invest in tax-saver funds as well.

The Core Strategy

On an average, an equity fund has roughly about 40 stocks in its portfolio. If you invest in six funds, then you have indirectly invested in more than 240 stocks. Assuming there are some overlaps, an investor would easily have about 150 stocks in his portfolio. That seems more than enough diversification in equities. Adding more funds will do more harm than good to your already over-diversified portfolio. Therefore, it's important to keep a core list of five-six funds where you continue to invest regularly.

This market is clearly skewed towards large-cap stocks, so target about two-three large-cap funds in your portfolio. And about one-two in a growing sector fund that captures the infrastructure and core sectors, and lastly, one multi-cap fund that can shift allocations depending on the mood of the market between large- mid- and small-cap sectors. If you are looking for a passive investment strategy and are confident that the economy will do well in the long run, an index fund is your way to go. Says A. Balasubramanian, Chief Investment Officer, Birla SunLife AMC: "If we are looking at markets rising in the next two-three years, index funds are better placed than a sectoral fund. Apart from diversifying the portfolio, it will bear lower risk than the diversified equity fund." So, you may want to consider an index fund that has the lowest tracking error with the

Where Do Experts Invest?

It's no surprise that Sanjay Prakash, CEO, HSBC AMC, believes in the long-term power of equities and so he diligently transfers Rs 10,000 every month from cash fund to his equity fund. "About 70-75 per cent of my investments are in mutual funds. Of these, 70 per cent is in equity funds and the rest in fixed income", says Prakash. In equity funds, Sanjay's allocation is skewed towards large cap funds, which comprise 50 per cent of his investments, while about 30 per cent is in multi-cap funds and 20 per cent in mid- and small-cap funds. Sanjay looks for long-term consistency of diversified funds over sector funds as that is a short-term strategy and carries higher risk. Of the balance, that is debt, he has divided it among fixed maturity plans, short-term debt plans and cash or liquid funds. Sanjay looks for consistency and a strong organisation to zero in on the few good funds. Apart from HSBC, he has invested in two funds of select fund houses. This enables him to track as well as diversify his investments. "Organisation, management and track record are important for me," he says. "I don't believe in investing across funds nor do I churn, but I do rebalance my portfolio every year," he adds.

market.

Besides, it's advisable to keep the philosophy of the fund house in mind. Funds performance should not be hampered if a fund manager exits and a new one comes in place. Do keep a tab on your funds performance every six to nine months. If your fund is not in the same quartile as the rest of the funds in that segment, you may want to switch to another better performing fund. While a fund's past performance is not an indication of future performance, it certainly is a yardstick to measure ability to generate returns. Total return is generally regarded as the best measure of fund performance, because it is the most comprehensive. Meanwhile, short-term returns may not tell the whole story. Look at a fund's performance over a longer period of say about three years.

But easily the best strategy in equity funds is to follow a systematic investment plan (sip). Apart from inculcating the discipline of investing regularly, it avoids sentiment- driven investments and helps the investors to take the advantage of rupee-cost averaging. With auto-debit facility available, one only needs to give standing instructions to the bank and the money will be debited from savings account to the fund. "Investment into equities is a process. The future financial position of an investor and the past investment in equities will depend on the investment through sip," says Hemant Rustagi, Chief Investment Officer, Wiseinvest Advisors.

Should You Invest In An Nf0?
Not unless it is offering something really different.

Thirty three new fund offers (NFO) were launched till date this year with very little distinction between each of them. Most new funds were in the diversified equity category, but a few of them were closed-end, long-term equity funds and ELSS. So far, the combined equity funds have garnered over Rs 30,600 crore But how have they performed and should you invest in them?

Only one new fund offer managed to outperform the Sensex over a three- and six-month period. The Sensex recorded a 16 per cent and 25 per cent return compared to the 13 per cent and 15 per cent return recorded by these NFOs. Return-wise, clearly most new funds aren't really outperforming, so why are investors putting money in NFOs?

Among the many reasons, investors still think that they are getting a fund at Rs 10, which appears like a discount, but it's not so. New fund will have to invest in the market at current levels. Say you are buying 30 companies of the Sensex in proportion to the index, you have to pay the rate at 14,000 levels.

Therefore, for investors, unless something different is offered in the fund, like say an insurance scheme or a new strategy of investing, be wary of investing in all NFOs. Invest in existing funds as they have a track record. Says Sanjay Prakash, CEO, HSBC AMC: "Until it's a new concept that has long-term sustainability, it doesn't make sense to invest in equities through

Debt Strategy

For those who do not have the gumption for risk, but want a little bit of security as well as marginal exposure to equity, you may consider a capital protection plan as part of your overall debt strategy. With savings rate account being low due to the unstable interest rate scenario, the best investment avenue for investors has been FMP (fixed maturity plan), floaters and cash funds.

Apart from delivering higher rates of interest compared to saving banks, liquid fund can easily be liquidated, compared to bank fixed deposit and even FMP. When you have some funds lying idle while switching between funds or looking for alternative investment plans, a liquid fund is perfect. Last year, liquid funds delivered returns in the range of 6-7 per cent. Meanwhile, an FMP is more tax efficient than fixed deposits. Unlike fixed deposits, where investors pay a tax between 22.5 per cent and 33.7 per cent, depending on one's income, an investor would only pay 10 per cent long-term capital gains tax on FMPs. Says Sanjay Prakash, CEO, HSBC, "Investors can invest 20-30 per cent of their allocation in short-term debt, FMP and liquid funds. Apart from being liquid, it helps to generate greater return due to lower taxation."

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Broadly, you should have an idea about the kind of returns that a fund can generate. At best, look at around 10-15 funds in both equity and debt than have one too many funds that require a lot of tracking. If you have a larger percentage of investment in equities, you could have a few more equity funds in your portfolio. On the other hand, if you have a portfolio that's skewed towards debt, then you can make room for a couple of additional debt funds. And lastly, every now and then re-adjust the focus.

On The Pepper Trail

There's big opportunity in commodities as volumes soar and arbitrage increases. Here's a primer to profiting from commodities.

By Anand Adhikari

Whether you want to invest in agri-commodities or metals such as gold and silver, commodity exchanges are an exercise enough in anticipating the future. But if you do not want to predict where the prices are going, all you have to do is spot price differences between exchanges to make a small buck. All you require is speed.

Spot the price difference: And make a fast buck

Little wonder, investors are learning the nuances to benefit from price differences. Among them, Hiralal Gupta has found arbitrage a convenient as well as a profitable option over the short haul. There are many ways and different strategies to find arbitrage opportunities, but Gupta works with the simplest one called cash and carry (see Smart Options). His idea is to take advantage of the difference between the spot and the futures market. Gupta bought 10,000 kg of jeera (cumin) at Rs 1.96 lakh, warehoused his inventory against a delivery slip. Gupta then sold his stuff on the exchange in the futures market at Rs 2.20 lakh. After deducting margin costs and other charges towards warehousing, insurance and brokerage amounting to Rs 10,000, Gupta pocketed a cool Rs 14,100. Good enough for a day's work.

Smart Options
What you should know to partake of the boom.

WHAT'S IT?
CASH & CARRY: Buy a commodity in the spot market and sell the same in the futures market
CALENDAR SPREAD: Buying near month (1-month) contracts and selling far month contracts (3-month).
INTER-EXCHANGE: Playing the difference in prices of a commodity in two different exchanges
DOMESTIC & GLOBAL: The price difference in a commodity between the domestic and global markets

MINIMUM CAPITAL REQUIREMENT
CASH & CARRY: Rs 5,00,000
CALENDAR SPREAD: Rs 1,00,000
INTER-EXCHANGE: Rs 2,00,000
DOMESTIC & GLOBAL: Rs 5,00,000

RISK
CASH & CARRY: Sourcing commodity/counter-party risk
CALENDAR SPREAD: Quality risk
INTER-EXCHANGE: Basis risk
DOMESTIC & GLOBAL: Currency risk

RETURN
CASH & CARRY: 15-20 per cent
CALENDAR SPREAD: 14-15 per cent
INTER-EXCHANGE: 14-15 per cent
DOMESTIC & GLOBAL: 14-18 per cent

COMMODITY
CASH & CARRY: Agri-commodities (pepper, guar seed, jeera)

CALENDAR SPREAD: Guar seed, pepper, etc
INTER-EXCHANGE: Soya bean, pulses, etc
DOMESTIC & GLOBAL: Gold, silver and crude
Returns are annualized Source: BT Research

It's not rocket science to know the nuances of arbitraging, but it requires speed and alertness to grab an opportunity. Says Ajoy Pathak, Associate Vice President, Kotak Commodity Services: "There are opportunities that come periodically but they also vanish quickly as smart investors discover the opportunity to make a fast buck." Arbitrage is one tool to make money by spotting price difference between two trades (spot and futures), or two contracts with different maturity (near month and far month, or inter-exchange, say MCX and NCDEX) in a single commodity like soya and even between domestic and international exchanges in commodities like gold and silver.

Analysts suggest a calendar spread arbitrage strategy is the best starting point for investors as it requires less capital and you are dealing only in the futures market. Here's a bit of backgrounder on the main arbitrage strategies and how you can go about arbitraging.

Hedge Yourself How to play it safe in commodities.
» Commodities are seasonal in nature and hence always avoid thinly traded commodities » If the futures price behaves against your initial call, cut your losses by putting a stop loss rather than carry forward your position » In a spot transaction, agricultural commodities carry a high risk of not getting accepted at the warehouse » For precious metals, always study the commodity cycle and international linkages as commodity market takes cues from international markets such as LME or COMEX » Always trade in tech savvy MCX or NCDEX platform

Cash and Carry: This involves both a cash transaction and a forward transaction in the futures market. "Essentially, you buy a commodity in the spot market and sell the same commodity in the futures market and vice versa," says Sunil Ramrakhiani, Head (Commodities), IL&FS Investmart Commodities. The investor pockets the difference between spot and futures market after deducting his expenses. The costs, which could vary anywhere between 3-5 per cent for a spot transaction, storage and insurance cost, are then deducted from the selling price. Arbitrage opportunities are available only because of inefficiencies in the market. But a strategy such as this is not without its risks. "There is a counter party risk in cash & carry because the spot market is not well developed in India," concurs Ramrakhiani.

Calendar Spread: In commodity markets, there are three types of future contracts available from near month (1-month) to far month (3 months) which more often have a tidy price difference. "This strategy is the safest as you are dealing in one exchange and a single commodity," says a commodity analyst. Depending on the price, you can either buy the near month and sell far month or vice versa. You pocket the difference.

Between two exchanges: The two leading commodity exchanges-MCX and NCDEX-cover most of the commodities, but to different specifications and quality. Therefore, the prices cannot be comparable. However, in certain commodities like soya bean and some pulses, the specifications are same, offering inter-exchange arbitrage if there is a major price difference between the two exchanges. Remember arbitrage is possible only when the products are standardised, otherwise the investor has to bear the loss arising out of a conflict of products.

Domestic versus global: Standardised products such as gold and silver are some of the commodities that have arbitrage potential globally. "One needs an in-depth knowledge of global commodities and their price behaviour," says Ramrakhiani of IL&FS. Besides, factors such as currency risks also come into play. "You need to hedge currency exposure as any adverse movement could bring down your gains, or increase losses," says Kotak's Pathak. All the same, arbitraging may work best if you narrow down to a few commodities in the domestic market and keep a watch for the opportune time.

"There is a counter party risk in cash & carry as the spot market is not well developed"
Sunil Ramrakhiani
Head, Commodities, IL&FS Investsmart Commodities

"There are opportunities that come periodically but they also vanish quickly"
Ajoy Pathak
Associate Vice President, Kotak Commodity Services

A Second Home?

Many families are investing in more than one property. Should you?

By Shivani Lath

If there's any investment that Dr Uday Sahu seems comfortable with, it's house property. Not satisfied with his first house the 44-year-old bought in Gandhinagar, Hyderabad, way back in 1997, he purchased another larger apartment in Hitech City in 2004. But his move paid off as property prices began to rise so he booked another apartment at Kukatpally (an education hub on the north-west fringe of the city) and bought a further 800 square yard plot in the plush Jubilee Hills, where he intends to build a bungalow.

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What is driving the passion for property in this paediatrician and neonatologist? Several factors-the aspiration for a better life for his two kids (he moved into the larger, second flat at Hitech City and rented out the first), the soaring value of property (the 2,200 sq. ft Hitech City flat which he bought for Rs 40 lakh today commands a value of Rs 85 lakh), and the various tax benefits available on successive property investments. "Investing in property is a very good idea," Dr Sahu beams, referring to the value gains his various purchases have seen over the last couple of years and the increasing demand for rental accommodation, being driven by India's burgeoning it and ites sector.

Dr Uday Sahu (top left) has invested in three additional properties in Hyderabad since his first house in 1997

Dr Sahu is one of the growing tribe of people looking to buy their second homes as a retreat from the stressful city life, as a haven for old age, or as an investment proposition. Says Anuj Puri, Managing Director, Trammell Crow Meghraj, a leading property services company: "Second homes are in vogue with India's upper middle class people. Their bigger reserves of disposable income are leading to an aspiration for alternative homes." He believes that the second homes tend to be more luxurious than the primary homes. "To make these second homes affordable, buyers look for spaces outside the metros," he says, adding that he is seeing a marked preference for upcoming Tier II and Tier III cities and also holiday destinations in this regard. But the key is to find the right location.

Not Taxing
Second home buyers can also avail certain tax breaks.

» There is no limit on the interest deductible, unlike the Rs 1.5 lakh limit on first home loan
» No additional premium for a second home loan
» Since most of the second homes are bought with a view to rent out, it is advantageous from the perspective that you get a 30 per cent standard deduction on the rent earned, besides the deduction on the interest paid and municipal tax

Not that Taxing

One of the biggest reasons for the rush to buy that dream home, however far away, is of course, the tax benefits. According to Chartered Accountant Gautam Nayak, there are several advantages for second home buyers. For starters, there is no limit on the interest deductible, unlike the Rs 1.5 lakh limit on first home loan. Secondly, if the second home is bought with a view to rent out, it is advantageous from the perspective that you get a 30 per cent standard deduction on the rent earned, besides the deduction on the interest paid and municipal tax. Then, there is the added benefit of no additional premium for a second home loan.

Harsh Roongta, CEO of apnaloan.com, a website that helps loan consumers obtain competing offers from three or four banks on various products, says it isn't really a big deal getting a loan for a second home. "If your income far exceeds what you are required to pay as interest, then there isn't any problem," he says. According to him, world over, banks are upbeat about providing loans to first-home buyers because of the emotional attachment people have with homes and their fear of losing it. "This ensures they will pay and reduces the risk of default considerably, in fact, almost makes the loans risk free." Interestingly, he adds, things are different when it comes to dealing with the second home buyers. In this case, however, when the homes are usually bought to rent out, the emotional attachment is less and it is subject to fluctuations in property prices. "If, for instance, property prices crash and with it rents, there might be greater potential for default. So from a credit perspective it might be risky," Roongta says. The good news for buyers, however, is that there isn't any added premium for the risk associated with a second home loan.

Location is Key

But looking for the right property that has the potential for appreciation is what most second home buyers should look for apart from other aspects like accessibility and comfort. While some like Dr Sahu are buying property in the same city they live in, others are looking for more luxurious and spacious homes outside their city of residence. Better suited locations are those where the demand is expected to remain strong or where there's a sizeable new development happening. Currently, there are some popular destinations such as Goa and Hyderabad, according to Puri. Others such as Pune are also becoming second home hotspots. Besides, there are the well-known hill stations such as Dehradun, Mussorie, Nainital, Ooty, Mahabaleshwar, Khandala, Lonavala and Shimla. Overseas, Dubai is fast gaining ground.

Besides the luxury, soaring property prices in these areas are making them sound investment options. While Goa has seen rental yields and annual property price gains in the region of 14 per cent, in Hyderabad, the value of independent homes has appreciated by about 60-70 per cent and of apartments by 30-40 per cent in the last one year. Pune is attractive, Puri says, because of its proximity to Mumbai. As for Dubai, he says, "People with a Rs 2 crore budget are eyeing this destination-the incentives being residential permit, greatly enhanced career prospects and a vastly enhanced standard of living."

Whatever the reason-retirement or investment-it seems like more and more people are waking up to the advantages of buying their second home.

-additional reporting by Krishna Gopalan

Top second home destinations

Goa
High demand for luxury villas; also rental apartments with yields and price gains at around 14 per cent

Hyderabad
Preferred second home location-cost of independent homes has appreciated by 60-70 per cent and apartments by 30-40 per cent last year

Pune
Just three hours from Mumbai, Pune is witnessing an immense surge in construction of new housing projects for the well-heeled Indians and NRIs

Hill Stations
The places in high demand for second home buyers include Dehradun, Mussorie, Nainital, Ooty, Mahabaleshwar, Khandala/Lonavala

Dubai
People with a budget of Rs 2 crore or more are increasingly eyeing this jewel of the United Arab Emirates. The incentives are a residential permit, greatly enhanced career prospects and a vastly enhanced standard of living

Source: Trammell Crow Meghraj

Click For A Deal

There are lots of bargains available on the internet. Here's how and where to look for them on the net.

By Krishna Gopalan

There has never been a better time for the Indian shopper. Time was when the festive season was the only chance shoppers would get to find bargain deals, but now the whole concept of deals and shopping has acquired a new dimension. Deals are on throughout the year and it is only a question of being a little alert and acting quickly. And yes, there is no need at all to get to the closest electronics showroom if you are looking for a plasma television set or the Nokia outlet in the neighbourhood for that camera phone. The whole world is today on the internet and all you need is a computer, a credit card and some smart shopping skills.

The new age shopper, over the next few years, could well be the online shopper. Today, florists are available online, rail tickets can be booked online and-who knows- you could just buy a planet online if it does come up for sale! "The biggest advantage from online sites is the convenience factor for the user," says Avnish Bajaj, Chairman, eBay India.

Is Online Better?

Would a buyer be better off buying a DVD player at a company showroom instead of buying it online where he cannot get to "touch and feel" the product? Without any doubt, the answer to that question would have been "yes" till about a couple of years ago. Today, the comfort level about making a purchase online has certainly increased and this is reflected in the increasing number of transactions across product categories. At the end of last year, the total value of the e-commerce market was estimated to be about Rs 1,200 crore and this number by the end of 2007 is expected to swell to Rs 2,300 crore. These numbers are heading northwards thanks to an increasing internet subscriber base, which today is around 40 million users from a level of three million in 1999.

"I think the touch and feel product is a myth. If a consumer is looking to buy a television set, how can he possibly make a purchase decision in 10 minutes at a showroom where over a hundred sets are shown to him," asks K. Vaitheeswaran, CEO, Fabmall. If consumer electronics was indeed such a difficult category to sell online, he has a quick answer to it. "Till last year, books sold the most in value terms on our site. This year, consumer electronics has occupied that position," he explains.

Where are the Deals?
In top-end camcorders and digital cameras, the net offers plenty of bargains. In cell phones, buying offline seems a better option.

PRODUCT: Sony DCR
SR 40E 30GB Hard Disk Drive Camcorder SR 40
PRICE ONLINE: Rs 37,200*
OFFLINE PRICE: Rs 40,000

PRODUCT: Sony DCR SR 80E 60GB Hard Disk Drive Camcorder SR 80
PRICE ONLINE: Rs 46,550*
OFFLINE PRICE: Rs 55,000
Websites are eBay, Rediff and Fabmall
*Includes shipping costs
Source: BT research

PRODUCT: Canon Powershot A540 camera
PRICE ONLINE: Rs 11,200*
OFFLINE PRICE: Rs 13,250

PRODUCT: Canon Powershot A530 camera
PRICE ONLINE: Rs 9,200*
OFFLINE PRICE: Rs 10,400

PRODUCT: Apple ipod 30 GB
PRICE ONLINE: Rs 13,035*
OFFLINE PRICE: Rs 16,700

Overall, the products which sell the most through online shopping are consumer electronics (this includes devices like the iPod). Users like Bangalore-based Sunil Kumar, who buys books regularly, says he bought The Da Vinci Code online for Rs 220 against a cover price of Rs 260. "It was not just the price which was important. I wanted the book and did not have the time to go to a bookstore," he says. It is really consumers like Sunil that players such as Fabmall and eBay are targeting.

Interestingly, as BT discovered, the prices of products like cell phones and DVD players are higher if the shopper decides to go the online route. The difference in prices for low value handsets are about Rs 300 and this number gets larger as the user moves on to more expensive handset. For consumers, it makes more sense to look for big-ticket items like digital cameras, camcorders and expensive electronic items if he wants to get the best possible deals. Lower priced products tend to have little discounts.

Clearly, for the Indian consumer the world of retail is just a click away. If he wishes to make a comparison across brands, that too is easily available. The fact remains that online retailing is surely becoming a way of life and booking air tickets or ordering a birthday cake has become an absolutely simple process-all from the comfort of your home. As it looks now, there will only be more products coming in at competitive price points and online retailing players are gearing up for that. "The way we price our products is that it will be the same if you purchase it offline or cheaper. It is never costlier than an offline option," says Vaitheeswaran.

But can the consumer be sure that he is getting the best deal if he goes the online way? eBay's Bajaj, on the pricing issue, opines that the existence of so many sellers will help the consumer in getting the best deal. "Our USP has been that we offer a wide selection of products on eBay," he says. On an average day, the site claims to sell a cell phone every nine minutes, a consumer electronics product every seven minutes and a piece of jewellery six minutes.

It is possible that the consumer might just land up with a product that is defective. Will the process of replacing it be easy? This is a question that often crops up and online retailers will have to have an answer to this. "Our policy has been that all products will be taken back within seven days without any questions being asked. This is something we decided to do from a very early stage and our overall level of returned products is less than 0.1 per cent," says Vaitheeswaran. He adds that quality levels of products across categories have improved tremendously and the behavioural pattern from a consumer's viewpoint too has changed. "As income levels increase," he maintains "spending too goes up." And well, it's all just a click away. That should be music to the shoppers' ears.

NEWS ROUND-UP

Algorithms Turn Managers
A number of new schemes are using numeric formulas to determine portfolio composition.

By Mahesh Nayak

There's a different type of scheme hitting the market these days which goes by a fancy acronym in the us: quant funds-in long form that stands for quantitative funds. But there's much more to these funds than just a fancy name. They rely on mathematical models to determine the extent to which fund managers will invest in either equity or debt, and in some cases even decide in which fund to invest depending on the composition of the stocks it holds.

As of now, the sophistication levels are yet evolving in the Indian market, so not many fund houses have launched such schemes. Till now, about four have found their way into the market using complex algorithms to determine basic asset allocation. With the markets running at all time highs, the strategy of most fund houses is to manage risks, and algorithms can play a big role here. Says Vikas Sachdev, National Head (Business Development), ING Vysya AMC, "Structured products have made a beginning and we will see more of these in the future. Markets are in uncharted territory so there's a need to focus on managing risk than on the returns through such funds."

Algorithm-based funds bring in discipline to investing so fund managers can rely on them to make crucial investing decisions. "Structured products follow a disciplined approach to investments," says Amar Pandit, Financial Planner, My Financial Advisors, "and at these high levels discipline comes handy." In a sense, structured funds are non-emotional as they follow a process of making investments. They use different market-based indicators that determine the process of allocation. For instance, Optimix's recent fund Dynamic Multi-manager Fund of Fund uses historical moving averages, the periodicity of which has not been disclosed. If the moving average crosses a particular trigger on the upside, the fund then cuts back on equity and moves into debt.

ABN-AMRO recently launched a Multi-Manager Fund with Dynamic Asset Allocation Strategy, while ING Vysya has come out with a Dynamic Asset Allocation Fund and Optimix, a Dynamic Fund of Fund. HSBC AMC has launched an 85 per cent Capital Protection Oriented as a portfolio management scheme (PMS). This scheme aims to protect 85 per cent of the capital.

If you are looking for some kind of discipline to your investing, perhaps these funds make the cut. But if the markets are set for a long-term rally then investing in a product that controls growth at every rise could curtail returns. Pandit feels that retail investors can stay away from these products. "On one hand we tell investors not to time the market, but structured products are a form of timing the markets." More so, these funds don't fit the profile of a long-term investor. Long-term investors can withstand short-term volatility. Says Hemant Rustagi, CEO, Wiseinvest: "Structured funds rebalance every week or fortnight to avoid being hit by volatility. But long-term investors need not worry about shifting or re-aligning asset allocation every now and then."

Sound Surveillance
SEBI's new mechanism to track market deals could end price manipulation.

You may not have to worry about stock manipulation henceforth. On December 1, 2006, the Securities and Exchange Board of India (SEBI) launched a sophisticated Integrated Market Surveillance System (IMSS) to track trading data from all the market participants-stock exchanges, depository participants, custodians as well as data of clearing houses. Now SEBI will be able to keep tabs on any suspicious activity in the stock market in all segments.

Keeping a Close Watch

» The surveillance system will track data from all market participants
» Capable of processing 3-4 gigabytes of daily data
» It will quickly analyse data and detect potential market abnormalities

This new surveillance system can keep track of transactions for fractions of seconds and is designed to process 3-4 gigabytes of daily data. Besides, the system will store 1.2 terabytes of data which effectively means that SEBI can access seven years of transaction data without much loss of time, which will mean identifying possible manipulators in quick time. By integrating all the market participants, SEBI can now detect suspect transactions across the breath of the market. SEBI's whole-time member G. Anantharaman says that the objective is to swiftly detect market abnormalities.

However, SEBI will not be able to monitor the transactions on a real-time basis as it will obtain data from the stock markets only after market hours, and real-time surveillance will continue to be done by the stock exchanges.

The new system, however, will strengthen SEBI's ability to monitor unusual or abnormal trading patterns and also to identify, analyse and initiate timely action against manipulators. The data, which will also be used for enquiry and research, is expected to accelerate SEBI's investigation process. If the project is a success, it should spell the end for stock manipulators.