

To tame the 'Bear'...



Agenda

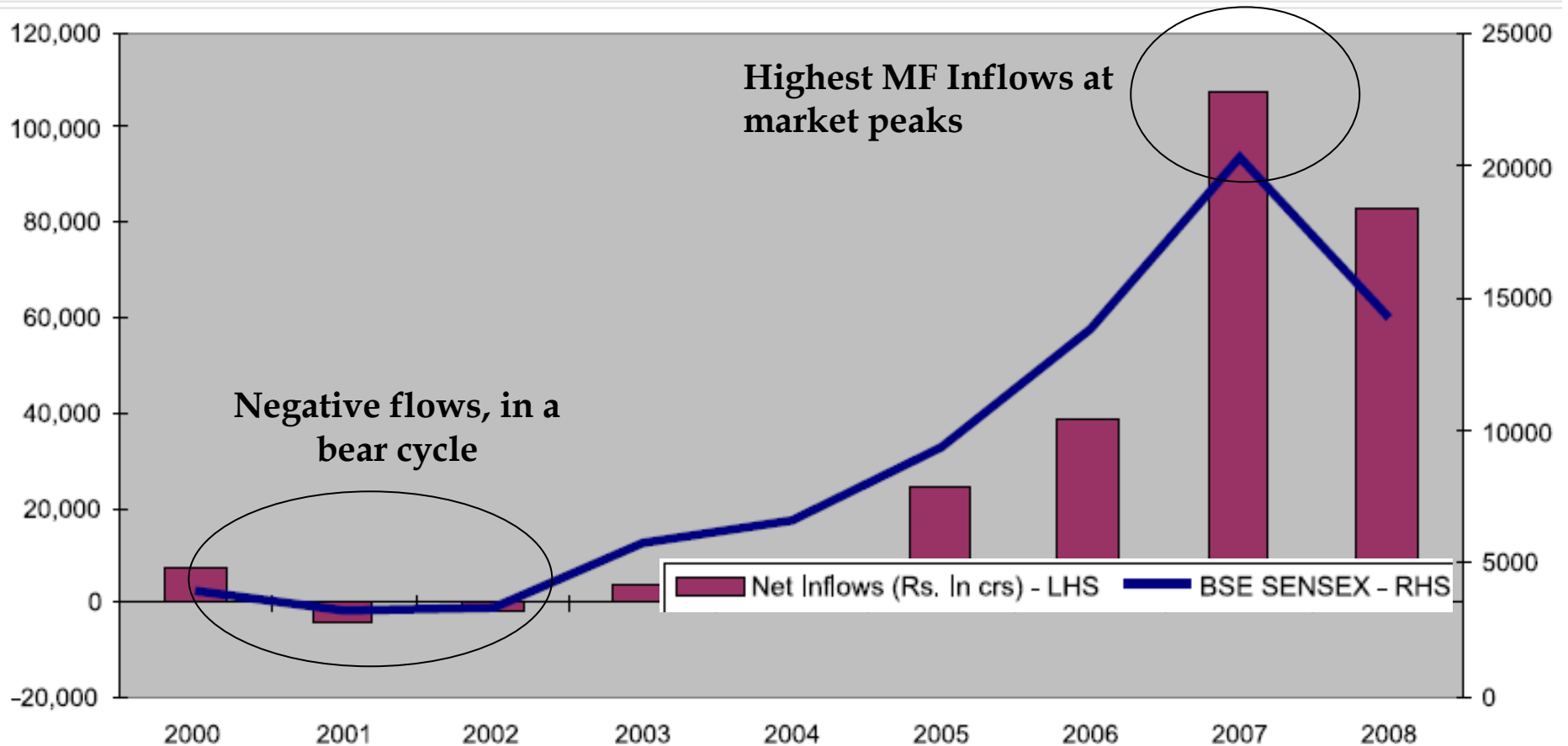
- ❑ Reality Checks on markets
- ❑ Sentiment Cycle
- ❑ History repeat
- ❑ Returns after big falls in past
- ❑ How to manage risk
- ❑ What's on your mind?
- ❑ What's next
- ❑ Take advantage of the opportunity

If you want to make money on the stock market, what do you do?

'Buy Low, Sell High!'

The Reality...

Yearly Data of Fund Flows Vs Sensex



- ❑ Data Shows time and again that Investors invest at Market Highs and sell at market lows

Sentiment Cycle



- ❑ One of the key reasons why a common investor does not make money on the stock market

History Repeats...?

How Long Is This Going To Last??

And How Much More Is It Going To Fall??

"What we learn from history is that people don't learn from history."

- Warren Buffet

Bear Market 2000-2002



This phase took 29 months the last time, however, in this phase there is no major fall

Returns from equities after 'Big Falls'

	Date	Sensex	Fall (%)	P/E	1 Year Later		3 Years Later	
					Sensex	Returns (%)	Sensex	Returns (%)
	9-Oct-90	1,559		20.0				
A	25-Jan-91	956	-39	11.3	2,172	127	3,982	61
B	18-Dec-90	1,112		13.5	1,835	65	3,346	44
	22-Apr-92	4,467		41.4				
A	26-Apr-93	2,037	-54	13.7	3,781	86	3,765	23
B	26-Mar-93	2,341		16.1	3,713	59	3,243	11
	12-Sep-94	4,631		28.3				
A	4-Dec-96	2,745	-41	17.5	3,527	28	4,836	21
B	6-Feb-96	3,155		22.1	3,403	8	3,184	0
	11-Feb-00	5,934		29.0				
A	21-Sep-01	2,600	-56	10.1	3,021	16	5,606	29
B	13-Sep-01	2,988		11.7	3,099	4	5,397	22
	14-Jan-04	6,194		14.7				
A	17-May-04	4,505	-27	9.8	6,466	44	14,300	47
B	14-May-04	5,070		11.1	6,528	29	13,966	40
	10-May-06	12,612		18.1				
A	14-Jun-06	8,929	-29	12.5	14,204	59	NA	NA
B	5-Jun-06	10,214		14.3	14,535	42	NA	NA
	8-Jan-08	20,873		20.7				
A	16-Jul-08	12,576	-40	11.6	NA	NA	NA	NA
B	31-Jul-08	14,356		14.2	NA	NA	NA	NA

After falls between 27-56%; markets have shown strong returns in 1 year and 3 year timeframes

A 10 year SIP

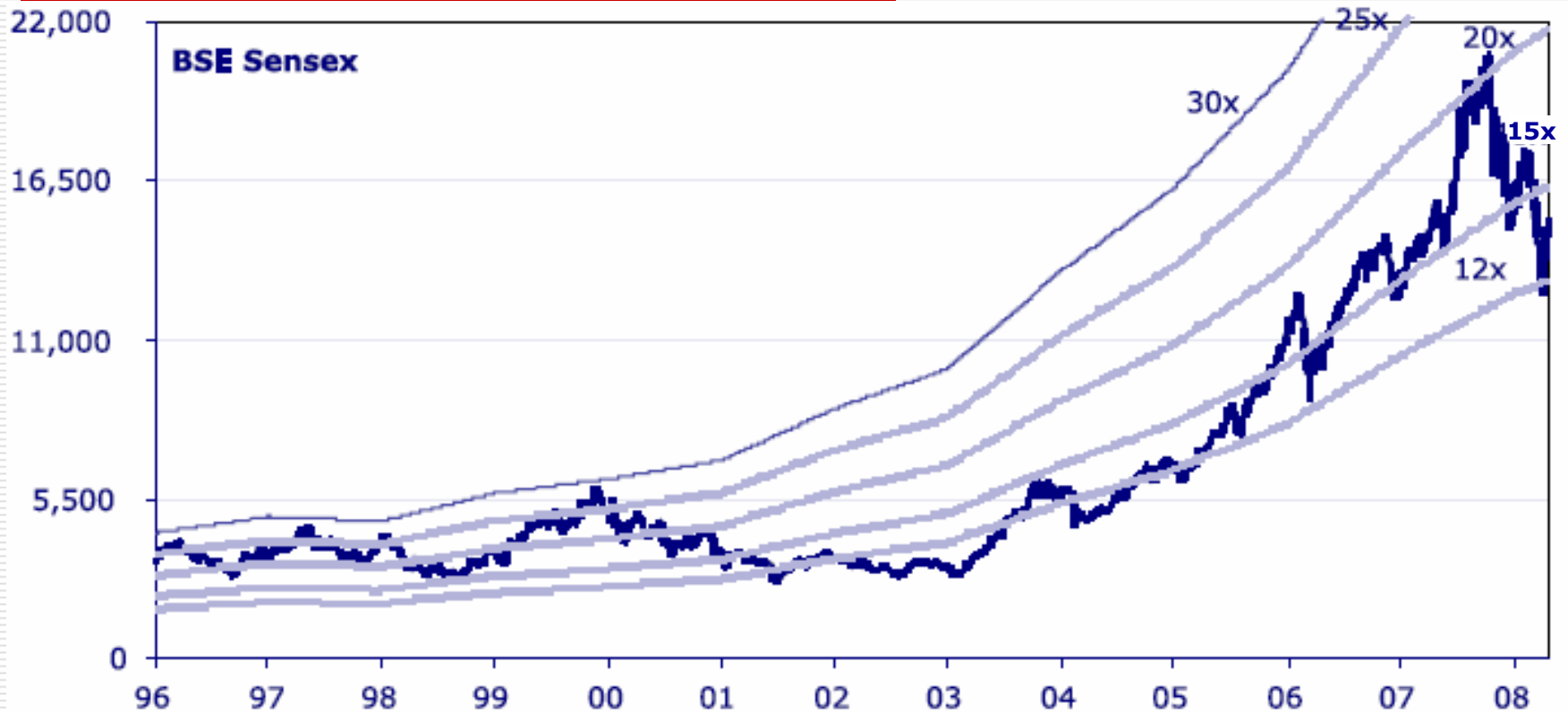
Is there need to worry about my SIP? Or Should I temporarily stop my SIP

Fund Name	Instl. Amt	Period	Invested Amt	Bear Phase		Bull Phase		Median Phase	
				Value as of Sep 2008	% CAGR	Value as of Nov 2007	% CAGR	Value as of Feb 2008	% CAGR
Franklin India Prima Fund	10,000	10 Yrs	1,200,000	5,239,029	27.9%	11,631,720	42.8%	9,443,265	38.9%
Reliance Vision Fund Gr	10,000	10 Yrs	1,200,000	6,525,947	32.0%	12,470,949	44.2%	10,733,112	41.3%

- ❑ Here again, is the sample size of funds which existed over a 10 Yr period - neither the best or the worst
- ❑ Three different scenarios have been looked into, positive returns were seen across market phases
- ❑ The average returns one would have seen is 29% YoY across the funds under study - even during the Bear Phase

This is not the first fall in the Indian Equity Market, and it shall not be the last. Investments made at these levels however, will provide supernormal returns over a 5-10 Yr horizon

The best investments are happening now



- With the near 30% fall in the markets from January 2008, fwd P/E.s have fallen sharply and are now at reasonable levels

Believe it or not, but investors were far more willing to buy equities at higher rather than lower prices!

How have we managed risk

- Profit booking at peak
 - Conducted only for long term assets
 - Not done for short term assets since it adds to cost
- Diversification into avenues that are less risky
 - Real Estate Funds
 - Capital Protection funds
 - Gold funds
- We had conducted a seminar in Nov 07; where we spoke about diversification into these avenues, diversification of ESOPs and using debt to enhance returns
- Regular alerts on ESOPs given to customers in major tech companies like Wipro, Infosys, Satyam – one of the key reasons for the negative outlook was our concern on the US

We hope our contrarian approach will help take advantage of the opportunity that we see in the future

What's on your mind?

- **I have a lot of investments in MNC Mutual Funds and Insurance?**
 - Both these avenues have among the strongest regulators
 - Strength of the Indian regulatory framework seen today – there is no subprime in India
 - High capital adequacy norms, MF assets cannot be misuse
- **Are MNC/Indian Banks Risky?**
 - We are confident of RBI measures to protect the Indian Investor
 - Useful not to keep very high balances in MNC banks
- **Turmoil has affected my ULIPs as well? What should I do now?**
 - ULIPs with allocation into Equity Funds will see downtrend
 - Increase allocation to equities and maintain a 20% exposure into Debt post-such switch
- **When is the right time to switch, when will market bottom out?**
 - Switches are normally conducted in phases, closer to support levels
 - Such investments will provide substantial returns over a 5 Yr period

What's on your mind?

- **What is the liquidity problem in MFs**
 - Due to tightening of liquidity, corporates are having to draw down on their liquid funds
 - While there are assets there could be a mismatch of a few days/month to maturity
 - For a long term investor, this is not a significant cause of concern
 - There are options in bank Certificate of Deposits and Govt Bonds
- **Is 'Indian Economy' busted, any tips to surviving the current turmoil?**
 - Relatively, India is likely to do better than most other economies
 - Predominantly domestic driven - lower risk
 - The market is a leading indicator to economic downturn, but discounts this in advance
 - Sleep over bad times, like many of us have done with our ESOPs- markets come back strongly (especially if you have a diversified portfolio)
 - Focus on your needs - that is why most of us have done our investments
- **What about Real Estate?**
 - Real Estate prices have weakened. About 12% - 15% correction is expected further
 - For self-stay one take a longer term view due to tax benefits and don't be in a hurry
 - For Invt. purposes you can wait for about 6-24 Mths and conduct investment
- **Gold has run up, has it peaked yet? Is Gold still a good option?**
 - Gold has still about 15% from earlier peak
 - Gold is complementary to equity and does well at very negative times
 - We expect a supernormal return cycle in gold in this decade like what we saw in oil

What Next?

Take advantage of the opportunity

- ❑ Continue your SIPs- that is one of the best investment options for an individual
- ❑ Weekly STPs are the best bet for lumpsum investments -
- ❑ Stay diversified, especially avenues that are negatively correlated
- ❑ Continue to focus on your needs
- ❑ Use tax efficient debt funds instead of bank deposits - there are options that invest in bank deposits and even govt bonds
- ❑ Switch into equity over phases and benefit from the slumps
- ❑ Do not Panic! It's investments at these points which will help you benefit in the long term

Structured Real Estate

- Overseas funds- a major fund source to real estate in India
 - Got return of 20-24%, mainly through the equity route
- With tightening liquidity, developers are likely to turn to domestic funding – not preferred earlier due to higher cost
- We see an opportunity in attractive debt funding
 - No impact of downturn in sector due to debt funding route
 - Security in form of physical real estate to be conservative
- The returns would be attractive in current environment
 - Eg A 22% return, Rs 1cr would become Rs 1.7cr in 30 months
 - On maturity can be redeployed into Real Estate / Equity when they are likely to start delivering returns
- Right Horizons would create required structures
 - Keeping in mind safety and tax efficiency
 - Provide oversight and monitoring

Yesterday's new article on Warren Buffett

SPECIAL REPORT AMERICA'S MONEY CRISIS

Complete Coverage

Buffett: I'm buying stocks

Berkshire Hathaway CEO gives advice on how to invest during America's money crisis in a *New York Times* op-ed.

By David Goldman, CNNMoney.com staff writer

Last Updated: October 17, 2008: 9:24 AM ET

NEW YORK (CNNMoney.com) -- Billionaire investor Warren Buffett used a guest commentary article in the *New York Times* on Friday to announce that he's sticking with stocks.

Buffett, the so-called Oracle of Omaha for his ability to buy up the right companies at the right time for his holding company Berkshire Hathaway (BRK.A), said the worst may not be over for the faltering economy.

"In the near term, unemployment will rise, business activity will falter and headlines will continue to be scary," Buffett wrote.

But for that reason, the Berkshire CEO said, he has converted his personal portfolio almost entirely to U.S. stocks. Previously, he said he owned nothing but Treasury bonds.

Buffett said the fear surrounding the disastrous credit crisis, which has dropped stocks about 36% from their all-time highs set around this time last year, has left equities with attractive purchasing prices.

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"A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful," said Buffett. "And most certainly, fear is now widespread, gripping even seasoned investors."

Stock prices have been volatile, to say the least. Consider what happened this week alone: The Dow Jones gained 976 points on Monday; fell 76 points on Tuesday; dropped 733 points on Wednesday and then gained 401 points Thursday. But Buffett says the future is much brighter for stocks.

"Fears regarding the long-term prosperity of the nation's many sound companies make no sense," wrote Buffett. "Most major companies will be setting new profit records 5, 10 and 20 years from now."

Still, many nervous investors have been ditching the up-and-down stock market and pouring their funds into physical assets like gold or cash equivalents. Though they may feel safe now, Buffett said those investors are holding "terrible long-term assets" that will not come close to matching the future gains of stocks.

"The hapless ones bought stocks only when they felt comfort in doing so and then proceeded to sell when the headlines made them queasy," Buffett added.

So if strong companies are destined for long-term success, bad news is good news when you're looking to invest in the stock market.

"Bad news is an investor's best friend," Buffett said. "It lets you buy a slice of America's future at a marked-down price."

Warren Buffet said...

"I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful."

Thank you!