DOHA BROKERAGE

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Research Analyst: Sharon K Abraham
e-mail: research@dbfsindia.com
Helpline: 0484-3060126

associate of DOHA BANK

MUTUAL FUND INSIGHT

The last one year has been a tumultuous year for equity markets around the world. Though equity investors have witnessed significant wealth erosion in their portfolios, its time to pause a moment and learn from our mistakes. A New Year day is a good time for making new resolutions on investing. The last year taught us all the importance of asset allocation. To get a clear picture, we need to know in what kind of a scenario each individual asset class performs the best. A diversified portfolio of equity, bonds, gold and fixed maturity instruments provides a good hedge in a bear market primarily due to the fact that Fixed Maturity Instruments keep on increasing in value irrespective of where the economy is heading. FMPs also provide a good hedge against volatility in the portfolio. FMPs and Short Term Debt Funds provide the maximum returns when interest rates are rising in the economy. On the other hand, Bond Funds tend to increase in value when the interest rates are in a downward cycle. In addition to these asset classes, gold has emerged as a good investment vehicle in recent times. The superior returns of gold in recent times is mainly due to the financial turmoil that the global economy has being going through, which has resulted in the flight of capital from high risk securities like bonds and stocks to low risk perceived securities like gold. Please note the point that they are perceived which means that gold may not necessarily be low in risk as it was some four to five years back. Any asset class would become an attractive investment only when it’s trading below its intrinsic value with a considerable amount of margin of safety.

The damage in the equity markets are still continuing. We had advised investors in previous letters to buy on dips and we continue to reiterate our stand at this point in time. Equity markets are trading at 16.5 time trailing PE. When looking the valuations with a two year perspective, valuations appear to be around 11.5 to 13.5 times their forward earnings. A historical analysis of the Nifty valuation multiples show that equities have once again become attractive. Investments in equities from these levels do pose low downside risk with high upside potential. We strongly recommend investors to take a long term view and invest in equities in each dip going forward. Valuations are now attractive as far Indian Equities are concerned. Investors need to allocate and as well rebalance their portfolio according to the changing market conditions. Investors can also consider tilting their portfolios from short term and liquid funds towards bond funds as the interest rate cycles are showing signs of peeking out. Equity markets are likely to remain volatile the next year. The best way going forward is to keep on investing in Equities through Systematic Investment Plans. On the global front, Euro zone worries continue to remain and the upcoming Q3 results in India could be the major determinant in the market. We are not expecting a major breakthrough in the Q3 results. But as whole we feel that 2012 would be a much better year for equities than 2011 mainly due to its attractiveness and low downside risk. We are confident that India will continue to grow at a fast rate in the coming decades. On a long term perspective, the current market uncertainty is just an excellent opportunity to enter for a long term investor. Enough liquidity for the short term should well be maintained.

We are now recommending three portfolios for the aggressive medium and conservative investor. This portfolio could be maintained for a three to five month period.

AGRESSIVE PORTFOLIO

	FUND	TYPE	NAV (30-12-2011)	% OF ALLOCATION
1	HDFC EQUITY FUND (G)	EQUITY-DIVERSIFIED	218.737	28
2	ICICI PRUDENTIAL DISCOVERY FUND (G)	EQUITY-DIVERSIFIED	39.3	26
3	ICICI PRU FOCUSED EQUITY BLUE CHIP FUND (G)	EQUITY-SECTORAL	14.52	10
4	BIRLA SUNLIFE MNC FUND (G)	EQUITY-SECTORAL	187.64	5
5	RELIANCE BANKING FUND (G)	EQUITY-SECTORAL	74.838	11
6	UTI BOND FUND (G)	DEBT – LONG TERM	30.733	10
7	RELIANCE LIQUID FUND-CASH PLAN (G)	MONEY MARKET	16.967	10
				100

MODERATE PORTFOLIO

	FUND	TYPE	NAV (30-12-2011)	% OF ALLOCATION
1	CANARA ROBECO EQUITY DIVERSIFIED (G)	EQUITY-DIVERSIFIED	48.28	30
2	ICICI PRUDENTIAL DISCOVERY FUND (G)	EQUITY-DIVERSIFIED	39.3	17
3	ICICI PRU FOCUSED EQUITY BLUE CHIP FUND (G)	EQUITY-SECTORAL	14.52	13
4	RELIANCE BANKING FUND (G)	EQUITY-SECTORAL	74.838	10
5	RELIANCE MIP (G)	DEBT – INCOME PLAN	21.664	10
6	UTI BOND FUND (G)	DEBT – LONG TERM	30.733	10
7	RELIANCE LIQUID FUND-CASH PLAN (G)	MONEY MARKET	16.967	10
				100

CONSERVATIVE PORTFOLIO

	FUND	TYPE	NAV (30-12-2011)	% OF ALLOCATION
1	HDFC EQUITY FUND (G)	EQUITY-DIVERSIFIED	218.737	20
2	ICICI PRUDENTIAL DISCOVERY FUND (G)	EQUITY-DIVERSIFIED	39.3	18
3	ICICI PRU FOCUSED EQUITY BLUE CHIP FUND (G)	EQUITY-SECTORAL	14.52	12
4	RELIANCE BANKING FUND (G)	EQUITY-SECTORAL	74.838	5
5	RELIANCE MIP (G)	DEBT – INCOME PLAN	21.664	8
6	UTI BOND FUND (G)	DEBT – LONG TERM	30.733	12
7	RELIANCE LIQUID FUND-CASH PLAN (G)	MONEY MARKET	16.967	25
				100

For queries: Contact: DBFS Research Department, Mobile: 9349778313 Email: stockupdate@dbfsindia.com, Stock related: 0484 3060126, 3060000, Commodity related: 0484-3060169.