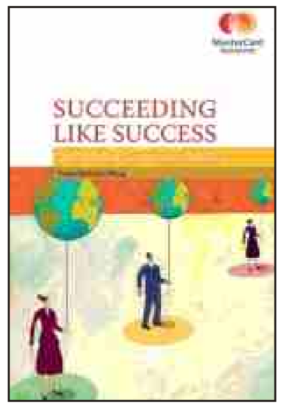
BOOK REVIEW

Succeeding Like Success: The Affluent Consumers of Asia
By Dr. Yuwa Hedrick Wong

Authored by Dr. Yuwa Hedrick Wong, the book "Succeeding Like Success: The Affluent Consumers of Asia" suggests that in the next ten years the affluent consumers in Asia will change the shape and equation of the markets with their enormous purchasing power and trendy lifestyles. As per estimates, by year 2015, there would be 11 million wealthy households in developed Asian countries and 58 million in emerging Asian countries. For companies wanting to earn business from this opportunity, it is essential for them to identify who these affluent consumers are and what are their tastes and preferences. This book provides an interesting insight on the behaviour patterns and spending habits of the rich in Asia.



Dr. Wong identifies three broad pathways for acquiring affluence – 'pioneering', 'inheritance' and 'professional'. In the 'pioneering pathway' to success, he takes the case of Infosys Technologies' Chairman Mr. Narayan Murthy. Mr. Murthy took advantage of the information technology and internet wave that encompassed the globe. He established a competent world class business, which did well and generated personal as well as investor wealth and in the process created thousands of well paying jobs for trained professionals.

Dr. Wong has cited the example of Mr. Ratan Tata among those who have inherited massive amounts of wealth and has expressed admiration and awe for the way Mr. Tata leads the conglomerate Tata group. Under his able leadership, the Tata group has progressed and undertaken mega scale global acquisitions (e.g. Corus) which speak about the strength and scale of Asian businesses.

Apart from the above discussed affluence pathways the 'professional' pathway of affluence is quite important in the new social structure as this road could help businesses acquire big numbers. India has a skilled and qualified workforce with three million graduates being churned out every year. Even if a quarter of these are highly skilled and draw salaries falling in the upper spectrum of the scale, it amounts to a huge purchasing power. As a result, the road to mass affluence would be opened by the professional pathway. It is estimated that the number of mass affluent households in India would double to 10.5 million by 2015 from 5.2 million in 2005. (Affluent households for this purpose have been defined as those having an annual income ranging between US $ 7,500 to US $ 50,000.)

Another interesting point made is about the manner in which the rich across all Asian countries will spend their wealth. The newly rich would be more blatant in publicising their wealth while those having a history of wealth going back a few generations would be more sophisticated. The educated wealthy are also expected to be more subtle and sophisticated although they might be newly rich.

Contest

In volume 8, January - March, 2008 issue of 'Konversation' we had carried the 'Crossword' contest, wherein we had attempted to test your Mutual Fund knowledge. A lucky draw of all participants who submitted correct answers was conducted and 3 winners were selected.

The game generated a phenomenal response and we thank you for participating in it.

Winners of Crossword - Vol 8

Sr. No.	Name	ARN No.
1	Rashmi J. Sejpal	14248
2	R. N. Sharma	29730
3	Vijay Sahu	34811

Congratulations ! You have won exciting prizes.

Ha ha hee hee

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konversation

for the wealthy and why's

"If you love your customer to death, you can't go wrong."

- Graham Day

INSIDE

CEO corner

Dear Friends,

The staggered but certain decline in the Indian equities market since the beginning of January 08 has been a very disconcerting trend. An event that needs no explanation! What has been more concerning off-lately is the slight change in perception, which investors and distributors are undergoing.

Though it must be added that despite the near term cautiousness by the retail investor, the overall market confidence is no-way shaky. This can be said with some confidence, since a large retail investor exodus has not happened, something, which the markets had witnessed during the 1999-2001 period. This, among other things, indicates growing investor maturity and the investors' willingness to allow the performance of equity assets to unravel over a longer time horizon.

However, the immediate downturn has seen the Sensex shed nearly 28% of its value since early Jan. The current phase of market decline has been induced by a giant spike in oil prices and its consequent impact on the domestic inflation. This has sparked off a speculation of a probable second round of interest rate hike by RBI – an idea that has moderating implications for the Indian economy! However, with the 'savings and capital formation rate' at around 32-33% of the GDP, and, even with a moderate GDP growth rate of 7.5%, we can foresee substantial financial investments coming into various assets.

In such an unfolding scenario, an investor needs added direction for potential avenues of investment. I for one, think that given the level of market decline and the uncertainty in the forex market; "various index-based-investment" and "value-locking investment" options look attractive. In this context, 'Kotak Sensex ETF' and 'Kotak Gold ETF' remain well placed to address the fresh concerns and requirements of an investor.

Kotak Sensex ETF - in few words - is a mechanism to give investors a share of Sensex at 1/100th of its original marking. That is to say that when Sensex is trading at: say 14000: Kotak Sensex ETF would be available at Rs 140 per unit. The convenience, the transparency and the pricing, makes Kotak Sensex ETF an appealing option. More so because; at current levels of Sensex discount, the opportunity to stock-up the future potential of Sensex remains sizeable. Kotak Gold ETF on the other hand, is a tool to obtain exposure in a relatively safe asset like Gold with the convenience of online-trading. These products help an investor to look beyond the obvious choices of investment while also prepare them for the next phase of the market upswing.

On a slightly different note; the recognition and acclaim for key Kotak schemes continued through the period. Kotak 30 and Kotak Opportunities were recently given 'CRISIL CPR 1' ranking in their individual peer categories. This is a significant achievement, when we recognize the fact that only top 10% of the peer schemes get selected for this ranking. This ranking is both encouraging and motivating. We take this accolade as a performance benchmark for us-something, which we endeavor to replicate on an ongoing basis.

Regards,

Sandesh Kirkire

CEO

IN THE SPOTLIGHT

CRISIL CPR 1 Ranking for Kotak Schemes

CRISIL, one of the country's most respected rating agencies has given a CPR 1 rating to Kotak Opportunities and Kotak 30 schemes. Both the schemes rank within the top 10% of all the schemes ranked in their respective categories. The categories comprised in all of 86 and 25 schemes respectively.*

The criteria used in computing the CRISIL Composite Performance Rank (CPR) are Superior Return Score (based on NAVs over the 2-year period ended March 31, 2008), concentration and liquidity of the scheme.

Past performance is no guarantee of future results.

Kotak Sensex ETF launched

The month of May saw the launch of Kotak Sensex ETF. The scheme tracks BSE SENSEX and its portfolio will predominantly comprise of companies which form the SENSEX, in the same ratio. Each Kotak Sensex ETF unit is approximately valued at 1/100th of the SENSEX value. This means that if the SENSEX is at 16,500 points, one unit of Kotak Sensex ETF will trade approximately at Rs 165 (1/100x16,500).

IN THE SPOTLIGHT

Through Kotak Sensex ETF, investors can undertake intra-day buying and selling of units during the trading hours just like any other equity share. Further, through a single order and a low investment, investors will have access to stocks that make up the BSE SENSEX.

To trade in Kotak Sensex, ETF investors will need to open and maintain a demat account with a BSE registered broker.

The Musical Extravaganza "Aawaz ki Duniya"

On the 14th of June, Kotak Mutual Fund organised a musical show, "Aawaz ki Duniya" for its PSU channel partners. The venue was Ravindra Natya Mandir, (a well-renowned auditorium in Mumbai). The famous orchestra 'Chaurang' performed on various songs ranging from the fifties to the recent bollywood/pop songs. With more than 700 attendees, the event was a grand success.

CLASSROOM

Looking for a short-term investment avenue?

Investors with surplus money for a short period of time, say 15 to 60 days, often allow it to lie idle in their savings bank account, a standard practice that has been going on for years. Today, financial markets have evolved, and, you now have an investment avenue (LIQUID FUNDS) designed for short-term investments offering attractive returns.

However, convincing the retail investor community to opt for a liquid fund over a savings bank account is a difficult exercise, but possible, if you provide them with the following facts:

a. Returns

An investor is more interested in 'returns' than anything else. So, let's put first things first. Money lying idle in a plain-vanilla savings account fetches a return of approximately 3.5 per cent per annum. A liquid fund could offer an approximate return of 5-8 per cent per annum (Source: www.valueresearchonline.com).

b. Enables STP (Systematic Transfer Plan)

Undertaking a one-time investment in a liquid fund and then transferring a fixed sum of money per week/month/quarter into an equity fund allows the investor to invest in equities without the need for assessing the 'right' entry levels. The investor is relieved of the market timing exercise. At the same time, the liquid fund could give an added impetus to the returns. In fact, the STP strategy could prove to be even more fruitful than the otherwise beneficial SIP (Systematic Investment Plan) strategy, as a liquid fund could deliver a higher return than the savings bank account.

c. Tax Benefits

Irrespective of the period for which the money lies in a savings account, the interest earned is taxed as per the investor's personal tax rate.

However, for liquid funds, the tax treatment is different. In case the investment is for less than 1 year, the returns are taxed at the investor's personal tax rate. In case the investment is held for over 1 year, the gains will be taxed at 11.33 per cent without indexing or 22.66 per cent with indexing, whichever is lower. Here, the investor must be advised to opt for the 'growth' option to reduce the tax liability.

Further, though dividend is tax-free in the hands of the investor, the mutual fund house distributing dividend has to bear a Dividend Distribution Tax (DDT). The rate applicable to individuals is 28.325 per cent.

However, for some types of liquid funds (those with a particular portfolio structure), the DDT rate is as low as 14.16 per cent.

To further minimise the tax liability, if the investment term is less than 1 year and the investor's personal income tax rate is lower than the DDT rate, he must be advised to go in for the 'growth' option instead of the 'dividend' option.

About Kotak Flexi Debt

Kotak Flexi Debt is a Debt fund wherein investors can park their idle cash for the short-term. It aims to provide both – liquidity and sound returns by investing in various debt and money market instruments of various maturities. Due to the structure of its portfolio, the DDT rate applicable to it is 14.16 per cent.

	Scheme Returns (%) as on 23rd June 08		
	1-yr	3-yr	Since Inception (6/12/2004)
Kotak Flexi Debt	8.58	7.58	7.43
CRISIL Composite Bond Index	5.83	4.37	4.74

Past performance is no guarantee of future results

Kotak Flexi Debt NAV: Rs 12.89 (Growth Option as on 23rd June 08). Returns = 1 yr: Absolute. Returns>1 yr: CAGR. The data does not consider loads.

Easy liquidity, reasonable returns and no entry load makes it an attractive short-term investment avenue.

Note: All tax rates mentioned are inclusive of surcharge 10 per cent and education cess 3 per cent.

Fixed Maturity Plans – An attractive fixed term investment avenue for your clients

Fixed income instruments have always been popular among debt investors. Though fixed income instruments have some inherent drawbacks (such as a lock-in period, low post-tax returns, etc.), the attraction is the fixed and assured returns carried by them…

Mutual fund Fixed Maturity Plans (FMPs) too are a fixed term investment avenue and have emerged as a strong competitor to fixed income instruments. One reason being the tax benefits that it carries for investments which are greater than 1 year…

Dividend income

This is tax-free in the hands of the investor.

However, the mutual fund distributing the dividend has to bear Dividend Distribution Tax (DDT) of 14.16 per cent (inclusive of surcharge of 10 per cent (if applicable) and education cess of 3 per cent) in case of individuals…

Capital gains

While short term gains attract tax at the investor's personal tax rate, long term gains attract tax at the rate of 11.33 per cent (10.30 per cent without surcharge) without indexation or 22.66 per cent (20.60 per cent without surcharge) with indexation, whichever is lower.

Comprehending indexation

'Indexation' means accounting for inflation in your investment cost. This is done by inflating the investment cost based on the 'cost inflation index' table published by the government. Doing so automatically increases your investment costs and correspondingly reduces the capital gains and thereby your tax liability.

FMP Vs FIXED DEPOSIT			
	FMP (Without indexation)	FMP (With indexation)	Fixed deposit
Investment sum (Rs)	Rs 10,000	Rs 10,000	Rs 10,000
Indicative yield /interest rate	8%	8%	8%
Tenure (no. of days)	370	370	370
Capital gains/interest income earned	Rs 811	Rs 811	Rs 811
Indexation rate*	NA	4.50%	NA
Indexation cost	NA	Rs 10,450	NA
Gains (post indexation as applicable)	NA	Rs 411	NA
Tax liability**	11.33%	22.66%	33.99%
Tax payable	Rs 92	Rs 82	Rs 276
Gains post tax (Rs)	Rs 719	Rs 729	Rs 535
Net inflow on maturity post tax	Rs 10,719	Rs 10,729	Rs 10,535
Post tax annualised return	7.19%	7.29%	5.35%

**Cost inflation index has been assumed at 4.5 per cent*

*** Tax liability is inclusive of surcharge and education cess. In case of fixed deposit, the highest individual tax rate is taken into consideration.*

This is a hypothetical example.

CLASSROOM

Double Indexation Benefit

If an FMP tenure covers 3 financial years then, the investor gets the advantage of double indexation for the two previous years, thus minimising the tax payable to a large extent or in some cases eliminates it completely. For instance, if an investor invests in an FMP for 13 months on 31st March 2007, then the maturity of the FMP is in April 2008. This FMP is spread across 3 financial years;2006-07, 2007-08 and 2008-09 and the investor is, thus, eligible to get indexation benefit for both the financial years.

Parameters	FMP (Double indexation benefit)
Investment sum	Rs 10,000
Indicative post expenses yield	10%
Tenure (no. of days)	366
Date of investment	31-Mar-07
Date of redemption	1-Apr-08
Income earned	Rs 1,003
Indexation rate - for financial year 2006-'07	4.50%
Indexation cost**	Rs 10,450
Indexation rate - for financial year 2007-'08	4.50%
Indexation cost**	Rs 10,920
Gains (post indexation as applicable)	Rs 82
Tax rate*	22.66%
Tax payable	Rs 19
Gains post tax	Rs 984

This is a hypothetical example.

**The tax rates indicated are inclusive of surcharge*

***Cost inflation index has been assumed at 4.5 per cent for FY 2006-'07 and FY 2007-'08*

To conclude

FMPs, though similar to FDs, yield a better post-tax returns and thus, help in earning a better 'real' rate of return (return post inflation and tax) by reducing the tax liability.

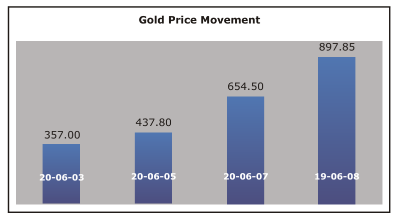
Gold – All set to shimmer again.

In our previous issue, we had discussed why investors must take an investment exposure in gold, considering the global economic scenario. Continuing with the theme, we now explore the returns delivered by gold…

Kotak Gold ETF:- We had featured Kotak Gold ETF in our previous issue of 'Konversation'. Gold ETFs enable investors to buy smaller units of gold and does away with the hassles related to storage of physical gold. The investor also saves on making and designing charges which he would have to incur if buying gold in the form of jewellery. The adjoining table reflects the performance of the Kotak Gold ETF vis a vis the equity markets. The fund, since its inception, has outperformed the Nifty which is a representative of the broader equity market. While the fund provided the investor with a return of around 40 per cent since its inception in July'07, the gain in Nifty for the commensurate period is a mere 5 per cent. The Nifty has actually given negative returns of around 19 per cent in the last 6 month period while for the same period Kotak Gold ETF has returned more than 20 per cent.

Performance of Kotak Gold ETF		
	Returns as on 19.6.08	
Scheme / Index Name	Since inception of the scheme on 27.07.07	6 months
Kotak Gold ETF	40.87 %	20.33%
Spot Gold	42.21 %	20.98 %
S&P Nifty	4.67 %	-19.46%

Past performance is no guarantee of future results. Benchmark for Kotak Gold ETF is Spot Gold. Returns less than 1 yr: Absolute.



Spot gold:- The adjoining figure shows the movement of gold price over the past couple of years. In the past three years, gold prices have gone two fold. Gold has returned around 40 per cent in the last one year. As the US has entered a low interest rate cycle, meaning the return from the dollar having come down, it has translated in to a higher demand for gold in recent times. This has contributed towards a surge in gold prices.

Should you invest in gold now?

Gold prices have the potential to rise further and hence deliver enhanced returns because of global and domestic factors such as:

1. US recession

In May '08, the rate of unemployment in the US has surged to 5.5 per cent (a half percentage point jump over the previous month). This monthly rise has been the highest in 33 years. This has sparked renewed fears that the US economy is heading towards a pronounced recession. A sluggish US economy would lead to a weaker dollar and therefore, the demand for gold as a store of value would rise.

2. Rising crude prices

Oil exporting countries, who earn revenue in US dollars, would be affected if the currency weakens. They would receive lesser value for their crude oil but will have to pay more for their import needs. In order to negate the effect of a weak US dollar, these countries would prefer higher crude prices. The ensuing rise in global inflation would trigger higher demand for the yellow metal and consequently, increase its prices.

3. Rising domestic inflation

On the domestic front, inflation is at a 13-year high at 11.05 per cent. As the stock markets react negatively to such news, gold prices on the other hand get firmer. Gold has extremely low correlation between other investment assets like equity and debt.

It is a good opportunity to invest in the Kotak Gold ETF now since economic indicators point towards firming of gold prices going forward. Gold prices have retraced down by around 15 per cent from the all time high levels of USD 1,031 per ounce recently attained, thus making the case of investing in gold all the more appealing.

Past performance is no guarantee of future results.

DISTRIBUTOR SPEAK

India's young population is increasing by the year and one hearting fact is that they are becoming more aware of markets, finance, investments, etc. and are taking a keen interest in exploring understanding the numerous financial investment options available.

V Care Investment Services has made considerable effort in educating this young and energetic class of investors on SIP investments, etc. through BPO centers and by conducting special group seminars in college premises.

We were one of the first few IFA category advisors who invested in software to help our clients learn on how to invest and monitor & track their portfolio. One of our significant initiatives is through our website - vcareinvests.com, which is the outcome of my experience of over 20 years.

Mr. Piyush Desai
CEO, V Care Investment Services Pvt Ltd

It is one of the first websites where our clients can do accounting, manage their equity and their Mutual Fund portfolios on a real time basis. We also have a comprehensive financial planning package. We have got encouraging feedback from our investors on these initiatives.

I believe that housewives and ladies play a very important role in financial or investment decision-making. I feel that while men can be easily influenced by the market behaviour, the ladies do not and sometimes this helps in better financial planning.

This article expresses the writer's own views. KMAMC is not responsible for any errors, ommissions or opinions stated.

CMYK

CONTEST FORM

To participate in the 'Contest', all you need to do is fill up the form alongside. Send us your entries by post.

Full Name (in blocks): ....

First Name   Middle Name   Last Name

ARN Code: ....

Sub-Advisor Code: ....

Name of Organisation: ....

Date of Birth (dd.mm.yy): ....

Anniversary (dd.mm.yy): ....

Office Address: ....

....

....

City: .... Pin: ....

Phone (Office): ....

Phone (Mobile): ....

Fax: ....

E-mail Address: ....

*Terms and Conditions:

a. Only AMFI registered individuals can participate, with only one entry per individual.
b. All completed forms must reach Kotak Mutual Fund, Bakhtawar, 5A – 5th Floor, 229, Nariman Point, Mumbai 400021 by 10th September, 2008.
c. All fields in the form are compulsory. Forms that are incomplete or have been incorrectly filled will be invalid.
d. In case of a tie, the winner will be decided on by drawing of lots.
e. KMAMC's decision will be final and binding.
f. Entries on a photocopied form will be considered invalid.
g. In case of multiple entries by an individual, all entries will be considered invalid.

Please see overleaf for Scrabble contest.

contest

CMYK

Scrabble

In the below set of alphabets, we have embedded 13 personal finance terms. You can search for those terms vertically, diagonally and horizontally. We have highlighted one of the terms in red as an example. Look out for the rest of the terms.

Good luck!

M	R	R	O	P	T	I	O	N	C
U	N	C	N	O	L	K	T	Z	R
T	A	X	S	F	U	T	U	R	E
U	V	D	O	E	D	J	V	I	D
A	A	G	T	Y	N	Y	L	P	I
L	T	G	I	N	I	S	I	V	T
F	P	I	H	L	F	E	E	H	C
U	L	I	P	U	T	C	L	X	A
N	F	O	A	H	Y	P	N	D	R
D	R	A	N	A	S	T	I	H	D

Please fill in the terms you find below.

1. YIELD
2. ____
3. ____
4. ____
5. ____
6. ____
7. ____
8. ____
9. ____
10. ____
11. ____
12. ____
13. ____

contest

CMYK