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THINKING MAN

Celebrating Fifteen Years of Service

Start of the year 2018 was marked by high optimism reflected in valuations, which were above historical average by a margin. Rising oil prices, depreciating Rupee, Rising interest rate, Default by IL&FS, tight liquidity and FII selling resulted into crash in small and mid-cap stocks and correction in large cap stocks. However, among all the gloom corporate profitability kept on steadily improving.

When everything was looking lost, suddenly oil prices corrected against all expectations. Drop in oil prices brought stability in Rupee and brought back FII flows. OMO's done by RBI improved liquidity condition. Drop in inflation and US Fed's unexpected turn around on future course of Fed rate hike pulled Indian interest rates down by a significant number. Appointment of professionals to run IL&FS along with timely action by the government to contain NBFC liquidity squeeze has helped economy regain its growth momentum. We believe that credit events in 2018 were one-off incidence and spread assets with their risk –reward tradeoffs.

Indian Economy is at interesting stage, Last few years structural reforms like GST implementation, Demonetization, Transparent auctioning of public resources, Digitization, Direct Benefit Transfer (DBT), UJJAWALA –LPG for poor households, Introduction of Indian Bankruptcy Code (IBC), Liberalization of FDI in various sectors including railways, defense, coal mining, construction, aviation, Pharma, Introduction RERA and Housing for all etc has created short term pain in terms of disruption and higher compliance cost. The long term benefits of the same are likely to accrue in the years to come in 2019 and beyond.

Markets across the globe are riding on a wave of heightened volatility. This roller coaster ride will most probably continue for a short while. During such volatile time asset allocation is a friend to rely on. Asset allocation is a simple concept but essential for long-term investment success. Diversifying among several asset classes can lower the overall risk in a portfolio by increasing the chance that, if and when the return of one investment is fall the other would rise.

Tarun Birani

MARKET OUTLOOK – QUARTER ENDED JANUARY 2019

In 2018, global economic growth remained largely stable, but in contrast to 2017, economies saw disjointed growth across the developed and emerging markets. While the US continued to see robust expansion, data from the Eurozone and China was pessimistic. At the same time, global monetary policy saw tightening as global central banks stepped back from their long-standing expansionary policies.

On the Domestic front talking points for the year revolved around a wide range of topics including currency, inflation, interest rates and NBFCs. Debt markets too, were faced with marked to market losses as credit spreads especially in lower rated securities ballooned.

INFLATION

Headline CPI remained lower than RBI's forecast led by benign food prices .Over the past 4 years, average inflation has been less than 4.3% as compared to 9.4% in 5 earlier years. Food inflation has fallen significantly to 3.4% from 9.7% due to low global food prices food inflation in India has been low over past 4 years as compared to previous 10 years. Average non-food inflation over past 4 years has been 5%, significantly lower than 9% in earlier 5 years. Low food inflation has adversely impacted farmers' incomes.

CRUDE OIL

Crude has been an impediment to the India story over the past few quarters. From a low in 2016 of approximately US$30/barrel, crude prices jumped to US$82/barrel in Mid-September 2018 raising

Nifty Equity Benchmark Indices (Returns %)

	28th Dec	1 year Ago
Mid Cap	17,894	-15.2
Small Cap	6,477	-29.4
Auto	9,182	-22.7
Bank	27,392	8.1
Energy	14,348	1.4
FMCG	30,398	13.9
Infra	3,191	-12.2
IT	14,451	24.9
Metal	3,135	-20.0
Pharma	8,882	-7.6
Realty	238	-31.6

*Source – ICICI Prudential

Global Equity benchmark indices (Returns %)

	28th Dec	1 year Ago
DJIA	23,062	-7.1
Nasdaq	6,585	-5.2
FTSE	6,734	11.6
Nikkei	20,015	12.1
Hang Seng	25,504	14.0
Strait Times	3,053	10.1

*Source – ICICI Prudential

concerns on inflation and a possible breach of the fiscal deficit targets. A sharp reversal over the past few months has raised optimism levels given India is a large crude importer. This has also reflected positively across rates and the currency. We anticipate crude to remain fairly volatile over the next year given heightened geo-political tensions and the demand supply mismatch.

CURRENCY

Five years after the previous episode, India once again found itself in the cross-hairs of global currency market turmoil. The Rupee depreciated ~15% against US Dollar before stabilizing towards the end of the year. Given stability on inflation and crude prices, for now it looks like the pressure has eased on the currency. We expect the INR to remain range-bound in the coming year.

FIXED INCOME

In 2018 RBI hiked policy rates twice by 25 bps each and also changed its stance from neutral to calibrated tightening while the US yields remained at elevated level for most part of the year. Our Interest rate outlook remains mixed as some factors support lower yield while others don't.

As Liquidity concerns post IL&FS default were timely addressed by RBI and Government actions , 2019 is likely to be a better year for debt against the backdrop of lower crude and stable macros. However, the fiscal position is likely to remain an overhang given that current GST collections are far lower than budgeted expectations and non-tax revenue growth continues to remain tepid. Also, the surprise exit of the RBI governor is likely to add to short term uncertainties as the market awaits the policy changes of the new governor.

KEY RISK

New challenges are facing the economy as we turn the year – Tepid food inflation is an indirect indication of the stress in the rural/farm sector. Large MSP increases that were announced this year have not had much of an impact. Disruptions in the NBFC sector can impact flow of retail credit – given their disproportionate presence in that space. Also, volatile crude oil price, Brexit, General Election, sharp increase in US Rates and US- China Trade war are key risk in near term.

Domestic Equity Benchmark Indices (Returns %)

India	28th Dec	1 Year Ago
Sensex	36,255	7.2
Nifty 50	10,910	4.5

*Source – ICICI Prudential

YoY (%)	28th Dec	1 Year Ago
Monthly Inflation (CPI)	2.3% (Nov -18)	4.8% (Nov-17)
IIP	8.1%(Oct -18)	1.8% (Oct-17)
GDP	7.1% (July-Sep18)	6.9% (Jul-Sep17)
Monthly Inflation (WPI)	4.6% (Nov -18)	4.02% (Nov-17)

*Source – ICICI Prudential

Commodity Prices

	28th Dec	1 year Ago
Crude Oil	52.2	66.7
Gold (Rs/ 10 gms)	31,531	29,258

*Source – ICICI Prudential

USD Vs. INR

	28th Dec	1 year Ago
USD	69.9	64.1

*Source – ICICI Prudential

Yield (%)

	28th Dec	1 year Ago
10 Yr Gilt	7.3	7.40

*Source – ICICI Prudential

Disclaimer:

Thinking Man Program

Thinking Man Program is our initiative towards Financial Education. Through this program we intend to instill in individuals the basic fundamentals of an 'Individual's Behavior towards finances.' This will help cultivate discipline in future financial managements. Contact us to enroll. +91 22 4971566/45 or info@tbng.co.in

VOLATILE MARKETS

Buying when market is at its low is like buying in a sale, but a stock market sale usually makes investors jittery rather than excited! More than stock market volatility your emotions can adversely affect your portfolio. These emotions in financial language are called behavioral biases, wherein your brain lures you into investment trap. Behavioral finance experts have identified various common biases that affect investing decisions.

Trap 1: Confirmation Bias

Confirmation bias is the tendency of people to favor information that confirms their viewpoint and belief, subsequently ignoring information that goes against their belief whether it's positive or negative. Confirmation bias suggest that an investor is more likely to seek for information that supports his own belief & would make investment choice based on these one sided information rather than seeking out contradicting information & making a fair analytical judgment .For Example: Investors have the tendency of considering equity market highly volatile & thus based on these one sided information they avoid making investments in equity because they only see the short term volatility & avoid the complete picture of its potential to deliver long term return. Feasible solution: To avoid confirmation bias before making any investment decision, investor should analyze all pros and cons of an investment avenue.

Trap 2: Worry Bias

The act of worrying is an ordinary and widespread human experience. Worry increases anxiety while taking an investment decisions. Too much worry lowers the level of risk tolerance among investors. For Example: When markets are at its bottom you might be saying yourself "Maybe the markets just aren't for me" & sell all your holdings, booking a huge loss without analysing the long term prospects. Feasible solution: To avoid worry bias investors should match their level of risk tolerance with an appropriate asset allocation strategy by consulting a financial advisor and should undergo a risk profile test before investing.

Trap 3: Familiarity Bias

People have different perception towards different brands, these perception are usually built because of their familiarity with different products associated with that brand. When it comes to investing investor usually selects the asset class he is familiar with. For Example: If you have seen more of your families investment routed towards fixed deposit, even you are tend to divert more of your investment towards fixed deposit. Feasible solution: To avoid familiarity bias investor's portfolio has to be diversified into different asset class like equity, debt & real estate. Again in each asset class the portfolio should have adequate strategic diversification which would help to reduce short term volatility & make your journey towards long term wealth creation smoother.

Trap 4: Anchoring Bias

Anchoring is a concept in behavioral finance where a person's decision making ability is anchored by some past event. For Example: An investor today stays shy of investing because his mind is anchored by the 2008 stock market crash. He just cannot think beyond. Feasible solution: To avoid anchoring bias in investments our decisions should always be future looking and we should steer clear of past events. Make investments on the merit of investing principles such as long term investing, asset allocation and diversification etc.

Trap 5: Bandwagon Effect

Bandwagon effect means following others. Doing the same thing or taking the same decision as everyone else is. But a person's investment decision should be based on his individual situation, investment horizon, and risk appetite. For Example: There is an upcoming IPO of XYZ company. Investor has no independent views on the prospects of the company, nor done any research on the same. But he has heard too much noise about this IPO in news, through friends etc. As everyone is highly talking about this IPO he ends up investing in it. This is because of "Bandwagon Effect." Feasible solution: To avoid bandwagon effect your portfolio decisions should be based on your individual situation, investment horizon, and risk appetite. Try understanding what your money is put to & take an informed decision.

Conclusion:

This investor behavior is aptly captured by Benjamin Graham in a saying "The investor's chief problem and even his worst enemy is likely to be himself." Some of the behavioral bias discussed might have served us well in our regular life, but they may not be helpful for achieving long - term success .Though there are no precise solution of these biases but as an advisor I always encourage investors to be aware of these biases & their effect on investment with a view to help them in making better investment decision.

ABOUT TBNG

TBNG is a 15 year old SEBI Registered Investment Advisor & is considered one of the India's leading Independent Financial Advisors.

We observed that successful Indian families are finding it counter- productive to individually deal with multiple experts including but not restricted to Investment Advisors, tax consultants, Accountants, Lawyers etc. to manage their wealth and are recognizing the value of a "Family CFO"- An experienced guide, a financial coordinator and an advocate who would offer unbiased advice keeping into account the unique context of the families circumstances and goals.

TBNG has emerged as a Family CFO of choice of successful families

TBNG allows its clients to do what they are best at building wealth, pursuing hopes, and living the life of their dreams. At TBNG we have only one passion – to be client centric and guide everything we do. Our overriding objective is to provide our clients with the quality of wealth management and investment advice that we would demand for ourselves.

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