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spin the market wheel,
chasing dizzying valuations
and risking a bubble burst**

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BANKS' DEPOSITS DILEMMA

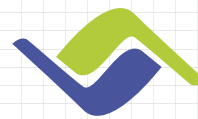
Banks are caught in a bind, with deposit growth lagging behind credit growth, forcing them to offer higher rates to raise funds while competition and EBLR keep lending rates capped – Page 10

CARRY TRADE CRASH: GLOBAL MARKETS REEL

Japan's policy shift sends shockwaves through global markets, including India, as yen carry trade disintegrates – Page 17

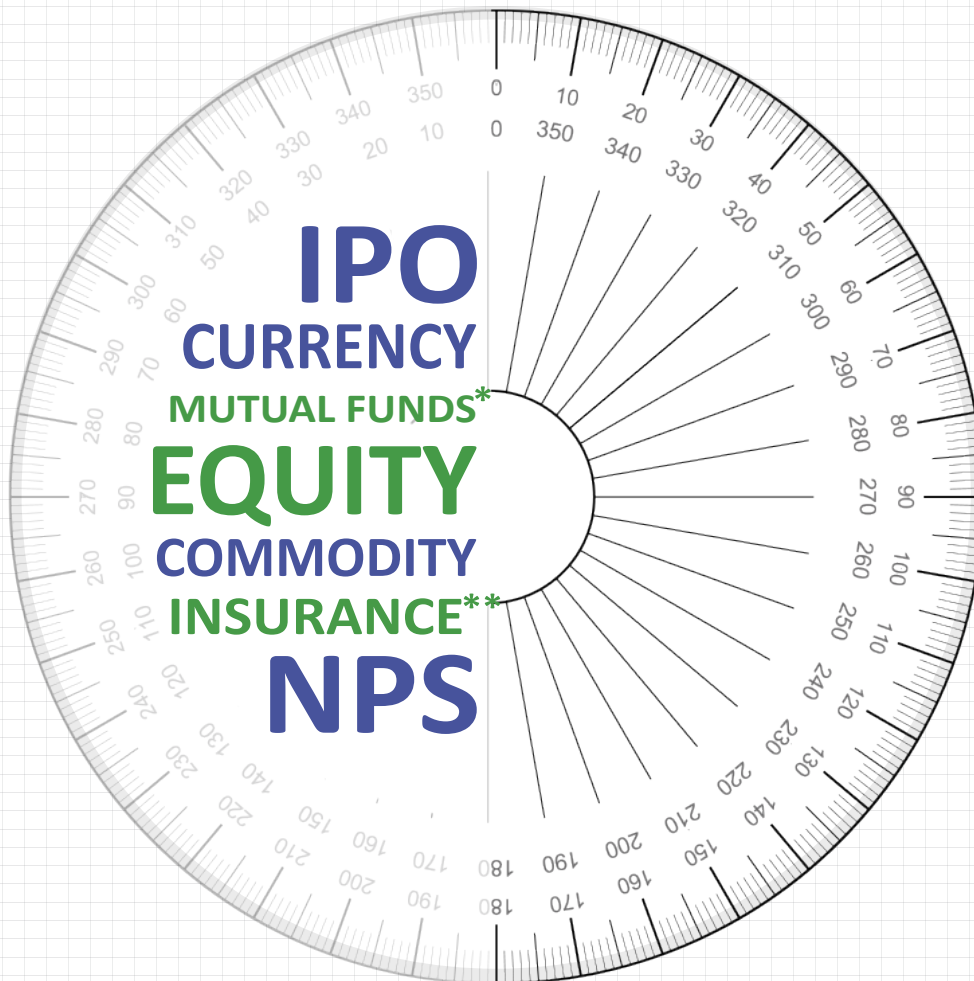
INFLATION-PROOF YOUR CHILD'S FUTURE

Inflation might be stealing your child's future, but children's mutual funds can be their superhero – Page 34



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Tushita Nigam
Editor

THE ALLURE OF FAST MONEY

The overuse or misuse of anything can have harmful and long lasting implications. Similarly, half-baked knowledge can also be catastrophic. These principles apply to trading and investing as well. Often driven by the allure of quick profits and the availability of easy avenues, inexperienced individuals dive into these fields without adequate knowledge or analysis. The temptation to bypass logic and expert advice often leads to the formation of bubbles and ultimately results in substantial losses. This issue's cover story explores how such recklessness, driven by the desire for fast gains rather than securing a stable future, unfolds and the consequences it can bring. Read on to understand the pitfalls of this hasty approach.

Skimming through this issue, you'll find a range of articles addressing various topics. We cover the current state of the Indian economy, examining its global standing and recent GST collections. Additionally, we delve into the banking sector's dilemma caused by a credit-deposit mismatch, and discuss a recent SEBI consultation paper proposing measures to strengthen India's index derivatives framework for investor protection.

Other articles explore the yen carry trade that caused the recent turmoil, the impact of interest rate changes by central banks on countries and economies, and the opportunities arising in the Indian textiles sector due to political unrest in Bangladesh. We also examine how succession planning among listed companies affects stakeholders.

Parents and guardians of minor children should not miss the article in the Beyond Basics section of this issue. We have discussed children's mutual fund schemes that can be extremely beneficial investments for a child when they reach adulthood.

Lastly, for both seasoned and novice investors, we offer a leisure read: a breakdown of renowned investor Howard Marks' memo on investing and the need for control.

**"On the upper side,
the Nifty Futures
could touch
25,800 and
26,350, thereafter."**

Nifty Futures: 25,055

(Last Traded Price As On 28th Aug '24)



US Federal Reserve Chair Jerome Powell nearly confirmed a September rate cut recently. He said that "the time had come for policy to adjust", reinforcing expectations that the Fed will cut rates at the next month's meeting.

Alternatively, the Reserve Bank of India's monetary policy committee has raised concerns about high food prices, noting that high food prices could threaten the overall inflation outlook.

FY25Q1 earnings results for India Inc. have been somewhat subdued due to the elections, but are expected to bounce back in the second half of the fiscal year.

In the coming days, the markets look good, and the Nifty Futures has support at 24,950 and 24,800. On the upper side, it could touch 25,800 and 26,350, thereafter.

Market participants need to watch for the Federal Reserve's announcement on the rate cut, which is expected to be at least 25 bps, or potentially more. Additionally, in India, demand is anticipated to rise ahead of the festival season starting in September this year.

Dmitry Bary

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AN ASCENT TO NEW HEIGHTS

The IMF predicts India's economy to reach \$55 trillion by 2047, driven by various economic indicators showing positive growth and government initiatives





The International Monetary Fund's (IMF's) Executive Director Krishnamurthy V Subramanian has said that India could potentially grow into an US \$55 trillion economy by 2047.

Subramanian said this during the launch of his book *India @ 100*, at the Indian School of Business (ISB), in Hyderabad recently. The senior IMF official acknowledged that the goal of reaching an US \$55 trillion economy by 2047 might seem ambitious, but it was achievable.

He spoke about the huge progress being made in financial inclusion through initiatives such as the Pradhan Mantri Jan-Dhan Yojana.

Using Japan as a benchmark, Subramanian highlighted that its economy expanded from US \$215 billion in 1970 to US \$5.1 trillion in 1995, nearly a 25-fold vault over 25 years.

During this period, the GDP per capita climbed up steeply from US \$2,100 to US \$44,000.

The IMF official strongly emphasised the importance of wisely using government borrowings and said that investments should focus on creating assets rather than merely funding subsidies or operational expenses.

India's IIP Grows At 4.2% In June

The country's Index of Industrial Production (IIP) registered a 4.2% increase in June of this year, up from the 4% growth in the same month of the previous year (June 2023), according to the Ministry of Statistics and Programme Implementation (MoSPI).

The mining sector clocked a healthy year-on-year (y-o-y) growth rate of 10.3%. The manufacturing sector registered a y-o-y growth of 2.6%.

Another segment which witnessed a robust northward movement was the electricity sector, which grew 8.6% over the same period of the previous year.

A key segment for economic development, the infrastructure and construction goods segment, registered a 4.4% growth.

An encouraging growth was clocked by the consumer durables segment at 8.6% while the consumer non-durables segment witnessed a slight dip, down by 1.4%.

The manufacturing sector's growth in June '24 was influenced by three key industries. The manufacture of electrical equipment stood out with a remarkable growth of 28.4%.

While the manufacture of basic metals continued its steady growth trajectory with a 4.9% increase, the manufacture of motor vehicles, trailers and semi-trailers also contributed handsomely to register a 4.1% growth rate.

GST Collection In July Hits ₹1.82 Trillion

The Goods and Services Tax (GST) collection in July climbed up 10.3% to ₹1.82 trillion - it is the third highest collection since the inception of the GST regime in 2017.

This growth has been propelled by domestic transactions in goods and services, according to government data.

Total refunds stood at ₹16,283 crore in the reporting month. The net GST collection after adjusting refunds was over ₹1.66 trillion, a growth of 14.4%.

The gross GST revenue stood at ₹1,82,075 crore in July. This gross GST revenue includes Central GST (CGST) of ₹32,386 crore, State GST (SGST) of ₹40,289 crore as well as Integrated GST (IGST) of ₹96,447 crore.

The compensation cess collected was ₹12,953 crore.

An important point to note here is that revenues were propelled by taxes from domestic activities, which expanded an encouraging 8.9% to ₹1.34 trillion in July.

The revenue from imports moved northward 14.2% to ₹48,039 crore.

The gross GST revenue hit a record high of ₹2.10 trillion in April '24 while the previous high was in April the previous year (2023) when it was ₹1.87 trillion.

What requires highlighting here is that so far this fiscal (April to July '24), collections have risen by a healthy 10.2% to about ₹7.39 trillion.

India's Retail Inflation Hits A Five-Year Low In July

India's retail inflation hit 3.54%, which marks its lowest in nearly five years, mainly because of a dip in food prices.

Retail inflation based on the Consumer Price Index (CPI) rose to 3.54% last month (July) which is the lowest in 59-months, as per data from the Ministry of Statistics and Programme Implementation (MoSPI).

What requires highlighting here is that the northward movement in food inflation at 5.42% in July was the lowest since June 2023, when it stood at 4.55%.

Food inflation had increased 9.36% in June, 8.69% in May and 8.70% in April.

A point to note here is that

India's retail inflation has been below the 6% mark since September, remaining within the Reserve Bank of India (RBI)'s tolerance range of 2% to 6% for eleven consecutive months.

Food prices have remained on the higher side for over a year and have stayed above 8% since November, primarily due to last year's uneven and below normal rains.

Last month (July), food inflation moved southward to a 13-month low at 5.42%, after remaining north of the 7% mark during the last eight months.

While prices of meat, fish, eggs, spices, sugar and confectionery products increased during July, prices of cereals, fruits, vegetables and pulses declined on a sequential basis.

Clothing and footwear prices also slid in July compared with the previous month.

Here, it must be pointed out that the Reserve Bank of India's medium-term target for CPI inflation is 4% within a band of plus or minus 2%.

Diamond Imprest Licence For Gems And Jewellery Sector

The government has announced the introduction of the Diamond Imprest Licence - a policy initiative that the Gem and Jewellery Export Promotion Council (GJEPC) has been calling for, for a long time now.

This announcement was made by the Union Minister of Commerce and Industries Piyush Goyal during his interaction session at the 40th edition of the India International

Jewellery Show 2024.

This event, a flagship show of the GJEPC, was held in Mumbai recently.

The Diamond Imprest Licence ensures that Indian diamond exporters above a certain export turnover threshold will be allowed to import at least 5% of the average export turnover of the preceding three years.

This will provide a level playing field for Indian MSME diamond exporters with that of their larger peers. It will stop the flight of investment of Indian diamondaires to diamond mining destinations.

"Gold and jewellery will increasingly come through official channels and our workforce will get job orders. India's domestic market is resilient and growing fast to compensate for the loss in exports due to global recession. I urge gem and jewellery exporters to be positive," the minister said.

Demand Conditions In Indian Economy Are Gathering Momentum, Says The Reserve Bank Of India

Demand conditions in the country are gathering momentum after some slack in the first quarter of this fiscal (Q1 FY25), the Reserve Bank of India (RBI) said in its monthly bulletin of August this year.

As per the apex bank, signs of revival in rural consumption are visible as the growing income has started driving volume growth in fast-moving consumer goods (FMCG), which reflects strengthening fundamentals.

It further added that rural savings is also moving northward, as is evident from the rising number and outstanding amounts of savings bank accounts.

The RBI said that the sliding of inflationary pressures has propelled rural spending, driving a catch up with urban

consumption volumes. The Consumer Price Index (CPI) inflation slipped to 3.54% in July '24, its lowest in nearly five years.

"Reflecting these forces of turnaround, FMCG companies are starting to see green shoots of revival, portending a seismic shift in their markets as price

stability sets in and expectations of a better monsoon as well as higher budgetary allocations for the rural economy push up volume growth," the RBI stated in its monthly bulletin.

The RBI further stated that the signs of revival will stimulate the participation of the private sector in total investment.



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BANKS' DEPOSITS DILEMMA

Banks are caught in a bind, with deposit growth lagging behind credit growth, forcing them to offer higher rates to raise funds while competition and EBLR keep lending rates capped



B

orrow at 3%, lend at 3% and be at golf course at 3 pm,' goes the adage in the banking world. However, the dictum has been of late turned topsy-turvy for Indian banks.

After the respite from toxic loans that were brought to manageable levels through write-offs and government money infusion, Indian banks are now facing a deposit crunch that has crimped their ability to fund the huge credit demand that arose after the pandemic.

The scare of new trouble at banks has led to the finance minister and the Reserve Bank of India flagging the liability mismatch risks. The finance minister has even asked banks to start special drives to mobilize deposits.

WHAT'S THE ISSUE?

Indian banks are seeing a significant divergence between credit and deposit growth. As of 26th July '24, the year-on-year bank credit growth stood at 13.7%, while deposit growth lagged at 10.6%. This disparity has pushed the credit-deposit ratio (CD), which measures how much of a bank's deposits are being utilized for loans, to a record high of 80%, the highest since 2015, raising concerns about the sector's liquidity and stability.

STRUGGLES TO ATTRACT DEPOSITS

Banks are struggling to raise deposits due to several factors such as customers gravitating towards high-return, equity-linked products, which offer better returns compared to traditional bank deposits. This has forced banks to offer higher rates on fixed deposits.

Also, the share of low-cost current and savings deposits (CASA) in total deposits is dropping. Customers lured by higher rates prefer to keep their excess funds in fixed deposits, which have been greatly facilitated by the swipe-in facilities that help in creating time deposits with just a click or a swipe and do not need visits to the bank branch.

Consequently, the CASA ratio, which reflects the proportion of these low-cost deposits, has dropped in a range of 40 to 730 basis points (bps) for banks in Q4 FY24 earnings. However, large banks like ICICI Bank and Axis Bank managed to recover some of their lost CASA share in the second half of the year.

Also, banks had raised deposit rates in the previous financial year, which has hampered their ability to attract new deposits at lower rates. The rapid growth in credit demand has outstripped deposit growth, leading to a tightening of liquidity in the banking system. Many bank customers now park just enough amount in their savings accounts to be able to service their UPI payments and immediate spending, keeping their liquid funds in other better-yielding avenues.

As a result, banks are forced to explore alternative funding sources, such as issuing certificates of deposit, to meet the growing demand for credit.

According to an RBI report, in the June '24 quarter, banks have turned to certificates of deposit and high-value savings accounts and fixed deposits to shore up their resources.

Banks borrowing through market instruments surpassed the ₹9 lakh crore mark as of late July as they struggled to raise funds through deposits. According to data from the Reserve Bank of India (RBI), scheduled commercial banks, including regional rural banks, small finance banks, and payments banks, reported borrowings of ₹9.32 lakh crore as of 26th July, a 19% rise from ₹7.84 lakh crore recorded on 28th July of the previous year.

PRESSURE ON NIMs

However, reliance on high-cost funding options and the ongoing "war for deposits" is compressing banks' net interest margins (NIMs), a key indicator of profitability. A report by

CareEdge Ratings indicates that bank NIM in the June quarter narrowed by 0.13% to 2.94% compared to the same period last year.

Private sector banks, in particular, have been hit hard, with a 0.25% decline in NIM compared to the previous year, bringing their NIM down to 3.20%.

The rising cost of deposits, coupled with stagnant or declining loan yields, has squeezed banks' profitability. The weighted average lending rate (on fresh rupee loans for all commercial banks was 9.39% in May '24, down from 9.55% in April. Meanwhile, the weighted average domestic term deposit rate on fresh deposits remained almost unchanged at 6.47% in May, while the rate on outstanding deposits rose to 6.93%.

This scenario has created a challenging environment for banks, where the cost of funds is rising, but the ability to pass on these costs to borrowers is limited.

THE ROLE OF EXTERNAL BENCHMARKED RATES

The share of external benchmark-based lending rate (EBLR)-linked loans accounted for 57.5% of total outstanding floating-rate rupee loans in March. This was a slight increase from 56.9% in December '23. Meanwhile, loans tied to the marginal cost of funds-based lending rate (MCLR) made up 38.3% in March.

EBLR-linked loans, introduced in December '19, are primarily

offered to micro, small, and medium enterprises (MSMEs) and for retail loans. These loans are pegged to external benchmarks such as the repo rate or, in some cases, the 364-day Treasury Bill rate.

Although the last increase in the repo rate occurred in February '22, with no changes since, the yield on 364-day Treasury Bills has declined from 7.0628% to 6.7240%. Consequently, banks cannot raise EBLR-linked loan rates despite rising costs of funds. In previous scenarios of rising interest rates, banks were quick to increase loan rates following each repo rate hike.

Traditionally, banks have been quick to raise loan rates when the central bank's policy rates increase but have been slower to reduce them when policy rates drop. This delay occurs because banks can only lower their loan rates after reducing deposit rates, a process that takes time since the lower rates only apply to new deposits, while older, higher-rate deposits continue to be costly.

However, the situation has now reversed. Banks are compelled to offer higher deposit rates to attract funds, but they cannot pass on these increased costs to borrowers with EBLR-linked loans. This situation is expected to persist, as banks will eventually face a scenario where they need to reduce policy rates but will be unable to lower deposit rates until the competition for deposits eases.

THE ROLE OF REGULATORY REQUIREMENTS AND LEAKAGES

Another significant factor

contributing to the current liquidity stress in the banking sector is the regulatory requirements imposed by the RBI, including the Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), and Liquidity Coverage Ratio (LCR).

Currently, these regulatory requirements account for approximately 30% of the total aggregate deposits, comprising 4.5% for CRR, 18% for SLR, and 7.6% for LCR. Additionally, there are leakages from the system that further reduce the available lending resources. For instance, the government's cash balance, which has increased due to changes in the disbursement process for Centrally Sponsored Schemes, accounts for 10% of the pie.

Moreover, the taxation of bank deposits, where both the principal and interest are taxed at accruals, contrasts with other asset classes that are taxed only upon redemption. This tax treatment has also contributed to the shift of household savings from bank deposits.

BANKS' STRATEGIES TO MOBILIZE DEPOSITS

Banks have responded by offering competitive interest rates, with some providing up to 7% on high-value savings accounts exceeding ₹2 lakh and up to 7.5% on savings account balances between ₹5 lakh and ₹10 lakh.

RBL Bank and Bandhan Bank launched new FD schemes this month, offering interest rates as high as 8.8% on tenures of 500 days, and one year and nine months, respectively. These schemes follow similar initiatives

by State Bank of India, Bank of Baroda, Bank of India, and Bank of Maharashtra, which introduced FDs with rates up to 7.80%.

Also, banks have been employing various strategies to attract deposits. These strategies range from offering insurance cover and enhancing customer engagement.

Canara Bank is set to launch two new deposit products targeting the younger population, particularly those enrolled in professional courses. The bank is also offering term life insurance to savings account holders and a zero-balance savings account facility for families if one member's salary is drawn from the bank.

IMPACT OF MUTUAL FUNDS ON BANK DEPOSITS

The shift of household savings from traditional bank deposits to mutual funds has been a key trend in recent years. The ratio of Assets under Management of mutual funds to GDP has risen to 18.1%, driven by a growing risk appetite among households, stable domestic growth, and booming stock

markets, which have made mutual funds an attractive alternative to bank deposits.

The financialization of household savings has accelerated post-pandemic, with households increasingly investing in mutual funds, equity, and non-bank deposits.

While bank deposits still constitute a significant portion of household savings, the share has been declining, leading to concerns about the long-term sustainability of banking deposit growth.

Analysts argue that while the shift to mutual funds may reduce the proportion of savings held in bank deposits, it does not necessarily represent a leakage from the financial system. Instead, it represents a reallocation of savings within the financial ecosystem, with money flowing from retail to corporate accounts.

However, this shift has implications for banks, as it reduces the availability of low-cost deposits, thereby increasing their reliance on more expensive funding sources.

THE FUTURE OUTLOOK

The ongoing challenges in the Indian banking sector, particularly the widening gap between credit and deposit growth, are likely to persist in the near term. The RBI has advised banks to maintain a more prudent credit-deposit ratio, with a comfort level of 70% to 80%. However, the current high CD ratio, coupled with rising deposit costs and pressure on NIMs, suggests that banks may need to align their loan growth more closely with deposit growth.

The RBI has warned of potential stress in unsecured loan segments, such as personal loans and credit card portfolios, which could further exacerbate liquidity risks.

In response, banks may still explore innovative strategies to attract deposits, like launching new deposit products, offering additional benefits, and expanding branch networks. However, the success of these efforts will depend on the broader economic environment, including factors such as interest rates, inflation, and household savings behaviour.



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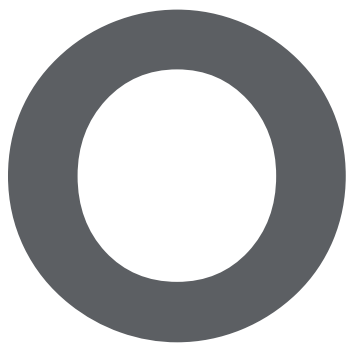
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RISKY BUSINESS?

SEBI's efforts to protect retail investors from derivatives market risks could inadvertently dampen market volumes



On 30th July, market regulator the Securities and Exchange Board of India (SEBI) released a consultation paper outlining proposed measures to strengthen the index derivatives framework in India. Based on recommendations from an expert committee, SEBI has suggested seven changes to the futures and options market.

The proposed changes to the index derivatives are intended to enhance investor protection and promote market stability. Given the impressive performance of Indian markets in recent years, with a compound annual growth rate (CAGR) of approximately 15% in USD terms over the last 5 years, there has been a surge in interest from retail investors, both directly and indirectly.

The number of unique mutual fund investors has jumped from 2.2 crore in March '20 to 4.7 crore in June '24. Similarly, the number of unique demat holders has increased from 3.6 crore to 9.6 crore during the same period.

The increased participation of domestic investors has significantly outpaced that of foreign investors. From FY15-16 to FY20-21, on average, mutual funds, other domestic institutional investors (DIIs), and individuals collectively invested an average of ₹40,000 crore annually in the Indian equity secondary market. However, since FY21-22, these domestic investors have dramatically increased their investments to an average of ₹3.1 lakh crore per year, a nearly eightfold increase.

The increase in demand for Indian equities has been positive, but it has also raised concerns, particularly regarding the growth of the derivatives market. These concerns centre around four key areas:

1) Cash Vs Derivatives Market: One concern is a potential mismatch between the cash and derivatives markets. While the derivatives market should ideally take cues from the cash market, the increased activity in certain index derivatives segments could lead to the opposite scenario.

For example, while the annual turnover of the cash market increased by just over 2 times between FY19-20 and FY23-24, the annual turnover of index options (on a premium basis) has risen by more than 12 times, from ₹11 lakh crore in FY19-20 to ₹138 lakh crore in FY23-24. It is worth noting that index futures turnover did not change much during the same period.

2) Aiding Capital Formation:

There is concern that the derivatives market may not aid capital formation in the economy. The primary goal of capital markets is to facilitate capital formation, with secondary and the derivatives market playing a crucial role in price discovery for primary market issuances. Ideally, for capital formation to thrive, more capital should flow into the primary market compared to secondary and derivatives markets.

Data from the National Stock Exchange (NSE) reveals that over 92 lakh individuals collectively lost ₹51,869 crore in index derivatives during FY23-24. This lost capital could have been invested in Initial Public Offerings (IPOs) or other primary market issuances.

3) Retail Participation: Despite the heightened growth in retail participation in the derivatives market, concerns remain about their suitability for this high-risk segment. A SEBI study released in January '23 analyzed the profitability of retail investors in the equity F&O segment. The study found that the number of unique individual traders rose by over 500% between FY18-19 and FY21-22 at 45.2 lakh up from 7.1 lakh, with 88% of these traders actively participating. Alarming, the study revealed that nine out of ten traders in the derivatives market incurred losses during this period, with an average loss of ₹1.1 lakh per trader.

4) Market Stability: There is concern that activities in certain segments of the index derivatives market, particularly the index options market, could

pose a risk to the entire market ecosystem. In 2023, Indian exchanges accounted for 78% of the 108 billion options contracts traded worldwide, with retail investors accounted for 35% of derivative trading in the country.

Research indicates that the notional value of index options traded at the National Stock Exchange (NSE) more than doubled in FY23-24, reaching \$907.09 trillion. Also, the annual turnover of index options (on a premium basis) has surged by over 12 times from ₹11 lakh crore in FY19-20 to ₹138 lakh crore during this period. SEBI is concerned about the heightened speculation observed in index options trading, especially on the last day of expiry, which could pose risks to retail investors.

Given the concerns raised about the derivatives market, both SEBI and the government have been closely monitoring its activities. The recent increase in Securities Transaction Tax (STT) as part of the Union Budget is a direct measure aimed at discouraging excessive participation in the markets.

THE CHANGES

The proposed changes to the futures and options (F&O) norms are primarily aimed at reducing the volume of index options trading.

1) Rationalization Of Options Strikes: SEBI has proposed reducing the number of available strikes for index options. Currently, Nifty has up to 70 option strikes and Bank Nifty has around 90. The proposed changes would limit

the number of strikes at contract launch to 50. Also, strike intervals should be uniform near the prevailing market price (approximately 4%) and may be increased to 8%, if necessary.

2) Upfront Collection Of Options Premiums: SEBI has proposed requiring upfront premium collection from both option buyers and sellers. Currently, upfront margin is only collected from futures traders (long and short) and option sellers. The proposed change aims to reduce leverage positions in the market.

3) Removal Of Calendar Spread Benefit On Expiry Day: SEBI has proposed eliminating the margin benefit currently available for calendar spreads (subsequent expiries), which involve two F&O positions with different expiration dates. Currently, the calendar spread margin is lower than that of two regular F&O positions. The proposed change aims to remove this advantage for subsequent expirations.

4) Intraday Monitoring Of Position Limits: SEBI has proposed that limits be monitored intraday, rather than at the end of the day as is currently done by intermediaries such as Clearing Corporations and Stock Exchanges. This change will require intermediaries to implement technological upgrades.

5) Minimum Contract Size: SEBI has proposed increasing the minimum value of derivatives contracts from ₹5 lakh-₹10 lakh to ₹15 lakh-₹20 lakh in the first phase, and further to ₹20 lakh-₹30 lakh in the second phase.

6) Rationalizing Of Weekly Options: To reduce volatility and trading volume, SEBI has proposed that each exchange offer only one benchmark index with weekly expiry. Derivatives contracts for other indices would be limited to monthly expiry.

7) Increase In Margin Near Contract Expiry: SEBI has proposed increasing the margin for the last two days before the expiration of a derivatives contract to a range of 3% to 5%. Currently, there is no stipulation of additional margin in days nearing expiry, with the margin remaining uniform throughout the contract's life. This change aims to reduce leveraged positions in the market.

IN A NUTSHELL

Owing to heightened activity and associated concerns in the derivatives market, regulatory changes were anticipated. In recent months, SEBI, the Reserve Bank of India (RBI), and the government have expressed concerns about the increased participation of retail investors in this segment. The proposed changes can be seen as an attempt to discourage retail investors from engaging in derivatives trading.

While the final regulations are pending, initial reactions to SEBI's consultation paper on index derivatives suggest that market volumes may decline. In addition to these proposed changes, SEBI recently modified the eligibility criteria for including a stock in the derivatives category. It remains to be seen whether the regulator will further tweak the norms for derivatives contracts on individual stock.



CARRY TRADE CRASH: GLOBAL MARKETS REEL

**Japan's Policy Shift Sends
Shockwaves Through Global
Markets, Including India, as Yen
Carry Trade Disintegrates**



term that has piqued the interest of retail investors, traders, and veteran investors alike in recent weeks is “carry trade.” The increase in attention has partly been fuelled by the outflow of funds from India.

Analysts estimate that India experienced the largest weekly redemption or fund outflows since June ‘22 in the past one week. Redemptions totalled \$437 million, of which \$320 million came from Global Emerging Market (GEM) funds, indicating that stakes are high.

Two key questions may be on investors’ minds: What is a carry trade, and how does it affect Indian markets? Let’s dig deeper to know more.

THE STORY OF TRADES

A carry trade is a well-known investment strategy. It involves borrowing funds in a currency with a low interest rate and investing them in another currency offering a higher interest rate. So, the goal is to profit from the interest rate differential between the two currencies.

Some investors also follow this same strategy in borrowing funds in a low-interest-rate-currency and investing them in assets with potentially higher returns, such as equities or cryptocurrencies.

Essentially, a carry trade is the return an investor earns from holding or carrying an asset, such as a currency or commodity, over time. These are some of the benefits of using a carry trade strategy.

However, there is a downside to using a carry trade strategy. One of the primary risks is the uncertainty and volatility involved in predicting and estimating currency movements. Investing in foreign currencies exposes investors to market conditions that can be challenging to navigate. Factors such as interest rate differentials, exchange rate dynamics, and global market conditions are complex and can lead to huge losses for an investor if not managed carefully.

Historically, the Japanese yen has been a popular currency for carry trades due to the Bank of Japan’s loose monetary policy, including eight years of negative interest rates. This weakened yen, attracting

global investors to pair it with the US dollar for higher returns. By borrowing in yen at effectively 0% and investing in US dollars at prevailing rates (minus fees), investors could earn a significant interest differential. The US dollar earnings could then be used to fund other investments. And this scenario worked very well for big investors.

However, like most investment cycles, abrupt changes can occur, altering the entire dynamics of a trade. The primary risk in carry trade lies in volatile currencies or shifts in interest rates, which can swiftly impact its profitability. This risk was evident in the recent unwinding of the yen-US dollar carry trade, which triggered a massive global sell-off in risk assets.

In March ‘24, the Bank of Japan made a move that caught big global investors off guard by reversing its long-standing monetary policy. For the first time in 17 years, it raised interest rates, pushing short-term interest rates out of negative territory. Then, in late July ‘24, the central bank surprised the markets again by increasing its key interest rate to 0.25%, defying expectations that it would keep rates unchanged.

This unexpected move by the Bank of Japan, coupled with weak US economic data, led to a significant appreciation of the yen in recent weeks. In carry trades, gains are eroded when interest rates in the currency borrowed increase.

Consequently, as the yen appreciated and the interest-rate spread between the two currencies narrowed, many

investors began unwinding their carry trade positions.

Experts point out that when the US Federal Reserve cuts interest rates, the interest-rate differential will narrow even further. As a large number of global yen carry trades unwind and more yen is purchased to pay off yen-denominated loans, the yen is expected to appreciate further. This will make the carry trade less attractive, triggering additional unwinding of positions.

These carry trade positions are heavily leveraged, which means that as the unwinding of positions accelerates, it will have a ripple impact on other asset classes. And investors are likely to sell off risk assets to seek safe-haven investments.

THE IMPACT

While there is no clear consensus on the exact amount of money that has flowed into Indian markets through yen carry trades, it is widely agreed that such inflows have occurred. These carry trades have been a key factor contributing to the

strong performance of Indian markets, making them among the top-performing markets worldwide in recent years.

According to data from the National Securities Depository Limited (NSDL), the assets under custody of Japanese Foreign Portfolio Investors (FPIs) in domestic equities amounted to ₹2.05 lakh crore as of 30th June. In comparison, the assets held by US Foreign Portfolio Investors were ₹30 lakh crore.

Experts point out that a stronger yen could become a concern for Indian companies that have borrowed in yen but have not hedged their borrowings against a sharp upward movement in the currency.

In recent weeks, a new trend has emerged: a decline in yen-denominated funds. Economists and analysts suggest that this is the first outflow of funds since the inception of the yen carry trade in India. Studies indicate that the outflows are estimated to be between \$65 million and \$66 million, reflecting a shift in investor sentiment. It is important to note

that all redemptions to date have been from midcap funds in India.

However, there is not a big cause for concern among Indian investors. Despite the outflows, overall inflows into India remain positive, as investments from other regions offset the decline from yen carry trades. Research shows that the South Korean market has contributed \$66 million in inflows to Indian markets. In addition to this, domestic mutual fund investments continue to provide steady inflows. Therefore, the situation is not as dire in the near term.

Analysts, however, advise investors to exercise caution. They recommend investors to invest in low-risk, high-quality stocks, which have high exposure to domestic revenues.

Analysts suggest considering companies in sectors such as real estate, food and beverage, energy, consumer services, media, and discretionary goods. They anticipate that companies in these sectors are likely to benefit from a stronger yen.

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Banks worldwide navigate a complex balancing act, steering economies toward growth while safeguarding financial stability through thoughtful management of interest rates and credit risks



PRUDENT
PRACTICES



The Reserve Bank of India (RBI) recently announced its decision to keep the benchmark interest rate unchanged at 6.50%, marking the ninth consecutive policy meeting without a rate change. This decision, which followed the 50th meeting of the RBI's Monetary Policy Committee (MPC) since its inception in September '16, reflects the central bank's cautious approach amidst a complex global economic environment.

As central banks around the world chart different courses in response to varying economic conditions, the RBI's stance is a careful balancing act aimed at sustaining economic growth while keeping inflation under control.

The RBI's decision to maintain a status quo on interest rates is not an isolated event but the result of a detailed and nuanced assessment of current macroeconomic conditions. Over the past 18 months, the RBI has stayed on hold, with the MPC focusing on managing inflationary pressures while supporting economic recovery in the post-pandemic period.

RBI Governor Shaktikanta Das emphasized the MPC's commitment to withdrawing accommodation - a reference to the supportive monetary policies that were put in place during the coronavirus pandemic - to ensure that inflation ultimately aligns with the RBI's target of 4%. This position highlights the central bank's dual mandate: promoting economic growth while ensuring price stability.

India's economy has shown remarkable resilience, with strong growth driven by capital expenditure (capex) and improvements in productivity. These factors, combined with inflation that is currently tracking above the 4% target, suggest that interest rates in India could remain higher for an extended period.

Analysts at Morgan Stanley have even indicated that rate cuts in India are "off the table" for the fiscal year 2024/25, citing the need for higher real rates given the country's strong economic performance and the Federal Reserve's (Fed's) evolving policy path in the United States.

GLOBAL CONTEXT: DIVERGING MONETARY POLICIES

While the RBI has chosen to keep interest rates steady, other central banks around the world are following different paths. Following a

prolonged period of low borrowing costs, 2023 saw a sharp rise in interest rates as central banks globally tightened their monetary policies to combat persistent inflation.

Even though global inflation showed signs of easing towards the end of 2023, underlying price pressures, particularly in advanced economies, have remained more stubborn than initially anticipated. Furthermore, tight labour markets continue to drive inflation, excluding volatile food and energy prices, making it challenging for central banks to meet their inflation targets.

The significant increase in interest rates throughout 2023 was a direct response to inflation that proved more persistent than expected. Although central banks may begin to ease rates in 2024, any rate cuts are expected to be modest and gradual.

Consequently, economies, businesses, and consumers must adapt to what is likely to be a protracted period of higher interest rates. Geopolitical uncertainties and the rise of protectionist policies could further exacerbate inflationary pressures, potentially compelling central banks to maintain or even raise interest rates again.

In the United States, the Federal Reserve is considering the possibility of rate cuts, depending on the trajectory of inflation. The US economy, which has shown signs of slowing down, particularly in the labour market, is under close scrutiny as the Fed weighs its options. A potential rate cut in

September '24 could signal a shift in the Fed's policy, which has been characterized by aggressive rate hikes over the past two years to combat inflation.

In contrast, Japan has taken a different route. The Bank of Japan (BoJ) recently raised interest rates for the first time in 15 years, a move that sent shockwaves through global financial markets. BoJ's decision marks a significant departure from its decade-long policy of maintaining ultra-low interest rates to combat deflation and stimulate economic growth. The rate hike was driven by a combination of factors, including the need to support the weakening yen and to preempt a rise in inflation.

Elevated interest rates are anticipated to slow down economic growth by reducing the overall demand for goods and services, leading to weaker economic prospects for both businesses and consumers. As borrowing becomes more expensive, accessing finance will become more difficult, and the cost of servicing existing debts will rise, increasing the risk of defaults, particularly for highly indebted governments, companies, and households.

The housing market is especially vulnerable in this environment, as mortgages and housing debt make up a significant portion of consumer debt in many major economies. Rising borrowing costs pose a considerable challenge for households, especially in countries where mortgage rates are adjustable rather than fixed.

While some consumers, such as

those in the United States, may benefit from fixed-rate loans secured before the rise in rates, others from different economies may face considerable financial strain when their mortgage rates reset at much higher levels after a few years.

IMPLICATIONS FOR INDIA: THE IMPACT OF HIGHER BORROWING COSTS

The RBI's decision to keep interest rates unchanged has huge implications for the Indian economy. One of the most immediate effects of higher interest rates is the increased cost of borrowing for businesses and consumers. This can have a dampening effect on economic activity, mainly in sectors that rely heavily on debt financing, such as real estate, infrastructure, and consumer durables.

For businesses, higher borrowing costs can lead to reduced capital expenditure and investment, as companies may find it more expensive to finance new projects or expand existing operations. This could slow down economic growth in the short term, particularly if businesses decide to delay or scale back their investment plans in response to higher interest rates.

Consumers, too, are affected by higher borrowing costs. Loans for homes, cars, and other big-ticket purchases become more expensive, which can lead to a reduction in consumer spending. Given that consumer spending is a major driver of economic growth, a slowdown in this area could have broader implications for the overall economy.

On the flip side, higher interest rates could also attract foreign investment, as investors seek higher returns on their investments. This could support the rupee and help stabilize capital flows, which is important in the current global economic environment where volatility is high.

With inflation currently tracking above the 4% target, the central bank is likely to maintain a tighter monetary policy stance to ensure that inflation does not become entrenched. Higher interest rates can help curb inflation by reducing demand in the economy. When borrowing costs are high, both businesses and consumers are likely to cut back on spending, which can help reduce upward pressure on prices. However, this comes at the cost of slower economic growth, as reduced spending and investment can lead to a slowdown in economic activity.

The RBI's challenge is to strike the right balance between controlling inflation and supporting economic growth. If inflation remains persistently high, the central bank may be forced to raise interest rates further, which could have a more pronounced impact on economic growth. Conversely, if inflation starts to decline, the RBI may have more room to ease monetary policy and support growth.

The decisions of global central banks, particularly in the US and Japan, have major implications on India and other emerging markets. Changes in global interest rates could influence capital flows, exchange rates, and economic activity in these countries.

For instance, if the Federal Reserve decides to cut interest rates later this year, it could lead to a depreciation of the US dollar. This could have a mixed impact on India.

On the one hand, a weaker dollar could make Indian exports more competitive, boosting demand for Indian goods and services abroad. On the other hand, a weaker dollar could also lead to capital outflows from India, as investors seek higher returns elsewhere.

Japan's recent rate hike has already caused turbulence in the global markets, with significant

implications for Indian businesses that rely on offshore markets for their debt needs. The BoJ's decision to raise interest rates has led to a sharp decline in the Nikkei 225, and increased volatility in the global financial markets.

This could make it more challenging for Indian companies to access international capital markets and could lead to higher borrowing costs for those that do.

The global economy faces the challenge of adapting to a prolonged period of high

interest rates. As central banks around the world adjust their policies in response to shifting economic conditions, the impact of these decisions will be felt far beyond their own borders.

In this environment, the RBI's cautious approach may prove to be the right strategy. By keeping interest rates steady, the central bank is signalling its commitment to maintaining financial stability and ensuring that inflation remains under control. The RBI's future decisions will be closely watched by investors, businesses, and policymakers both in India and around the world.



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RETAIL ROULETTE

Inexperienced investors
spin the market wheel,
chasing dizzying valuations
and risking a bubble burst



he past five years have witnessed a seismic shift in the investment landscape in India, marked by an unprecedented surge in retail investors. This rise is particularly pronounced among young investors who lack financial literacy and education. To put it in perspective, the number of active demat accounts grew from 3 crore in 2017 to over 16 crores by June '24. Today, retail investors account for approximately 50% of the total trading volume on exchanges. While the growth of retail investors is commendable, it also poses huge risks for the market and investors in general.

THE RUSH HOUR

Demonetization, announced by the Indian government in November '16, involved the withdrawal of high-denomination currency notes (₹500 and ₹1,000) from circulation. While its immediate impact was cash crunch, it also led to a shift towards alternative investment avenues, including the stock market.

This trend was further fuelled by the Covid-19 pandemic. Lockdowns and the work-from-home culture provided individuals with more time to explore investment opportunities. As a result, the number of retail investors in India surged from around 11 million before March '20 to approximately 25 million by early 2023. Many new investors, particularly the young, took the plunge into the stock market.

Furthermore, the digital revolution in India has played a pivotal role in democratizing access to the stock market. The proliferation of user-friendly mobile trading apps has made it easier for individuals to invest directly in stocks and mutual funds. A survey indicated that around 27% of Indian millennials now consider investing in the stock market as a viable option, compared to just 8% five years ago.

Another important factor was the decline in interest rates on traditional savings instruments, which prompted investors to seek higher returns in the stock market, including equities and mutual funds, to grow their wealth.

Retail investor enthusiasm has driven a surge in Indian equity ownership. Chris Wood, a global strategist, highlights \$7.6 billion in monthly inflows, which have propelled domestic holding from 16.6% in FY21 to 18.4% by FY24. This growth contrasts with

foreign institutional ownership, which currently stands at 19.9%.

INCREASED RISK TAKING: NOT KNOWING WHAT THEY ARE DOING

More than anything the new breed of investors has developed a strong appetite for the risk. The past performance of many stocks and funds has excited them to take chances. However, the reality is that incrementally the scope for further re-rating or returns is gradually diminishing.

For instance, the meteoric rise of Systematic Investment Plans (SIPs) in India has presented mutual fund houses with a unique challenge. Monthly SIP inflows have grown from ₹9,181 crore in 2021 to a staggering ₹21,260 crore, reflecting a CAGR of 17% over the past three years. This unprecedented influx of funds has compelled fund managers to adopt more stringent measures.

Fund houses like Nippon India, SBI Mutual Fund, and many others have temporarily halted new SIP registrations or lump sum investments in certain schemes. This decision was primarily driven by the inability to efficiently deploy the massive inflow of funds into productive assets.

The fear of market volatility and the potential for asset bubbles due to herd mentality among investors have further exacerbated the situation. Deploying ₹20,000 crore monthly when stocks can hit the upper circuit with merely ₹5 crore to ₹10 crore of buying presents a big challenge. To

protect existing investors' interests and maintain portfolio quality, fund managers have opted for this temporary measure.

Moreover, investors have begun moving beyond conventional investing. Risk taking, herd mentality, chasing higher returns, and the excitement of trading have compromised sound investment principles.

For instance, the SME segment, initially designed for informed institutional investors, is now dominated by retail investors. New SME listings like HOAC Food IPO were oversubscribed by 1,834 times, and Rulka Electricals by 629 times.

Many of these investors do not even know what they are buying. The excitement of listing gains has led to poor investing. Companies which do not have credible management, products, revenue, and business models are getting listed at huge subscriptions and retail participation.

In fact, due to this madness, SEBI has had to intervene. SEBI's consideration to raise the IPO investment limit in the SME sector to ₹5 lakh aims to discourage impulsive retail investments.

Recently, the Economic Survey 2023-24 expressed mixed views on the growing retail participation in the stock market. While acknowledging its stabilizing effect, it also noted the rising interest in derivatives.

The rise in retail participation in India's derivative market is a growing concern. With 35% of derivative trading now

dominated by retail investors, and a staggering 78% of trades on the NSE executed by those investing less than ₹1 million, the market is increasingly susceptible to volatility.

A stark reality is that nine out of ten individual traders in equity F&O segments incur net losses. This alarming statistic, highlighted by SEBI, underscores the challenges faced by retail investors. The allure of quick profits, amplified by social media influencers flaunting extravagant gains, has created a dangerous illusion of easy money.

This FOMO-driven frenzy is pushing inexperienced traders into a highly risky market without adequate understanding. As the market becomes increasingly saturated with retail speculation, the potential for significant losses and systemic risks looms large.

GREED DRIVING GREED

Typically, returns from investing in stocks are designed to be just better than the bank rate, compensating for the risk taken and inflation. However, human greed - expecting too much and too soon - leads to problems. And this is evident at a mass level currently.

Investors are demanding in a month what investing should produce in a year. This senseless investing has lifted every corner of the market. The number of stock trading well above their intrinsic value has risen, and the appetite for low-quality companies and stocks has gone up. Promoters and companies have become greedy, and are maximizing this sentimental

boom to cash in on the rally and the blindness of investors towards buying and investing. A company that could be valued at ₹100 crore in the private market is now valued at ₹1,000 crore in the primary market. Promoters are enjoying raising funds and listing companies because their businesses, managements or sustainability are seldom taken into account by investors.

To put this in perspective, the number of IPOs rose 66% in FY24 to 272 from 164 in the previous financial year, while the amount raised grew by 24% to ₹67,995 crore in FY24 from ₹54,773 crore in FY23. This boom extended to SME platforms, where fundraising activities soared, with 196 IPOs or FPOs raising ₹6,095 crore, a sharp rise from ₹2,333 crore in the previous fiscal.

BUBBLE AND EUPHORIA IN CERTAIN POCKETS OF THE MARKET

The risk of a bubble forming in certain segments of the Indian stock market has been highlighted by SEBI's chief and many others, focusing on areas where valuations seem detached from fundamental realities.

Mid-cap and small-cap stocks are overvalued, with the current trailing PE ratio for Nifty Midcap 150 at 43.60, compared to its 5-year average of 27.44, and for Nifty Smallcap 250 at 31.88, compared to its 5-year average of 22.85. Similarly, low-quality stocks - often characterized by weak fundamentals - have seen inflated valuations, driven by speculative trading rather than

solid financial metrics.

In addition to the valuation froth at broader levels, there is excitement about segments like SMEs, defence and electric vehicles (EVs), and many others, where expectations seem

boundless. The reckless buying, as if all future benefits will accrue immediately, has led many of these stocks to trade at their highest valuations.

To sum up, while the regulators are discussing measures, their

caution serves as a reminder of the risks associated with the current market conditions. Investors should exercise caution, focusing on fundamental analysis and long-term stability to avoid the pitfalls of market bubbleS.



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**Bangladesh's crisis
disrupts global textiles,
offering India a
potential opportunity,
but production
constraints limit its
gains**

UNRAVELED THREADS

T

he recent political upheaval in Bangladesh has once again thrust India's textile industry into the spotlight. In the past few weeks, a key question has been debated extensively among analysts, media, and industry experts: How will the political instability in Bangladesh impact India's textile industry? To gauge the potential impact, it's imperative to examine various factors and assess whether the current situation in Bangladesh poses a major threat to India's textile sector.

THE INDUSTRY

Bangladesh is one of the key players in the global textile market. According to the Bangladesh Garment Manufacturers and Exporters Association, it held an 8.5% share of global ready-made garment exports in FY23, second only to China. In comparison, India ranked seventh with a 3% to 4% share. Bangladesh's textile sector accounts for approximately 90% of its export basket. It has also captured 9.8% of the total US imports, amounting to \$29.62 billion. Its success is primarily driven by its large workforce and low labour costs. As per UN Comtrade data, Germany, Poland, the UK, and Spain rely heavily on textile exports from Bangladesh.

The Delta country stands as a global textile powerhouse, exporting a remarkable \$47.5 billion worth of garments in 2023. The industry employs approximately 4.22 million workers and contributes a substantial 18% to Bangladesh's Gross Domestic Product (GDP), which reached \$1.429 trillion in 2023 in purchasing power parity (PPP) terms. Beyond ready-made garments, Bangladesh is also the world's second-largest exporter of cotton yarn. While its exports are massive, Bangladesh faces stiff competition for garment orders from other textile-producing nations like Sri Lanka, Vietnam, and India. The global textile market is dominated by six key players: China, Bangladesh, Vietnam, Italy, Germany, and India.

Following the resignation of Bangladeshi Prime Minister Sheikh Hasina, the country's garment industry has come to a standstill. One major repercussion of this development is the disruption of the international textile supply chain. Many prominent global retail companies rely on Bangladesh for garment production. However, the political instability has led to substantial delays in garment exports, resulting in increased demurrage charges. Demurrage charges are fees that are imposed when shipping containers are kept at a port or rail yard beyond the agreed-upon free time

period, typically between two and seven days. These charges are generally incurred by importers or exporters and paid to the shipping line.

Since June '24, Bangladesh has been facing a severe gas shortage, further impacting garment production and causing additional delays in order deliveries. According to industry observers, buyers now face the choice of either waiting longer for their products or finding alternative suppliers. Both options are likely to increase costs and complicate logistics.

Leading brands like H&M and Zara, which source a great deal of their products from Bangladesh, will be directly affected, either by rising sourcing costs or delays in product launches. Alternative suppliers may not be able to match the cost efficiency of Bangladeshi markets, thereby affecting the profitability of the global textile industry. As a result, consumers may have to pay higher prices, creating a ripple effect that could undermine the earnings of the entire sector. Additionally, industry observers warn of a strong possibility that retailers may resort to purchasing lower-cost, lower-quality products.

THE OPPORTUNITY

Industry observers predict that prolonged political instability in Bangladesh could lead to a massive shift in export orders, with approximately 10% potentially moving elsewhere. A recent CareEdge Ratings study supports this viewpoint, suggesting that such instability

could create monthly export opportunities of \$200 million to \$250 million in the near term and \$300 million to \$350 million in the medium term. An important question to consider is whether India's textile industry will be able to capitalize on this potential windfall.

Several factors must be considered when assessing the impact of Bangladesh's political instability on the global textile market. One key differentiator is Bangladesh's large-scale production capabilities. India's Textile Secretary Rachna Shah has highlighted the challenges of scaling up production capacity to meet extra demand.

While it's tempting to assume that a portion of Bangladesh's textile business could shift to India, the reality is that India may lack the necessary production capacity, workforce, and raw materials to fully accommodate such a surge. Industry veterans point out that few Indian factories can handle large-scale production, making it difficult to accurately predict

the potential gains or losses for the Indian market. The duration of Bangladesh's political instability is another critical factor to monitor. Generally, companies place orders four to five months in advance, so, there may be sufficient inventory to sustain business operations for a few months.

Sector experts believe that only knit-wear producers, primarily located in Tirupur, Tamil Nadu, who operate on a per-piece basis, may see a limited growth in business. However, the overall gains for these companies are expected to be modest.

A recent CareEdge report revealed a 17% year-on-year (y-o-y) decline in Bangladesh's ready-made garment exports during the June '24 quarter. Conversely, India's exports of ready-made garments in the same period grew by 4%. Experts attribute this growth to socio-political disturbances and foreign exchange shortages in Bangladesh. While India holds a 4% share of the global textile and apparel trade, the direct

link between Bangladesh's crisis and increased business for Indian textile companies is not straightforward. The National Organization for the Textile Industry warns that disruptions in Bangladesh's supply chain could also impact the delivery and production schedules of Indian companies.

This brings us to another key question, which is: What alternatives do buyers have? Experts suggest that only companies heavily reliant on Bangladesh may consider sourcing from other markets. Vietnam and China, known for their better organization, are likely destinations. In a recent media interaction, Mithileshwar Thakur, Secretary General of the Apparel Export Promotion Council, noted that US orders might shift to Vietnam, Pakistan, Sri Lanka, or India. He added premium denim could move to Turkey or Portugal, while men's and women's trousers, lowers, and suits might be sourced from Morocco, Romania, or Bulgaria. Lingerie could be sourced from Sri Lanka.

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Succession planning
helps ensure
uninterrupted leadership

PASSING THE BATON



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very parent wants their kids to have it easier than they did. Especially if they've built an empire, right? But handing it off isn't just about cash. It's about keeping the family legacy alive. It's like passing the torch, but without the risk of burning your fingers. That's where succession planning comes in – it's the roadmap to a smooth handoff, so the business doesn't crumble and the family stays strong.

Recently, Indian billionaire Gautam Adani revealed details of his succession plan for his vast business empire. When a tycoon of his stature discusses a sensitive topic like this, investors should sit up and take notice. If you're in it for the long haul and want to pass your wealth down to the next generation, you need to pay attention to succession planning in publicly traded companies. Let's break it down.

WHAT IS SUCCESSION PLANNING?

Most people think of wills and trusts when they hear 'succession planning.' While wills and trusts are helpful for individuals transferring wealth to the next generation, succession planning in corporations is a much more intricate process. It's a key part of a company's strategy, ensuring a seamless transition of leadership at all levels. At the top, succession planning not only guarantees a smooth change of control but also can alter how a company operates and how it treats minority shareholders.

Succession planning in the corporate world is far more complex than simply passing on assets to a chosen individual. It often involves the next generation of a promoter stepping up to take the reins.

In today's world, however, it's increasingly common for a promoter to entrust the responsibility of running the business to a professional manager from outside the family, rather than a biological heir. In some instances, promoter-managers are replaced by a team of professional managers. Each of these scenarios warrants a closer examination.

NEED FOR SUCCESSION PLANNING

Before delving into the finer aspects of succession planning, it's important to first understand why it matters. As previously

mentioned, succession planning ensures a smooth transition of the business, even if the current manager or promoter is no longer in charge due to superannuation (retirement), death, resignation, or any other reason.

It allows the successor to have a clear understanding of what is expected of them and ensures they are familiar with the business, facilitating a smoother transition.

Additionally, when succession planning is in place, key stakeholders and management find it easier to adapt to change.

It has been observed that a lack of succession planning often leads to knee-jerk reactions by the next generation of promoters.

If a professional manager with a proven track record leaves a company and the controlling shareholders cannot reassure financial markets of a smooth succession, chaos can ensue. In such situations, stock markets frequently react by dumping the company's stock.

The corporate world is replete with examples where the death of a promoter-manager has sparked family feuds, causing business interests to take a backseat. We've also seen stock prices plummet following the exit of a high-profile CEO.

SUCCESS OF SUCCESSION

Though succession planning offers many benefits, it can be challenging to determine whether a plan will succeed. This is particularly concerning

for minority shareholders.

Professionally-managed companies often emphasize succession planning in their shareholder communications. Even astute promoters periodically share their plans with other shareholders, sometimes explicitly.

Family members of a promoter are typically introduced into the business to give them meaningful exposure. They may start in a small role, but over time, they work across various functions, gaining broad experience.

They are also assigned specific projects with independent responsibility, allowing them to demonstrate their ability to plan, execute, and nurture business activities.

Investors can monitor these developments by reviewing a company's annual reports and other shareholder communications.

It's important for investors to consider the background of potential successors - academic qualifications and lineage are just starting points. More important is their work experience both outside and within the company, especially in key functions.

Savvy investors also pay attention to new additions to the promoter's family through marriage, as these developments can offer clues about future successors in the business.

In professionally-managed companies, succession is generally well-defined. If

controlling shareholders decide to bring in an outsider, some volatility may occur during the transition phase. However, in a process-driven business, such a change typically results in minimal short-term disruptions.

The success of succession planning can only be seen after the successor has spent a few years in charge of the business.

THREATS AND OPPORTUNITIES

Minority shareholders should not view a change in leadership as a big risk. A change at the top can unlock numerous possibilities.

A new CEO could potentially guide the company onto a new growth path. Fresh strategies can enhance the company's resilience, and a new CEO may be more willing to take business risks, unlike someone closer to retirement.

Consider a CEO who has led a company for over two decades - such a leader typically holds a substantial amount of stock and Employee Stock Ownership Plans (ESOPs). They are less likely to make bold decisions, even when opportunities arise, as their primary focus is on preserving what they've built. Bold decisions, after all, may result in short-term volatility.

A relatively young successor can also bring a fresh mindset. The older generation often focused primarily on the business, spending little time on shareholder communication and generally being conservative.

While these traits aren't inherently negative, they often

resulted in lower perceived value than what was possible. In contrast, the younger generation is more eager to engage with shareholders, share more information, and prioritize generating shareholder returns. A focus on increasing the company's market capitalization can be rewarding, as long as it's not pursued at the expense of the core business.

Shareholders should closely monitor the changes that occur after a successor takes over. Sudden shifts in business strategy, product offerings, and balance sheet quality should be approached with caution.

If a company abruptly pursues more inorganic growth, increases debt funding, or engages in high-cost hiring without effective shareholder communication, it can make minority shareholders uncomfortable and uneasy. Additionally, a high increase in compensation for a new CEO can be a grey area or a red flag.

A conservative company acquiring assets unrelated to its core business - such as a luxury yacht or private jet for the CEO - after a leadership change can signal a shift in value systems and focus away from the company's core business.

Succession planning is an important component of a business strategy and deals with an important phase in the life cycle of a company. It can make or break companies.

So, investors must keep a tab of such developments and see if these changes are detrimental to their interest**S.**

INFLATION-PROOF YOUR CHILD'S FUTURE

Inflation might be
stealing your child's
future, but children's
mutual funds can be
their superhero



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arents aspire to provide their children with a quality education and a fulfilling life. This often involves supporting them through important milestones, such as marriage. Unlike in Western countries where education loans are common, Indian parents generally view it as their responsibility to ensure that their children complete their education debt-free, allowing them to start their adult lives on solid financial footing.

Smart, goal-oriented financial planning is essential for achieving these objectives. Targeted investments to build a substantial corpus are essential stepping stones. Two key actions are imperative: commencing disciplined savings now and investing those savings in assets that provide returns outpacing inflation, ensuring real value growth over time.

Experts suggest that education inflation, between 11% and 12%, in India is by and large twice the rate of general inflation, often doubling every six to seven years. Thus, investing in products such as fixed deposits may not be sufficient as they may not even be able to beat general inflation at times. The mutual fund industry offers solutions designed to beat inflation due to the nature of their investment strategies.

A children's mutual fund scheme is a solution-oriented investment plan designed to help parents build a robust savings corpus for their children's future needs. This scheme offers a systematic way to accumulate funds over time, ensuring that children have the financial support they need to pursue their educational and life goals. By investing in this plan, parents can provide their children with the resources necessary to follow their dreams without the burden of financial worries.

FEATURES OF CHILDREN'S MUTUAL FUND SCHEMES

- The mutual fund folio is registered in the name of the minor (the child), with a guardian - either the father, the mother, or a court-appointed representative acting as the mandatory overseer. The child is designated as the first and sole holder of the folio, as joint ownership is not permitted.
- Children-oriented mutual fund schemes generally have a lock-in period of five years or till the child attains majority, whichever is earlier. Thus, given the constraints on withdrawal, investment in

these schemes tends to be long-term in nature. For instance, the HDFC Children's Gift Fund, the largest in the category by assets under management (AUM), does not allow any exits during the lock-in period. In contrast, the Axis Children's Gift Fund offers an exit option during the lock-in, albeit with an exit load that varies depending on how long the investment has been held.

- Children-oriented funds typically feature a blend of debt and equity investments, offering the benefits of diversification while reducing the risks associated with investing in a single asset class. The equity component aims to generate higher returns (alpha), while the debt portion serves to cushion the impact of market downturns. For example, the HDFC Children's Gift Fund allocates 65% to 80% of its total assets to equity and equity-related instruments, with the remaining balance invested in debt and money market instruments, providing a balanced approach to growth and stability.
- Once the child attains majority, the responsibility of paying taxes from income arising from the folio will be with the folio owner. The parents will no longer have to include it as part of their income.

POSITIVES

Lock-In Period

While there have been instances where regular mutual fund schemes with similar risk profiles have outperformed children's funds, the key advantage of children-focused mutual fund schemes is their lock-in period, which restricts

early withdrawals and access to the funds. This restriction on early withdrawals ensures that the money remains dedicated to their child's future, preventing impulsive use or diversion for other purposes or life events.

Motivation

Investing in a mutual fund scheme under the child's name can be a powerful motivator for parents to build a substantial savings corpus. The emotional connection to their child's future can encourage consistent investment, fostering disciplined investment habits, which are key to wealth creation.

Additionally, parents can wisely channel monetary gifts the child receives for birthdays or achievements into the mutual fund folio. This approach allows the money to compound and grow over time, unlike impulsive spending. As opposed to fixed deposits, which require opening a new account for each additional contribution, mutual fund schemes offer the flexibility to invest any amount at the prevailing net asset value (NAV) as often as desired.

Tax Efficiency

When investing in instruments like fixed deposits or NCDs (Non-Convertible Debentures) to build a financial reserve for your child, the interest income is combined with the parent's income for tax purposes, increasing their tax burden. In contrast, with mutual funds, if the investment is redeemed after the child turns 18, the responsibility of filing income tax returns and paying taxes on capital gains shifts to the child.

Since the child likely has little to no other income, they would fall

into the lowest tax bracket or long-term capital gains tax will be applicable depending on the nature of the fund. This approach allows parents to plan for their child's financial future in a tax-efficient way. Also, the five-year lock-in period in mutual funds ensures that even if parents redeem the investment before the child turns 18, long-term capital gains tax will apply, which the guardian will be responsible for.

Risk Management

Children-focused mutual fund schemes aim to achieve long-term growth while managing risks prudently. These schemes attain this objective by providing exposure to both debt and equity, ensuring diversification and mitigating the risks associated with investing in only one asset class.

Value Creation

The cost of education has been rising steadily, and traditional investment instruments like fixed deposits often fail to generate returns that keep pace with education inflation. In this context, children-focused mutual funds offer a viable alternative.

These funds have the potential to grow investments more significantly than safer options, but it's important to note that since a substantial portion of these investments is tied to equity markets, the value may fluctuate based on market conditions, leading to variability in returns.

Flexibility

Certain investment products, like fixed deposits, come with predetermined maturity periods that may not align perfectly with an individual's financial

timelines. Additionally, the accumulated funds might be needed at various points, such as for college tuition and other monthly expenses, including boarding.

In contrast, investing in mutual fund schemes offers greater flexibility, allowing investors to withdraw only the necessary amount when needed while allowing the remaining funds to continue growing. Options like a Systematic Withdrawal Plan (SWP) provided by mutual fund companies facilitate automatic withdrawals of a specified amount at chosen intervals, making it easier to manage cash flow as expenses arise.

DRAWBACKS

Transfer Of Rights To The Child

When the child, who is the unit holder, turns 18, they must independently manage the folio, as joint ownership is not allowed. The guardian will no longer be able to conduct transactions. Shortly before the child reaches adulthood, the mutual fund house will send a form to update the unit holder's status from minor to major to the registered address. Until this paperwork is completed and ownership is officially transferred, the folio will be frozen. Consequently, any recurring transactions, such as SIPs or STPs, will also be suspended once the unit holder turns 18.

Maturity To Handle The Funds

Some parents may be concerned about their child gaining full control of the folio on turning 18, especially if they believe the child may not yet

have the maturity to manage potentially significant funds. Since the ownership of the folio is solely in the child's name, parents have no control over the funds once the child reaches adulthood.

IN A NUTSHELL

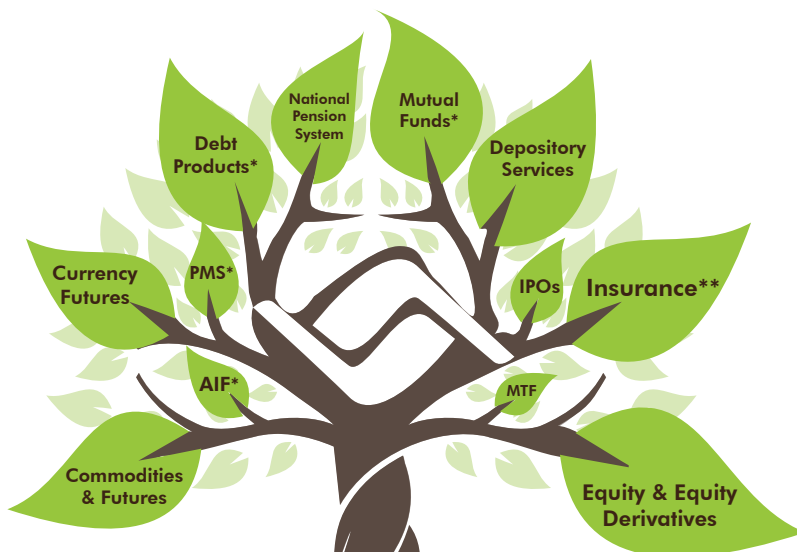
Securing your child's future is a top priority for every parent. In an era of rising inflation, selecting the right investment product is essential. Among the various options available,

children's mutual funds stand out for their potential to deliver returns that outpace education inflation, along with the flexibility to manage deposits and withdrawals after the lock-in period.

Parents do not need to invest a large lump sum to start these mutual fund schemes. Instead, they can contribute smaller amounts each month through a Systematic Investment Plan (SIP), making it easier to begin investing early. The lock-in

period safeguards the funds, preventing premature withdrawals, and ensuring that parents remain focused on achieving their financial goals for their child's future.

With a variety of children-oriented mutual fund schemes offered by different fund houses, this long-term investment option presents an attractive opportunity to build a substantial savings corpus for your child's education and future aspirations.



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MUTUAL FUND BLACKBOARD

Large Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Baroda BNP Paribas Large Cap Fund - Growth	227.5	43.2	20.0	20.9	16.1	14.6	2,285
ICICI Prudential Bluechip Fund - Growth	107.7	39.8	21.2	21.9	16.5	15.2	62,717
Invesco India Largecap Fund - Growth	68.7	40.2	18.0	20.4	15.4	14.3	1,203
Kotak Bluechip Fund - Reg - Growth	564.1	35.1	16.6	20.5	15.4	14.3	9,292
Nippon India Large Cap Fund - Reg - Growth	88.4	37.9	24.2	22.9	16.9	15.8	31,801
Nifty 100 TRI	35,074.5	35.3	17.1	19.9	15.7	14.0	--

Mid Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Edelweiss Mid Cap Fund - Growth	97.2	59.1	28.1	32.1	21.5	20.8	6,994
Mahindra Manulife Mid Cap Fund - Reg - Growth	34.2	59.5	29.3	31.5	--	--	3,166
Mirae Asset Midcap Fund - Reg - Growth	36.5	44.5	23.8	30.0	--	--	17,455
Nippon India Growth Fund - Reg - Growth	4,055.8	55.1	29.2	31.5	21.4	19.8	32,971
Tata Mid Cap Growth Fund - Reg - Growth	442.5	46.1	24.6	28.2	19.2	18.9	4,467
Nifty Midcap 150 TRI	27,298.3	51.8	29.1	31.8	21.0	20.6	--

Small Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Edelweiss Small Cap Fund - Reg - Growth	44.4	43.9	27.4	34.7	--	--	3,986
Mahindra Manulife Small Cap Fund - Reg - Growth	20.7	62.0	--	--	--	--	5,035
Quant Small Cap Fund - Growth	277.7	57.4	33.6	49.7	27.5	21.7	24,530
Nifty Smallcap 250 TRI	22,623.4	57.7	29.2	33.5	18.2	17.7	--

Large & Mid Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Edelweiss Large & Mid Cap Fund - Growth	86.2	42.1	20.8	24.0	17.8	16.0	3,544
Kotak Equity Opportunities Fund - Reg - Growth	340.7	43.9	22.7	24.6	17.5	17.4	25,075
Mahindra Manulife Large & Mid Cap Fund	27.8	41.3	22.2	--	--	--	2,491
Tata Large & Mid Cap Fund - Reg - Growth	533.1	31.8	19.3	21.9	16.6	15.5	8,318
UTI Large & Mid Cap Fund - Growth	179.1	50.1	24.3	25.9	17.2	15.4	3,749
NIFTY Large Midcap 250 TRI	20,959.0	43.5	23.1	25.8	18.4	17.4	--

Multicap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Bandhan Multi Cap Fund - Reg - Growth	17.5	43.7	--	--	--	--	2,437
HDFC Multi Cap Fund - Reg - Growth	19.4	45.6	--	--	--	--	16,699
HSBC Multi Cap Fund - Reg - Growth	18.9	56.3	--	--	--	--	3,866
Mahindra Manulife Multi Cap Fund - Reg - Growth	35.9	46.7	24.3	28.4	19.5	--	4,417
Nippon India Multi Cap Fund - Reg - Growth	294.7	44.5	31.2	27.7	19.7	16.8	37,151
NIFTY 500 Multicap 50:25:25 TRI	21,129.2	44.9	23.2	26.3	17.9	16.7	--

FlexiCap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
HSBC Flexi Cap Fund - Growth	217.0	45.8	20.9	22.8	15.0	14.3	4,982
ICICI Prudential Flexicap Fund - Reg - Growth	18.7	46.1	22.6	--	--	--	16,772
Mirae Asset Flexi Cap Fund - Reg - Growth	15.2	32.2	--	--	--	--	2,189
Parag Parikh Flexi Cap Fund - Reg - Growth	78.6	39.5	19.7	26.3	20.8	18.4	75,956
WhiteOak Capital Flexi Cap Fund - Reg - Growth	16.5	37.8	--	--	--	--	3,851
S&P BSE 500 TRI	46,879.7	39.5	20.0	22.8	16.9	15.3	--

Focused Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Axis Focused 25 Fund - Growth	53.8	30.8	7.5	14.5	12.5	13.5	14,075
Bandhan Focused Equity Fund - Reg - Growth	83.2	40.5	18.3	20.1	12.8	12.5	1,652
HDFC Focused 30 Fund - Growth	213.6	41.8	28.8	24.9	16.0	14.3	13,795
Nippon India Focused Equity Fund - Reg - Growth	121.4	33.7	19.5	23.7	15.8	16.1	8,852
UTI Focused Fund - Reg - Growth	15.8	37.7	--	--	--	--	2,825
S&P BSE 500 TRI	46,879.7	39.5	20.0	22.8	16.9	15.3	--

Dividend Yield Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
ICICI Prudential Dividend Yield Equity Fund	52.0	54.2	29.5	28.3	17.7	16.3	4,642
Tata Dividend Yield Fund - Reg - Growth	18.5	39.8	20.6	--	--	--	1,038
Nifty 500 TRI	36,866.4	39.9	20.0	22.6	16.8	15.2	--

Contra/Value Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Bandhan Sterling Value Fund - Reg - Growth	152.7	40.1	24.8	28.3	17.2	17.6	10,242
SBI Contra Fund - Growth	392.9	47.0	30.6	32.6	20.6	17.8	37,846
Nippon India Value Fund - Reg - Growth	226.6	54.4	26.2	27.4	19.3	17.7	8,560
S&P BSE 500 TRI	46,879.7	39.5	20.0	22.8	16.9	15.3	--

ELSS Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Bandhan ELSS Tax saver Fund - Reg - Growth	155.7	33.4	21.1	25.3	17.1	17.0	7,179
Kotak ELSS Tax Saver Fund - Reg - Growth	117.5	38.4	20.8	22.9	16.8	16.6	6,335
Mahindra Manulife ELSS Tax Saver Fund - Reg	28.7	32.7	17.8	22.0	14.0	--	969
Parag Parikh ELSS Tax Saver Fund - Reg - Growth	30.3	37.5	21.4	24.7	--	--	4,017
Tata ELSS Tax Saver Fund - Reg - Growth	44.5	35.4	20.1	20.9	15.6	--	4,722
Nifty 500 TRI	36,866.4	39.9	20.0	22.6	16.8	15.2	--

Thematic / Sector Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
ICICI Prudential Banking and Financial Services	120.4	23.3	14.1	14.8	10.9	14.6	7,605
Nippon India Pharma Fund - Reg - Growth	507.5	45.2	18.7	30.0	22.9	16.7	8,140
Tata Digital India Fund - Reg - Growth	51.3	46.4	14.2	27.8	27.5	--	11,377
ICICI Prudential Business Cycle Fund - Reg - Growth	23.0	44.7	25.5	--	--	--	11,215
Mirae Asset Great Consumer Fund - Growth	97.0	42.1	23.5	24.6	18.8	17.7	4,069
Quant Quantamental Fund - Reg - Growth	25.3	55.8	34.8	--	--	--	2,674
Nifty 500 TRI	36,866.4	39.9	20.0	22.6	16.8	15.2	--

Arbitrage Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	2 Years	3 Years	
Bandhan Arbitrage Fund - Reg - Growth	30.6	7.4	7.3	7.6	7.1	5.7	6,967
Edelweiss Arbitrage Fund - Reg - Growth	18.3	7.4	7.3	7.7	7.1	5.9	12,007
Invesco India Arbitrage Fund - Growth	30.1	7.5	7.3	7.7	7.3	6.2	17,654
Kotak Equity Arbitrage Fund - Reg - Growth	35.3	7.7	7.5	7.9	7.3	6.1	51,570
Tata Arbitrage Fund - Reg - Growth	13.6	7.4	7.2	7.6	7.0	5.7	11,916
Nifty 50 Arbitrage Index	2,363.6	7.0	7.1	7.7	7.3	6.0	--

Equity Savings Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Edelweiss Equity Savings Fund - Reg - Growth	23.6	17.2	9.7	11.2	9.6	--	450
HDFC Equity Savings Fund - Growth	63.6	18.0	11.2	12.0	9.5	9.7	4,873
Kotak Equity Savings Fund - Reg - Growth	25.3	20.6	12.9	12.3	10.2	--	6,541
NIFTY 50 Hybrid Composite Debt 65:35 Index	19,890.30	21.7	12.5	15.3	13	11.9	--

Index Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
HDFC NIFTY Next 50 Index Fund - Reg - Growth	17.20	67.7	--	--	--	--	1,685
Motilal Oswal Nifty Midcap 150 Index Fund	37.50	50.5	27.8	--	--	--	1,878
Motilal Oswal Nifty Next 50 Index Fund	25.50	67.4	23.2	--	--	--	280
Motilal Oswal Nifty Smallcap 250 Index Fund	38.70	55.8	27.3	--	--	--	788
Nippon India Nifty Midcap 150 Index Fund	24.50	50.5	27.9	--	--	--	1,549
Tata Nifty Midcap 150 Momentum 50 Index Fund	19.00	62.9	--	--	--	--	506
Nifty 500 TRI	36,866.40	39.9	20	22.6	16.8	15.2	--

Dynamic Asset Allocation Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Edelweiss Balanced Advantage Fund - Growth	50.2	26.2	13.3	13.3	13.1	11.9	12,117
HDFC Balanced Advantage Fund - Growth	508.4	37.6	25.4	25.4	17.0	15.2	94,048
Nippon India Balanced Advantage Fund - Reg	171.4	26.1	13.0	13.0	11.2	11.1	8,623
Tata Balanced Advantage Fund - Reg - Growth	20.1	21.1	12.8	12.8	--	--	10,052
NIFTY 50 Hybrid Composite Debt 65:35 Index	19,890.3	21.7	12.5	12.5	13.0	11.9	--

Hybrid Aggressive Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Baroda BNP Paribas Aggressive Hybrid Fund	27.7	32.8	16.3	18.8	15.0	--	1,144
Kotak Equity Hybrid Fund - Growth	61.0	33.3	17.9	20.6	15.0	--	6,355
Mirae Asset Aggressive Hybrid Fund - Reg - Growth	31.4	27.2	14.1	17.0	13.6	--	9,295
Tata Hybrid Equity Fund - Reg - Growth	439.2	27.0	14.6	16.4	12.0	12.2	4,242
NIFTY 50 Hybrid Composite Debt 65:35 Index	19,890.3	21.7	12.5	15.3	13.0	11.9	--

Multi Asset Allocation Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
HSBC Multi Asset Allocation Fund - Reg - Growth	11.7	--	--	--	--	--	1,939
Mirae Asset Multi Asset Allocation Fund	11.2	--	--	--	--	--	1,586
Nippon India Multi Asset Fund - Reg - Growth	20.0	33.1	17.0	--	--	--	3,854
Tata Multi Asset Opportunities Fund - Reg - Growth	22.4	26.2	15.4	--	--	--	3,188
UTI Multi Asset Allocation Fund - Growth	72.1	41.1	19.1	16.9	12.4	10.2	2,913
WhiteOak Capital Multi Asset Allocation Fund	12.5	21.1	--	--	--	--	671
NIFTY 50 Hybrid Composite Debt 65:35 Index	19,890.3	21.7	12.5	15.3	13.0	11.9	--

Gold Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
HDFC Gold Fund - Growth	21.8	21.1	13.5	12.5	12.5	8.4	2,068
Kotak Gold Fund - Reg - Growth	28.1	21.4	13.2	12.1	12.6	8.5	1,846
Nippon India Gold Savings Fund - Reg - Growth	28.0	21.1	13.4	12.5	12.3	8.3	1,796
Prices of Gold	71,417.0	22.7	14.9	13.7	13.8	9.9	--

Overnight Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		2 Weeks	1 Month	3 Months	1 Year	YTM	
Bandhan Overnight Fund - Reg - Growth	1,301.8	6.3	6.3	6.4	6.7	6.43	1,750
Tata Overnight Fund - Reg - Growth	1,288.1	6.3	6.3	6.4	6.7	6.46	3,558

Liquid Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		2 Weeks	1 Month	3 Months	1 Year	YTM	
HDFC Liquid Fund - Growth	4,829.3	6.8	6.8	7.0	7.3	7.07	62,051
Mahindra Manulife Liquid Fund - Reg - Growth	1,601.5	6.9	6.8	7.0	7.3	7.14	1,516
Nippon India Liquid Fund - Reg - Growth	6,007.0	6.7	6.7	7.0	7.3	7.14	32,734

Ultra Short Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential Ultra Short Term Fund - Growth	26.0	7.0	7.5	7.3	5.9	7.60	14,113
Kotak Savings Fund - Reg - Growth	40.3	6.9	7.3	7.0	5.7	7.62	12,980

Money Market Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Money Market Fund - Growth	5,357.9	7.3	7.7	7.5	6.1	7.50	27,511
Tata Money Market Fund - Reg - Growth	4,425.0	7.3	7.8	7.6	6.1	7.48	26,885

Low Duration Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Low Duration Fund - Growth	54.2	7.4	7.7	7.2	5.7	7.85	18,525
Kotak Low Duration Fund - Std - Growth	3,137.9	7.1	7.4	7.0	5.4	7.85	9,670
Nippon India Low Duration Fund - Reg - Growth	3,509.4	7.0	7.3	7.0	5.6	7.80	6,228

Short Term Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential Short Term Fund - Growth	56.1	8.3	8.0	7.8	6.2	7.88	18,403
Nippon India Short Term Fund - Reg - Growth	49.1	8.5	7.9	7.6	5.4	7.60	6,214

Corporate Bond Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
Kotak Corporate Bond Fund - Std - Growth	3,510.6	9.0	8.3	7.9	5.7	7.59	13,275
SBI Corporate Bond Fund - Reg - Growth	14.4	8.4	7.9	7.4	5.3	7.61	20,535

Dynamic Bond Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Dynamic Debt Fund - Growth	84.5	11.7	9.3	8.8	5.1	7.21	721
Kotak Dynamic Bond Fund - Reg - Growth	35.3	13.9	9.4	9.7	6.0	7.34	2,600

Medium Duration Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HSBC Medium Duration Fund - Reg - Growth	19.0	8.8	7.9	7.8	5.5	7.70	812
ICICI Prudential Medium Term Bond Fund - Growth	41.6	8.7	7.9	7.7	6.0	8.19	6,054
SBI Magnum Medium Duration Fund - Growth	47.7	9.0	8.0	7.7	5.8	8.10	5,876

Long Duration Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
Nippon India Nivesh Lakshya Fund - Reg - Growth	16.8	14.5	10.2	11.1	7.3	7.14	8,037

Gilt Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
Bandhan Government Securities Fund Investment Plan	33.6	15.4	10.1	11.4	6.0	7.17	2,544
Kotak Gilt Fund - Growth	91.6	13.3	9.3	9.1	5.8	7.18	3,311

Gilt Funds With 10 Year Constant Duration

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential Constant Maturity Gilt Fund Growth	22.8	11.5	8.8	9.0	5.5	7.06	2,317

Credit Risk Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential Credit Risk Fund - Growth	29.5	10.1	8.3	8.5	6.5	8.69	6,624
SBI Credit Risk Fund - Growth	42.5	9.5	8.3	7.8	6.4	8.47	2,402

Banking & PSU Bond Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Banking and PSU Debt Fund - Reg - Growth	21.5	8.3	7.7	7.5	5.5	7.52	5,964
HSBC Banking and PSU Debt Fund - Growth	22.6	7.3	7.2	7.1	4.4	7.47	4,802

Disclaimer : Mutual Fund Investments are subject to market risks. Please read the offer document carefully before investing. Past performance is no guarantee of future performance. Returns are of Growth option of Regular plans. Returns which are below 1 year period are Annualized Returns. Source: - ICRA MFI, NAV as on 21st August 2024.

TECHNICAL OUTLOOK

T

he Nifty rallied strongly in August, reaching a life-time high of 25,114. Positive sentiment on Dalal Street drove buying across all sectors. However, after hitting the all-time high, the Bulls continue to be in control, holding strong at higher levels.

Technically, the Nifty faces strong resistance between 25,200 and 25,400. A close above 25,200 for two consecutive trading sessions could signal an upward rally towards 25,600/26,000 levels.

Following the rally, we may see some profit-taking at higher levels. On the downside, the Nifty has strong support at 24,570-24,400, its 20-Day Moving Average. A break below 24,570 on a closing basis could trigger further selling pressure, potentially pushing the Nifty down to 24,200-23,700.

The daily momentum indicator, RSI, suggests a possible uptrend with a sideways movement in the near term. This indicates a potential consolidation phase with profit-booking. Given the recent rally, profit-booking at higher levels is likely. Investors could consider booking profits at higher levels and wait for potential dips to enter long positions.

Technically, the Bank Nifty faces immediate support at 50,800. A close below this level could extend the decline towards 50,200/49,800.

On the flip side, resistance is positioned at 51,600/52,400. Overall, the technical outlook is positive as long as the Bank Nifty doesn't break the support level on closing basis.

On the Nifty Options front for the September series, the highest Open Interest (OI) build up is witnessed near 25,500 and 26,000 Call strikes, whereas on the Put side, it is observed at the 25,000 and 24,500 strikes.

The movement in August has been largely positive, carrying forward the trend from previous months. Early rollover trends have been positive for most stocks and indices. The Banking, Metals, and Fertilizer sectors are showing signs of short covering, which could persist in the September series.

India VIX, which measures the immediate 30-day market volatility, has cooled off from its highs. We expect it to remain in the range of 12-16 for the September series.

The Put Call Ratio-Open Interest (PCR-OI) for Nifty Options has been between 0.95 and 1.4 in August. It is anticipated to stay within the range of 0.7 to 1.5 in the coming month.

The markets are expected to remain bullish in the first half of September, with supports placed at 25,000 and 24,500. Also, the markets will continue to witness resistances at 25,500 and 26,000 levels.

OPTIONS STRATEGY

Long Straddle

It can be initiated by 'Buying 1 lot 26SEP 25000 CE (₹425) and Buying 1 lot 26SEP 25000 PE (₹265)'. The total outflow of premium comes to around 690 points, which also represents your maximum loss. A Stop Loss can be kept at 550 points (a 140 point loss from the total premium). The maximum gain is unlimited; a Target can be placed at 970 points (a 280 point gain from the total premium). Given the current Options OI positions for Nifty, we expect good momentum to continue, which should help the strategy achieve profitability.

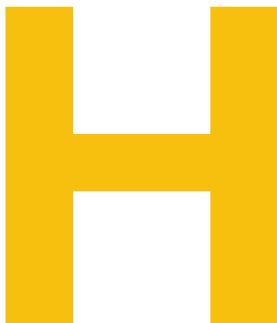
Nifty Chart



EMBRACE UNCERTAINTY, SAYS MARKS

Howard Marks urges investors to embrace uncertainty, long-term thinking, and focus on controllables, shunning overconfidence, in his memo "The Folly of Certainty"





oward Marks, the renowned investor and co-founder of Oaktree Capital Management, recently penned a memo titled 'The Folly of Certainty.' In this piece, Marks underscores the perilous nature of certainty in areas influenced by human behaviour, randomness, and complexity – particularly in the domains of politics, economics, and investing.

KEY THEMES FROM THE MEMO

The Illusion Of Control

Investing is often accompanied by a psychological need for control. Investors strive to identify patterns, develop trading strategies, and select stocks or funds that they believe will outperform the market. This desire for control is understandable but can be counterproductive.

The illusion of control stems from the human tendency to seek order and predictability in a chaotic world. Investors may convince themselves that they possess the knowledge and skills to consistently make profitable investment decisions.

They may rely on technical analysis, fundamental analysis, or other methods to gain an edge over the market. However, these approaches often overlook the inherent randomness and complexity of financial markets.

He writes, "As I indicated in my memo 'The Illusion of Knowledge' (September '22), there's no way a macro-forecaster can produce a forecast that correctly incorporates all the many variables that we know will affect the future as well as the random influences about which little or nothing can be known. It's for this reason, as I've written in the past, that investors and others who are subject to the vagaries of the macro-future should avoid using terms such as "will," "won't," "has to," "can't," "always," and "never.""

Market movements are influenced by a multitude of factors, many of which are beyond an individual investor's control. Economic indicators, geopolitical events, and investor sentiment can all have a significant impact on stock prices.

While it's important to conduct thorough research and develop a well-thought-out investment plan, it's equally essential to recognize

the limitations of human knowledge and the unpredictability of the market. By accepting that outcomes are not entirely within one's control, investors can reduce stress and make more rational decisions.

Sentiments: Neither Measurable Not Predictable

Investor sentiment has a huge impact on short-term market movements, often overshadowing the influence of fundamental factors like a company's financial health or the overall state of the economy.

Marks argues that this excessive focus on sentiment is a key reason why most market forecasts are inaccurate. Even forecasts that turn out to be correct are frequently for the wrong reasons, as they may have been driven by emotional swings rather than a sound analysis of underlying fundamentals.

Over a 40-year period, the standard deviation of the S&P 500 (a benchmark index for the US stock market) was significantly higher than the standard deviation of both GDP (Gross Domestic Product) and corporate earnings.

While economic growth and corporate profits tend to exhibit relatively stable patterns, stock prices can fluctuate wildly, often driven by investor sentiment rather than economic realities. This disparity highlights the limitations of traditional forecasting models that rely heavily on economic data.

He further writes, "The financial "sciences" – economics and finance – assume that each

market participant is a homo economicus: someone who makes rational decisions designed to maximize their financial self-interest. But the crucial role played by psychology and emotion often causes this assumption to be mistaken."

The Role Of Luck

Marks emphasizes the often-overlooked role of luck in investment success. Many investors attribute their achievements solely to skill, neglecting the influence of random factors and favourable market conditions.

The wisdom of investing legends like Warren Buffett and Charlie Munger reinforces the idea that focusing on long-term fundamentals is far more prudent than attempting to predict short-term market fluctuations.

Buffett's assertion that forecasts are difficult to predict and Munger's emphasis on the power of simplicity both underscore the importance of a patient, disciplined investment approach.

Rather than chasing fleeting market trends, investors should concentrate on building diversified portfolios, conducting thorough research, and maintaining a long-term view. By embracing uncertainty and focusing on the controllable aspects of investing, investors can position themselves for long-term success.

The Dangers Of Overconfidence

The memo also delves into the

psychological traps of overconfidence, where individuals become excessively certain about their forecasts. This can lead to poor decision-making and increased risk-taking.

The adage "success is a dangerous neighbour" is particularly relevant in investing. When individuals achieve financial success, they often attribute it to superior skill and knowledge. This overconfidence can lead to a dangerous illusion of control.

He elaborates in his memo: "Over the years, I've often cited the wisdom of John Kenneth Galbraith. It's he who said, 'There are two kinds of forecasters: those who don't know, and those who don't know they don't know.' I find myself using this quote all the time."

He adds, "Sometimes things go as people expected, and they conclude that they knew what was going to happen. And sometimes events diverge from people's expectations, and they say they would have been right if only some unexpected event hadn't transpired. But, in either case, the chance for the unexpected – and thus for forecasting error – was present. In the latter instance, the unexpected materialized, and in the former, it didn't. But that doesn't say anything about the likelihood of the unexpected taking place."

The Importance Of Humility

While intelligence, data analysis, and sophisticated models are invaluable tools in an investor's toolkit, they are far

from foolproof. The complex interplay of economic, political, and psychological factors that shape market movements often defies even the most rigorous analysis. As Howard Marks emphasizes, "It is impossible to predict with any certainty how these forces will interact in the future."

The illusion of control can be a particularly dangerous pitfall for investors. Relying solely on quantitative models or historical data can lead to overconfidence and a disregard for the unpredictable nature of human behaviour.

Howard Marks writes, "As Mark Twain aptly observed, 'It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so.'" This underscores the importance of maintaining a healthy dose of scepticism and recognizing the limitations of one's knowledge.

The Perils Of Certainty In Investing

The investment world often suffers from an overabundance of certainty, with countless experts confidently predicting market movements, economic trends, and company performance. However, history shows that accurate forecasting is rare. This reliance on prediction creates a perilous environment, leading to costly mistakes and suboptimal decisions.

The allure of certainty is understandable; investors seek predictability in an inherently uncertain world. Yet, as Howard Marks notes, "the future is unknowable." Markets are influenced by a complex

interplay of economic, political, psychological, and random factors, making it impossible to foresee every outcome.

Undue faith in forecasts can lead investors to herd behaviour and emotional decision-making. The fear of missing out can prompt impulsive investments, while the dread of loss may cause premature selling. These emotional reactions often override sound judgment, eroding long-term returns.

Embracing Uncertainty

John Maynard Keynes' statement, "the only certainty is uncertainty," captures a fundamental truth about investing. While predictability is appealing, accepting this uncertainty is crucial for long-term investment success.

Contrary to popular belief, acknowledging uncertainty doesn't lead to paralysis or indecision. Instead, it encourages a proactive approach to investment planning.

By anticipating unexpected events, investors can develop strategies to mitigate risks and seize opportunities. The allure of certainty is understandable. Humans have an innate desire for control and predictability.

When investors become overly confident in their ability to predict the future, they may make rash decisions based on short-term trends or market sentiment. This can lead to chasing hot stocks, timing the market, or overextending their portfolios. Such actions often result in underperformance over the long term.

The Illusion Of Knowledge

John Kenneth Galbraith's astute observation, "There are two kinds of forecasters: those who don't know, and those who don't know they don't know," encapsulates the inherent challenge of predicting market behaviour.

Galbraith's emphasis on the cyclical nature of financial markets is equally important. History has shown that market bubbles and crashes tend to repeat themselves, often with surprising regularity.

Investors with short memories are prone to forget the lessons of the past, leading to excessive optimism during periods of euphoria and unwarranted pessimism during downturns.

Howard Marks writes, "When people get rich, others take that to mean they're smart. And when investors succeed, it's often assumed their intelligence can lead to similarly good results in other fields. Further, successful investors often come to believe in the strength of their own intellect and opine about fields with no connection to investing. A lot has been said about those who express certainty. We all know people we'd describe as "often wrong but never in doubt."

The Importance of Intellectual Humility

Richard Feynman's adage, "The first principle is that you must not fool yourself, and you are the easiest person to fool," highlights the cognitive biases investors face. In a field marked by uncertainty, intellectual humility is crucial in countering

overconfidence and hubris. Unlike the ego-driven pursuit of outperformance often seen in the investment industry, intellectual humility involves recognizing one's limitations. It includes a willingness to question assumptions, seek diverse perspectives, and admit mistakes.

This mindset is vital for navigating the complexities of financial markets, where conditions constantly evolve and unexpected events can arise. Intellectually humble investors are more likely to engage in rigorous research, critically evaluate information, and avoid cognitive biases like confirmation or hindsight bias.

"Intellectual humility means saying "I'm not sure," "The other person could be right," or even "I might be wrong." I think it's an essential trait for investors; I know it is in the people I like to associate with...

No statement that starts with "I don't know but . . ." or "I could be wrong but . . ." ever got anyone into big trouble. If we admit to uncertainty, we'll investigate before we invest, double-check our conclusions and proceed with caution. We may sub-optimize when times are good, but we're unlikely to flame out or melt down.

On the other hand, people who are sure may dispense with those things, and if they're sure and wrong, as the Twain quote suggests, the outcome can be catastrophic... maybe Voltaire said it best 250 years ago: Doubt is not a pleasant condition, but certainty is absurd," mentions the Howard Marks memO.



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IMPORTANT JARGON

70% OF INDIVIDUAL INTRADAY TRADERS IN THE EQUITY CASH SEGMENT MAKE LOSSES, FINDS SEBI STUDY

A study by the Securities and Exchange Board of India (SEBI) has revealed that seven out of ten individual intraday traders in equity cash segment incurred losses in FY22-23. Notably, SEBI had previously released a similar study on 25th January '23, on equity derivatives. That study showed that 9 out of 10 traders in the derivatives market experienced losses between the FY18-19 and FY21-22, with an average loss of ₹1.1 lakh per trader.

Q. What Is The New SEBI Study All About?

SEBI conducted a study analyzing trends in participation as well as profits and losses in intraday trading by individuals in the equity cash segment. It found that over 70% (7 out of 10) of individual intraday traders in this segment incurred losses in FY22-23.

Q. How Has The Participation Of Individuals In Intraday Trading In The Equity Cash Segment Been In Recent Years?

The SEBI study also found that there was a surge of over 300% in the number of individuals participating in intraday trading in the equity cash segment in FY22-23 to 6.9 million in FY22-23 from 1.5 million in FY18-19.

Q. What Was The Sample Size For The Survey?

The study is based on a sample of individual clients of the top 10 stock brokers in India, representing approximately 86% of the individual client count in the equity cash segment during FY22-23.

Q. What Are The Other Takeaways From The SEBI Study?

Key takeaways from the SEBI study include:

1) About one in three individuals who trade in the equity cash segment engage in intraday trading.

2) The share of young intraday traders (under 30 years old) grew to 48% in FY22-23 (post-Covid) compared to 18% in FY18-19 (pre-Covid).

3) The percentage of loss-makers among younger traders (under 30 years) was higher, at 76% in FY22-23, compared to other age groups.

4) The proportion of loss-makers increased to 80% for traders with very frequent trading activity (more than 500 trades in a year) indicating that the more they traded, the more losses they incurred.

5) Beyond the trading losses incurred, loss makers expended an additional 57% of their trading losses on trading costs in FY22-23, while profit-makers spent 19% of their trading profits on costs in FY22-23, implying that stock brokers, depositories and stock exchanges have profited and made decent money in the process.

Q. Why Is This Significant?

There has been a surge in direct participation in the equity and

equity derivatives markets post the Covid pandemic, driven by technology, increased internet penetration, and higher surplus income. However, retail investors could get caught on the wrong foot when the markets turn for the worst.

Also, there is worry that financial savings of householders are being diverted to speculative activities in the stock market – a concern shared by regulators and even the government. The study aims to raise awareness among individual traders about the risks involved in intraday trading in equity cash segment.

Q. What Is The Key Message For Retail Investors?

In a way, the SEBI study has reaffirmed the belief that most individuals lose money in intraday trading. Nowadays, financial institutions with their high-frequency trading tools skim the arbitrage that was once available to intraday traders. Retail investors are advised to exercise caution before engaging in intraday trading.

Q. Who Owns How Much In The Indian Stock Markets?

The data on ownership pattern of investors in the Indian stock markets show that the heft of the domestic investors has further increased in the recently concluded April-June '24 quarter as compared to the previous quarter, while relative ownership of foreign investors has slipped to a 12-year low.

Q. What Has Been The Change In Ownership Patterns In The April-June '24 Quarter Vs. The January-March '24 Quarter?

The entire ownership of the

Indian stock market is distributed among Indian promoters, foreign promoters, government entities, foreign investors, domestic mutual funds, domestic financial institutions, and retail investors.

According to PRIME Database, in the BSE 200 companies, the April-June quarter saw an increase in the stakes held by foreign promoters (8.3% vs. 8.1%), government ownership (12.1% vs. 11.6%), domestic mutual funds (9.5% vs. 9.3%), and retail investors (7.9% vs. 7.8%) compared to the January-March quarter. Conversely, a fall in ownership was observed in the categories of Indian promoters (30.1% vs. 30.6%), foreign investors (20.3% vs. 20.5%), and domestic financial institutions (6.3% vs. 6.4%).

Q. Why Is This Data Crucial?

In the March-June '24 quarter, foreign portfolio investors sold approximately US \$3.5 billion worth of equities in the secondary market, while domestic institutional investors (DIIs) purchased around US \$15 billion in equities. As per data from PRIME Database, the share of domestic institutional investors as a whole (including mutual funds and domestic financial institutions) rose to 16.23% from 16.07% during the quarter.

On the contrary, the share of foreign investors dropped to 17.38% from 17.72% in the March quarter, marking a 12-year low. There is a view that DIIs could overtake FIIs in terms of ownership in the coming quarters, potentially making India more self-reliant on the demand side and less vulnerable to foreign flows.

Q. What Has Been The Change In The Retail Investors Category?

The share of retail investors reached an all-time high of 7.64% as on 30th June, up from 7.52% in the March '24 quarter, while the share of high-net-worth (HNI) investors slightly decreased to 1.98% from 2%. Despite this, the combined share of retail and HNI investors rose 9.62% from 9.52%.

Q. In Which Sectors Have Stakes Increased or Decreased?

The data show that FPIs were overweight in banks and real estate, and underweight in capital goods and consumer staples. In contrast, domestic mutual funds were overweight in automobile components and pharmaceuticals and underweight in consumer staples and oil and gas sector.

Q. Which Companies Have Seen Stake Increases Or Decreases?

Within the BSE 200 universe, FPIs saw the highest increase in stakes in Vodafone Idea and JSW Energy, while MFs saw the largest changes in Mphasis, Gland Pharma, and Indus Towers.

For FPIs, most decreases were observed in Cyient DLM, Restaurant Brands Asia, and Kotak Mahindra Bank, whereas MFs experienced the highest decreases in Zee Entertainment, Coforge, and DCB Bank.

Retail investor holdings rose in IRB Infrastructure and Zee Entertainment, while individual holdings declined in Suzlon Energy, CAMS and Ashok Leyland in the June '24 quarter compared to March quarter.



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