Mutual Fund Analyst

Topic 4
Fund Selection and Research

At the end of this topic you will be able to:

- Understand Equity markets and how equity mutual funds work
- Describe Debt markets
- Alternative assets and Mutual funds
- Screen funds based on investor risk profile

Equity Market & Mutual Funds

How do Equity Markets Work

Financial Market

- Debt Market
- Equity Market
- Money Market
- Commodity Market

You can buy or sell **equity** in the Equity Market.

What is Equity?

What is Equity?

Represents a **claim** on the Company's **assets and earnings**

A **share** or part in the ownership of a Company

More the equity, bigger the stake in the Company

As an owner, you are entitled to your share of the **Company's profits**

Think About It!

Sudhir has purchased 100 shares of Pintrip Associates.

However, the company has gone bankrupt.

Is Sudhir responsible for paying the Company's debts?

NO

Share holders are not liable to pay a Company's debt

Where can you purchase Equity?

Primary Market and Secondary Market

Equity Market

Also known as Stock Market

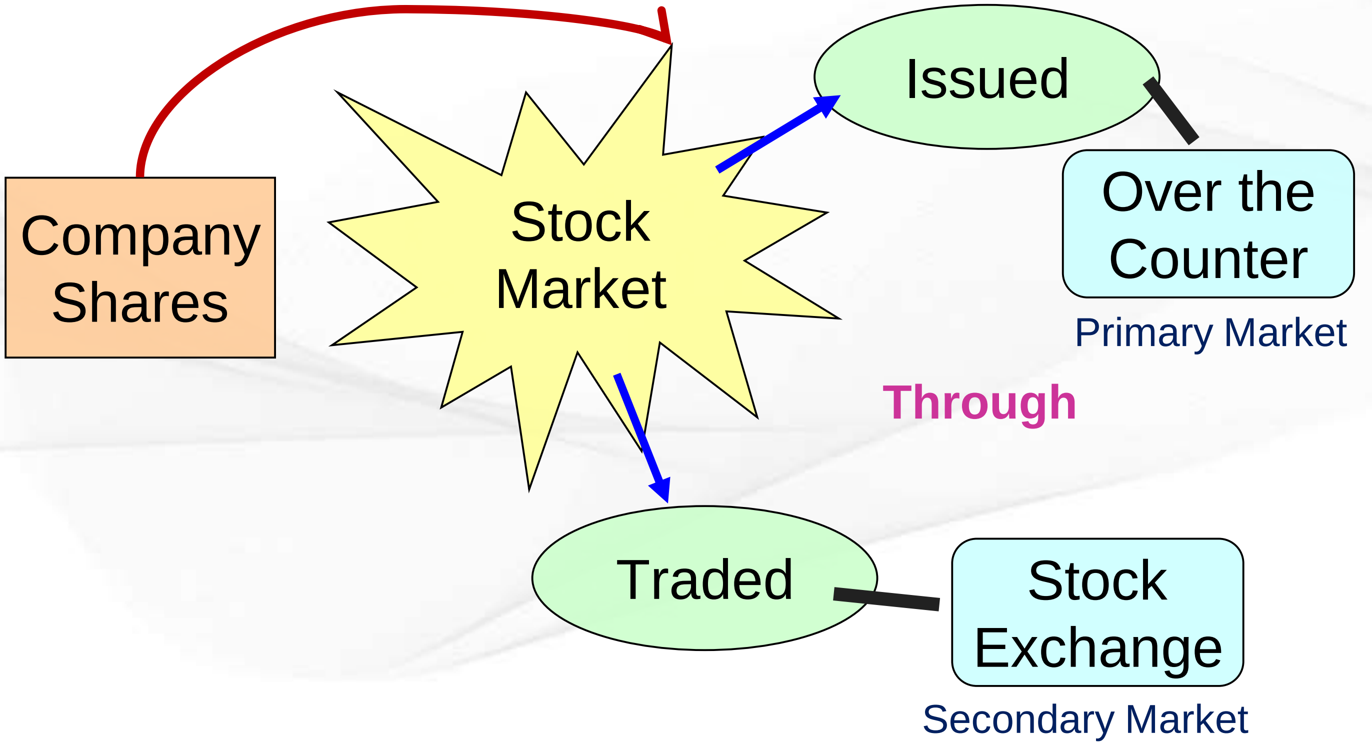
Primary Markets

- Market through which company issues fresh stocks to investors
- Issue of shares is called Initial Public Offering (IPO) or a Public Issue
- Transactions are directly between the company and the investor
- The issuing company's balance sheet is directly affected when the IPO is purchased

Secondary Markets

- Market through which existing stocks are traded (bought and sold)
- Transactions are between investors, through an intermediary
- Balance sheet of the Company whose shares are being traded, is not affected by the trading

Stock Market Activities: An Overview



Stock Market: Key Role Players

Stock Market

A vital component of the market economy

Get access to capital

Companies

Investors

Participate in the future growth of the company

Get share of profits through dividends

Realize gains because of growing share price

Check Your Understanding

Fill in the blanks with appropriate terms

- I have some stocks that I want to dispose of. Where do I go?
  __________.
- I trade C______ S____ in the Equity Market.
- Share of profits go to the ______ while ________ get access to capital.
- IPOs are issued in the Primary or Secondary Market? ______.

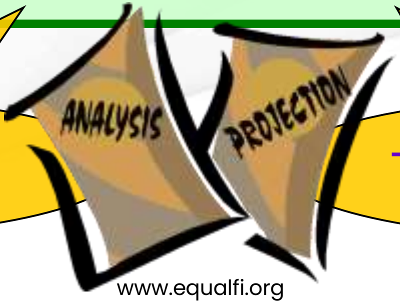
Business Analysis

How do we arrive at a value for a stock?

There are several factors that influence the price of stock

Let’s begin with business analysis

Fundamental Analysis



Technical Analysis

Check Your Understanding

Identify each item as per the type of analysis

Item	Fundamental	Technical
Income statement		
Past financial market data		
Competitors and Markets		
Actual price behaviour		
Suggest future activity		
Real data to evaluate a security’s value		
Macroeconomic factors		

Key Parameters

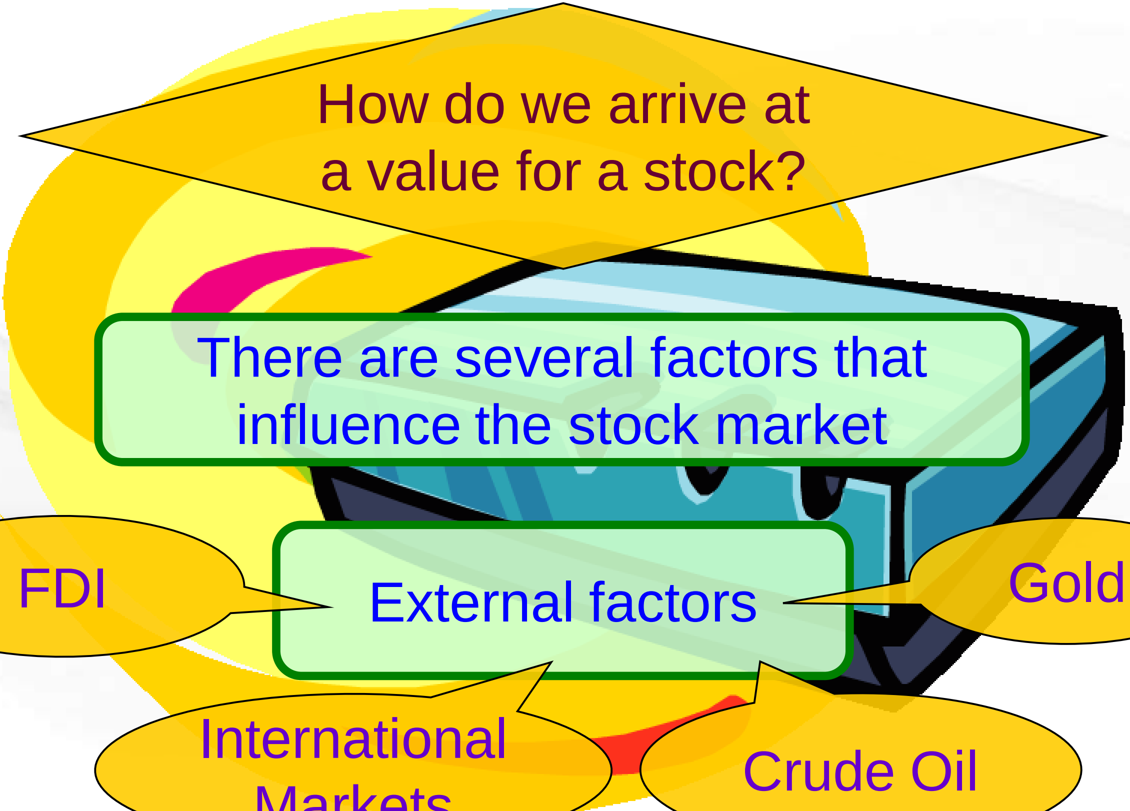
How do we arrive at a value for a stock?

There are several factors that influence the price of stock

Let's look at some key parameters

- EPS
- Beta
- Market Capitalisation
- P/E Ratio
- Dividend Yield
- Book Value

External Factors



How do we arrive at a value for a stock?

There are several factors that influence the stock market

External factors

FDI

Gold

International Markets

Crude Oil

Foreign Direct Investment (FDI)

FDI can come in as **direct investment into companies or equity instruments**

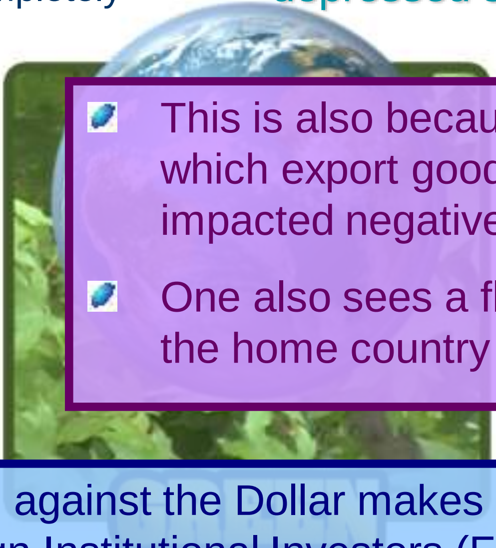
An inflow of FDI usually will result in the stock price or sensex going up as the demand for the stock goes up

In addition, you have money chasing investments in the stock market which pushes up the market

International Markets

Have a significant bearing on the Indian stock market. The Indian economy is not completely insulated from the Global economy

So if there is stress globally, as we saw in 2008 – 2009, we will see depressed stock markets



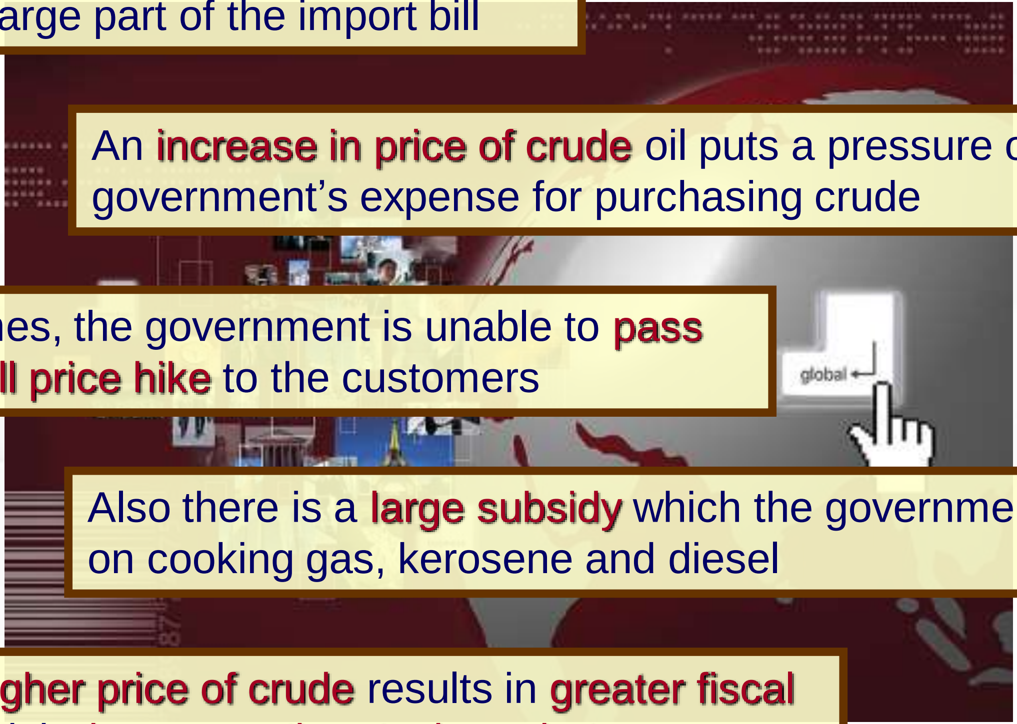
Currency markets also have an impact on the stock market

- This is also because a lot of companies which export goods or services are impacted negatively
- One also sees a flight of money back to the home country for safety

A depreciating Rupee against the Dollar makes it relatively unattractive for Foreign Institutional Investors (FII’s) to invest in India as the returns when converted back to Dollars are further reduced

Crude Oil

India is a **net importer of oil** and it forms a large part of the import bill



An **increase in price of crude** oil puts a pressure on the government's expense for purchasing crude

Many times, the government is unable to **pass on the full price hike** to the customers

Also there is a **large subsidy** which the government gives on cooking gas, kerosene and diesel

Hence **higher price of crude** results in **greater fiscal deficit** which **depresses the stock market**

Gold

Believed to have an **inverse relation** with the stock market

Usually, in troubled financial situations like we had in 2008 – 2009, money chases **safe investments and hence Gold was in great demand**

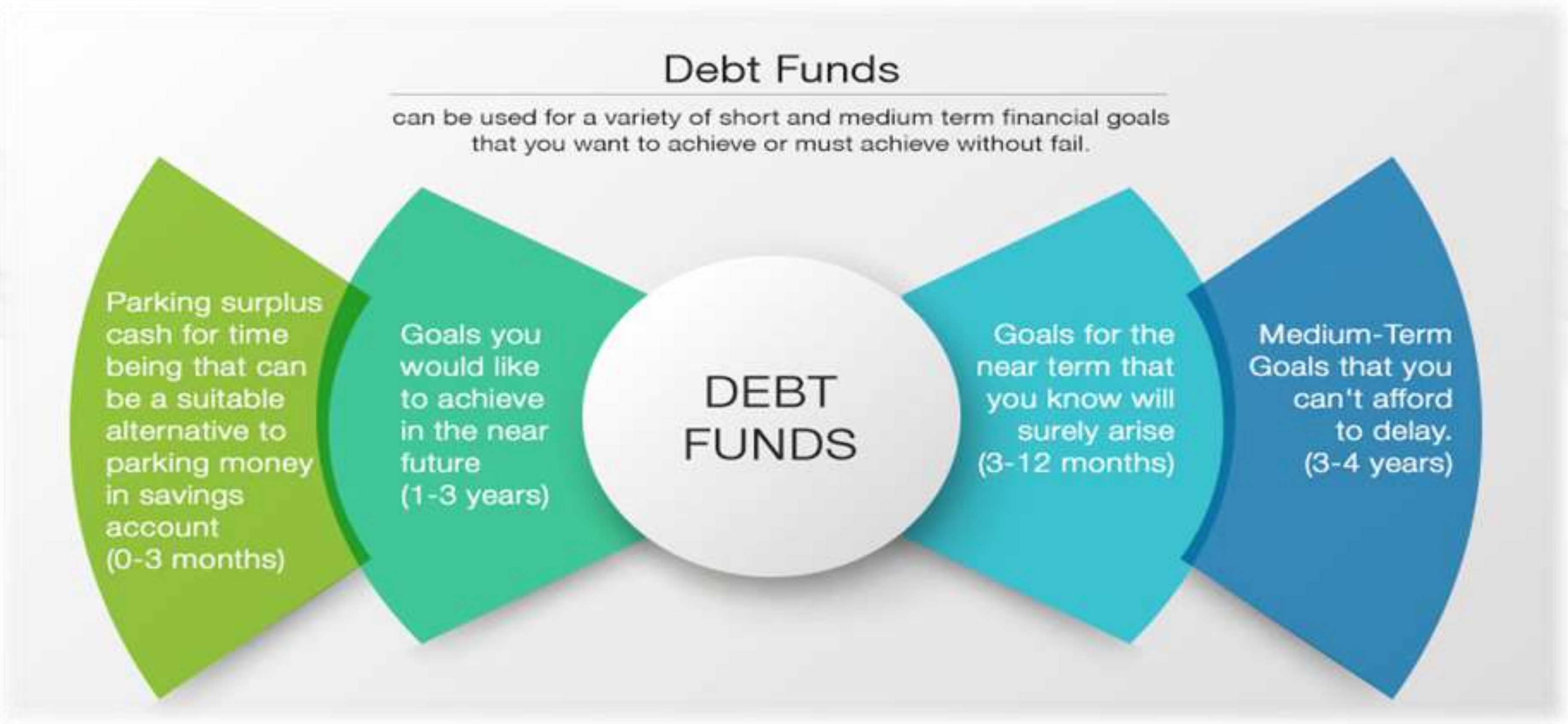
Check Your Understanding

Fill in the blanks with appropriate terms

- If there is stress globally, we will see Depressed stock markets.
- An inflow of FDI usually will result in the Stock Price or Sensex going up.
- Higher price of crude results in greater Fiscal deficit which depresses the Stock Market .
- Gold is considered one of the safest investments.

Debt Market & Mutual Funds

How do Debt Markets Work


Debt Funds
can be used for a variety of short and medium term financial goals that you want to achieve or must achieve without fail.
Parking surplus cash for time being that can be a suitable alternative to parking money in savings account (0-3 months)
Goals you would like to achieve in the near future (1-3 years)
DEBT FUNDS
Goals for the near term that you know will surely arise (3-12 months)
Medium-Term Goals that you can't afford to delay. (3-4 years)

What is a Debt Instrument?

A Debt Instrument is a **document**

The document records a **debt** that the issuer of the document assumes from the buyer.

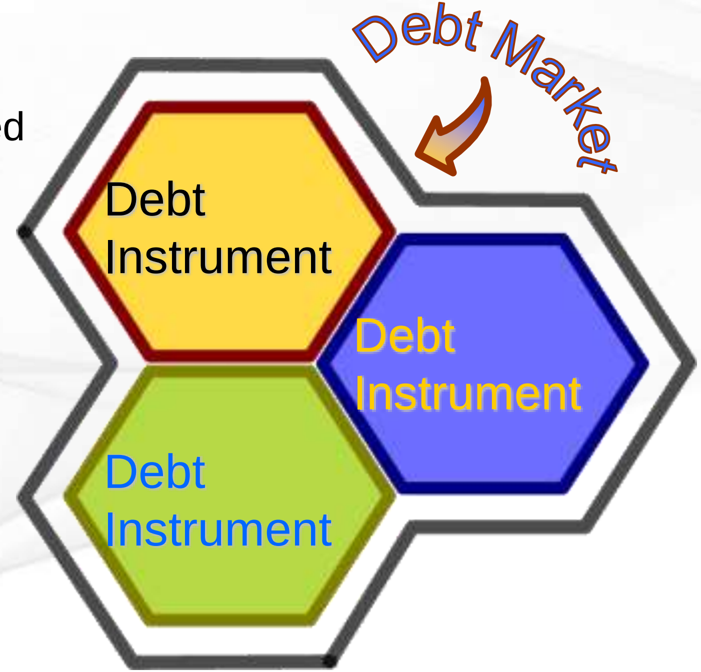
The document records the **obligation** of the issuer of the document to **reimburse** the buyer.

The reimbursement must adhere to agreed upon **terms** and **conditions.**

- Debt instruments are traded in the debt market

- A debt market is a structured environment that facilitates trade of different types of debt instruments between interested parties.

- The term capital market includes both stock and debt markets.



Types: Quick Recap


Types of Alternative Investmen
Private Equity
Hedge Funds
Venture Capital
Real Assets
Collectibles like wine, art, stamps or vintage cars

Risk Profiling

TYPES OF RISK PROFILES

Risk Profile	Investor Profile	Possible Asset Allocation*
Conservative	Investor's top priority is safety of capital and he/she is willing to accept minimal risks and hence, receive minimum or low returns.	Equity: 0-10% Debt and others: 90-100%
Moderately Conservative	Investor is willing to accept small level of risk in exchange for some potential returns over the medium to long term.	Equity: 10-30% Debt and others: 70-90%
Moderate	Investor can tolerate moderate level of risk in exchange for relatively higher potential returns over the medium to long term.	Equity: 40-60% Debt and others: 40-60%
Moderately Aggressive	Investor is keen to accept high risk in order to maximize potential returns over the medium to long term	Equity: 70-90% Debt and others: 10-30%
Aggressive	Investor is willing to accept significant risks to maximize potential returns over the long term and is aware that he/she may lose a significant part of capital.	Equity: 90-100% Debt and others: 0-10%

THANKYOU