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DEMOCRATIZING WEALTH CREATION

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Special Report
March Quarter 2014 Result Analysis

Editor's Keyboard
The Bull Run Has Begun

HIGH FIVE

These five stocks are best placed to get you superlative returns as the new government steps in to improve the economic fundamentals and kicks in a new era of growth.

US $ 10.15 UK £ 5.05 Sing $ 10.60 Euro € 6.13

ISSN 0974-6145

Vol. 29 No. 14

Switch To Equity Funds

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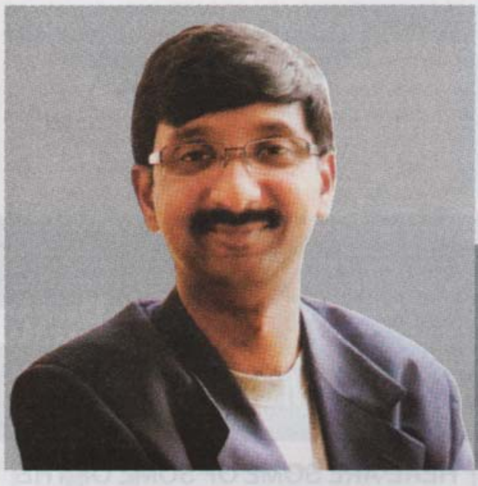

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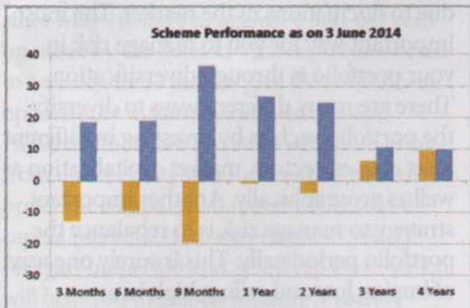
Last year, I had invested in gold ETFs but I have been disappointed by the performance. Should I switch to equity funds instead as the Sensex seems to be doing very well?

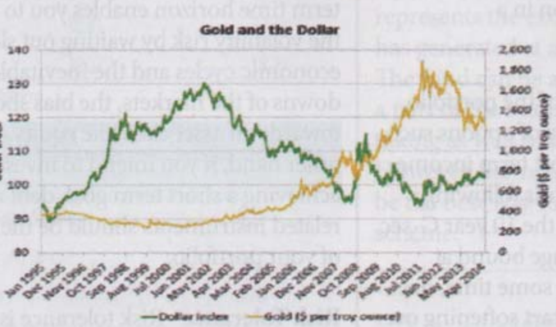
- Ravindra Nadar



You are quite right to consider reconsidering your investments in gold. As shown in the chart above, during the last year, the Sensex has outperformed gold significantly.

During the last few months, the Sensex has rallied on expectations of a BJP-led victory in the general elections. Strong FII flows have also contributed to the rise in the index. Foreign investors are now relatively more bullish on Asia's third largest economy as some of the country's macroeconomic fundamentals appear to be improving.

In contrast, gold ETFs have generated negative returns during the last year. Gold prices have been adversely affected by the Federal Reserve's decision to rollback its quantitative easing programme (QE). Over the last few years, some of the easy liquidity infused through QE pushed up the prices of commodities such as gold.



However, since December, the Fed has tapered QE and plans to completely withdraw its monthly stimulus by autumn. This may lead to an appreciation in the dollar. The dollar and gold are negatively correlated, so further rises in the dollar may drag down gold prices. This phenomenon is highlighted in the chart on the above.

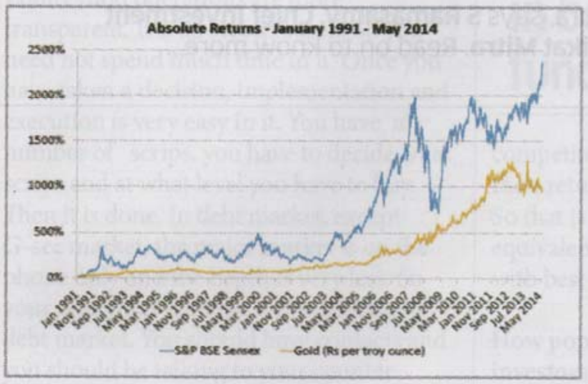
The crisis in Ukraine led to a brief spike in gold prices earlier this year because of the metal's safe haven status. As tensions between Russia and the West appear to be subsiding, gold prices are unlikely to rise in the near-term.

A combination of stable global economic conditions and less "easy money" may limit the upside in gold prices as the yellow metal has effectively functioned as a crisis hedge over the last few years. Gold prices are driven by the "fear factor", gold prices have spiked during periods of economic uncertainty such as the 1970s OPEC crisis and the recent subprime crisis in 2008.

Furthermore, unlike other asset classes such as debt or equities, gold does not pay any interest or dividends and is only driven by demand, supply and speculation. There is no predictability about gold prices.

Moreover, domestic gold prices may fall further if the government slashes import duties. Last year, the government and the

RBI imposed restrictions on gold imports to control the current account deficit (CAD) which rose to a record high of USD 87.8 billion (4.7 per cent of GDP) in FY13. But the CAD declined sharply to USD 32.4 billion (1.7 per cent of GDP) in FY14, a level the RBI has described as sustainable. The restrictions on imports effectively led to a contraction in domestic supply. As the RBI has now allowed more entities to import gold and banks to extend gold metal loans to jewellers, the domestic supply of gold may expand which may lead to a decline in prices. This may be partially offset by an increase in domestic demand because of the festival season.



Nevertheless, you would be better off switching most of your investments in gold to equity funds instead. If you want to be conservative, you can invest a portion of your corpus in debt funds instead. Even these funds may beat gold over the next few years if interest rates decline. However, debt funds are unlikely to match the returns offered by equities.

As shown in the chart above, over the long-term, the Sensex has generated higher returns than gold. This trend is likely to be sustained as the outlook for the Indian economy is now more positive.

The general elections resulted in a decisive victory for the BJP as the party won 282 of the 545 seats in the Lok Sabha.

Consequently, the BJP does not need to rely on the support of coalition partners and has a clear hand to implement some of the structural reforms necessary to kick start growth. The prospect of a stable government may boost sentiment and hence, pave the way for an uptick in growth which may lead to an increase in earnings and support equities.

In conclusion, unless you want to accumulate physical gold, you should redeem some of your holdings in ETFs and invest in large-cap equity mutual funds. Unlike gold, investments in equity funds can enable you to benefit from dividends as well as from capital appreciation. The funds shown in the table below have consistently generated high risk-adjusted returns and have outperformed the Sensex over the last few years.

Scheme Performance as on 3 June 2014

Scheme Name	Absolute Returns			CAGR			
	3 Months	6 Months	9 Months	1 Year	3 Years	5 Years	10 Years
Axis Equity Fund(G)	23.58	23.30	41.96	29.09	15.68	-	-
Birla SL Frontline Equity Fund(G)	25.01	26.40	48.38	34.98	15.56	15.74	22.87
Franklin India Bluechip Fund(G)	20.41	19.78	40.48	23.93	10.71	14.34	20.17
HDFC Top 200 Fund(G)	31.85	32.29	59.95	37.59	13.28	16.24	23.89
ICICI Pru Focused Bluechip(G)	21.76	23.04	42.67	32.99	14.76	17.82	
ICICI Pru Top 100 Fund(G)	24.75	25.26	45.6	39.76	15.94	15.65	21.28
S&P BSE Sensex	18.68	19.20	36.33	26.76	10.59	10.82	17.82

Notes: The dollar index is a weighted average of the foreign exchange values of the U.S. dollar against the currencies of a large group of major U.S. trading partners. The returns of gold in rupee terms have been computed using the dollar price of gold and the Rs/$ exchange rate. Sources for data: Federal Reserve, Accord Fintech

You would be better off switching most of your investments in gold to equity funds. If you want to be conservative, you can invest a portion of your corpus in debt funds instead. Even these funds may beat gold over the next few years if interest rates decline. However, debt funds are unlikely to match the returns offered by equities.

Disclaimer: Past performance does not guarantee future returns. The mutual funds which have been mentioned are indicative of historical performance only. Please consult your financial advisor before investing in mutual funds.