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Roll over to the new Financial Year, 2015-16

Before that, a peep into the last year and what a year it was. One of the most eventful and adventurous one in the recent times both domestically and globally.

Domestically, a decisive political mandate was delivered by the Indian public with absolute majority after 30 years. Most of us would have been in school the last time we had absolute majority and we could not have cared less at that age. The markets were jubilant and the phrase of Ache Din was crystallised in Equity Market performance in the last Financial Year with Sensex delivering return of around 25% and Mid-caps and Small caps 50% and 54% respectively.

The phrase ‘Achchhe Din’ is a journey and the intent, the efforts will take time in bearing fruits. In the short period of this government, a lot of policy changes and reform initiatives have been embarked upon to provide ease of business, better governance, employment generation, capex revival and re-ignite the sputtering Indian Growth engine.

Macro parameters have been steadily improving with moderating inflation, improving Trade Balance and BOP. The currency too has been very stable - great accomplishment in the context of currency turmoil globally. Monetary policy has moderated with the RBI governor making downward adjustments to the rates on lower inflation prints on two occasions of 25 bps each.

We have clearly come out of the morass of policy paralysis and optimism is in the air. It has been well reflected in the run up of major equity indices however the situation on ground remains challenging as expectations were geared towards a faster turnaround of the economy which have not quite materialized as yet. Both the Railway Budget and the Union budget sought to lay out a longer term roadmap for sustained growth and fiscal health of the economy.

Globally, it was a tumultuous year for currencies along with geopolitical skirmishes in Ukraine and Syria. The fall in Crude spelled mayhem in crude exporting countries; with Russia bearing the brunt both on its currency and markets. The unpegging of Swiss Franc also provided its fair share of turmoil in the currency
As we start the new financial year today, there is a lot going on the world both on the geopolitical and markets front with very long term implications. India today is shining as a beacon of hope in emerging markets out of BRICS, the ubiquitous acronym of the large emerging economies. However there are challenges galore both globally and domestically. The stark contrast in monetary policy between the two largest economic blocks United States and European Union and the continual tensions in European region and middle east could have very unintended consequences.

IAIP continued with its initiatives and efforts of providing high quality events in the last financial year. The regional chapters too have established deep rooted relationships and have exhibited consistent flow of very high quality event. I take this opportunity to congratulate each and every regional level volunteer for their passion and commitment towards the society and members and society at large. We had highly successful marquee events throughout last year along with regular speaker events.

We had 29 events in Mumbai and 65 events across the regions. It was not only the increase in quantity of events but also the quality with several high quality speakers from global and domestic markets addressing our members. This has been possible due to unwavering effort of our volunteers. Some of the speakers include Basant Maheshwari a successful investor, Kevin Gin, Director Alpha Capital, Steven Mirch & Michael Garden of William O’Neill, Jason Voss, CFA, Director, CFA Institute, Saurabh Mukherjea, CFA, CEO Ambit Institutional Equities, Akhilesh Tilotia, CFA, Associate Director, Kotak Institutional Equities to name the few.

The Annual Conference was a very well attended and boasted of great International and Domestic speakers. The CFA Research Challenge also got culminated in Feb 2015 and two of our teams participated in the Asia PAC round in March 2015.

The start of the year as always was with Annual Forecast Event, the 7th edition which again was well attended and had a very power packed panel consisting of Akash Prakash CEO at Amansa Capital, Nilesh Shah, CEO at Kotak AMC, Navneet Munot, CFA, CIO at SBI AMC, Prabhat Awasthi, Head of Research at Nomura Capital and Siddharth Sanyal, Chief India Economist at Barclays Bank.

The enthusiasm was palpable on the back of a raring equity return in the last year
very well predicted by the forecast survey of the last year. This year again, the survey predicts equity to be the best performing asset class.

Wishing our members and readers Happy Investing and we at IAIP are continuously trying to provide the best of events for the continuous value addition of our members and society.

Kishor Bagri, CFA
Director, IAIP,
India CFA Society
In Conversation with ...

Amit Khurana, CFA is currently working as Head of Equities and Research with Dolat Capital. Dolat Capital is positioned as one of the few mid cap sell side specialist research houses in the Institutional segment. Previously, he had assignments with IL&FS (prop book), Birla Sun Life Securities, Collins Stewart and PNB MF.

How do you view the financial analyst's industry with regards to scope, growth and job prospects? How can CFA charter holders take advantage of it?

The sell side (broking as it is more popularly called in India) has been undergoing a significant transformation of late due to intense competition and rising role of technology in trade execution. Hence the urgent need for various players to define a niche for themselves and invest their time, effort and resources to gain a competitive advantage. I firmly believe that this industry has an important role to play in the growth of the Indian financial market and the benefit of the investors at large.

It will be therefore critical that the aspirants for a career in the industry dig themselves deep in any of the areas they are interested – Research (sector specialists / market strategists / derivatives), Equity Sales, and Sales Traders / Back office including risk, compliance and settlement. I believe that the structural demand for each of these shall rise next few years, especially for those with deep domain expertise. The CFA candidates / charter holders are, in my view, amongst the best placed to benefit given the rigour that they go through while writing the exam.

How did CFA help in enhancing your career objectives?

My decision to pursue the CFA program was driven by two factors – first, to deep dive into the domain of Research. I was into it during initial few years of my career, however always felt a gap on depth. The CFA program helped me cover up that and
accelerated my career progression over the next few years. Second, I was keen to pursue a program that was amongst the most respected globally. The CFA program is undoubtedly one of the few programs respected in the global investment industry.

**How would you rate the CFA course with respect to content and structure including the pros and cons? Also include aspects which give CFA course an edge over other courses.**

The content is amongst the best I have come across – depth, global perspectives and covering multiple asset classes. And since it is spread over three years, it is a great test of your perseverance and understanding. All these also give it the unique edge over other programs.

**What guidance you would give to CFA aspirants?**

It's not a one off exam that you can just get off in a jiffy! So dig yourself deep and prepare well mentally to go through the rigour over three years. It will test your patience and resolve, however the end result is worth it. My preference was to start early on readings, and then accelerate mid way in the run up to the exam. Do take multiple full length practice exam in an exam setting – which means you spend full time grappling with the exam. It really helps you to get that mental strength on the day. All the best!
In Conversation with ...

Rohit Rebello, CFA is a Director & Head of Risk with Barclays Bank, Wealth and Investment Management (WIM) India Division. From 2003 to 2009, Rohit worked with Citibank with responsibility for credit risk management and at various times, covered SME's, Mid-market and Large Corporate Company’s. Rohit started his career with the Tata Group in 1998 as a management trainee in the Corporate Finance Division of Tata Finance Ltd. (TFL) and then worked with Global Trade Finance (GTF), an International JV focused on cross border trade finance.

What are your views on the fund management industry with regards to scope, growth and job prospects? How can CFA candidates take advantage of it?

The Indian investment industry and even the financial sector in general, is small by international standards, however the potential for growth is huge. India is a country of savers but with a historic penchant for hard assets, namely gold and real estate as a means of wealth preservation. I am of the belief that the financialisation of our economy is its early stages and as the country develops, there will increasingly be a preference for various types of financial assets as a means to create and preserve wealth. On the other hand, India will continue to be a destination for knowledge right-shoring due to its abundant talent pool.

The above shifts will provide fulfilling and high growth financial jobs in the country and the CFA program is one of the most well positioned to equip candidates with the right skills to capture the opportunity. Additionally, the CFA Charter has global acceptability which provides you with an additional “call option” on your career should you want to work outside India.

How did CFA help in enhancing your career objectives?

After earning my Chartered Accountant designation, I worked at a finance company in Mumbai, and became intrigued by the complexity of capital markets. Curiosity developed into a fascination, but I soon realised there was a gap in my understanding of market concepts and its' working. The CFA program ticked all
the boxes to bridge this gap – it had great content, allowed flexibility for working and learning and was internationally renowned. While enrolled in the CFA Program I found that I could directly apply understanding gained from the curriculum at my job on a daily basis, which was exciting and reinforced the overall learning experience. The knowledge that I gained helped me earn my first position in a multinational company.

How would you rate the CFA course with respect to content and structure, including pros and cons? Also include aspects which give CFA course an edge over other courses.

The CFA curriculum strengthens your knowledge of the entire discipline of investment valuation and portfolio management and has a great combination of knowledge and preparation for real-life work. The practicality aspect of the program is unmatched; each learning outcome brings you a bit closer to the goal of being aware of all aspects of your investment environment. Because ethics is central to the CFA Institute service to the global investment community, CFA Institute members answer to a higher standard. The importance of this aspect of the program is often realized only in hindsight.

The benefit of the CFA designation accrues over a career, rather than a day or even a year and passing exams is just a starting point. A CFA Charter Holder has access to rich Continuing Education content both from the Institute and the Local Society, towards enhancing his or her expertise in a chosen specialization.

What guidance you would give to CFA aspirants?

Successfully completing the CFA Program's three levels of examination is a formidable challenge. Recommended average study time in preparation for successful completion of each level of the exam is a minimum of 250 hours with substantially more depending on individual circumstances. The key to success is 3 P's Patience, Perseverance and Preparation!
Advocacy

IAIP has partnered with NSDL to contribute articles to their monthly investor magazine - Kaleidoscope. The first article for the March’14 issue was contributed by Shreenivas Kunte, CFA on "Winning vs. Losing". The advocacy committee is soliciting articles from members, candidates on a variety of investment topics i.e. Analyzing Balance Sheet, Ratio Analysis, Fund Allocation etc. Any related queries may be directed to: advocacy@iaipirc.org

APAC Advocacy summit is being held in Mumbai on 21-22nd April. Delegates from 12 regional countries will participate and chart the future course of action of advocacy efforts in the region.

We would like to extend a warm welcome to Prof. Shagun Thukral, Faculty Finance at Symbiosis Center for Management & Human Resource Development (SCMHRD).
Insights from IAIP Events

India Investment Conference (#IIC15) – Rebooting India to Realize its Potential

Mumbai, Jan 9th

Contributed by: Chetan Shah, CFA

The fifth India Investment Conference (#IIC15) received overwhelming response in terms of participation by members and industry with distinguished speakers starting from (1) Prof. Arvind Panagariya, Professor of Economics and Prof. Jagdish Bhagwati, Professor of Indian Political Economy at Columbia University and recently appointed Vice Chairman at Niti Aayog, a policy think tank of the present government under Chairmanship of Prime Minister of India, Shri Narendra Modi, (2) Vikram Mansharamani, global equity investor, lecturer Yale University, and author Boombustology (3) Jason Voss, CFA, Content Director at CFA Institute and author of The Intuitive Investor and (4) Russell Napier, Independent Strategist and Co-Founder ERIC.

Afternoon saw insightful executive panel discussion on “Financing Infrastructure to Re-ignite Growth” with experts like (a) Rajnish Kumar, Managing Director, SBI Capital Markets, (b) Parthasarathi Mukherjee, Group Executive Corporate Relationships & International Business, Axis Bank, (c) Rahul Mody, Managing Director, Ambit Corporate Finance, and (d) Apurva Shah, Managing Director, Investment Banking, Deutsche Bank Group.
All of these sessions were moderated by experts in the investment fields (in same order as the sessions) viz. (i) Navneet Munot, CFA, CIO SBI Mutual Fund and Director IAIP, (ii) Vikas Khemani, President & CEO, Edelweiss Securities (iii) Ashvin Vibhakar, CFA, Senior Advisor & Executive Sponsor Future of Finance, CFA Institute, (iv) Sunil Singhania, CFA, CIO Equities, Reliance Mutual Fund and Member Board of Governors at CFA Institute and (v) Saurabh Mukherjea, CFA, CEO Institutional Equities, Ambit Capital.

Anil Ghelani, CFA, Senior Vice President, DSP Blackrock and Director IAIP and Saurav Mishra, Head, Local Corporate Treasury Sales, Deutsche Bank India and Director IAIP were the Co-Chair Conference. Paul Smith, CFA, Managing Director APAC & Global Head Institutional Partnership at CFA Institute and Jayesh Gandhi, CFA, Senior Portfolio Manager at Birla Sun Life AMC and President IAIP made the opening remarks (reproduced below) and Vidhu Shekhar, CFA, Country Head India, CFA Institute closed the conference with vote of thanks.

To read more, please visit: https://iaip.wordpress.com/2015/01/14/iic15-rebooting-india-to-realize-its-potential/
#IIC15 - The Coming Consumption Boom from the Emerging Middle Class

**Mumbai, Jan 9th**

Contributed by: Kunal Sabnis, CFA

Speaker: Dr. Vikram Mansharamani, Global Equity Investor & Lecturer, Yale University

Moderated by: Vikas Khemani, President & CEO, Edelweiss Securities

Vikram brought a very different perspective to economics and finance by depicting the world map as an economist would view it. Instead of the area weighted depiction of the land, he firstly weighted land in terms of the GDP. This bloated US, Europe and Japan relative to their actual size whereas India and Africa shrunk. Secondly he weighted land in terms of the population, which reduced the size of US and EU, bloated India, China and Africa. This pointed out to the fact that Population will be the next big asset which will drive growth.

An advocator of demographic dividend, he focused on Asia and Africa where population is expected to grow, driving growth. These regions have seen growing middle class which is necessary to propel the country into the next level growth trajectory. 20 years back 75% of the world's consumers were in developed world which has today tilted towards emerging world with a similar proportion. Based on this he ran in interesting criteria on the economic data (per capita GDP and Population size) of various countries and came up with 15 names which will see a consumption boom. These countries are India, Pakistan, Nigeria, Vietnam, Philippines, Egypt, Indonesia, Ukraine, Algeria, Thailand, Iran, China, Peru, South Africa, and Columbia. The average per capita GDP of these countries is $4100.

Vikram mentioned there is an inflection point in the consumption boom around $5000 per capita GDP which is when the Animal protein consumption takes off.
There is a tendency of an average household to spend more on animal protein foods as income increases. Increase in animal protein intake will increase the demand for food grains since it takes 2kgs of grains to produce 1kg of Chicken, 4kgs of grains to produce 1kg of Pork and 8kgs of grains to produce 1kg of Beef.

To read more, please visit:
https://iaip.wordpress.com/2015/01/14/iic15-the-coming-consumption-boom-from-the-emerging-middle-class/
The behavioral aspects are getting increasing attention in the fields of finance, and particularly in the field of investing. Biases like “confirmation”, “overconfidence”, “loss aversion”, “mental accounting” and “anchoring” have been observed amongst analysts and professional investors. However, behavioral finance is silent on how to deal with it. It is a diagnosis without a prescription to put in Jason's words.

So Jason came out with his model of mind with activities divided between the left and right lobe of the brain. The left brain is responsible for analytical, logical and analytical part of thinking based on facts and numbers. Whereas the right side is more about creativity and intuition. While we have been using the left brain in the field of investing, tapping the right brain can improve returns considerably. He mapped the investing skills to the mind by dividing it into four quadrant with top left having models like CAPM, APM; the bottom left resulting into paralysis with analysis; bottom right representing behavioral finance and finally top right having investment policy statement, intuitive investor etc. The goal is to migrate from bottom left to top right quadrant. The goal is to move from intelligence to wisdom. And the connecting link is intuition.

Intuition is neither system 1 thinking nor system 2 nor should it be confused with instinct. According to modern philosophy it is an immediate apprehension of an object by the mind without the intervention of any reasoning process. From the investing angle it is like identifying relevant information or signal from the vast sea of information or noise.
An advocate of using the whole brain, Jason showed how simple techniques of meditation can help one tap the right brain. One could break out of the negative feedback loop by thinking about the most awesome event in one's life.

To read more, please visit:
https://iaip.wordpress.com/2015/01/14/iic15-the-role-of-the-right-brain-in-investing/
Infrastructures was a great story up to 2011, with maximum projects awarded between 2008 till 2011. Since then our country has seen multiple controversies starting with allocation of spectrum for second generation telecom services to allocation of coal mines. Activism by Judiciary led to near stoppage of decision making by the ruling class, government and bureaucrats. So with the new regime at the centre, which has won strong mandate over development agenda, there is a positive change in sentiments & outlook. And the government seems determined to take things forward be it land acquisition amendments, labor reforms, clearing dues or taking on projects by NHAI, auctioning of coal blocks and so on.
However, according to the panelist there is no change on the ground and it may take some time. There are no new projects or investment proposals in the infrastructure sector. Proposals are only for restructuring or re-financing projects. One big change is that the promoters, like those engaged primarily in EPC (Engineering, Procurement & Construction) work, are willing to shed assets. The private sector has very little cash or equity to fund the projects. Hence government may have to step in as a developer and construct the projects. Once into operation for few years it could sell it to private sector for operating & maintaining the asset.

To read more, please visit: https://iaip.wordpress.com/2015/01/14/iic15-financing-infrastructure-to-reignite-growth/
#IIC15  Mean Reversion of Equity Valuations: The Causes

Mumbai, Jan 9th

Contributed by: Chetan Shah, CFA
Speaker: Russell Napier, ASIP, Independent Strategist and Co-Founder ERIC
Moderated by: Sunil Singhania, CFA, CIO, Equity Investments, Reliance Mutual Fund and member Board of Governors, CFA Institute

After World War 1 the US became a strong economic power. Post World War 2 it became both a strong economic and military power. Yet the P/E multiples (based on Shiller's CAPE) in the US are unable to sustain above 23 times. Accordingly to Russell the mean reversion of equity valuations are fundamentally driven by the power of arbitrage with high valuations triggering higher supply and low valuations resulting into lower supply.

Technology changes or newer innovations result into higher growth rates and P/E multiples. This is observed during 1920s-30s when commercialization of electricity and automobiles changed the world outlook. More recently it was in 2000 when internet & related businesses took off. However, the P/E multiples are unable to sustain as supply comes up faster. We as an investors spend too much time forecasting demand for product or services and little time on estimating supply.

Lower inflation and higher growth environment usually will result into higher P/E multiples. Inflation rising from 1% to 3% doesn't affect the P/E multiples. But above 4% the multiple starts to shrink. Equities get cheap because of deflation.
The US current account deficit, a key driver of global liquidity, is not growing due to some structural reasons like shale oil & gas, rising Chinese wages, and lower spending by baby boomers as they retire. Even the trade deficit with China is stagnant. A rising dollar tightens liquidity and affects those borrowing in dollars. Countries with higher current account deficit or higher foreign denominated debt as percentage of GDP tend to be affected. Most of the Asian countries are comfortable on latter. However, Eastern Europe is currently in a situation where Asia was in 1997-98.

Strong dollar is also bad for commodities and key emerging markets like Russia.

To read more, please visit: https://iaip.wordpress.com/2015/01/14/iic15-mean-reversion-of-equity-valuations-the-causes/
Bengaluru, Jan 25th
Contributed by: M. Ashok & Aneek Saha, CFA

The IAIP Bangalore chapter hosted Steven Birch, President and portfolio manager, William O' Neill and Michael Gardner, CFA, Head of Global Research, William O' Neill, on 14th January 2015 at Hotel Royal Orchid, Bangalore. In a riveting presentation, the speakers provided an overview of the history of the firm and its research practises, explained the CANSLIM strategy (the company's proprietary investing methodology that generated on an average 27.0 percent average annual returns over its history), and elaborated what does an analyst role entail.

The firm named after William O'Neil who is a well-known investor and author of best-sellers such as How to Make Money in Stocks, The Successful Investor and How to Make Money in Selling Stocks Short. He is also the creator of a proprietary investment strategy – the CANSLIM methodology. Bill is an astute investor, trader, a student of history and an active researcher. Bill is said to have a razor sharp memory of charts, patterns and price histories. Coming to the research methodology, one important part of the analysis is the 'Profile Analysis', i.e., looking for characteristics in leaders (stocks, companies) that could be studied and applied to pick stocks early enough. For example Apple in the year 2006 did have leadership characteristics reminiscent of Xerox in 1964, viz., new products. The profile analysis is a mixture of fundamental and technical reading of the stock.
The meat of the analysis is around the acronym CANSLIM – Current Quarterly EPS growth of over 25% (C), Annual EPS growth of over 25% for a 3 year period (A), New Product or New Management or Stock touching 52 week-high (N), Supply – Demand for the stock (S), Leadership – in terms of technical and fundamental -RoE 17% at least (L), Institutional Sponsorship (I) and finally General Market Direction (M). Among the above, the filter for 52-week high does come as a surprise to many. However, what the firm looks for is certain price momentum and support. It negates the corollary, which retail investors hold, that low price is synonymous with cheapness of a stock.

To read more, please visit: https://iaip.wordpress.com/2015/01/25/proprietary-method-of-investing-canslim/
Mumbai, Feb 2nd

Contributed by: Kunal Sabnis, CFA

Mumbai chapter of IAIP hosted Kevin Gin, CFA, Director, Alpha Capital Pte Ltd for the event Beyond Borders, Global Domination – An eye on China on 30th Jan 2015. Kevin's career profile boasts of SVP with Singapore Exchange Ltd., Chief Operating Officer of CITIC Frontier China Research, Director of Kleinwort Benson Securities Asia, Head of Regional Property and Singapore Country research. Kevin started with a perspective of China's growth push in 80s and 90s which transformed Shanghai from a village in 1995 into a financial hub. China is very diverse and made up of different provinces and should not be looked and researched as one country. It is very similar to how India is made up with different cultures and traditions.

China's consistent and unparallel growth led to the demand of robust internal governance systems. This followed anti-corruption drive, checking abuse by the people in power and unified policy. In the last decade China has been striving towards balanced growth to bridge the stark urban rural divide. China's 5 year plans for growth and development have been extremely effective and today focus
on energy conservation, biotech, renewable energy, high-tech equipment manufacturing and alternative energy vehicles.

He mentioned that China's aggression in the recent past has been resource driven rather than political or land mass expansion. But this aggression has led to China being portrayed as a devil but the main intent is to facilitate trade. China trades across the globe and dominates most of the manufacturing sectors. Electronics and Furniture exports contributes maximum to its exports. Kevin feels that many people outside China are unaware of the extent of Chinese internal trade. China today has 6-7 large home grown auto brands such as Brilliance, Saic, DFM, Chery etc. It has big energy companies including companies focusing on solar power. Industrial and Commercial Bank of China is the largest bank in the world in terms of assets. Wanda the largest real estate group in China bought AMC theatres in US which is the largest movie distribution company in the US.

To read more, please visit: https://iaip.wordpress.com/2015/02/08/beyond-borders-global-domination-an-eye-on-china/
Mumbai, Feb 2, 2015

At the 8th Annual CFA Institute Research Challenge of India called IAIP Challenge, IIM Trichy and Symbiosis Pune (SCMHRD) emerged as winners. The India competition (www.iaipirc.org) witnessed 47 leading business schools and more than 229 students across the country competing over the past six months in the prestigious competition, an annual global educational initiative launched by CFA Institute. IIM Trichy and SCMHRD Pune will now go to represent India in the 2015 Asia Pacific Regional Final of the competition.

In India, CFA Institute and its member society Indian Association of Investment Professionals (IAIP) conducted the local competitions. This was supported by Bloomberg as the long-term corporate partner. Five regional winners were contesting the National Challenge viz. Indian Institute of Management, Shillong; S.P. Jain Institute of Management & Research, Mumbai; Indian Institute of Foreign Trade, Delhi; Indian Institute of Management, Tiruchirappalli and Symbiosis Centre of Management and Human Resource Development, Pune.

The teams pitched their equity research on the subject companies to a panel of very senior industry practitioners, in a brief time-bound presentation followed by a rapid fire round of grilling questions making the interaction similar to a life-like scenario. The power packed panel of judges for the India National Final was Saurabh Mukherjea, CFA, CEO of Institutional Equities at Ambit Capital; Neelkanth Mishra, India Equity Strategist at Credit Suisse; R Srinivasan, Head of Equities at SBI Mutual Fund. The triumphant IIM Trichy and SCMHRD Pune teams are now gearing up to represent India at the Asia Pacific Regional Challenge to be held in March 2015 at Manila (Philippines), where they will compete against teams from Beijing, Hong Kong, Indonesia, Japan, Korea, Malaysia, Melbourne, New Zealand, Pakistan, the Philippines, Shanghai, Singapore, Sri Lanka, Sydney, Taiwan, Thailand, and Vietnam. The winner from there will go to Atlanta (USA) for the Global Challenge in April 2015.

To read more, please visit:
Gurus of Chaos: Modern India's Money Masters

Bengaluru, Feb 16th
Contributed by: Srinivasa Sharan, CFA

The IAIP Bengaluru Chapter organized an engaging speaker event presided over by noted research analyst Saurabh Mukherjea, CEO – Institutional Equities, Ambit Capital. Saurabh is also the author of the book – 'Gurus of Chaos: Modern India's Money Masters' released in October 2014. During the event, the speaker shared some of his insights gained through compiling his book and his perspectives about the Indian investment scenario.

Saurabh highlighted the key challenges that have restricted the development of financial market in India such as low financial savings of about 10.0 percent of the country's GDP (although savings as a percentage of GDP is among the highest in the world as most Indians invest their savings in physical assets such as gold and real estate), high costs of capital for companies (around 15.0 percent for mid-sized companies and greater than 18.0 percent for smaller establishments) and poor corporate governance practices followed by companies in general. Saurabh expressed his disappointment in the general acceptance of bending rules to benefit...
a few, a mentality that has long prevailed in India.
The book is a compendium of experiences of seven prominent investors and their approaches in identifying quality companies that create wealth in the long term. Based on detailed discussions with these industry stalwarts, Saurabh found three common aspects that are the foundation of these investors long standing success in a highly competitive industry.
To read more, please visit:
https://iaip.wordpress.com/2015/02/16/gurus-of-chaos-modern-indias-money-masters/
Riding the Bull and Handling the Bear

Mumbai, Feb 24, 2015
Contributed by: Aditya Jadhav, CFA & Shreenivas Kunte, CFA

IAIP's Mumbai chapter hosted Basant Maheshwari for his session on 'Riding the Bull and Handling the Bear' on 19th Feb. The session was very well received with a full capacity audience of fellow charter holders and CFA candidates at the National Stock Exchange auditorium in Bandra. Among others, Basant has a history of identifying several multi-baggers like Pantaloon Retail, TV18, Titan, Page Industries and Hawkins Cooker. In this forum, he brought to the audience over two decades of equity investing experience and shared his insights on investment thoughts.

The session started by reviewing and summarizing world capital market's history over the last 200-300 years and looking at the historical patterns that bull markets have traversed. Basant observed that whenever an index broke out after consolidating for 2-3 years, it tended to appreciate by 3x to 4x over a 20-30% rally. Historical patterns, according to him, suggest that large index rallies are likely to be led by new emerging sector accompanied by dominant themes that will tangibly benefit the human race. For example, around the 1850s it was the Railway network companies in the UK and during the early 1920s it was consumer durables companies in the US that led the rally. Japan led the cheaper, better auto and manufacturing themes and bull market around the 1970s. At the end of 20th century it was internet or dotcom companies and in the Indian context in the early 2000s it was Infrastructure, real estate companies that led markets to newer highs. However during these bull rallies
leading sectors tended to appreciate by 8x-10x. Companies in such sectors are among the candidates to become multi-baggers – growing 30x-40x times of their original size.

One of the investment screening insight that the speaker offered for getting mega sector calls right or for identifying dominant sector bull themes, is to locate complete packs of companies from a sector that are making new highs (every day) or to look at sectors growing at about 30%. Sectors growing at more than 30% for example could be among the leading sectors. However, such sectors could attract the limelight only after doubling or tripling.

Companies in these sectors are seen likely to be expensive on valuation metrics with trailing P/Es of 30-40x and forward P/Es of 20-30x.

To read more, please visit: https://iaip.wordpress.com/2015/02/24/riding-the-bull-and-handling-the-bear/
The Making of India – Game Changing Transitions

Mumbai, Mar 13th

Contributed by: Jainendra Shandilya, CFA

IAIP organized an interactive session with Akhilesh Tilotia, CFA, Associate Director, Kotak Securities leading Thematic Research and author of “The Making of India – Game Changing Transitions”, at the NSE auditorium on March 13, 2015. He spoke in brief about the contents of his newly launched book and also explained what transitions are happening in India and various challenges being faced given the state of country's socio-economic conditions.

Akhilesh explained that low price of services, such as water supply in Mumbai, does not lead to good economic outcomes. Lower prices means little is left to upgrade the infrastructure to meet the needs of increased population or maintain or improve quality of delivery. People end up paying higher costs by calling water tankers, which does not lead to optimal solution. In his words, there is private cost of public failure when important utility is kept at very low prices.

One of the very important tasks for India is to create jobs for its rising youth population. The government estimates that 12 to 15million jobs need to be created in order to employ the rising youth population. This figure is much less than 23-25 million he estimates (inclusive of female population), that will be needed to actually involve the eligible youth population of the country. The education system of India produces too many graduates, far more than the economy needs. Hence, there is a need to change the education system in India which places more emphasis on getting degrees instead of vocational skills which makes one employable.

There is huge disconnect between what the policy makers think and what is the reality. When the NREGA was launched in the year 2006, it did a very good job of
wage enforcement. However, it was not without cost. In fact it created distortion in the labour market leading to little productive work, shortage of labour and pricing out of the women workers from the agriculture market.

To read more, please visit:
https://iaip.wordpress.com/2015/03/15/making-of-india/
This budget has been presented in the backdrop of a statistical boost to GDP growth, fall in inflation helped by soft global commodity prices and a benign global liquidity environment. Expectations have been running high given the political mandate. As Chief Economic Adviser has said that big bang reform are done during the crisis time. The FM rightly mentioned last year that reforms are an 'art of possibility'. Similar voices have been made by various parts of the government recently. One must keep in mind the difficulties faced in getting some of the legislative changes (FDI in insurance, changes in Land Acquisition Act) approved in the parliament. Unlike most of the other countries, the Union Budget in India is not only a statement of government's income and expenditure but also a platform to outline its entire socio-economic and political agenda. Hence the mandatory mention of every section of the society and parts of the country in the Budget speech. The Finance minister did a good job of ensuring the continuity of that “tradition” but underneath there is a visible shift in the economic agenda.

The budget document should be read in conjunction with the report of the 14th Finance Commission, Expenditure commission (to rationalize government expenditure, subsidies), NITI Aayog replacing planning commission and the new template of infrastructure development and natural resource allocation (for example, the coal mines and spectrum auction). From a mindset of 'dole-outs' and centralized planning, we are moving towards a system of “outcome based spending” and “co-operative federalism”. A competitive, transparent way of bidding natural resources instead of ad-hoc allotment is underway. Clarity of contracts with a proper redressal mechanism and risk-sharing by the sovereign substituting the PPP model with inherent flaws will pave the way for the next leg of Infrastructure development. State governments will play a bigger role in the economic development with lot more resources at their disposal and a helping hand.
from the central government.

The Government's intent and efforts on Financial inclusion are laudable given that Indians have been under-banked, under-funded, under-insured and under-secured. The measures announced will also help in giving a boost to domestic savings which will get channelized into productive investments. Measures for financialisation of real estate and Gold market will also transform the saving and investment patterns. These, along with measures to discourage black money creation and promotion of digital finance, will put the “parallel cash economy” on a permanent descend.

Similarly, the budget made incremental efforts to institutionalize Prime Minister's goals of Clean India, Digitization, Make in India, “ease of doing business” and better governance. There is a genuine effort on simplification of not only the tax regime but overall regulatory regime for all stakeholders in business. Could a lot more be done in this Budget? Undoubtedly yes. But as mentioned earlier, Budget speech can't be looked in isolation. As long as the government is moving in the right direction with the right intent and intensity, a lot can be achieved given India's inherent structural strengths.

Fiscal numbers seem credible with realistic underlying assumptions. We think the minister has kept some cushion to actually spend more money on infrastructure if GDP growth or tax buoyancy surprises on the upside. Fiscal deficit at 3.9% of GDP is higher than earlier projection of 3.6%. Nevertheless, a shift towards higher capital expenditure, containing wasteful expenditure and credible assumptions would be looked at positively by the RBI, rating agencies and the markets, in our view.

To read more, please visit:
https://iaip.wordpress.com/2015/03/01/union-budget-2015-16/
Par for the course amid unrealistic market expectations

Feb 28th
Contributed by: Saurabh Mukherjea CFA - CEO, Institutional Equities, Ambit Capital

The second budget presentation of the Modi government on 28 February 2015 was a relative improvement over its first outing in July 2014. For the FY16 budget, the government focused on the following key changes:

(1) Increased indirect tax rates to boost indirect tax revenue growth
The government hiked the services tax rate from 12.36% to 14% and the excise duty rate from 12.36% to 12.5%. These rates can be expected to increase over the course of the next few years in a bid to prepare for general sales tax implementation.

(2) Outlined a roadmap for the reduction of corporate tax rates
The government announced the gradual reduction in the corporate tax rate from 30% to 25% over the next four years and the simultaneous removal of exemptions. The first cut in the corporate tax rate, however, is expected to be administered in FY17, not in FY16.

(3) Curtailed total expenditure growth; incremental INR0.7 trillion allocated to public investments
The government limited total expenditure growth to 5.7% year-on-year (same as in FY15), keeping plan expenditure unchanged at INR4.65 trillion while increasing non-plan expenditure by INR1 trillion or 0.7% of GDP. Compared to FY15, the government decided to allocate an extra sum of INR1.3 trillion for public investments in FY16 (i.e. 0.9% of GDP), with INR0.7 trillion being the capex-related component (i.e. 0.5% of GDP). The sectors that this incremental expenditure is likely to focus on include rural roads, low cost housing, power generation, and railways.

(4) Deferred the goal of achieving a fiscal deficit of 3% of GDP
The government opted to show a higher fiscal deficit of 3.9% of GDP in FY16 as against the initial target of 3.6% of GDP. The government will now target a fiscal deficit of 3% of GDP in FY18.
There is no compelling vision or agenda emerging from the above: if the government wants to revive the economy through government capex, the outlay above won't do it. On the other hand, if it wants to show fiscal rectitude, failing to meet the self-stated fiscal deficit target of 3.6% for FY16 and 3% for FY17 does not make sense. If it wants to signal to India Inc. that the government is on their side, then not cutting the corporate tax immediately (from FY16 onwards) is perplexing.

First, the finance minister allocated an extra 0.5% of GDP explicitly for capex (with a likely focus on roads and railways). Second, he introduced the intriguing concept of “plug & play” projects i.e. projects which will be pre-cleared by the relevant government bodies. Encouraging as these announcements are, the large listed private sector infra companies are unlikely to benefit from them. The main beneficiaries are likely to be the smaller infra companies (e.g. small cap road builders with healthy balance sheets) and public sector entities (such as the National Thermal Power Corporation) with strong balance sheets and a willingness to build for modest ROEs.

The one negative surprise was that the finance minister seems to be saying that all exemptions from the standard corporate tax rate will gradually be phased out from FY17 onwards. This would appear to suggest that corporates (infra companies, special economic zone developers) that currently pay Minimum Alternate Tax (MAT) could end up paying higher taxes post-FY17. However, since many of these MAT beneficiaries are already locked into prolonged tax disputes with the authorities, it is unlikely that they will materially be disadvantaged by the gradual abandonment of corporate tax exemptions. (Foreign companies such as Shell, Vodafone, and Nokia have faced tax cases in India.)

To read more, please visit:
https://medium.com/@CFAasia/india-s-new-budget-4c6ff81ad8d9
Tri-Ratna applied to Investing: what we can learn from our culture?

Mar 24th

Contributed by: Chetan Shah, CFA and Director, IAIP

सम्यंगदर्शन ज्ञान चारित्राणि मोक्ष मार्ग रूद्य तत्त्वार्थसूत्र

Right Faith, Right Knowledge, and Right Conduct Leads One to Moksha. Tatvartha Sutra

The definition of Moksha differs across philosophies. Here it means liberation of soul from the clutches of matter and particles of karma. Accordingly the definition of right faith, knowledge and conduct are those that help you achieve liberation from the cycle of birth & death.

In any field of human enterprise to achieve the goal or objective one needs to have right type of faith, knowledge, and conduct. Applied to the field of investing, the ultimate goal is to achieve good long term risk adjusted returns for the investors and meet their investment objectives.

Right faith…

There are times when you find lots of people telling you that fundamentals do not work, technicals do not work and so on. So I keep wondering why do these people work in the field in the first place? If one does not believe in the concepts how can one ever apply those and do justice to the clients? There are times like the tumultuous 6-7 months starting September 2008 when the confidence of even the best and brightest of professional investor is shaken. And they start doubting about the system, markets, concepts, principles, experts, leaders, corporate executives and themselves. Yet these are the times when people with deep and right faith, right beliefs can take advantage of the distress & indiscriminate selling. I remember how the mood was gloomy at the CFA Institutes' Annual Investment Conference in Orlando during April 2009 what with experts who had correctly predicted impending crisis taking center stage and addressing plenary sessions. The mood was different at Berkshire Hathaway annual general meeting in May 2009 with record 35,000 investors attending and Warren & Charlie bubbling confidence – America comes back, it always comes back. They had the right faith and believed in what they were doing!
Right Knowledge…

Once the faith in capital market structure & mechanism is established, one has to find out what works. And there are number of books on securities analysis, valuations, forensic accounting, portfolio management, regulations etc. available. Add to these market research and sector reports prepared by various industry associations, public institutions and private agencies. Courses like the CFA charter prepare individuals to take on roles of portfolio & investment managers after laying the foundations on securities analysis and valuations across equities, fixed income and derivatives. While practicing as portfolio manager or analyst one learns about numerous businesses, industries & their structures, competitive management strategies, number of economic & industry statistics both historical and forecasts. One is also supported by analysts and experts from various fields to derive appropriate conclusion and judgment. However, one has to realize that there is no end to getting information, which sometimes is costly to get or is not timely or is simply not available as in case of internet or m-commerce start-ups currently in India. Hence understanding the business and concentrating on few critical drivers of earnings & cash flows is the best solutions in an otherwise dynamic economic and business environment across the globe. And keeping regularly updated on the same.

Right Conduct…

Right faith and Right knowledge has to be followed by Right Conduct and Action for the results to be achieved. Applied to investment field, right conduct means that client's interest, fiduciary duty and ethics are kept ahead of any other parameter in the investment activity.

To read more, please visit: https://iaip.wordpress.com/2015/03/24/tri-ratna-applied-to-investing-what-we-can-learn-from-our-culture/
Interesting Articles on Career Management

Should You Take the Job or Hold Out for Something Better?
“We've decided to make you an offer.”
After sending out dozens of résumés and enduring grueling rounds of interviews, these are usually the seven words job seekers hope to hear.
Being offered a job is a big win, but people are hesitant to accept a job when there's a nagging doubt in the back of their minds. While experienced professionals are aware that not every offer will be perfect, they have to weigh whether the offer is better than a current job, worth relocating or taking a pay cut for or is a good entry to a new field.
So how do you decide whether to take the offer or hold out for something better? Here are eight questions to ask yourself before accepting:

Can I do better?
There's a reason you were offered the position, so make sure the job is worth your while. Is it a good opportunity based on your level of experience and skill set? If you think you'll be bored after two days, consider holding out for a better offer.
To read more, please visit: http://www.simplyhired.com/blog/jobsearch/job-search-tips/take-job-hold-something-better/

The Secret Meanings of Job Interview Questions
Not all interview questions are black & white. There’re deeper meanings behind them that add depth to how the interviewer gauges the job-seeker. A single answer can let an interviewer know your organizational skills, collaboration or analytical skills.

What are your hobbies?
When interviewers are trying to get an idea of your personality, a question they may ask could be as simple as “What do you like to do for fun?” They ask because companies are steering away from “corporate America” and are striving for achieving a company culture. Take Google. It is known as a leader in fostering a company culture. Google's website says it prefers to “hire people who are smart and determined, and we favor ability over experience.” For Google, company fit exceeds experience.
When interviewers ask questions unrelated to experience, they are looking to see if you fit in. If you go hiking on the weekends or try new restaurants, you may be an adventurous person who likes to try new things. If you enjoy following new trends within the industry, social media and technology, the interviewer may find that you are more on the analytical side.

To read more, please visit:
http://www.simplyhired.com/blog/jobsearch/interviews/secret-meanings-job-interview-questions/

How to Negotiate Your Salary

I mentioned to an advertising honcho friend of mine that I was thinking of writing a story on how to negotiate for the best salary when applying for a job. My friend, who is in his 50s—we'll call him Don—was inspired to write me a 10-point memo on how he's done it in the past. Don likes to play hardball.

Don's tips include such advice as “If they've decided on you, you got 'em by the balls,” and “Lie about your previous salary.” Among other things, he suggests, go to your present boss, tell him you have an offer, and then “lie about how much the new job is offering and see if you can get more. Negotiate back and forth, depending on which company you want to end up with and how many bridges you want to burn.”

So successful has Don been at manipulating employers that one year he wangled two different six-month severance packages. “I made 12 months in severance pay and worked only five months,” he wrote.

To read more, please visit:
On a lighter note

Intricacies of the Financial Crisis Explained With Humor

The intricacies of the financial crisis are not well understood. The explanation below arrived in my inbox and certainly seemed to assist in debunking the myths of the crisis.

Heidi is the proprietor of a bar in Berlin. In order to increase sales, she decides to allow her loyal customers - most of whom are unemployed alcoholics - to drink now but pay later. She keeps track of the drinks consumed on a ledger (thereby granting the customers loans).

Word gets around and as a result increasing numbers of customers flood into Heidi's bar. Taking advantage of her customers' freedom from immediate payment constraints, Heidi increases her prices for wine and beer, the most-consumed beverages. Her sales volume increases massively.

A young and dynamic customer service consultant at the local bank recognizes these customer debts as valuable future assets and increases Heidi's borrowing limit. He sees no reason for undue concern since he has the debts of the alcoholics as collateral.

At the bank's corporate headquarters, expert bankers transform these customer assets into DRINKBONDS, ALKBONDS and PUKEBONDS. These securities are then traded on markets worldwide. No one really understands what these abbreviations mean and how the securities are guaranteed.

To read more, please visit:
http://moneyover55.about.com/od/financehumor/a/jokefinancialcrisis.htm
Feedback/Request for Articles

Please send feedback or interesting articles like book reviews, humor, lighter reading, personal experiences etc. to be covered in the Newsletter to: kunal.sabnis@gmail.com or iaip-communications@india.cfasociety.org

Join and update your profile

Join and update your profile on the society portal at www.iaip.in. Join IAIP member group on LinkedIn and Facebook by searching for Indian Association of Investment Professionals.

Real time updates at WordPress (iaip.wordpress.com)

Brief notes as well as select photographs of almost all the events since January 1st, 2011 are posted on iaip.wordpress.com. The updates on events are posted soon after the events take place, making it possible for people who haven't been able to attend an event to remain updated. It also has new sections on Advocacy, Book Reviews, expert views on “ExPress” etc. Kindly visit the same and don't forget to provide us your feedback.

Events

Now you could register for the forthcoming event on the CFA society India page (www.cfasociety.org/India) by clicking on the Events tab and Event Registration (www.cfasociety.org/India/Pages/EventRegistration.aspx)

Kindly send in suggestions on topics around which you would like us to organize events. Members, having access to insightful speakers are requested to come forward and help in facilitating events around them. This will enhance value to the member community. Please email to the Programming, Events & Networking committee members: anil.ghelani@dspblackrock.com, JITendra.marchino@jpmorgan.com, or secretary@india.cfasociety.org.

Want to Volunteer?

IAIP is always looking to increase member participation and provide networking

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opportunities. You are most welcome to volunteer for our society to make it more vibrant. It will offer you with an opportunity to interact with members and the investment community, CFA charter holder community and keep in touch with the latest developments in the financial industry. It also provides a good platform for developing leadership skills. It is also an excellent forum for giving back to our profession.

To understand more and join one of the committees reach out to any of us or Volunteer Committee or Elizabeth at secretary@india.cfasociety.org.

You could also fill in the form on the website www.cfasociety.org/india under Membership tab and Volunteer option.

For the complete list of committees and its active volunteers kindly visit page www.cfasociety.org/india under “About Us” tab click on the “Committees” button.
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