The way to make money is to buy when blood is running in the streets.

John D. Rockefeller
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Navneet Munot, CFA
(Chairman, CFA Society India)

“Appa Dipo Bhava”

These were the last words of Gautam Buddha meaning “Be a light unto yourself.” According to him, the real essence of Diwali is that you too should shine with the radiance of knowledge, so that you can illumine the path of many others in life. The significance of Deepavali is the removal of darkness and ignorance from the mind and filling it with goodness. Hope you had a wonderful Deepawali. Wish you and your loved ones a very enlightening and joyful New year.

Looking at the financial markets, this year thus far has broadly been a payback year following 2017’s high returns and unusually-low volatility. The simplest explanation for this pattern is mean reversion. But a more nuanced explanation is the retracement of imbalances in fundamentals. These imbalances have increased the market’s sensitivity to the news flow such as randomly-timed announcements on trade sanctions, a supply-driven surge in oil prices since March, emerging market stress, political risk in Eurozone, and a hawkish US Fed. Add to this the structural element of liquidity concerns emanating from prospects of balance-sheet reduction by central banks, the volatility in the equity and fixed income market is here to stay. Indian markets have also seen heightened volatility owing to the mixed impact of macro headwinds, global factors and domestic specific events. The issue of default in specific NBFC led investors to extrapolate the risks on all NBFCs with asset-liability mismatch and the effect of NBFCs to the financial market in general.

Amidst the market volatility, we shouldn’t lose sight of the bigger picture. India is now among the top 5 economies in the world and likely to remain one of the fastest growing economy for a long time given the structural growth drivers firmly in place. Reforms undertaken over the last few years including GST, IBC, RERA, DBT, Financial inclusion, MPC framework to name a few will assist in improving macro-economic stability and economic productivity over a long period. A significant leap in India’s ease of doing business ranking is a testimony of impact of these reforms. Notwithstanding the current cyclical challenges, we have a long way to go. Disintermediation, Digitalization, Formalization of the economy, Financialization of assets and Financialization of savings are some of the powerful forces underway. They all will lead to channelizing larger proportion of savings into productive assets and deepening of financial markets. We have a humongous need for investments on one side and large pool of savings on the other side. And from that perspective, the role of financial markets is extremely critical. While the mutual fund industry has seen tremendous growth over the last few years, we are also witnessing expansion in the alternative assets industry with newer segments, products and structures. As we could witness at our
Wealth management summit in Mumbai, the wealth management industry is growing rapidly with increased participation by domestic investors while dealing with changes on the regulatory and technological side. I firmly believe that some of the recent challenges in both banking sector and non-banking financial entities will lead to deeper reforms in the areas of development of securitization market, infrastructure financing, alternative assets industry etc. There will be a significant opportunity for our members as financial services industry continue to grow. Our CFA community will play an important role as an active participant as well as a thought leader to ensure that financial markets are ethical, efficient and follow the best global standards. We firmly believe that finance must be for the ultimate benefit of the society.

As you are aware, three of our directors completed their terms in September this year. We remain grateful for the services rendered by Mr. Jayesh Gandhi (ex-President), Mr. Amit Khurana (ex-Vice President) and Mr. Saurav Mishra (ex-Treasurer) and Ms Sonia Gandhi has resigned from the board as she has taken up an assignment outside the country. While acknowledging her contribution to the board and society, we wish her all the very best for her new assignment. Under the able leadership of volunteers like them, our society has grown steadily over the years. Please also join me in welcoming Mr. Abhishek Loonker, Mr. Biharilal Deora and Mr. Rajendra Kalur to our Board.

As we become a larger and larger organisation in terms of number of members, chapters and our ambition in terms of wider reach, bolder voice and deeper impact, we must retain the vibrancy and dynamism of a start-up while building a solid foundation of highest standards of governance and organizational excellence.

Apart from advocacy, our major focus would remain Continuing Professional Development. As we know, Development is much more than continuing education. This includes not only remaining updated and enhancing the technical knowledge but going much beyond that. It’s also about assessment of competency and identifying the gaps and then finding right activities and ways to fill those gaps. It’s about quality and variety of content as well as delivery of that across multiple platforms and in a lot more individualized manner. The right way of assessing the success of that delivery would be to reflect on what we can do now which we couldn’t do before. The idea is that we remain at the forefront of relevant knowledge and skills that improves employability, that helps us in serving clients better, that helps us in meeting regulatory requirements better and we keep evolving as better professionals and leaders.

Dear members, our society is run by volunteers. I thank you for your dedication, commitment and passion of giving back to the profession. Together, we embark on the next leg of our journey. Together, we will create a beautiful future for everyone!

Thank you
“Look at market fluctuations as your friend rather than your enemy. Profit from folly rather than participate in it”.
- Warren Buffett

In hindsight, the year 2018 has certainly provided ample opportunities to implement the sage advice of the venerable Mr. Buffett, at least as far as global financial markets are concerned. Indeed, this year has witnessed a perfect storm of slowing global economy, rising inflation, higher oil prices, and a gloomier market outlook on the back of looming disruptive trade wars and sundry geopolitical issues. The contrast with 2017- when everything seemed to be benign for the global economy- could not be starker. The Goldilocks utopia of 2017 has morphed into a superficial mirage in 2018 for the financial markets.

So what has changed in the past few months to warrant this doom and gloom scenario? Well, for one thing, the global economic outlook still remains reasonably bullish and the probability of recession is still quite remote. However, stock market gains will not be as easy or abundant as they were in 2017, an expected consequence of the now decade-long global equity bull market that appears to be getting rather long in the tooth, and the ongoing slowdown in China. The IMF, in its World Economic Outlook of July 2018, clearly warns that although “Global growth is projected to reach 3.9 percent in 2018 and 2019, … the expansion is becoming less even, and risks to the outlook are mounting”. Waking up to this fact, the benchmark US stock indices experienced such a turbulent period in October, that they wound up ceding all their gains for this year in the space of just one month! Bourses across the world have been bleeding long before the US markets started to correct. Asia and Europe have been in the grip of bears since May 2018. China’s stock market is down by nearly 20% this year. Other EMs have not fared much better.

The reasons for such precipitous declines are not far to seek. It is worth bearing in mind that most of the EM’s are characterized by high external debt, which is largely denominated in US Dollars (USD). This exposes their finances to the fluctuations of the USD vis a vis their domestic currency. So, in a way the economic fundamentals of such economies are indirectly impacted by the domestic economic policies in US, the policies of the US Federal Reserve and also the local politics of the United States. Furthermore, there is increasing evidence of slowing global GDP, coinciding with a culmination point in the US corporate earnings cycle. The ongoing simmering dispute between Italy
and the EU only adds more fuel to the fire. And global geopolitical dynamics appear to be favouring Localization over Globalization. Mercifully, perennial hotspots like North Korea have receded into the backdrop, although the Middle East continues to remain on the boil for various reasons.

The more unsettling prospect is that a potential global trade war involving the US, China and the European Union could hurt economic growth significantly. President Trump has indicated that he is willing to put tariffs on all $505 billion of Chinese goods imported by the US. The increasingly shrill rhetoric ratchets up the prospect of full blown trade war another step. In terms of dollar volume, China will be unable to match the US in a retaliatory tariff war, as US exports to China total less than $130 billion. This could spark off a global “race to the bottom” trade war which would have no winners and many losers (especially EMs). For instance, the US recently revoked duty free concessions on import of 90 products, mainly from EMs like India, Argentina, Brazil, Thailand, etc. Turkey and Argentina are the EMs that have suffered the most this year due to poor macroeconomic fundamentals. On the other hand, the rising interest rates in US would not only lead to appreciating dollar but will also catalyse investment flows back to US. This may well be a double edged sword for EMs, because not only will their currencies depreciate but the investment flow may reduce as well. In fact it may trigger a flight to safety, leaving the EMs in a precarious state.

Part of the disconnect is that the US is no longer to prop up the global markets by itself, stuck as it is between a rock and a hard place. And the ever reliable global growth engine- China- is showing signs of slowing down. This is having a domino effect on corporate profits everywhere. As mentioned earlier, US corporate profits have peaked; the stimulus effect from President Trump’s tax cuts is declining; US wage growth is accelerating, taking a bite out of profit margins. The proverbial last straw is that US shares are intrinsically overvalued, with little leeway for growth. Asian and European shares have more growth opportunities but they are also more reliant on China’s sputtering growth engine. With the Chinese juggernaut stalling at present, the onus is on other EMs like India to step up to the plate and drive global growth higher.

The US exit from the Iran nuclear deal and re-imposition of sanctions on that nation are also expected to portend higher oil prices in general. This (and any other future disruptions in oil supply) will probably trigger higher inflation and throw the spanner in the works with regard to global central banks’ monetary policies. Higher oil prices are a well-documented bane for oil importing countries (like India). The increasing commodity prices (particularly oil) over last few months have led to severe depreciation in currencies of many important emerging markets. Although this is positive for oil exporting economies like Russia, it puts considerable stress on the finances & trade balances of commodity importing countries like India and China. India is touted as the fastest growing economy in the world, however it remains vulnerable to the vagaries of global oil prices. India is dependent on oil imports to meet more than 80% of its requirement, thus rising oil prices not only costs the country more but also leads to a huge import bill, leading to ballooning trade deficits which are hitting the Indian Rupee hard.

From the political standpoint, the main focus is on the US mid-term polls in November. At the time of writing, the Democrats have wrested control of the US House of Representatives, which does not bode well for President Trump, as it could be a harbinger of policy paralysis. In India, the focus has already perceptibly shifted to the upcoming state elections scheduled for later this year, with one eye on next year’s General Elections. Foreign market participants like FPIs are preferring to
keep their powder dry for the time being. Domestic Indian markets are expected to be volatile, at least until the elections are over and the political situation is settled. The value of Indian rupee has fallen more than 10% over last few months, likewise the currencies of other nations like South Africa’s Rand, Korean Won, etc. have depreciated considerably against US Dollar. Not only economic policies, but few other bilateral factors have had a serious impact on currencies. For instance, Turkish Lira is down more than 40% after the recent altercation between President Trump and Turkish President Erdogan over the release of American priest Andrew Brunson. On the other hand, Argentina recently approached IMF for emergency loans, as it had seen a very severe impact on its currency, which lost more than 40% of its value.

To conclude, the Goldilocks tailwinds for the global economy have diminished considerably, only to be replaced by several headwinds which are expected to roil the EM financial markets. This is expected to result in more volatile and muted performance of EM financial assets going forward.

Disclaimer: the views and opinions expressed in the write up are of the authors and written in their personal capacity.
Kazi: For those of us wanting to build a career in the domain of either crypto-currencies or blockchain, are there any suggestions that you have about how do we start going about it? Would you like to suggest any books, blogs that can help us in moving up the knowledge curve?

Gautam: There are three or four resources that I can recommend very warmly. Two of the best books to get the foundational understanding are by the author Andreas M. Antonopoulos. A) Mastering Ethereum and Mastering Bitcoin. Both books will give a nice foundational understanding. In terms of free resources, I would recommend the very well known bitcoin developer called Jameson Lopp. He has created one of the best online resources of almost everything that you would like to know about the bitcoin and crypto. You can find out his content on his website www.lopp.net

Regarding how to develop the knowledge to the next level, there is already a burgeoning blockchain community in India. I would suggest that one start starts attending some of these sessions. Every major city in India has blockchain groups.

Watch the full conversation at: http://Bit.ly/2018BangaloreFTS
Kazi: For those in the conventional careers, given the disruption from technology and new developments, what would be your word of advice for our CFA members and candidates so that they stay on cutting edge and remain relevant on the ocean of changes?

Shyam: The only and most important advice I would give is that they need to embrace the technology to whatever extent possible be it coding, python, machine learning, decision tree and maybe other E- programming skills. These skills would be necessary in this world going forward. Moreover, it is not going to be easy to avoid these things, especially if you are looking at 15-25 years of career ahead of you. Eventually, all this part of disruption will enter to whatever the function on finance you are working in. Hence, the good part with technology is that the earlier you start, the better you are. As a young professional, one would also have the least resistance to learn these technologies. Being on the learning curve is more critical in this new world and one needs to be on the top of these changes. Moreover, I also see the old career path changing big time in the coming future. The current structure of several layers of intermediate managers within organizations may get fundamentally disrupted. The organizations will turn more and more flat in terms of structure and will get away with the intermediate managerial levels. I already see it happening in several industries and it may accelerate going forward.

Watch the full conversation at: http://Bit.ly/2018BangaloreFTS
Manoj: Dr. Horan, you are an expert on career transition, unconscious biases, and cross-cultural leadership. You have also written three books on career management, wish I had known this early in my career. I welcome you to the conversation. Let me start with a very fundamental question. What according to you is a career? Is it only about the title or is there something more to this. How does one go about finding the purpose in her career?

Dr. Horan: That is an excellent question. I think when we first start our career, the title, money and success matter more but along the way, you begin to look out for an impact and start finding a purpose of work. When I say purpose, I refer to meaning and impact. A finding of what gives you energy, what you like to do for hours and hours, can help you understand your interest better.

Manoj: What is your suggestion to professionals who are mid-career and looking for a transition?

Dr. Horan: In my research of Indian context, I found that a lot of parents would tell their children what to do in their careers. At the same time, there is a very strong culture of following this advice. Ironically, what I found that people who were told what to do, are also the people who really struggle with what they want to do. It is crucial that one steps back for a while, probably go back in time and see what they wanted to do in their early years. It may help in a mapping a better future course of actions.

Rinda: Amit, we request you to give some insights into careers for CFA Institute Members and candidates in the area of equity research. As I speak to candidates during the networking events, I often come across a situation where they come from a technology background and with interest in finance have gone ahead and completed CFA exams. They always like to know how easy or difficult it is to move to a finance role from a technology role?

Amit: Well, it is not necessarily very difficult, but one must be clear about the area of finance in which they want to build their career. If it is research, then it is indeed an advantage because of the analytical skills that you have. In fact, one may work better on the valuation models. The research as an area of work has changed substantially. It is no more simply accounting unlike 20 years back. Your understanding of businesses, valuations, regulations, corporate governance issues are far more critical today. You would notice that many of these things are indifferent to the fact whether you come from an engineering or a finance background.

Rinda: How do you see the natural career progression of an analyst? In your view, what is the typical time an intern or analyst would take to move to a leadership role in research?

Amit: Suppose, if you are a lead analyst, you are already lead to a particular sector. If you are a cluster lead, then you lead two or three sectors and make a team of a few analyst and associates
with you. However, once you complete ten years of experience, you have a few essential selections to make. You may want to probably do the same thing for next ten years or perhaps transition to a head of the research role. That is where the next level of preparation starts happening.

Watch the full conversation at: http://Bit.ly/2018BangaloreFTS
Asset Allocation and its importance

Author: Rajeeb Bharali, CFA

Introduction

Much of our thoughts on investments revolve around identifying securities that can multiply our wealth over time. However, we often tend to look at these investment opportunities in isolation which ultimately leads to sub-optimal allocation decisions. The results can be excruciatingly painful at times. As an example, for a balanced portfolio comprising of 60/40 equity-debt allocation, >90% of the portfolio risk is contributed by the 60% equity allocation. Consequences for this portfolio can be damaging enough to one’s wealth creation, especially during times like FY 2015 or Q4 2016 when equities experienced steep draw-downs.

There are arguments like “owing quality companies will protect on the downside.” But it’s important to realize that these companies carry the equity beta too and are bound to get hit during downturns, albeit to a lesser extent than a high beta risky bet. This is where prudent asset allocation comes in to play. As pointed out by Ibbotson and Kaplan in their paper “Does Asset Allocation Policy Explain 40, 90, or 100 Percent of Performance?” Asset Allocation helps explain ~90% of the period-to-period variability of a fund’s portfolio return.

What is it?

Asset allocation encompasses some of the key aspects of investing – portfolio construction, diversification / risk management and exploiting market conditions to one’s advantage. It implies segregating investment ideas and judiciously allocating money to those in an effort to maximize risk adjusted returns within the boundaries of certain objectives and constraints. The ideal mix of assets can be decided subjectively to an extent or with sufficient precision using various optimization techniques accounting for the objectives and constraints to be met. It’s worth noting that asset allocation is not just limited to broader asset classes (equities, fixed income, commodities, FX) but to sub-asset classes and investment styles as well.

A well thought and researched asset allocation plan has become an indispensable part of investing. In its absence, investors run the risk of “putting all eggs in one basket”. While this concentrated approach may at times generate attractive returns, it can easily turn on its head and get hammered. Many investors nearly doubled their investments, thanks to the stellar run of mid and small caps in 2017 as they had bulk of their investments in these stocks. Come 2018, we all know what happened to this space (mid cap and small cap down ~14% and ~17% in H1 2018). Periods
like these are when we realize the importance of diversification and proper risk management which can be achieved by judicious asset allocation decisions.

Asset allocation can take many forms. In its broadest sense, it can be divided into 2 forms:

1. **Strategic Allocation (SAA):** This is the long term allocation target, also known as neutral allocation. SAA is mainly intended to align the portfolio with broader guidelines and objectives. It is the result of combining investors’ circumstances, objectives & constraints and long term capital market expectations (expected returns and volatility). However, strategic allocation isn’t static as many would think it to be. Significant financial changes or life events (job loss, childbirth, marriage etc.) can alter the allocation limits. As such, revisiting strategic allocation limits at least on an annual basis is strongly recommended.

2. **Tactical allocation (TAA):** This is short to medium term in nature and is usually intended to maximize the benefits from investments by capitalizing on any market dislocations. Market, as we know, goes through various cycles/phases and not all periods are conducive for all strategies and styles. Backed by thorough research, one can potentially identify entry and exit periods to shift allocation in and out of asset class/sub-asset classes/styles. It’s worth noting that tactical allocation changes are not used purely for return enhancements. Its role in risk management, diversification and downside protection is of utmost importance. As an example, the low volatility anomaly has yielded positive results over time, especially for downside protection. In periods of heightened risk, one can potentially shift some of their high beta exposure to low volatility names and de-risk the portfolio.

While this may look simple and plain vanilla, tactical allocation comes with its fair share of uncertainties and probabilities of success. Hence, there is a greater need of thorough research which can guide the allocation calls with a fair degree of confidence (nothing in markets can be 100% accurate!). For example, given the nature of low volatile stocks, this strategy has a structural bias towards rate sensitive (utilities and telecom industries involving higher capex needs) and defensive sectors. Owing to this tilt, the strategy has been proven to be sensitive to interest rates regimes and hence, shifting to low volatility names might not work out on expected lines during rising rate environments. This simple example demonstrates some of the finer details and nuances of tactical allocation calls which needs to be addressed.

**What drives allocation decisions?**

While strategic allocation is mostly based on an individual’s characteristics (goals, risk tolerance, current financial health, age etc.), tactical allocation encompasses a wide range of variables. A keen focus on and understanding of the macroeconomic landscape is often regarded as the starting point. Impact of macro drivers vary by asset classes and styles of investing. A thorough research and in-depth understanding of these drivers is what determines the suitability of allocations. For example, value as a style of investing has a proven long term track record yielding wonderful results for long-term investors but value too has seen its ups & downs across market/business cycles. Research suggests it is advisable to Overweight growth vs. value during the expansion phase. Economic rationale for this: during the expansionary cycle, the economy has come out of a trough, rates are low, credit lending increases which enable companies to restart
their Capex cycle and focus on newer areas of growth. This results in job creation and wage growth which leads to increased demand of goods and services and rising consumer spending. All these developments point to a risk-on market in which growth as a style of investing is well rewarded. Hence, instead of sticking to value investing throughout the market cycle, one can implement a tactical allocation call whereby he goes Overweight and Underweight on value and growth depending on where the economy stands in the market cycle framework.

As another example, the use of commodities as an asset class is important as it acts as a hedge for unexpected inflation (most commodities except agriculture commodities). Also, owing to its negative correlation to most traditional asset class, it can act as a good diversifier in a portfolio. The approach of taking exposure may also result in difference in outcome. While a direct form of commodities investing (using derivatives) can give pure play commodity beta exposure, trying to play a commodity theme using stocks of companies involved in either production/consumption of those commodities can have divergent results as one implicitly takes a sizeable equity beta exposure through such investments. Result of this is a much dampened inflation hedge which is not what one would have expected.

**How to allocate?**

While the finer details of ways to identify appropriate asset mix is beyond the scope of this article, methodologies of approaching the asset allocation vary based on goals and mandates of portfolios. A pension plan approaches asset allocation from the perspective of Asset Liability Management (ALM) and Liability Driven Investment (LDI) wherein allocations are made in a way to match the stream of future cash outlays from plan sponsors. This is starkly different from how a retail investor would approach the allocation decision where the focus is mostly on maximizing risk-adjusted returns rather than balancing assets and future liabilities. Hence, it is critical to first identify the purpose of an investment portfolio and then plan allocations accordingly.

The next step comes with the mathematics behind allocation. One naïve thumb rule that we often come across is that one should allocate an amount equal to one’s age into fixed income securities. But they never tell us in what instruments should we invest in. Do we go passive and invest in ETFs and Index/Liquid Funds? Even if we accept this crude way of allocation, it is imperative to decide on what kind of fixed income or equity securities should we invest in. That’s where optimization and simulation techniques come in handy. Perhaps the most widely used (abused) method has been the MVO process based on Markowitz’s Efficient Frontier Theory.

While this method looks good on paper, shortcomings far outweigh the advantages and it is nearly impractical to implement in the real world. Using a probabilistic, scenario based and path dependent optimization/simulation technique can greatly assist in estimating the right mix of assets in the portfolio given the set of objectives and constraints. Monitoring and adjusting for various risk exposures is paramount to avoid any unintended biases creeping into portfolios. Having said that, we should also bear in mind that no simulation tests or predictive analytics will ensure 100% accuracy and there will always be room for statistical error. But nevertheless, these are tools that can greatly assist us and help in minimizing the probability of undesirable outcomes in our quest of wealth creation.
Indian Context

Speaking in the Indian context, to the best of my knowledge, Asset Allocation as a discipline of research and focus area hasn’t really taken off yet. Much of the talk in the industry has been around spreading one’s allocation across equities and fixed income in pursuit of diversification. While we can definitely appreciate the level of simplicity brought about by some of the online platforms (administering a questionnaire and recommending target asset allocation), asset allocation is far from such simplicity and demands significant rigor and research to be implemented.

Being able to precisely identify drivers of strategy performance and tie it up with macroeconomics is one of the key pillars of asset allocation research. To that extent, it is important to have clean and timely data which is a major roadblock in the domestic market. As the market develops and matures, we can potentially see the need and emergence of this new research focus in India and help investors preserve and create wealth for the long term.

Disclaimer: the views and opinions expressed in the write up are of the author and written in his personal capacity.
What is the best time to prepare for the retirement?

Contributed By: Sumit Duseja, CFA (Co-founder Truemind Capital Services)

A study of 1,000 senior citizens conducted by LendEDU in the US reveals the biggest regret among elders in not saving enough for retirement. The concerns are not much different from what can be witnessed in urban India. The situation may be worse in India since the financial literacy is very poor compared to developed economies.

The worst feeling post retirement is to ask for help from others to meet your basic requirements or to compromise with your lifestyle. Moreover, nobody wants to lose self-respect at any stage of life. However, simple planning can help you avert such a situation post retirement.

The biggest reason for failing to appropriately prepare for the retirement is the wrong notion that the retirement planning should start a few years before the retirement. Another reason is procrastination. In reality, the best time to start preparing for the retirement is TODAY.

Why Today? For the simple reasons – inflation and the power of compounding. Let us see how inflation affects our expenses and how the power of compounding can be used to trounce it.

Inflation: A silent monster

Inflation is the most under-rated threat that is always feeding on your money, reducing your purchasing power. It is under-rated as it grows gradually without making one realize the severity of its impact in the long term.

Read More
https://cfasocietyindia.com/2018/10/03/what-is-the-best-time-to-prepare-for-the-retirement/
The investment and finance industry in India has been witnessing unprecedented growth, over the last few years, backed by the large tailwind from domestic savings. Domestic investors have been pouring record amounts of funds into financial assets, mutual funds, Insurance Products, AIFs, PMS, Bonds, deposits, etc as they recalibrate their savings allocation away from real assets such as gold and real estate. Backed by this huge influx of domestic savings, the investment and finance industry is experiencing widespread growth. Almost every segment of the industry is growing as leading companies see opportunities for business expansion and new product development. At the same time the investment and finance industry is itself undergoing rapid changes, riding on the wave of growing digitization, innovations in products, globalization, regulations and guidelines and the shift of knowledge-oriented processes into automation, blockchain and AI. In this fast evolving and dynamic investment environment, pursuing a CFA charter is a great professional decision, but the key question is will it be sufficient for a prosperous career? How should CFA charter holders and candidates prepare themselves for the dynamic environment and enhance their career opportunities? How can corporations build competitive advantage through employer branding, talent acquisition, and retention strategies.

The Financial Talent Summit held in Bengaluru, on September 29, 2018, was an attempt to answer these questions and more. For students and jobseekers, it was an opportunity to meet with leaders from the investment management industry, gain knowledge of career opportunities in Global Finance, and network with peers.
Financial Institutions from potential employers and get information on how the CFA designation, CFA Institute and CFA Society India’s career tools help in accelerating one’s career.

For employers, it was an opportunity to interact with a niche talent pool of CFA candidates and charter holders, meet with fellow members of the industry and share ideas and updates on human capital and to share insights and influence the future of the industry.
Insights from CFA Society India Events
The relation between UK and India, for trade and money, has a long history. UK and India continue to work closely in cross-border investments. In this talk, Sam Prasanth Kumar, Prosperity Adviser at British Deputy High Commission, shared the various programs for investment and collaboration between the two countries in various domains, including fintech.

Sam fosters relationship and facilitates partnerships between UK and India public and private sector institutions in Ease of Doing Business, Smart Cities and Financial Services, including FinTech. He is well experienced in working with non-profit organizations. He holds a Masters’ degree in Social Work and a Bachelors’ degree in Commerce from Loyola College, Chennai.

Big Partner

UK investments into India accounts for 1 in 20 jobs in the formal sector. Likewise, India invests more into the UK than it does into the rest of the EU combined. Last year, Indian firms created the second largest number of new jobs in the UK (Tata Global Beverages, HCL, Reliance, Axis Bank, ICICI, TVS logistics, HCL Insurance BPO, Dr Reddy’s Laboratory, to name a few).

Indian Ministry of Commerce & Industry data shows that UK goods exports to India grew by 31.2% in FY 2017-18, at $4.8 billion while imports from India to UK was up 13.6% at $9.7 billion. Research
collaboration between UK-India has been on an exponential growth track – from almost 1 million in 2008 to around £400 million by 2021.

There have been many successful partnerships at the company level. For example, Hero Global Design (Hero Cycle) and 42 Gears Mobility Systems from India setup operations in the UK. Westminster Healthcare and Dental Nursing academy of New College Lanarkshire established operations in India. There is also interest from Indian companies to raise funds in the UK through Masala bonds.

**Many Programs**

There are many awards, grants and programs that help foster relations between the two countries. One significant initiative is Chevening Fellowships/Scholarships. Others of interest include Tech Rocketship awards and the recently launched FinTech Rocketship Awards for entrepreneurs. Another interesting award is the India Emerging Twenty (IE20), created by London & Partners and launched by the Mayor of London. Its mission is to discover 20 of India’s most innovative and high-growth companies to help them grow to London.

*Read More*

Field notes of a FinTech Entrepreneur

Contributed By: Meera Siva, CFA

August 3, 2018, Chennai

FinTech is all the rage now; but imagine starting a fintech venture in Chennai a decade ago. In this candid, interactive session filled with laughter and sense of awe, Srikanth Meenakshi, co-founder and COO of Funds India shared his experiences as a fin-tech entrepreneur and mutual fund investing/advisory. FundsIndia.com is an online financial services platform for investors, since 2008. It manages an AUM of Rs 5,400 crores of about 2 lakh customers, pan India and for NRIs – making it the largest FinTech platform for investment services, by a large margin.

Srikanth started his career with IBM global services and moved to a start-up setting up an online brokerage platform called Folio Investing. He then worked at Fannie Mae, handling securitization and capital markets. Srikanth received his MS in Computer Science from Oregon Graduate Institute, USA.

Early Years

Srikanth found the problem space in 2008 based on his pain in making mutual fund and other investments, as with many entrepreneurs. “I also needed a job, having moved to India from the US”, he adds humorously. The original problem they wanted to solve was to create a financial plan for investors. But it changed to online mutual fund investing.

Srikanth noted that their venture was based on technology and this needed substantial investment in the early years. He and his co-founder had each invested INR 50 lakhs each from their savings in the venture. They had to add to this and there was always need for more money. Raising money was not easy and at one point they had come up with an exit plan – how to shut operations gracefully and continue servicing exiting investors. It did not come to that, but it was very close, he says.

He said that customer confidence, from clients who had never met the team, kept them going during difficult times. “The faith they had in sending the cheque in our name, gave a lot of validation to the idea”, he says.

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Future of Hedge Funds in Asia
Contributed By: Team Voyage Capital, IIM Indore
22 August 2018, Indore

Voyage Capital, the Investment and Equity Research Club of IIM Indore hosted the session on “Future of Hedge Funds in Asia” conducted by Mr. Jainendra Shandilya, CFA, CAIA, in collaboration with Indore Chapter for CFA Society. Mr. Shandilya is an esteemed Faculty Member at the National Institute of Securities Markets (NISM). He has represented SEBI before the Central Information Commission for ensuring compliance under the Right to Information Act, 2005. He holds Master’s Degree in Economics and is also CFA and CAIA charterholder and is the Chapter Head of CAIA India. The event also witnessed esteemed guests like Mr. Pramod Saraf, CFA and Director of Swan Finance Limited and Mr. Gaurav Somani, CFA and Director of Finoptions.

In this session Mr. Shandilya busted the prevalent myths of Hedge Funds being highly risky, illiquid and an irregular vehicle for investment. He compared the Hedge Funds in India, Asia and Western World and the results were astonishing. Indian and Asian markets, despite having an abundance of Mutual Fund schemes, are still at a very nascent stage in terms of Hedge Funds. The total corpus of Hedge Funds in the Asia Pacific region is around $157 billion, whereas that of Western Countries is close to $3 trillion.

He explained why hedge funds were able to deliver superior returns over traditional investment instruments such as mutual funds. The most important reason for the same was the use of leverage, capacity to go short and the high amount of due diligence into each potential investment. Another important aspect of the discussion was related to the advancement in technologies which have led to algorithmic trading and other software based portfolio management schemes. All these have posed a serious threat to the jobs of traditional fund managers, which brings Hedge Funds in positive light as they are more personalised.

He discussed about the scope of Hedge funds in India and the future job opportunities and roles. He shared his positive outlook towards the Industry by citing the fact that at present around 5000 mutual funds in India function with a corpus of more than $300 billion, whereas only 200 hedge funds currently operate in the country having an approximate corpus of $1 billion. Thus, a high rate of growth can be expected in the next 5-10 years.
Fragility and optionality in business models
Contributed By: Rajni Dhameja, CFA
August 4, 2018, Mumbai

CFA Society India organised a session on August 04, 2018 on “Fragility and optionality in business models” by Prof. Sanjay Bakshi.

Key take-aways are as follows.
Fragility as defined in Cambridge dictionary means the quality of getting easily damaged. In business context fragility would mean the business being vulnerable to the fragility. There are various factors which can make business vulnerable to fragility. This fragility can come from various sources, few of those are discussed below:

1. Lack of entry barriers : Lack of entry barriers causes fragility in the business in a way that the business loses its competitive advantage eg: Go PRO
2. Business where the both input and output is commodity are susceptible to fragility. On the other hand the business where the input is commodity and output is brand, has competitive advantage as the brand can give it the pricing power.
3. Disruption through innovation can bring fragility to the existing business
4. Dependence on one or few customers, dependence on govt. subsidies, dependence on kindness of others can be a major source of fragility in the business
5. Dependence on the price of something that is volatile and beyond control can bring out the fragility in the business
6. Rigid cost structures can also cause the fragility in the business
7. Gambling tendencies in the business can bring about the fragility

As can be seen from above that fragility can stem from various sources hence in few cases it becomes inherent part of the business. Now the question arises how to deals with it.

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India’s Nifty index peaked at 11,760 on 28th August and has corrected 12% since then. The correction was triggered by events in the financial and oil sector but had a contagion effect across sectors. FIs, who broadly held on to Indian equity up-until August, have sold nearly US$ 5 billion in last two months as they may have lightened their over-weight position in the financial sector.

Default by IL&FS acted as a catalyst and led to increased concerns on liquidity and asset-liability management (ALM) mismatch for other Non-banking financial Entities (NBFE). In the wake of rising interest rate cycle, these wholesale funded finance companies had increasingly resorted to short term commercial papers (CPs) to lower their overall cost of funds and improve profitability. Total CPs outstanding had risen by ~ 50% in 1H FY19. With sentiments turning negative for the sector, the refinancing risk is high for those having significant ALM mismatch.

Given the prevailing ALM mismatch and uncertainty around funding availability, NBFEs would divert their focus to address the liability side issues and go slow on expanding their asset book. This transition would also imply rise in cost of funds and compression in profits. NBFEs should work fast to tide over the issues as the slower credit growth is gradually percolating into concerns on their asset quality as well.

Adequate system liquidity has been a key enabler of high growth and return on equity for the NBFEs over the last couple of years. However, liquidity has been tightening on all fronts. The balance-sheet of the key four central banks (US, UK, Eurozone and Japan), which had expanded by US$ 11 trillion since global financial crisis is slated to trim down. India’s external account (BoP) is staring at deficit for the first time in last seven years implying reduced availability of external capital. Further, domestic liquidity situation has tightened as well. While the system credit to deposit ratio is at ~75%, the loan to deposit ratio for some of the private banks is even higher (+90%). Hence, the virtuous cycle of high growth funded by large wholesale borrowing is challenged. That said, some of the companies with relatively stronger liability footings should be able to tide over.

In such an environment, banks with stronger retail deposit base have a competitive advantage vis-à-vis wholesale funded banks\NBFEs. Further, these banks have opportunities on multiple fronts – absorbing the NBFE’s portfolio at a decent yield, better pricing power in lending to NBFEs and capturing the market share vacated by these entities.

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https://cfasocietyindia.com/2018/11/02/market-outlook-14/
Ego Is the Enemy of Good Leadership

By Rasmus Hougaard and Jacqueline Carter

On his first day as CEO of the Carlsberg Group, a global brewery and beverage company, Cees ’t Hart was given a key card by his assistant. The card locked out all the other floors for the elevator so that he could go directly to his corner office on the 20th floor. And with its picture windows, his office offered a stunning view of Copenhagen. These were the perks of his new position, ones that spoke to his power and importance within the company.

Cees spent the next two months acclimating to his new responsibilities. But during those two months, he noticed that he saw very few people throughout the day. Since the elevator didn’t stop at other floors and only a select group of executives worked on the 20th floor, he rarely interacted with other Carlsberg employees. Cees decided to switch from his corner office on the 20th floor to an empty desk in an open-floor plan on a lower floor.

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On a Lighter Note

1. These two women were walking through the forest when they hear this voice from under a log. Investigating, the women discovered the voice was coming from a frog:

   “Help me, ladies! I am an investment banker who, through an evil witch’s curse, has been transformed into a frog. If one of you will kiss me, I’ll be returned to my former state!”

   The first woman took out her purse, grabbed the frog, and stuffed it inside her handbag. The second woman, aghast, screamed, “Didn’t you hear him? If you kiss him, he’ll turn into an investment banker?”

   The second woman replied, “Sure, but these days a talking frog is worth more than an investment banker!”

2. The market may be bad, but I slept like a baby last night. I woke up every hour and cried.

3. Why don’t sharks attack bankers? Professional courtesy.

4. An investment banker said he was going to concentrate on the big issues from now on. He sold me one in the street yesterday.
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**Programs and Events**

Now you could register for the forthcoming event on the www.cfasociety.org/India page 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 Continuing Professional Development (CPD) committee members: abhishekloonker@gmail.com or secretary@india.cfasociety.org

**Want to Volunteer?**

CFA Society India is always looking to increase member participation and provide networking 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 Mansi and Shefali 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. Complete list of committees and its active volunteers kindly visit page www.cfasociety.org/india under “About Us” tab click on the “Committees” button.