ELIXIR EQUITIES PRIVATE LIMITED

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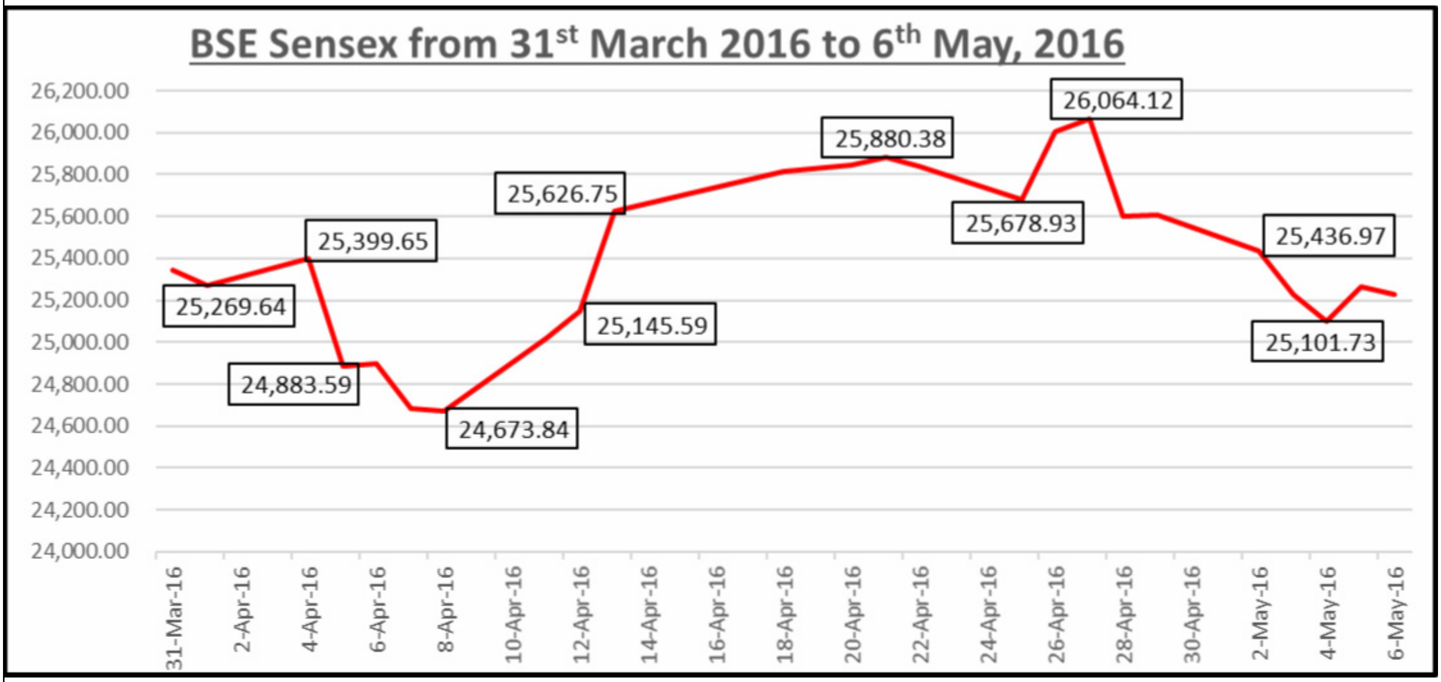
Sideways Movement in April



Markets Trade Range Bound

After the 10.17% up move in the BSE Sensex, in March, April turned out to be flattish with the broad market index moving up by a mere 1.04 %. FII flows remained positive at ` 8,399.64 crores, but DIIs net sold ` 2,328.28 crores. The key highlight for the month was the monsoon forecast. The Indian Meteorological Department and several private independent weather forecasters have predicted a bountiful monsoon this year and that is great news for the Indian economy. A boost to agricultural output will not only benefit agro related industries such as fertilisers and agrochemicals, but also improve rural demand which has been sagging due to poor rains in the past two years and scaling down of MNREGA.

Many Positive Triggers in the Near Future

As we look forward, the next few months could turn out to be quite exciting for the stock market. There is off course the monsoon and then there is the possibility of further ¼ to ½ percentage cut in interest rates and finally the revival in corporate profits as many industries now appear to be on a cyclical upswing. The icing on the cake would be if the GST Bill is passed in the Rajya Sabha, perhaps in the Monsoon Session.

If the March quarter results and more importantly, management outlook, are any indication, many sectors

Normal rainfall predicted this year: Government
04-05-2016| Source:PTI
"During the current year (2016), normal or above normal rainfall has been predicted by many forecasting agencies, including India Meteorological Department. No forecast assessment for pre-**monsoon**

Watching inflation, monsoon to decide **interest rate**: Rajan
19-04-2016| Source:PTI
RBI is closely watching inflation data as well as monsoon rain forecasts for deciding on further **interest rate** cuts and the monetary policy still remains in the "accommodative mode

that are domestic focused are witnessing a cyclical upswing. Consider the following facts:

Key Domestic Oriented Sectors Doing Much Better

Most Auto companies have seen improvement in sales and profits. Even the two-wheeler segment, which had been hitherto lagging seems to be reviving. Higher sales volume in this important industry augurs well for auto ancillary, storage batteries, tyre companies and lubricants manufacturers.

Cement industry is also in much better shape with consolidation leading to better price discipline. Lower input costs and gradual pick-up in demand is guiding to better capacity utilization. The long term fundamentals of existing players are good as barriers to new capacity creation have only increased in the past few years.

Volumes in the FMCG industry are in single digits, but lower input costs have led to margin expansion. If rural demand picks up, then trends in this sector will further improve. Mature segments like soaps, detergents and toothpaste are flat but food, personal care and home products are displaying good growth potential.

Within the Banking Sector, the private sector banks, with a few exceptions continue to do well. The PSU banks are under pressure due to their non-performing assets and although it is difficult to assess when this problem will be resolved, many analysts are of the view that bad loans provisioning for the current year (FY17) will be lower than last year (FY16). The RBI has been proactively trying to pressurize banks to clean up their books by making larger provisions and recognizing stress even within the assets they have been classifying as 'performing'. This is to prevent the NPA problem from further worsening.

After years of slowdown, beaten down sectors like sugar, steel, road construction, commercial real estate, electrical equipment and capital goods are showing better trends. Although there is no across the board improvement in these industries, current price trends, order build up and outlook of the consuming industries are much better.

The only sectors which are not that promising are the Telecom sector, where competition from Reliance Jio and acquisition of spectrum has negatively impacted the financials, and residential real estate where the inventory build-up remains high.

Our Outlook on Stocks

We have been positive in our outlook for equities for the past two months and the trends discussed above have only increased our conviction to increase allocation to stocks. Investors must proactively develop a long term strategy for equities. Not only are we optimistic on equites but also view the present time as

Auto companies gain after robust April sales data

Maruti Suzuki India Ltd rose as much as 1.03% after its April vehicle sales went up by 13.3... - 3 May, 2016, 12.32PM IST

Experts' view: Recovery in cement sector

Experts on ET Now join to talk the recovery seen in the cement sector. -11 Apr, 2016, 10.28AM IST

Rain God likely to smile on FMCG, consumer discretionary stocks

Consumption stocks could drive market in coming days if the Skymet Weather Services' preliminary projection of a normal monsoon this year were to come true. - 28 Mar, 2016, 02.38PM IST

Healing of NPA wounds, revival signs in the economy to help banks bounce back
Chiranjivi Chakraborty, ECONOMICTIMES.COM Apr 27, 2016, 09.42AM IST

most opportune for investors.

The usual caveats about turbulence in global markets causing sharp corrections in our markets go without saying, but on the balance, we remain very optimistic and expect a strong rally over the next 3-4 months.

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The topic of this month's Smart Investing Series is ***"Portfolio Approach to Investing"***

The average returns generated by the portfolios under our management are as follows:

				ANNUALISED RETURNS AS ON		06/05/2016
Date From	**06/04/2016**	**05/02/2016**	**05/11/2015**	**07/05/2015**	**07/05/2013**	**08/05/2011**
	1MONTH	**3 MONTH**	**6 MONTHS**	**1 YEAR**	**3 YEAR**	**5 YEAR**
Elixir Equities Portfolio Performance	**4.44%**	**5.91%**	**-0.60%**	**3.98%**	**21.53%**	**16.17%**
SENSEX	**1.15%**	**3.48%**	**-4.77%**	**-6.26%**	**4.71%**	**3.03%**
NIFTY	**1.46%**	**4.28%**	**-3.58%**	**-5.03%**	**6.69%**	**3.67%**
Performance comparison	**2.98%**	**1.63%**	**2.98%**	**9.01%**	**14.84%**	**12.50%**

Dipan Mehta

SMART INVESTING – VI
<u>- Portfolio Approach to Investing</u>

Common Mistakes in Investing

The common questions asked to most stock market pundits is "*Give us some good tips*?"; "*Are there any hot stocks for investing*?" Sometimes, questions are on some XYZ stock which may have been in the news or heavily recommended in the media or by the broker of the investor. Usually, the expert may give one or more stock recommendations on the spot and the novice investor may invest in it depending upon the liquidity at hand. There is no thought given as to what the risk profile of the stock is or for that matter the risk taking ability of the investor. More seriously, he /she generally doesn't consider what percentage of the portfolio should be invested in that share and after buying, whether any sectoral skew or risky stock concentration has been created.

This disjointed oriented approach to investing has many flaws and is generally responsible for the poor performance of the portfolio. What emerges is a very unbalanced portfolio, which may do well for a brief period of time but may underperform significantly once the stocks therein lose momentum and become out of favor.

Unbalanced, because

- the ratio between large cap and small cap may be inappropriate
- individual stock concentration may be undesirable with one or two stocks accounting for large part of the value of the portfolio
- all the performing industries may not be adequately represented
- the portfolio may be too risky for someone with a low risk appetite and too safe for another who may have the propensity to take on more risk.

Smart investing as a solution to this common mistake which investors make.

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Risk Profiling of the Investor

At the outset, it will help immensely if the correct risk profile of the investor is assessed.

Whether the investor's portfolio should be safe or risky will depend upon:

- Age of the investor and number of dependents
- Monthly savings
- Large future expenses
- Percentage of savings in fixed income
- Exposure to other risky assets such as property

Portfolio Planning

Once the risk taking ability is ascertained, then the

1. Large cap-small cap ratio should be set
2. Sector allocation is determined, and finally
3. Stock selection process begins

This step by step, methodical and disciplined approach to investing should lead to a good well diversified, risk appropriate, yet outperforming portfolio. Such a collection of stocks has the potential to create long term wealth for an investor.

This system or strategy for investing in stocks is defined as the *"Portfolio Approach to Investing"*.

Portfolio Approach for Better Returns

The principle advantage of this strategy is that it helps deal with volatility in stocks as it is well diversified and in sync with the risk profile of the investor. It also builds a strong foundation for sound long term investing.

There is broad consensus that equities deliver superior returns. However, the two major drawbacks:

- High degree of volatility, which tends to tire out the investor due to alternating phases of euphoria and despair
- Stock selection as there is great degree of disparity in the returns that individual stocks generate.

Professional investors have experienced this volatility and are seasoned players. Invariable their stock picking skills are also above average and hence they are able to neutralize these two challenges in equity investing.

For the amateur investor, following a '*Portfolio Approach to Investing*" will help in dealing with these two risk factors. This is a very useful tool in the hands of the novice investor and he / she too can take advantage of the higher returns which equities can offer over a long period of time.

Dipan Mehta

POST-TAX RETURNS (CAGR) OF ASSET CLASSES

	5-year	10 year	15 year	20 year
Equities	11.0	17.0	13.6	12.9
Gold	9.0	12.9	11.0	8.4
Bank fixed deposit	5.7	5.2	5.1	5.5
Property	8.0	13.4	10.8	6.2
CAGR in WPI index	6.2	5.9	5.7	5.5
Avg inflation for the period	7.4	6.3	5.9	5.7

in % Source: Morgan Stanley

ESTIMATED EQUITY INVESTMENTS BY HOUSEHOLDS

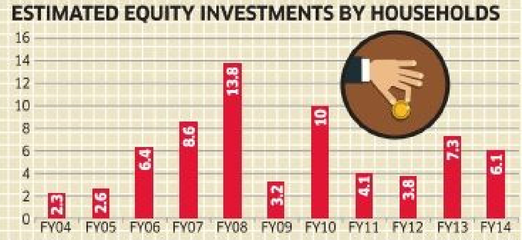

Fig in $bn Source: IIFL