The LightHouse

YOUR GUIDE TO BUILD WEALTH & BE FREE

| April 2023 Edition |

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DISCLAIMER

All content in this newsletter is for information and education purposes only. It should not be considered as a recommendation or investment advice.

A NEW AGENDA FOR THE FINANCIAL YEAR 2023

The new financial year 2023 has started. It is time to make new beginnings.

Today, I would like to share with you all that I learnt about investing in all these years. It worked for me, I hope it works for you too.

Here's my Master List.

Remember, if an investment is not offering you a **guaranteed return**, then just ignore it. Risk is for losers. I need certainty.

Hence **my favourite investments are** Bank Fixed Deposit, PPF, VPF, Post Office Deposit, NSC, KVP, Gold, Real Estate. They not only protect you from the curse of inflation (rising prices) but also can make you a millionaire (crorepati) over time.
For decades, they have been any investor's first choice, why should it be any different now?

All this long term investing talk is bull. Who has seen the long term? **In the long term we are all dead.** You have to live for the moment, every day. So, day trade in stocks, futures and options. That is the only sustainable way to make money, that too on a daily basis. Start counting.

With the same logic, there is no point planning for retirement. We have no clue what the future holds. Planning is failing.

Insurance is the best investment, I swear. Endowment, Money Back policies, Pension Plans – I wish I could hoard them enough. Talk about a ULIP – I believe it is the God's Gift to mankind. It is one solution to all my investment problems. It gives me so many benefits – tax-savings, safety and return – that too at the lowest possible cost. Wow!

Let me tell you something. **Never buy Term insurance.** Never means never. It is only the biggest fool who would put money in something that would not give any return. They give all this gyaan about protection and all but without a return what is an investment.

Yes, mutual funds can be considered but not really sure. I think **SIP is the best mutual fund.** Yes, I can SIP it, like my favourite tea. 🙂

Always trust the product seller for investment advice. For example, the insurance agent. Who can know the product better than her? She can understand your needs and then recommend the right investment product. Don't worry if she pockets a nice commission. She is helping you after all. Be generous please.

In fact, I would say **go and see your bank relationship manager**. No one else ever had your best interest in mind. She has access to your complete banking information to recommend the best investment options for you. I am happy my bank is getting all those commissions and offering me those wonderful services, that too FREE. Complete WIN WIN.

Of course **you cannot miss out the sage advice of newspapers, magazines, influencers, and the fantastic TV shows**. The experts there are Gods of the investing world. They know every move of the market, the direction. Their predictions can never go wrong. You got to believe them, do what they say. Most of the time you will lose money but yeah the one time you will make it, it will be big. If nothing at all, the sheer pleasure of listening to them is unbeatable.

Never ask questions. It can be disastrous. It can make you change your long held beliefs. And as you know any change is unwelcome and uncomfortable. Besides, if you happen to ask a stupid question, it can make you sound like a fool – stupid, idiot and dumb. I can take market risk for once but not this risk.

So, that is what I have learnt in all these years. I hope it is helpful to you too.

A slightly late one, yet don't believe everything you hear or read (and not just today!).

Happy Fools.

Death by Taxes is the new certainty

In the last week of March 2023, the Parliament of India approved the Finance Bill with a last minute addition that took away the long term capital gains tax benefit of debt funds.

If you invest on or after April 1, 2023 in any of the debt mutual funds, whenever you sell, you pay short term capital gains tax as per your income tax bracket. No more indexation benefits too.

This destroyed the single biggest selling point of debt funds. And we heard several arguments for and against the removal of the tax benefit.

On the one side is the opinion that unlike Fixed Deposits or Bonds, debt fund holders take the pain of interest rate risk and mark to market risk. The long term capital gains tax was a reasonable way to compensate investors for taking that risk.

On the other side, the opinion is that debt funds have left the role they are supposed to take, of fund managers who assess, evaluate and invest in bond opportunities and fund growth of the market and the economy. Rather, they have just become tax arbitrageurs. They buy the safest corporate bonds, commercial papers and sovereign bonds / Treasury bills. These require no imagination to invest. They peddle the tax benefit to the rich investor and pocket a neat fee for —just holding safe govt / corporate bonds—.

With this change, the fund managers will now, hopefully, do the necessary work, evaluate risks and build portfolios that offer a meaningful yield for the risk taking investor.

Rest all can please buy RBI bonds, Post Office Deposits, PPF and Bank Fixed Deposits.

I can't really ignore the argument offered by the latter. But I also recall that it is what the debt funds from Franklin Templeton were trying to do.

What is done is done. There will be action in the space and those who can understand and take the risks will be rewarded much beyond tax benefits..

Bond funds have exciting as well as challenging times ahead.

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The Journey of Wealth Creation and Compounding is hard. Only discipline and a structured approach can help you complete it. There is no shortcut.

MARKET INDICATORS

Our current view on Equity and Bonds/Fixed Income.

ASSET CLASS	VALUATION ZONE	ACTION BIAS
EQUITY	NEUTRAL	**HOLD**
BONDS	POSITIVE	**BUY**

Equity - While the markets look reasonably valued now, the rising interest rates, sticky inflation and overall uncertainty around the world is not good news for stocks. We expect more opportunities to emerge through this year 2023.

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Bonds - After making new highs last month, the fixed income yields have cooled off a bit. As of April 1, 2023, the 10 year rate is at 7.315% vs 7.434% in Mar 2023 (the highest in the current cycle).

The same is true for the short term yields. The 3 month yield on Govt Securities is now at 6.9%.

There is action on the other fixed income investment options as well.
This is how they stack up in their yields or interest rates.

Investment	Interest Rate or Yield to Maturity
SBI Fixed Deposit (1 year to <2 year)	6.8% (Feb 15, 2022) vs 6.75% (Dec 12, 2022); *Senior citizens get 0.5% extra*
Parag Parikh Liquid Fund	6.76% (Feb 28, 2023) vs 6.43% (Jan 31, 2023)
HDFC Short Term Debt Fund	7.97% (Feb 28, 2023) vs 7.82% (Jan 31, 2023)
HDFC Medium Term Debt Fund	8.30% (Feb 28, 2023) vs 8.15% (Jan 31, 2023)
RBI Floating Rate Bond*	7.35% (Jan 1, 2023) vs 7.15% (earlier)
Bharat Bond Apr 2032	7.62% (Apr 4, 2023) vs 7.71% (Mar 2, 2023)

*Complied by Unovest: Updated on April 4, 2023, *Tied to NSC rate which has gone upto 7.8%, FRB will start earning an extra 0.35% over NSC rate, that is, 8.05% from the next reset date.*

CURRENT INVESTING ACTION SUMMARY - APRIL 2023

OVERALL ACTION → Stick to your asset allocation and invest accordingly.

STRATEGIC ALLOCATIONS

Conservative Investor	Moderate Investor	Aggressive Investor
For Equity - Stick to large cap funds / ETFs and to less than 40% allocation to equities. **For Fixed Income** - Stick to Bank Fixed Deposits, EPF / PPF, RBI Bonds or other small saving schemes In debt funds, use only sovereign funds or funds such as Bharat Bond **Hybrid funds** can be a good option to consider now.	**For Equity** - You can use large cap funds / ETFs along with midcaps for not more than 60% allocation to equities. **For Fixed Income** - Along with EPF / PPF, RBI Bonds you can consider Dynamic Bonds, Short term debt funds and Corporate Bond Funds. **Hybrid funds** can be a good option to consider now.	**For Equity** - You can use large cap funds / ETFs along with midcaps / smallcaps for not more than 80% allocation to equities. **For Fixed Income** - You can consider Dynamic Bond Funds, Short / Medium term debt funds and Corporate Bond Funds. **Hybrid funds** can be a good option to consider now.

Remember, your goals and time horizon along with your risk profile should dictate your allocations.

EQUITY ACTION →

- If you have SIPs in mutual funds, let them continue.
- If you have a lump sum to invest, it would be better to spread it out over 6 to 12 months, within the asset allocation framework.

Investors can consider insuring their portfolios in a way that an extreme event does not hurt the portfolios. In fact, done right, insurance can increase overall portfolio returns.

BONDS ACTION→

While yields are moving up, it looks like the medium term move is close to finality.

You can continue to add short/medium term debt investments for your debt/bond allocation (lump sum and/or systematic).

Even with the long term capital gains tax provision going away, debt funds can deliver substantial capital gains as and when the RBI starts reducing interest rates.

PERSONALISED INVESTMENT ADVISORY SERVICES

The Lighthouse in your Portfolio

With a custom defined strategy in line with your expectations, we design a portfolio of investment instruments and allocate money to them.

An ongoing monitoring and review ensures that the portfolio continues to align with your expectations.

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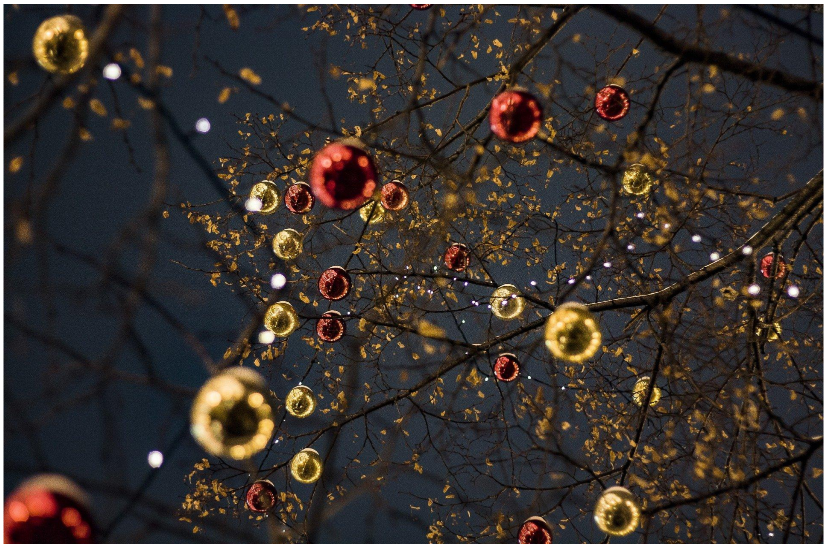
Fee Details – *Only fee, Commission free, totally aligned towards a long term relationship.*

Upto Rs. 50 lakhs portfolio: Rs. 20,000 + GST per year
For every additional Rs. 50 lakh slab, fees goes up by Rs. 10,000 + GST per year
Example: If in a year, your portfolio is Rs. 90 lakhs, the fee will be Rs. 30,000. If your portfolio is Rs. 2 crore, your fees will be Rs. 50,000 for that year. For a portfolio of Rs. 5 crores, the fees will be Rs. 1.1 lakhs. GST applicable.

Know more here

THE MAGIC FORMULA on DIRECT STOCKS

(*1st PERFORMANCE UPDATE*)



Let's revisit - **The Magic Formula**. We built a shortlist of stocks a few months ago. Let's see how the list changes now, if at all.

There are 2 basic rules to use in the Magic Formula.

1. Identify stocks with superior historical returns on capital employed.
2. From the above, further identify the stocks currently providing the best yield. In other worlds, not overvalued or overpriced.

Rank them and invest in the top 15, 20, 25 or 30 - pick your number based on your requirement of diversification.

We use a popular online tool, screener.in, to filter stocks with following parameters.

1. The stock should have a current market capitalisation of at least Rs. 20,000 crores - the largest of the companies.

2. The average Return on Capital Employed (ROCE) in the last 10 years should be 20% or more.

In the display table, we added a column of historical 3 year PE (Price to Earnings) as well.

(You have all the flexibility to set the filters as you like - market cap, ROCE, PE, etc. There are multiple options and you can choose what you want)

75 stocks passed the above criteria and we downloaded the list for further working.

Next, we calculated the **Quality Score**. The highest average 10-Year ROCE stock got the highest score.

Subsequently, a **Value Score** was provided wherein the 3-Year PE was used to rank the stocks. The one with the lowest average 3-Year PE got the highest score. (The opposite of P/E is E/P or the Earnings Yield)

We add the 2 scores to calculate the final rank.

Below is the list of the Top 30 ranked stocks - a combination of Quality and Value - based on the Magic Formula.

S.No.	Aug 25, 2022	Oct 7, 2022	Dec 31, 2022	Apr 3, 2023
1	Coal India	Coal India	Coal India	Coal India
2	Sun TV Network	Sun TV Network	Oracle Fin.Serv.	Tata Elxsi
3	L & T Infotech	L & T Infotech	LTI Mindtree	Oracle Fin.Serv.
4	Tata Elxsi	Tata Elxsi	Tata Elxsi	LTI Mindtree
5	Oracle Fin.Serv.	Oracle Fin.Serv.	TCS	TCS
6	TCS	TCS	NMDC	NMDC
7	ITC	ITC	ITC	ITC
8	NMDC	NMDC	Bajaj Auto	HCL Technologies
9	Bajaj Auto	Bajaj Auto	HCL Technologies	Bajaj Auto
10	HCL Technologies	HCL Technologies	Infosys	Infosys
11	Infosys	Infosys	Hind.Aeronautics	Hind.Aeronautics
12	Hind.Aeronautics	Hind.Aeronautics	Hindustan Zinc	Hindustan Zinc
13	Mindtree	Mindtree	Petronet LNG	Petronet LNG
14	Hindustan Zinc	Hindustan Zinc	Colgate-Palmoliv	Colgate-Palmoliv
15	Petronet LNG	Petronet LNG	Tech Mahindra	Tech Mahindra
16	Colgate-Palmoliv	Colgate-Palmoliv	Supreme Inds.	Supreme Inds.
17	CRISIL	CRISIL	Eicher Motors	Coforge
18	Supreme Inds.	Supreme Inds.	Indraprastha Gas	Indraprastha Gas
19	Tech Mahindra	Tech Mahindra	CRISIL	Eicher Motors
20	Eicher Motors	Eicher Motors	Coforge	CRISIL
21	Coforge	Marico	Bharat Electron	Bharat Electron
22	Bharat Electron	Coforge	Vinati Organics	Marico
23	Marico	Bharat Electron	Marico	Britannia Inds.
24	Vinati Organics	Emami	Persistent Sys	Persistent Sys
25	Emami	Vinati Organics	Britannia Inds.	Hind. Unilever
26	Britannia Inds.	Britannia Inds.	Hind. Unilever	Abbott India
27	Persistent Sys	Persistent Sys	Coromandel Inter	Divi's Lab.
28	Hind. Unilever	Hind. Unilever	Abbott India	Coromandel Inter
29	Coromandel Inter	Abbott India	Divi's Lab.	APL Apollo Tubes
30	K P R Mill Ltd	Coromandel Inter	Bayer Crop Sci.	Page Industries

Magic Formula Performance Update (as of April 4, 2023):

We first shared the Magic Formula stock watchlist as of Aug 25, 2022. For the purpose of tracking performance, investment was made on Sept 1, 2022 for about Rs. 10 lakhs, actually, 9.93 lakhs.

We chose to invest in the top 25 ranked stocks from the list and they got an equal investment.

It has been over 6 months. In the journey of a portfolio, this is early days. Let's see what the portfolio has done.

As of April 4, 2023, the total return (including dividends) is 1.4%. In contrast, the BSE 500 Index has a return of (-) 4% approx.

Let's take a performance update every 6 months.

The next rebalance will also happen after 1 year of the portfolio start, that is, on Sept 1, 2023.

Note: *If you would like a detailed transaction list for the above investments, please do write to me.*

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FUND WATCHLIST

Some of the funds we like and watch.

FUND NAME	CATEGORY	BRIEF DESCRIPTION	INVESTOR RISK PROFILE	TIME HORIZON
PARAG PARIKH FLEXI CAP FUND	EQUITY - FLEXICAP	Go anywhere fund, international stocks, arbitrage, holds cash, low volatility & turnover with focus on capital protection.	ALL	5 YEARS PLUS
EDELWEISS BALANCE ADVANTAGE FUND	EQUITY - HYBRID (DYNAMIC ALLOCATION)	Trend driven Dynamic allocation to equity based on fundamental and technical indicators to reduce volatility & drawdown, tax free rebalancing.	CONSERVATIVE, MODERATE	3 YEARS PLUS
DSP QUANT FUND	EQUITY - LARGE / MIDCAP	The fund uses an in-house quantitative model to build its portfolio from the universe of BSE 200 stocks. It operates as a low cost, passive fund with upto 4 rebalances during a year.	ALL	5 YEARS PLUS
DSP VALUE FUND	EQUITY - VALUE	The fund builds its portfolio using a value style framework - a combination of quality and price. It also has a mandate to	ALL	10 YEARS PLUS

		invest upto 35% of its portfolio in international funds/stocks.		
MOTILAL OSWAL S&P 500 INDEX FUND	EQUITY - INTERNATIONAL LARGE CAP (PASSIVE)	A low cost index fund that replicates the portfolio of S&P 500 index (largest 500 companies) in the USA.	ALL	5 YEARS PLUS
FRANKLIN INDIA FEEDER US OPPORTUNITIES FUND	EQUITY - INTERNATIONAL FLEXICAP	A feeder fund that invests in Franklin US Opportunities Fund, a multi cap fund portfolio of US based listed stocks across market caps.	MODERATE, AGGRESSIVE	5 YEARS PLUS
MOTILAL OSWAL NIFTY MIDCAP 150 INDEX FUND / NIPPON INDIA NIFTY MIDCAP 150 INDEX FUND	EQUITY - MIDCAP (PASSIVE)	A low cost index fund that replicates the portfolio of Nifty Midcap 150 index (representing 101st to 250th rank of the Nifty 500 index) in India.	MODERATE, AGGRESSIVE	5 YEARS PLUS
UTI NIFTY NEXT 50 FUND / ICICI PRU NIFTY NEXT 50 INDEX FUND	EQUITY - LARGE CAP (PASSIVE)	A low cost index fund that replicates the portfolio of Nifty Next 50 index (representing stocks from 51st to 100th rank based on various factors) in India.	ALL	5 YEARS PLUS
HDFC INDEX FUND - NIFTY 50 PLAN	EQUITY - LARGE CAP (PASSIVE)	A low cost index fund that replicates the portfolio of Nifty 50 index (representing stocks	ALL	5 YEARS PLUS

		from 1st to 50th rank based on various factors) in India.		
PARAG PARIKH TAX SAVER FUND	EQUITY - TAX SAVINGS	Tax savings fund based on the same investment philosophy as the Flexicap fund except international stocks	ALL	3 YEARS PLUS
AXIS TREASURY ADVANTAGE FUND	DEBT - LOW DURATION	Low cost, low volatility fund with low maturity profile and high credit exposure	ALL	2 YEARS PLUS
HDFC SHORT TERM DEBT FUND	DEBT - SHORT TERM	Predominantly high credit quality, low risk portfolio with one of the lowest expense ratios.	MODERATE, AGGRESSIVE	3 YEARS PLUS
QUANTUM DYNAMIC BOND FUND	DEBT - DYNAMIC BOND	A conservatively managed debt fund that manages its portfolios based on interest rates movements with a portfolio of Govt Securities and high rates PSU Bonds only.	CONSERVATIVE, MODERATE	3 YEARS PLUS
HDFC CORPORATE BOND FUND	DEBT - CORPORATE BONDS	A high credit portfolio of AA and higher ratings	ALL	3 YEARS PLUS
HDFC HYBRID EQUITY FUND	HYBRID - AGGRESSIVE	Asset Allocation to Equity: Debt reduces volatility.Tax free rebalancing with large cap like outcome.	MODERATE, AGGRESSIVE	3 YEARS PLUS

Compiled by Unovest

Note:

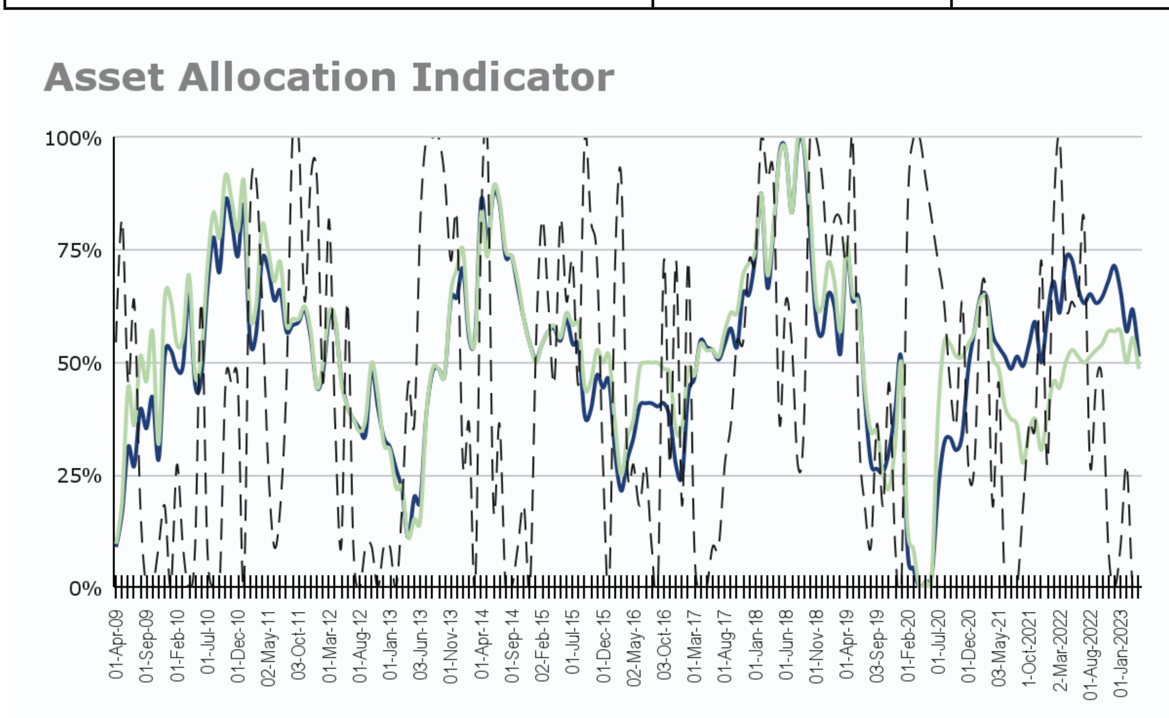
- Some of the international funds have started to accept new investments with a cap per PAN per month.
- Tax Saver funds have a lock in of 3 years during which you cannot sell the investment.
- All debt funds have a mark to market feature which makes their NAV fluctuate based on interest rate changes.

ANNEXURE - MARKET INDICATORS

ASSET ALLOCATION INDICATOR

We use 3 inputs in our models - Nifty 200 Price to Earnings, Nifty 200 Price to Book and 10 Year G-Sec Yield. We have built 2 indicators and this is what they tell us. Scores are as of April 3, 2023.

Nifty 200 PE - 10 Year GSec based Model (Green line)	Score: **48.6%**	HOLD
Nifty 200 PE - PB - 10 Year GSec based Model (Blue line)	Score: **51.38%**	HOLD



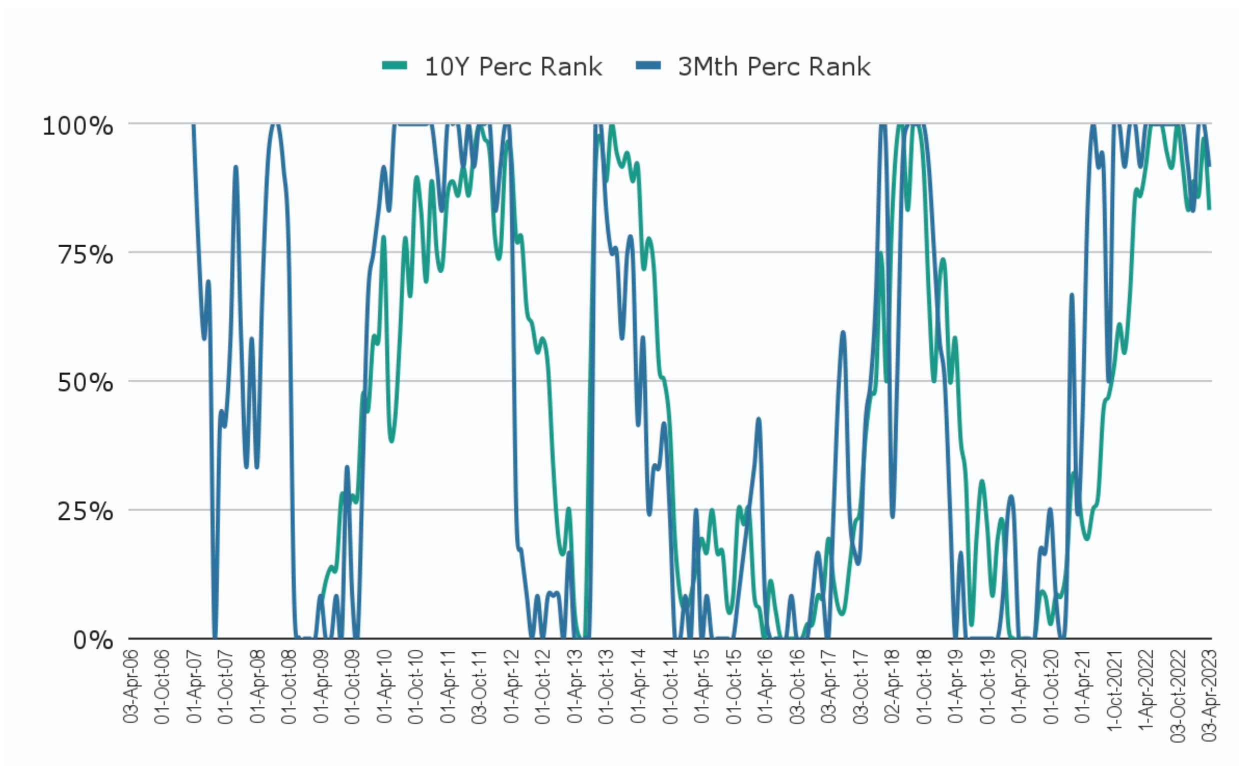
Data Source: NSEIndia.com and Investing.com, prepared by Unovest

The asset allocation model scores have moderated a lot since we sounded caution last time. It is still not a time to get adventurous.

Volatility indicator or VIX is an independent indicator to cross check the AA model.
The dotted red line in the above chart indicates the VIX percentile. It is at its bottom percentile. What do you think?

BOND YIELDS

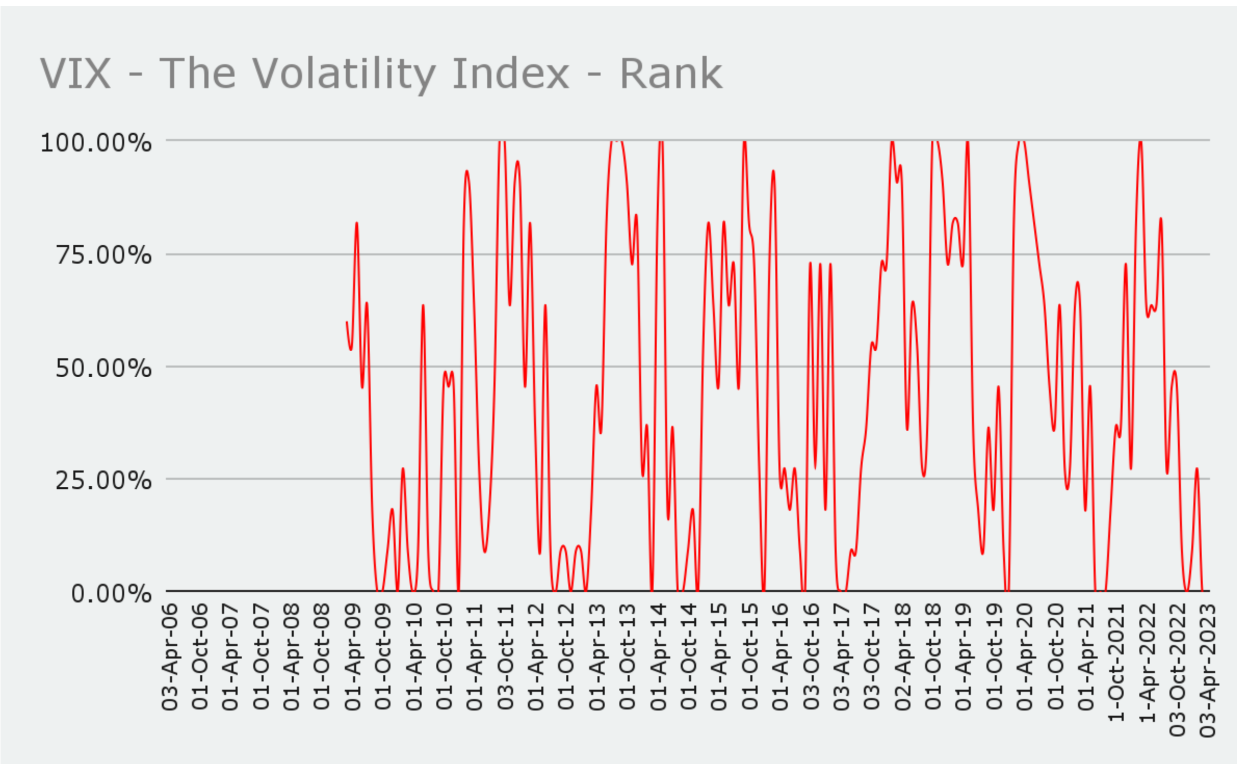
The 3 month and 10 Year yields have corrected and are below the 100th percentile levels (as of April 3, 2023). See chart below.



Data Source: Investing.com, prepared by Unovest

VIX - A new insight into diversification or loss prevention

Volatility Index or VIX is a measure of the market expectation of volatility in the near term. Higher the VIX, higher the expected volatility and vice versa. India VIX is a volatility index based on the NIFTY Index Option prices. From the best bid-ask prices of NIFTY Options contracts, a volatility figure (%) is calculated which indicates the expected market volatility over the next 30 calendar days. India VIX uses the computation methodology of CBOE, with suitable amendments to adapt to the NIFTY options order book. (Source: NSEIndia)



TERMS SIMPLIFIED

TRACKING ERROR

In case of funds/ETFs that track an index, tracking error helps to evaluate how closely or not the fund is doing the job effectively. Lower the tracking error, the better it is.

Tracking error is the result of buying, selling, delay in adjusting the fund to the benchmark, etc.

Mathematically, it is the annualised standard deviation of the difference of returns of the fund and the index.

PRICE TO EARNINGS OR PE

Price to Earnings is a measure which helps evaluate the relative valuation of a stock. ***Divide the earnings per share of EPS by the Price of the stock and you get the PE.*** The lower, the better.

However, you need to check it with respect to the historical trend as well as in relation to the peers of the business / industry to get a better picture.

YTM or YIELD TO MATURITY

We know that every bond has an interest rate attached to it. The RBI Floating Rate Bond, 2020 pays out 7.15% per year, for example.

Now, this assumes a static value of the bond. Again, for example, the RBI Bond has a face value of Rs. 1000 per bond unit.

But when the value is marked-to-market, it can change. This Rs. 1000 may become Rs. 1100 or Rs. 950.

At that point, if you, as an investor, buy the bond at Rs. 1100, that becomes your buy price. However, the interest rate on the bond is still 7.15%.
So, the rate of return on your investment will be the interest rate divided by the price.
7.15% divided by Rs. 1100, that is, 6.5%. This is also called the yield.

If you have understood this then you can grasp the fact that yield to maturity indicates all the returns that a bondholder will receive if s/he holds to bond till its maturity. There is a formula to calculate that and you can easily find it on Google.

THANK YOU FOR READING THE LIGHTHOUSE.

Do send your responses, queries and feedback to vipin@unovest.co