VALUE OF ₹1 LAKH INVESTED IN VARIOUS ASSET CLASSES

*Note: Cumulative equity gains up to ₹1,00,000 in a financial year are tax-free. All post-tax returns are calculated for an individual in the 30 per cent tax bracket, without considering the indexation benefit

	SENSEX	GOLD	SILVER	FD (SBI)	PPF
1-YEAR	1,12,782	1,24,706	1,23,939	1,06,650	1,08,000
1-YEAR POST-TAX RETURNS	1,12,782*	1,17,294	1,16,757	1,04,655	1,08,000
5-YEAR	1,42,169	1,45,642	1,23,284	1,50,366	1,51,757
5-YEAR POST-TAX RETURNS	1,42,169*	1,41,078	1,20,956	1,33,507	1,51,757

As on November 29, 2019, in ₹; compiled by BS Research Bureau

Enter PMS only if you understand the risks

With the number of investors expected to decline after the hike in minimum investment limit, expect greater access to your portfolio manager

SANJAY KUMAR SINGH

The Securities and Exchange Board of India (Sebi) recently hiked the minimum investment limit in portfolio management services (PMS) from ₹25 lakh to ₹50 lakh. Fewer clients will now be able to access this investment avenue. Let us understand the ramifications of this development and the options available to those unable to access this route now.

Protecting investors: PMS is a riskier product than mutual funds. The bulk of equity mutual fund portfolios have 40 stocks or more. Most PMS managers build concentrated portfolios with 15-20 stocks on an average, which makes them more volatile.

In mutual funds, Sebi has laid down limits to protect retail investors. There are limits on how much exposure a fund manager can take to a single stock (10 per cent) or cash. In PMS, no limits exist. "Such freedom creates the potential to generate higher alpha, but it also raises the risk of the portfolio," says Pallavarajan R, founder-director, Pmsbazaar.com, a portal that provides PMS-related analytics and advice. He adds that Sebi's primary motive for hiking the minimum investment threshold was to ensure that only people who understand the risks in PMS enter it.

"There are fewer restrictions on the PMS manager in the matter of construction his portfolio. The potential for generating higher alpha comes with the risk that these products could be more volatile"

PALLAVARAJAN R
Founder-director, pmsbazaar.com

Fewer clients, better understanding: Sebi has also hiked the net worth requirement of PMS managers from ₹2 crore to ₹5 crore. The number of managers is also expected to dwindle from the current 321. Here, again, the intent is to ensure that only serious players remain.

At present, there are 1.45 lakh PMS clients. Pallavarajan says earlier he expected another 1.5 lakh to get added over the next three-four years; now the figure may come down to 75,000-1 lakh. The fewer clients who are left will enjoy greater access to their portfolio managers, especially in boutique PMS. They will hopefully be able to understand their portfolio manager's strategy better and stick to him for the long haul.

Less diversification: An investor who had ₹1 crore could earlier invest in four schemes. Now he will be able to invest in only two. Diversification across investment styles and portfolio managers is important here to reduce risk. Only people with a portfolio of ₹4-5 crore should invest in PMS now. Of this, if their equity allocation is ₹2-3 crore, they can invest in three-four PMS strategies.

STRATEGIES FOR INVESTORS

- Risk is higher in PMS than in mutual funds. Invest in at least three-four schemes
- Diversify among portfolio managers and styles to reduce risk
- Understand the risk-return profile of a stock basket. Reduce your costs by following a buy-and-hold strategy
- Go with a Sebi RIA with skin in the game—one who invests his own money in the stocks he recommends

IMPRESSIVE GROWTH IN PMS AUM

Year	2015	2016	2017	2018	2019
No. of portfolio managers reported	208	236	243	271	321
No. of clients	43,217	52,761	82,753	1,20,929	1,44,879
AUM (₹ crore)	7,24,249.51	8,49,125.87	10,23,416.39	11,75,947.47	13,28,285.45

Figures are for discretionary PMS as on June 30th of each year

Source: Sebi. Compiled by Pmsbazaar.com

Alternatives investors may explore

Many investors who have considerable investments in mutual funds then want to move into strategies that can offer them higher returns. Also, there are direct equity investors who have considerable stock holdings, but are unable to manage them well due to lack of time or understanding. Both these types of investors would earlier migrate to PMS. Many of them may find it difficult to access it now. Besides mutual funds, they may consider readymade stock portfolios like the ones offered by smallcase Technologies, and Sebi-registered investment advisors (RIAs) who offer stock-related advice.

Readymade portfolios: Smallcase refers to a readymade portfolio of stocks or exchange-traded funds (ETFs). "These portfolios are diversified, which makes them less risky than investing in a single, or very few, stocks. Brokerages can now offer small cases to customers instead of single stocks, as they have done traditionally," says Vikas Bardia, AVP-Growth, smallcase Technologies. Brokerages like Zerodha, HDFC, Kotak, Edelweiss, 5Paisa, etc offer smallcases. More than 70 smallcases are available today that cater to a wide variety of customers — from novices to veterans — and risk appetites.

One advantage they offer is cost. Regular mutual funds have an expense ratio of 1.5-2 per cent. Here you only pay the brokerage fee for purchasing and selling the constituent stocks. This reduces cost, especially for buy and hold investors.

Rebalancing the portfolio based on advice from its creator can be undertaken with just a few clicks. However, smallcases will require greater client involvement.

Sebi RIAs: Many Sebi RIAs and research analysts operate as independent equity research outfits. Unlike sell-side brokerages, customers can expect their advice to be less biased as they do not have an incentive to churn. Such research services are suitable for do-it-yourself investors who like to stay in full control of their capital. "Here your capital stays in your existing broking account. The advisor only recommends which stocks to buy, how much to buy, and when to sell. On the flip side, it needs more time to understand the advice and execute it," says Jatin Khemani, founder and CEO, Stalwart Advisors, a Sebi-registered independent equity research firm.

Such services are usually available for a flat annual fee, irrespective of portfolio size. Khemani suggests that one should not pay more than 2 per cent as advisory fee. Prefer RIAs who have skin-in-the-game: They should invest their own money in the same stocks that they recommend to clients.

It's time to focus on mid- and small-caps

Instead of trying to pick individual stocks, take the mutual fund route

MARKET INSIGHT

DEVANGSHU DATTA

After NBFC (non-banking financial companies) defaults and corporate defaults, Mudra and Karvy could be the next stress points for the beleaguered economy, and for the booming stock market respectively. In July, the government said in Parliament that, out of the 190 million loans handed out under the Mudra scheme since 2015, about 36 million loans have gone bad.

That's one out of every 5.5 loans handed out under the scheme. In value terms, the bad loans amounted to ₹17,250 crore in FY19, up from ₹7,277 crore in FY18. About ₹9 trillion in loans have been handed out under the scheme, so the NPA ratio is still low. By the standards of corporate defaults, this is chickenfeed. But that's a massive 137 per cent rise in bad loans, year-on-year.

Mudra is handed out to MSMEs with loans of up to a maximum of ₹10 lakh handed out to non-corporate, non-farm small and micro enterprises. The bad loans ratio — one of every 5.5 loans defaulting — and the fact that bad loans have risen sharply in 2018-19 indicate stress in this key economic segment. Given that the overall economy saw a further slowdown in April-June 2019 and, most probably in July-September 2019 as well, there's a high probability Mudra NPAs have swelled even more in the last six months.

If large corporates have poor results, the MSME sector has mounting defaults, and the government is cash-strapped and unable to increase expenditure, it is hard to see how the economy could maintain growth momentum. However, the stock market continues to rise, on the back of strong FPI (foreign portfolio investor) buying and steady inflows from retail investors.

The FPIs brought in over ₹20,000 crore in November (until November 26) and the Sensex and Nifty have just hit new highs. However, the Karvy scam could be a dampener. It depends on the dimensions of the misuse of client assets. There are chances that Sebi's actions to stop this misuse may trigger either major selloffs, or large-scale defaults. Neither might happen, of course, but this is a slow-burn situation. It could escalate.

Given a stock market trading at all-time highs, we would expect analyst coverage of stocks to also be at all-time highs. However, that's not the case. A *Bloomberg* report indicates that analysts are reducing coverage of even the top 500 stocks. The Bloomberg data indicates that over a third of the BSE 500 have seen a reduction in the number of analysts covering the stock.

Analysts generally drop coverage when they can't easily make earnings projections, or when there has been a clear deterioration in the fundamentals. As many as 48 companies in the BSE 500 universe reported losses in 2018-19.

The NBFC sector, telecom and other capital-intensive sectors have seen this reduction in coverage. Some of the big names affected are Indiabulls Housing, Vodafone Idea, Power Grid Corporation, Dewan Housing, YES Bank, JSW Energy, etc.

In general, the move has been narrow. A third of the Sensex 30 — ten stocks — have contributed over 90 per cent of the incremental gains in the past two months, since the corporate tax cut was announced. The midcaps and small caps have also moved up but less than the Sensex/Nifty. The midcap and small-cap indices are trending well below their all-time highs. Midcaps and small caps have also seen a decline in valuations, from average PEs of 40-plus a year ago, to below 30 now.

Institutional investors will soon start looking at mid-caps and small-caps due to the valuation differential

Valuations are not cheap in smaller stocks by any means. But they are lower than in large caps. Assuming that the rally continues, at some stage institutional investors will start looking at midcaps and small caps because of the valuation differential: Large caps will be too expensive for comfort and midcaps and small caps will start to look attractive.

Long-term investors should consider moving into smaller stocks now in anticipation of such a shift in institutional attitude. Rather than trying to pick stocks, it makes sense to build a diversified portfolio by exposure across midcap and small caps funds. There are several small-cap funds, for instance, that have consistently returned over 14 per cent compounded over the past five years.

But most of those funds also have negative returns in 2019-20. Indeed, most small cap and mid-cap funds have negative or low returns in 2018-19 as well. That pattern of losses could change, with a reversion to the long-term return.

MAINTAIN HIGH CREDIT SCORE TO GET A BETTER INTEREST RATE

Those having a score of above 750 are offered better rates on personal loans

BINDISHA SARANG

- The interest rate on a personal loan is usually higher than on a home or an auto loan
- Maintain a good credit score by repaying all your debt obligations regularly and on time. A score of 750 plus will help you get a better rate on a personal loan
- Don't just approach your own bank. Go loan shopping by comparing interest rates. Also look out for seasonal offers
- Check interest calculation method. Always go for a loan with a reducing interest rate calculation, instead of the costlier, flat-rate type
- If you work with a reputable company, the lender may offer you a favourable deal, as your income is likely to be more

PERSONAL LOAN: RATES AND CHARGES

Lender	Interest rate (%)	Processing fee (%)*	Loan amount (₹)	Maximum tenure (yrs)
Citi Bank	10.5-18.99	Up to 3	50,000- 30 lakh	5
HDFC Bank	10.75- 21.3	Up to 2.5	50,000- 40 lakh	5
State Bank of India	10.5-14.9	Up to 1.5	Up to 20 lakh	7**
Bank of Baroda	11.35-16.35	2	50,000-10 lakh	5
Axis Bank	10.85-24	Up to 2%	50,000-15 lakh	5
ICICI Bank	11.25-22	Up to 2.25	50,000-20 lakh	5
Union Bank of India	10.1-14.2	Up to 0.5	Up to 15 lakh	5
South Indian Bank	11.1-14.2	2	1 lakh-25 lakh	5
Federal Bank	11.49 onwards	Up to 3	Up to 25 lakh	4
IDBI Bank	12-14	1	25,000-10 lakh	5
Kotak Mahindra Bank	11.50-24.00	Up to 2.5	50,000-15 lakh	5
Oriental Bank of Commerce	9.95-11.80	Up to 1	Up to 10 lakh	5
Bank of Maharashtra	10.85-11.85	1	Up to 10 lakh	5

Rates as on November 27, 2019, *Figures are percentage of loan amount. **For Defence Pensioners

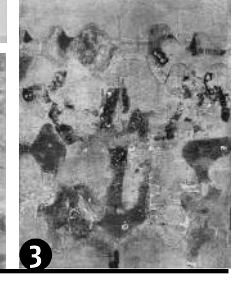
Source: Paisabazaar.com

ABSTRACT ART

Combine aesthetic pleasure with returns

But you need a discerning eye, a deep pocket, and time to make money from this asset class

NARMATA KOHLI



These are works by:
1. Sanjay Bhattacharya
2. Ram Kumar
3. Vasudeo S Gaitonde

A tree is a tree. If you draw one, you merely copy what already exists in nature. Most art is representational, as it invariably has some roots in nature. But there is another form called abstract art. Its proponents assert it is more original, simply because it is "imagery straight out of the human mind". That is how artist Nalini Misra Tyabji describes this form at an exhibition of her paintings at the Visual Arts Gallery at Lodhi Road, New Delhi. She calls it the most interesting genre of art, as it comes with no rules whatsoever and gives you total freedom.

It is often believed that an appreciator starts off with figuratives and portraits and then veers towards abstracts, making this form the next rung on the evolutionary art ladder. Art curator Kiran Nadar, founder and chairperson of India's first private art museum, the Kiran Nadar Museum of Art (KNMA), agrees that there may be some truth in that statement. "Most people do move from the figurative to this form." Nadar says the best way to train the eye is to get oneself thoroughly exposed to different kinds of art, artists and genres by visiting museums and galleries.

Growing popularity: The abstract segment, also hailed as "the art of the times", ranks high up in the art market and is close on the heels of modern and classical forms. Its buyers have increased in number globally. "Globally, abstract art has seen record sales. Just in the previous year, some notable sales were Kazimir Malevich's Suprematist Composition, Clyfford Still's PH-399, and Willem de Kooning's Untitled XXII," says Sharan Seth, Director, Conferro Heritae (Delhi) and Conferro Auctions (London).

What makes Indian abstract art more valuable is its relative rarity. V S Gaitonde, S H Raza and J Swaminathan are the only major names in modern Indian art known for their abstracts. The former two were renowned artists whose works are among the most prized possessions of collectors. Furthermore, Gaitonde has done very few paintings, while Raza's best period goes back to 1960s and 1970s, when he painted only abstracts.

Globally, Vincent Van Gogh, Agnes Martin and Norman Lewis are some of the best-selling abstract artists.

Beware the risks: Does investment in abstract art yield handsome returns? Not every deal may deliver eye-popping returns. In fact, compared to other asset classes, art suffers from a few drawbacks as an investment vehicle. Professor, author and art lover Nirmalya Kumar shares some insights. "The art market is not transparent as no two people agree on what the appropriate valuation is," he says.

Moreover, art is an illiquid asset. The Indian art market is especially shallow with relatively few buyers. High transaction costs at auctions can eat up as much as 30 per cent of the deal value. Unlike property, stocks and bonds, an investment in art doesn't bring in income in the form of rentals, dividends, or interest. Instead, the owner pays for storage and insurance. By the way, the results are even worse for masterpieces, going against conventional wisdom, which argues that buying the best and most famous works yields the highest returns.

Art could still be included in one's investment portfolio if it has lower volatility or isn't correlated with equities. The news on both these fronts is not encouraging. The volatility of art as measured by the variance of returns is at least twice that of equities or corporate bonds. Art indices typically have a positive correlation with equities and negative correlation with bonds or treasury bills. In financial theory, this means that art plays second fiddle to other asset classes in a portfolio that seeks to maximise returns and minimise variance.

A discerning eye: A lot depends on the age of the artist, the gallery promoting him, the type of art form, and so on. Take the case of Hurun Art Foundation, which was established five years back to collect art and promote artists. "Some of the pieces could possibly get you better returns than the stock markets," says Anas Rahman Junaid, managing director and chief researcher, Hurun Report India. For instance, based on available auction prices, $100 invested in a work by Sayed Haider Raza in 2000 would be worth an average of $864 (up a staggering 764 per cent) in November 2019. You, too, can make a fortune dealing in abstract art. What you need is an eye for beautiful pieces, cash, and some spare time to go hunting.

WHAT THE INDIAN MAESTROS SELL FOR

Artist	2018 turnover*	Sold lots	Best result*
Sayed Haider Raza (1922-2016)	16,207,457	106	4,452,500
Vasudeo S Gaitonde (1924-2001)	8,285,516	13	2,152,803
Ram Kumar (1924-2018)	3,594,066	59	803,596
Zarina (1937-)	409,275	18	72,600
Gulam Rasool Santosh (1929-1997)	394,645	18	144,240
Sujata Bajaj (1958-)	366,096	12	95,729
Biren De (1926-2011)	286,244	7	77,294
Natvar P Bhavsar	77,005	9	Not available
Ganesh Haloi (1936-)	60,980	5	18,505
Rajendra Dhawan	51,298	9	Not available
Prabhakar Kolte	14,588	5	Not available
Sohan Qadri (1932-2011)	45,061	6	15,191

* Figures in US dollars; # Estimated;

Source: Hurun Report and ArtPrice