

ASPECTS

Equity Investments | Overview

ASPECTS

is a periodic newsletter discussing finance, investments and the economy

Issue 1

We discuss

Equity Investments

Relative returns, volatility & convenience

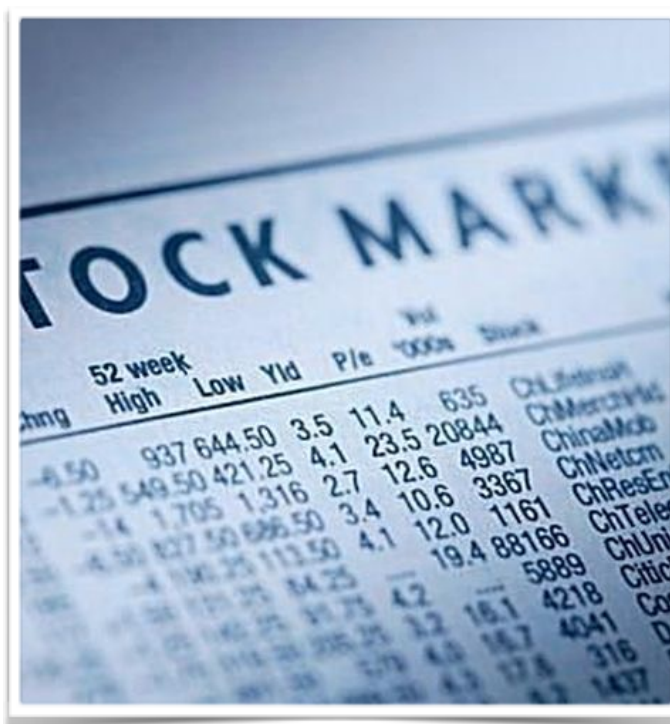
Investing strategies

About Us

Equity Investing

It's primarily about

- Financial Returns
- Ownership
- Association



Equity investing

implies buying ownership interest in companies and participating in their performance as reflected in share prices and dividends received. Although there are rare exceptions, most investors by investing in equity shares are also entitled to voting rights on key board decisions.

There are perhaps 3 primary reasons for investing in stocks

FINANCIAL RETURNS: These are largely determined by company performance, industry and economy performance, supply/ demand and stockholder behaviours

OWNERSHIP: Buying stock implies buying ownership in the capital stock of a country i.e. the large and small



Returns & Volatility

Example : INR 5Lacs invested with 18 year holding period

- Basket of BSE 500 stocks (Index)
- 10 YR GSEC bonds, held to maturity from 2000-2010 & proceeds reinvested till 2017
- Physical 24 CT Gold

Returns, estimated post tax

- Stocks: 12.5%
- GSEC: 7.26%
- Gold: 10.6%

Volatility, measured by number of years of negative returns

- Stocks: 5 years
- 10 YR GSEC: Nil
- Gold: 4 years

companies which drive economic activity, influence our culture and provide livelihood to crores. By investing one provides capital and participates in the economic growth of the country

ASSOCIATION: Sometimes investments are made to associate with or further a cause e.g. investments in infrastructure in India or in clean energy in the US (2007-2016)

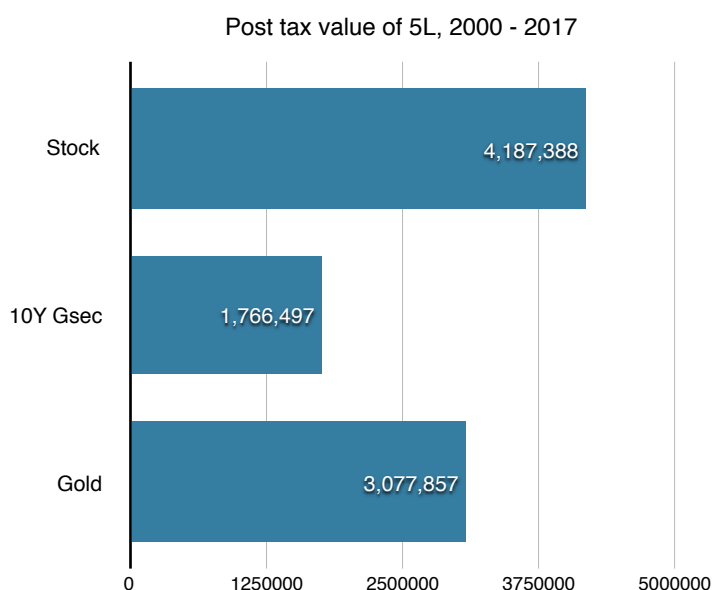
Investment Returns

Historically stocks have provided better returns relative to Bonds/FD's and Gold, albeit with higher volatility. Consider the illustration below

INR 500000 invested in a **basket of stocks** representing the BSE 500 Index in December 1999 and held until December 2017, would have yielded INR 4187338 pre tax, and pretty much the same amount post tax (no long term taxes) providing ~ 12.5% post tax annually compounded returns

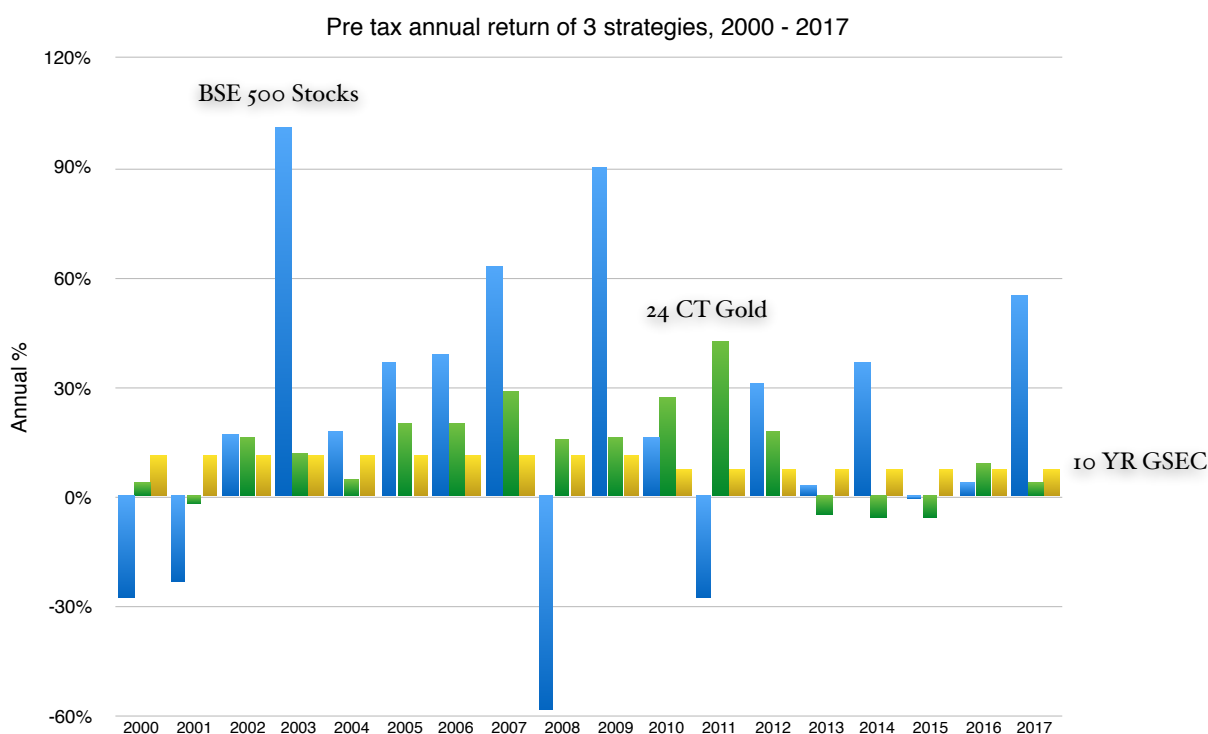
The same initial corpus in **10 year GSEC bonds** with interest reinvested would have yielded 2525664 pretax, 1766497 post tax - implying an annual post tax compounded return of 7.75%

INR 500000 invested in **24ct physical gold** would have yielded 3507322 pretax and - 3077877 post tax (estimate), implying a post tax return of 10.6% compounded annually



Investment Volatility

Let's also consider the variation in returns on an annual basis since some investors might be sensitive to periods of negative returns. Stocks were the most volatile, Gold somewhat less so and 10 year GSEC bonds held to maturity showed little volatility - Refer to the chart below



Convenience

Stocks are by most measures remarkably easy to buy, hold and sell. You can invest in mutual funds with as little as INR 500/month and can buy individual stocks at an even lower threshold. Investors can enter into trades and exit positions at minimal transaction cost within seconds.

Bonds afford similar characteristics as stocks though the market for bonds in India is less liquid. Gold, until 2007, had to be held as a physical asset with associated storage and security costs though now one can invest in Gold ETF's or Sovereign Gold bonds. Infact, Sovereign Gold bonds offered by the RBI in 2017 could be purchased online, offer 2.5% annual interest and their redemption value after 8 years is linked to Gold prices. In addition these bonds are long term capital gains exempt for individuals if held to maturity.

Stock Investment Strategies

If stock investments start to pique your interest, an overview of investment strategies might be helpful.

The first group of strategies focusses on the fundamental performance of companies (i.e. sales, customers, costs, profits etc.), industry sectors and economies to arrive at buying and selling decisions. Some funds are “long only” implying they do not short (sell) securities they don’t own. Others buy select stocks, short others and hold positions in overall indices. This is a small example of the many fundamental strategies fund managers employ

The second group of strategies primarily analyses market prices and volume trends for stocks and employs a range of technical rules and patterns to identify what to buy, at what price and when to sell

A third set of strategies employ derivatives (instruments whose performance is derived from base securities or assets etc.), options and other exotic instruments to augment returns and manage risk

Then there are programmed strategies, involving fundamental and/or technical criteria which kick in with minimal human intervention

About us

NORTHPLAINS CAPITAL PARTNERS offers investment solutions for clients including a combination of advice and active management

For customised solutions, research and advice, or to discuss ideas for preserving and growing your wealth, please contact us and we would be pleased to arrange a discussion

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NORTHPLAINS CAPITAL PARTNERS LLP was incorporated as a limited liability partnership in May 2017 under the Companies Act of India offering investment management solutions in addition to other services

Partners

Ramesh Chand Sud, has been a small business owner for the last 30 years in Shimla. He is also the Chairman of Shimla Nursing College and a respected social worker. Before joining his business he was an Officer at the office of The Accountant General

Nitin Sood, CFA manages the day to day affairs of the company. He has worked with multinational banks in North America for more than 10 years. He holds the Chartered Financial Analyst designation from CFA Institute Charlottesville, USA, an MBA from IIM Bangalore and a Bachelors in Engineering from Delhi College of Engineering

Baseline data sources

BSE 500 returns: www.bse.com

10 year GSEC Yields: www.investing.com

Gold prices: www.bankbazaar.com

Tax estimates: www.incometaxindia.gov.in, www.taxguru.com

Disclosures

All analyses are proprietary and confidential. All opinions are personal. Baseline data assumed reliable and sources have not been verified

Investing in stocks, bonds and other assets involves risks, including loss of principal. Market conditions are subject to change and historical performance is not necessarily indicative of future results. Clients should carefully consider their risk appetite and personal situation before making any decision