

Learn with DNA...

## Active investing doesn't work

"But a respect for evidence compels me to incline towards the hypothesis that most portfolio decision makers should go out of business - take up plumbing, teach Greek, or help produce the annual GNP by services as corporate executives (sic). Even if this advice to drop dead is good advice, it obviously is not counsel that will be eagerly followed. Few people will commit suicide without a push." - Paul Samuelson

Simply put, Samuelson's telling us to stay away from fund managers who believe in active investing and just stick to investing in index funds. But why would the first winner of the Nobel Prize in Economics make such a strong statement?

As Peter L Bernstein writes in *Capital Ideas Evolving*, "In 2004, Burton Malkiel of Princeton, and author of *A Random Walk Down Wall Street*, studied all mutual funds in existence since 1970 - a total of 139 funds surviving over more than thirty years. He found that seventy six of the funds underperformed the market by more than one percentage point a year; only four funds outperformed by more than two percentage points a year. Malkiel reports that more than 80 percent of the actively managed large capitalisation funds covered in the Lipper Analytical Services failed to match the returns of S&P 500 over periods of longer than ten years ending in 2003. Malkiel also points out that "there's almost no persistence in excess performance.....In decade after decade, the top funds in one period are often the bottom funds in the next....There's no way to tell in advance which funds will outperform."

To cut a long story short, there is very little evidence that active investing works. Even if a fund manager has delivered better returns than the market, over a period of time, the question is, how does an investor identify him in advance. "If identification of superior managers becomes a simple matter for investors in general, those managers will be buried under an avalanche of new money to a point where they will no longer be able to pursue the investment strategies that delivered the superior performance. There is a tipping point somewhere for every manager, regardless of skill and style," writes Bernstein.

"The long history of mutual funds shows that superior performance, even in the short run, tends to attract new assets that swell the size of the portfolio under management. As assets under management increase, the costs of trading tend to follow suit, and the edge of the active manager begins to diminish."

The primary reason fund managers find it difficult to beat the returns of the market is that stock prices are so tough to predict. The other reason is volatility.

## Plan your estate distribution heir &amp; now

Early planning can put your assets in the right hands when you are no more

Jaishank Gupta



Planning is generally a part of everything we do in life, from our careers to every minute of our vacation. But we turn a blind eye to planning the distribution of our assets on our departure - the same assets that we spent our whole lives planning for.

Estate planning or succession planning is crucial if you wish to put your hard earned assets in the right hands without dispute. It becomes even more crucial when you want to distribute your assets in an unequal manner. If you pass away without a will, it is called dying 'intestate'. In these situations, the court will order your debts paid and your assets distributed. Unfortunately, your assets will be distributed according to the law of succession governing you - The Indian Succession Act, 1925, The Hindu Succession Act, 1956, The Muslim Personal Law (Shariat) Application Act, 1937, and the Special Marriage Act, 1954 (in case of interfaith marriages). Since the state doesn't know your preferences, the probate court may not distribute your assets according to your wishes.

Because intestacy is settled in court, your heirs may have to endure a long, costly and public probate process that could take six months to a year or more. They will have to wait until the process is over to receive their inheritance after the deduction of the legal, administrative and probate fees, which could consume a significant portion of your gross estate.

To eliminate such hardships, you can plan the distribution of your estate so your heirs get their share after your death without any problems. Each way allows a different degree of control over distribution, and each poses different challenges and opportunities.



**Will**  
A will is a written set of instructions on how you would like to distribute your estate upon death. It becomes effective only after death.

Essential points to note while making the will:

- Appointing an executor - You can name a 'personal representative' of your estate. This person or institution (for example, a bank or trust company) is known as the 'executor' who will carry out your wishes according to your testament.
- Presence of witness - A will should be signed by the testator (the person whose will is being made) in the presence of at least two witnesses. The full names and addresses of the witnesses should be clearly indicated in the will and it is very important that the witness is neither a beneficiary nor an executor of the will.
- Always mention the date - If more than one will is made, the one with the latest date nullifies all the previous ones.
- Number the pages - To prevent miscommunication, it is advisable to number the pages to allow the will to be ex-

ecuted in its proper flow.  
■ Simple and preferably unconditional - Too many pre-conditions create unnecessary problems and delays in the execution of the will. They also give added responsibilities to the executor of the will.

- Handwritten or typed - A handwritten will, also known as a Holograph will, is valid. However to prevent ambiguity, it is better to have the will typed.
- Registration not mandatory - Without any registration or the use of any stamp paper, a will is authoritative and recognised by the law.

**Trusts**  
Another increasingly popular way to manage your assets is to create a trust. A trust is a legal arrangement under which one person, the trustee, manages property given by another party, the trustor; for the benefit of a third person, the beneficiary. Trusts can be very effective estate planning tools.

Trusts can be established during your life or at death. They provide for management of the estate during your lifetime and also for distribution and management of your wealth after death.

Trusts give you maximum control over the distribution of your estate. Trust property will be distributed according to the terms of the trust, without the time, cost, and publicity of probate.

You can benefit from the services of professional asset managers, and you can protect your assets in the event of your incapacity. With certain types of trusts, you may also be able to reduce estate taxes. One of the advantages of trusts among wealthy families is that they help avoid family disputes that could lead to disintegration of family businesses. Confidentiality is also maintained.

Trusts have other advantages too. The trust route can be used for the distribution of assets not only for the present generation but also for future generations. The money can be held and managed by trustees for minor children until they reach maturity.

While trusts offer numerous advantages, they involve up-front costs and ongoing administrative fees.

**Gift your loved ones**  
Another innovative way to leave a legacy is through a gift deed. The gift deed must be made during the lifetime

of a person. In case of immovable property, it must be registered under the Indian Registration Act. If the gift is made to a family member, a stamp duty of 2% of the value of the gift is levied at the time of registration.

Through this method, a lot of confusion is avoided and the process of transfer of estate is trouble-free. However, choosing to gift away your property should be done after much thought, as gifts, once given, cannot be taken back easily.

**Start now**  
Young, middle-aged or retired, if you haven't taken the steps already, it's important to consider planning now for the distribution of your assets. Here are some starting points to start off your estate planning:

- Make a list of all your assets and all your liabilities - Your liabilities will have to be paid at your death. What's left over, minus administrative and probate costs, is what your beneficiaries will get.
- Gather other important documents - Letters of last instructions, medical records, bank and brokerage statements, income and gift tax returns, insurance policies, titles and deeds.
- Beneficiaries - Decide who gets what, and in what proportion.
- Choose a guardian - Nominate a guardian for your minor children and their estates.
- Appoint an executor - Whether you prepare a will or create a trust, an executor plays a crucial role. He will manage your estate from the time of your death until the time your assets are distributed. This is a big job. So make sure the person has the time and the ability to do it.

The writer is a certified financial planner, working as a relationship manager with Mumbai-based SRE Financial Planners. The views expressed are those of the author and do not necessarily represent that of FPSB India. Feedback to the article may be mailed to myplan@fpsbIndia.org

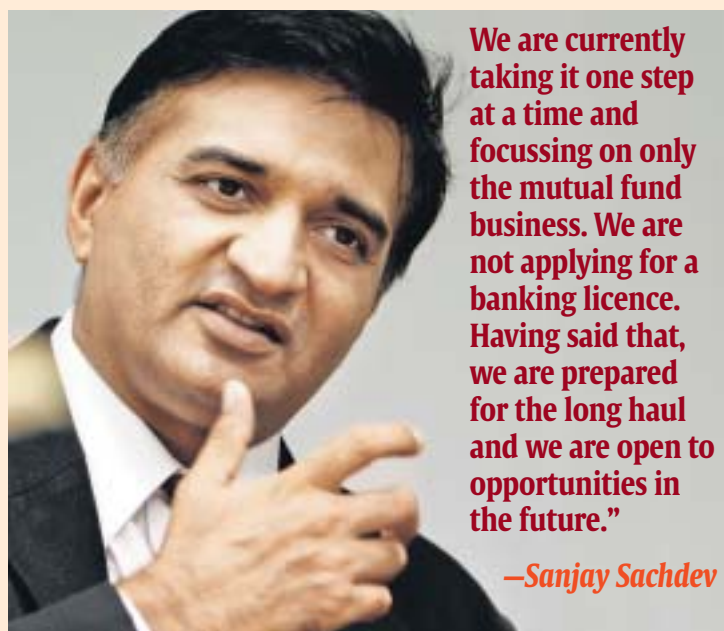
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## 'Value to market is more important'

As the list of mutual fund players in the country gets longer, every fund house is trying to make its mark. The 34th fund house, Shinsei Bank, is set to enter the Indian asset management waters. The opportunity is obviously huge, for going by estimates of Barclays Wealth Advisors, the market will grow at 15% per annum. But, does the mutual fund glass contain beer or champagne. "You think it is champagne, but it is just beer in a champagne glass," says Sanjay Sachdev, country manager - fund management for South-East Asia at Shinsei Bank. The bank has invested in Lemon Tree along with UTI, in which Shinsei Bank has a \$650 million offshore fund. But, Sachdev, bound by non-disclosure alliances, declined to throw light on the area that the Japanese Bank has found interesting. He shares insights with Joel Rebello and Khyati Dharamsi on what the international players of repute that entered India lack, and how Shinsei Bank plans to spin the picture.

**What has taken Shinsei so long to enter the MF business? Is there any pressure from Japan, your home country, to initiate the business?**

No. We are set to launch. We are trying to put processes in place and get better service for investors. We would have a much better infrastructure than some others who have entered the business. The entry could be even in September. Time to market is not as important as value to market. Of



**We are currently taking it one step at a time and focussing on only the mutual fund business. We are not applying for a banking licence. Having said that, we are prepared for the long haul and we are open to opportunities in the future.**

-Sanjay Sachdev

-Kamlesh Pednekar/DNA

the few other Japanese banks that had announced plans to launch Indian operations, we are the first to go ahead. We are investors in India.

We have deals coming up for evaluation everyday in India. We are investing not in all, but one out of every 20 transactions that we receive.

**How would Shinsei's services be different from those of other mutual fund houses in India?**

We will bring in new asset classes, better service standards. The funds that already exist in India have only

classes that you are eyeing?

We have a strong and global expertise in the real estate sector. There are a lot of innovative products in real estate investments, products which could solve the old age crisis and many others.

**Has hiring people been a problem considering several funds are entering the market?**

Not at all. We have some of the best teams in place. We are not hiring only those who are from the asset management background. When fresh talent comes in, it brings with it fresh ideas.

**What are your plans beyond the asset management business? Are you looking at a banking licence in India?**

We are currently taking it one step at a time and focussing on only the mutual fund business. We are not applying for a banking licence. Having said that, we are prepared for the long haul and we are open to opportunities in the future. Right now we have investor operations in India and there are a lot of things happening in that space.

**Are you looking for opportunities to help Indian companies raise money for Japan?**

Yes, we will be looking for an opportunity, definitely. But, not very soon, because we will wait for our mutual fund business to kick off.

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## Nifty hourly resistances for May 12, 2008

Time AM/PM	Resistance Upon surpassing (1)	Rally exhausts at (2)	Rally exhausts at (3)
09.55 - 10.30	5028	5054	5080
10.30 - 11.30	5018	5046	5074
11.30 - 12.30	5008	5038	5068
12.30 - 13.30	4998	5030	5062
13.30 - 14.30	4988	5022	5056
14.30 - 15.30	4978	5014	5050

## NOTES

Trading derivatives is a risky activity. These studies do not assure profits. Please consult a certified financial analyst before trading.

-Vijay Bhamwani

## Post office deposit rates and features

<b>■ Kisan Vikas Patra</b>	
Interest	Doubles in 8 yrs 7 mnrth
Effective interest rate	8.41%
Min. amount	Rs 100
Max. amount	No limit
Tax breaks	None
<b>■ Monthly Income Scheme</b>	
Interest	8%+ 5% bonus at maturity
Tenure	6 yrs
Min. amount	Rs 1,000
Max. amount	Rs 4.5 lakh for single a/c Rs 9 lakh for joint a/c
Tax breaks	None
<b>■ National Savings Certificate</b>	
Interest	8%
Effective Interest Rate	8.16% (semi annual compounding)
Tenure	6 yrs
Min. amount	Rs 100
Max. amount	No limit
Tax breaks	Section 80C deduction
<b>■ Public Provident Fund</b>	
Interest	8%
Tenure	15 - 16 yrs
Min. amount	Rs 500
Max. amount	Rs 70,000 p.a.
Tax breaks	Section 80C deduction
<b>■ Recurring Deposit</b>	
Interest	7.5%
Tenure	5 yrs
Min. amount	Rs 10
Max. amount	No limit
Tax breaks	None
<b>■ Senior Citizens Savings Scheme</b>	
Interest	9%
Tenure	5 yrs
Min. amount	Rs 1,000
Max. amount	Rs 15 lakh
Tax breaks	Section 80C deduction
Min. age	60 years
<b>■ Time Deposit</b>	
Interest	6.25-7.5%
Tenure	1,2,3,5 yrs
Min. amount	Rs 200
Max. amount	No limit
Tax breaks	Section 80C deduction

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54567

Bharti AXA MF is offering a rebate to investors going paperless under its maiden scheme

## Now, a fund house that rewards eco-friendly ways

N Sundaresha Subramanian, Mumbai

Newer fund houses are pulling new tricks out of their hats to make their mark in the competitive MF battlefield.

In a first in the industry, Bharti AXA Investment Managers has come up with an eco plan on its maiden scheme, offering an incentive to investors choosing to go paperless.

The scheme, Bharti AXA Equity Fund, is awaiting Sebi approval.

"This Plan is aimed at retail investors who would prefer to receive all communications in electronic form, reducing paper consumption and thus promoting practices that helps in conservation of environment by avoiding use of paper and saving trees," says the offer document.

While other fund houses have an email option, this is the first time a fund house is offering a monetary incentive through a separate plan at the offer document stage itself.

In order to encourage retail individual investors to opt for the eco plan, the recurring fees will stand reduced for investments up to Rs 2 lakh, says the



offer document.

Sandeep DasGupta, CEO, Bharti AXA Investment Managers told *DNA Money*, "Very often, we find investors receiving bulk of documents like monthly reports, dividend orders, etc. In families where there are multiple folios the amount of paper is even more. Opting for statements through email will lead to significant cost reduction, which we want to pass on to the in-

vestor. Therefore, for retail investors choosing this plan, the expense ratio will be lesser by 25 basis points."

The fund house will publish separate net asset values for the eco plan, Sandeep Dasgupta added.

For an investor taking this option, it will be compulsory to provide an e-mail address at the time of investment. All communication, including account statements, annual reports, portfolio

## Green gains

**Eco plan** offers a 25bps rebate on the expense ratio to investors opting to receive all communication in the electronic form

**One can** invest a maximum of Rs 2 lakh under the eco plan

**Investments over** Rs 2 lakh will be automatically put under the regular plan

**The fund** house will publish separate net asset values for the eco plan

statements and statutory information, will be sent in soft copy format to this address only.

Dividend and redemption payments will be made only by way of direct credit ECS/RTGS/NEFT to their registered bank mandate.

Investors can choose this plan for investments up to Rs 2 lakh. All purchases in excess of Rs 2 lakh will be automatically, and without any reference

to the unit holder, be placed under the regular plan under the same folio, with the same options and preferences as chosen under the eco plan.

Where due to redemption, the investment value in eco plan falls below Rs 2 lakh, fresh purchases (other than by way of SIP/STP) to that extent can be made by a unit holder in the eco plan, and by giving fresh instruction for SIP/STP.

All communications to the unit holder having an eco plan folio would continue to be sent in electronic format (e-mail, SMS, etc). Investors (subject to eligibility) are free to choose any of the two investment plans (eco or regular), as per their requirements, as the scheme is open-ended and allows switching from one investment plan to another, subject to the prevailing terms of the relevant investment plan.

For all unit holders under the eco plan, the refunds will be made by way of direct credit into their registered bank accounts.

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