ArihantCapital
Generating Wealth

Arihant PLATINUM

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MONTHLY MARKET UPDATE

- In November 2020, domestic market reached an all-time high with benchmark Sensex and Nifty Indexending the month up by 11.45% and 11.39% respectively as compared to appreciation of 4.06% and 3.51% respectively in October 2020.

- Leadership of financials and automobiles show the confidence of participants in the market. Market participants around the world were inspired by the success in the production of coronavirus vaccines. The wide market has recently started to perform better, including Mid & Small caps, which can continue in the short term.

- Indian economy, real GDP for the quarter ending September 2020 witnessed a contraction of 7.5% as compared to a contraction of 23.9% for the quarter ended June. Economic revival is being witnessed every month and we expect this to continue in the near future.

- Rupee appreciated in November 2020 by 1.3% to Rs. 73.57/ US $ as compared to Rs. 74.55/ US $ in October 2020, tracked by strong domestic equities and sustained foreign funds inflow.

- Nifty Metal index has outperformed all other major indices with a strong gain of 25.09% followed by Nifty PSU Banks at 19.61% gain and Nifty Bank at 18.95% gain. All the sectors have seen growth this month and have performed very well supporting the high level of Nifty and in acceleration to the high level of liquidity in the market. Comparatively, Nifty IT, Nifty Pharma, Nifty Media and Nifty FMCG showed an average performance with an upward movement of 4.98%, 5.94%, 6.01% and 7.74% respectively. Other sectors such as Nifty Consumer Durables, Nifty Auto and Nifty Oil & Gas showed a significant gain of 12.20%, 14.99% and 12.30% respectively.

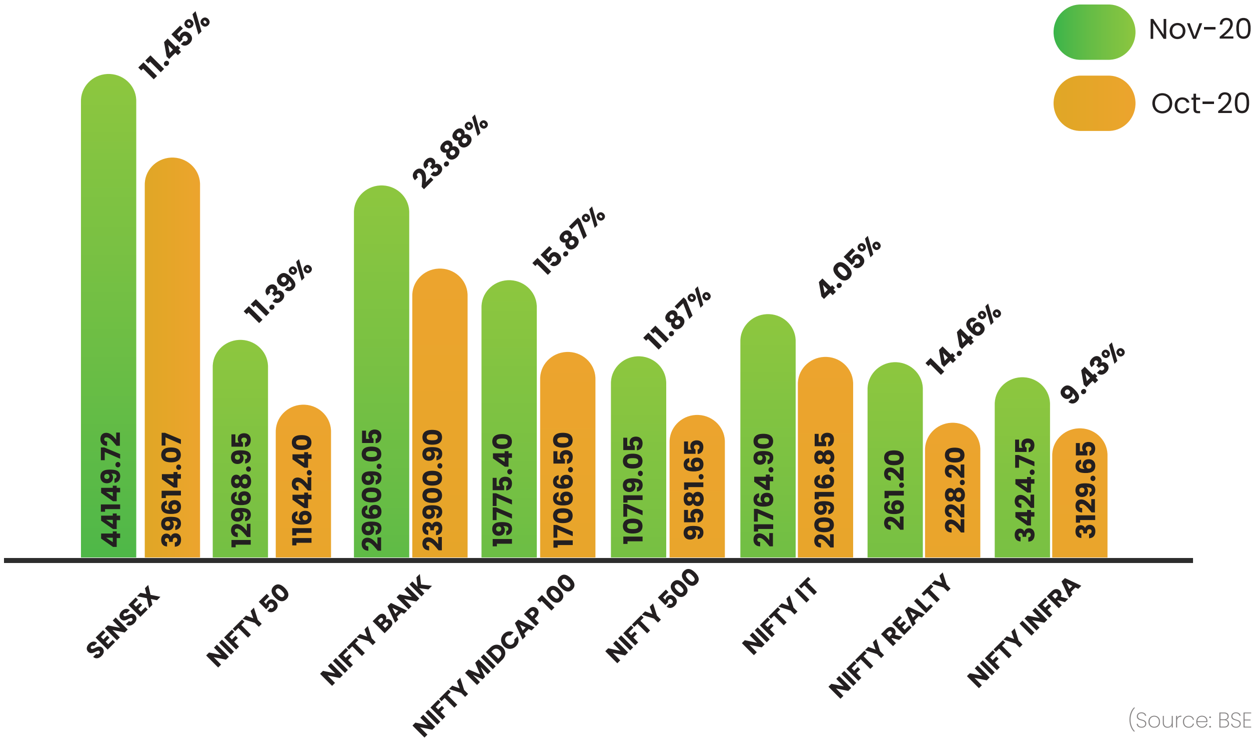
- The RBI is going to announce its new monetary policy in the month of December. With inflation continuing to trend well above the medium-term aim of 4% for RBI, there is little space in the upcoming policy for a rate cut.

- In the month of November 2020, Dow Jones recorded its all time high reaching a peak of 30000 points after the presidential election of Joe Biden, showing an upside of 11.09%. During the month, Nikkie index rose substantially by 14.38%, followed by a 12.60% growth in FTSE 100. Even Nasdaq showed an upside of 11.39% this month followed by a growth of 9.91% in S&P 500.

- Yield of 10 yr government bond closes at 5.93%

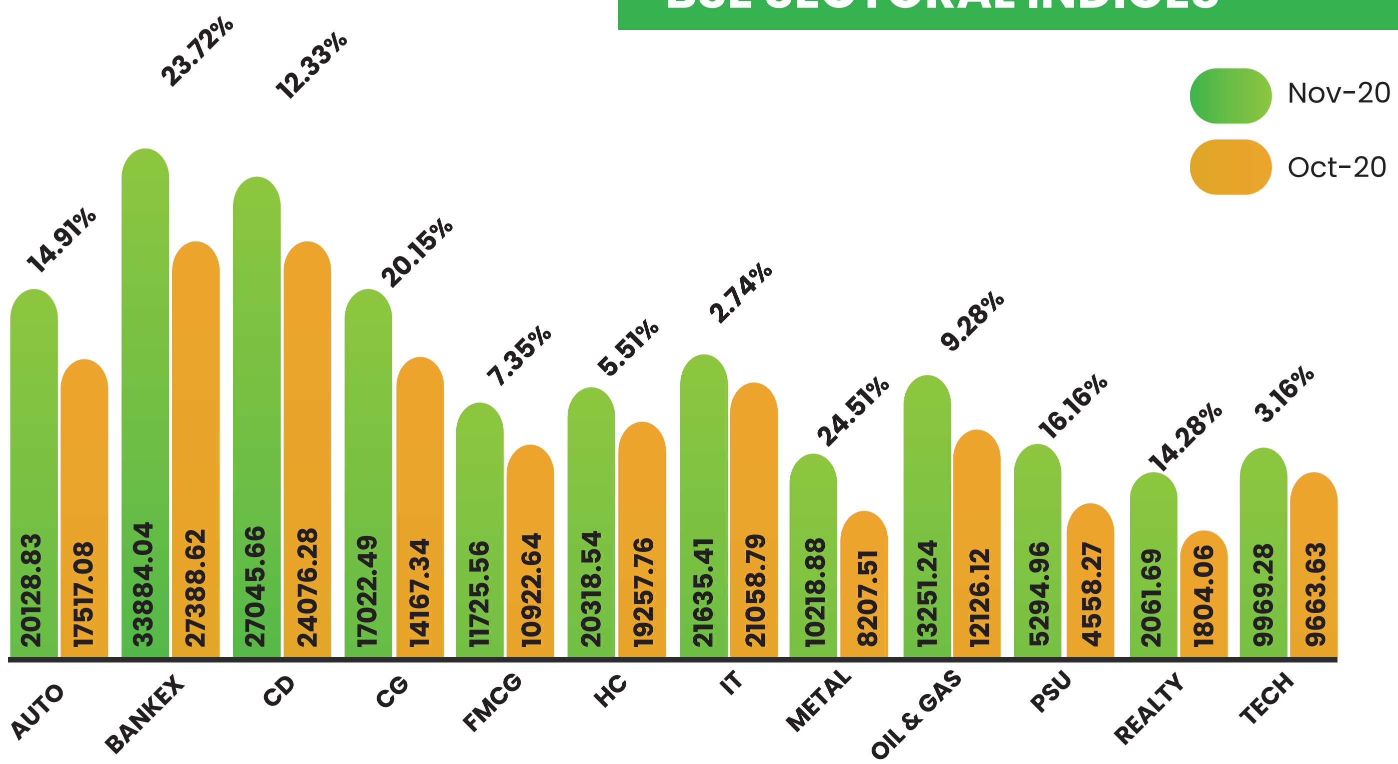
MONTHLY INDICES PERFORMANCE

INDIAN INDICES



(Source: BSE & NSE)

BSE SECTORAL INDICES

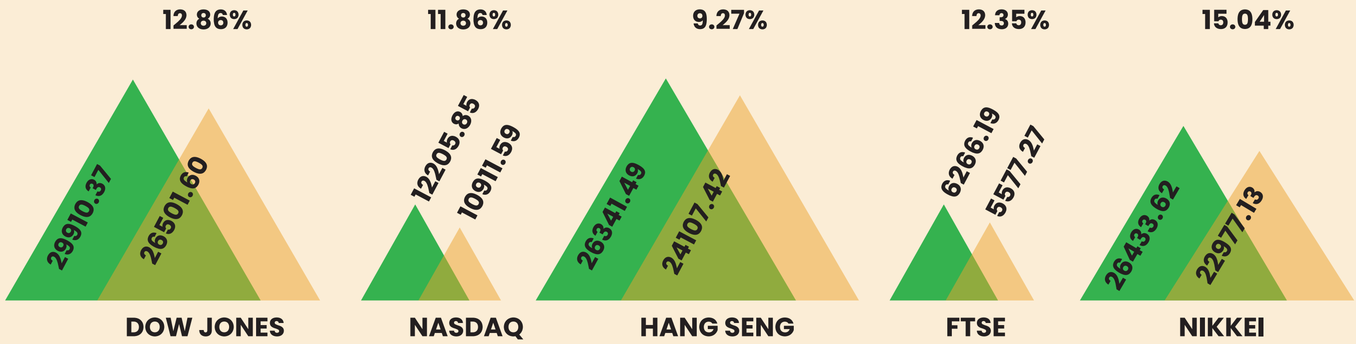


(Source: BSE & NSE)

MONTHLY INDICES PERFORMANCE

GLOBAL INDICES

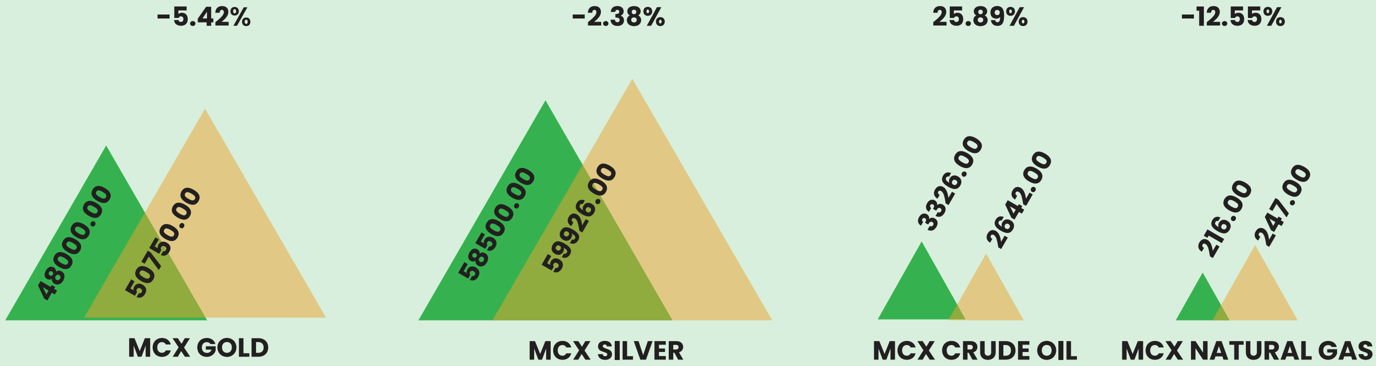
Nov-20 Oct-20



(Source: CNN)

Nov-20 Oct-20

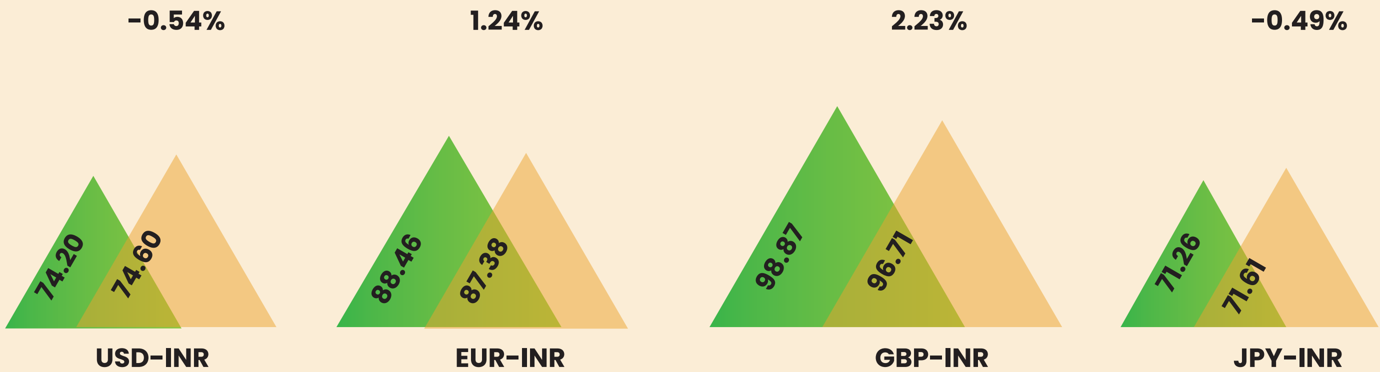
COMMODITIES



(Source: Falcon)

FOREX

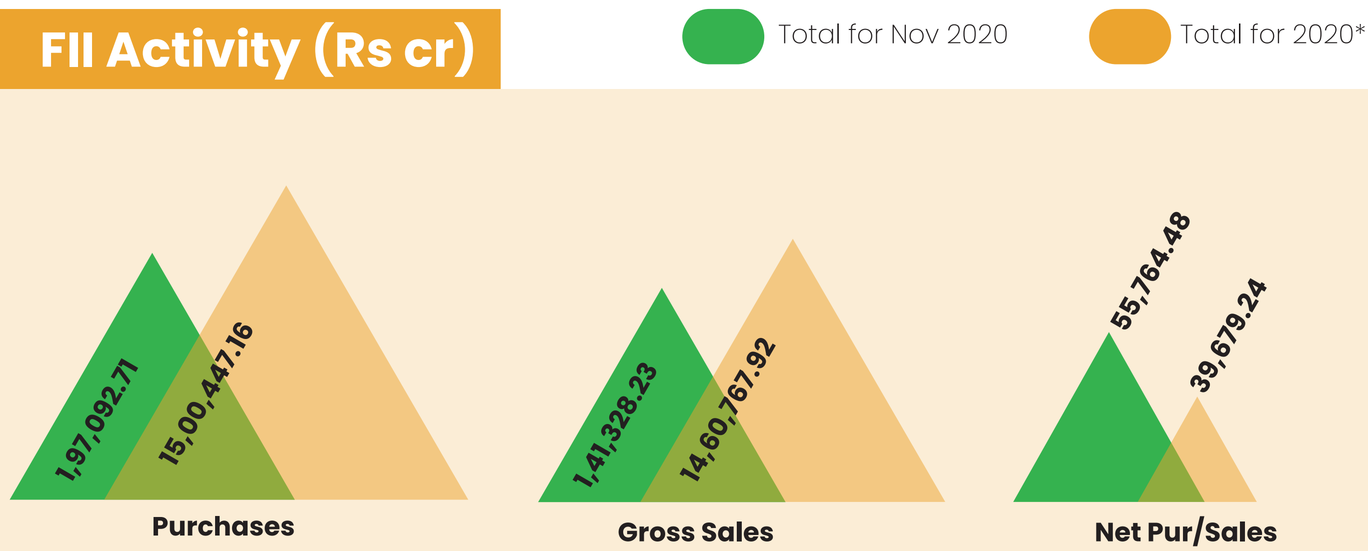
Nov-20 Oct-20



(Source: Falcon)

MONTHLY INDICES PERFORMANCE

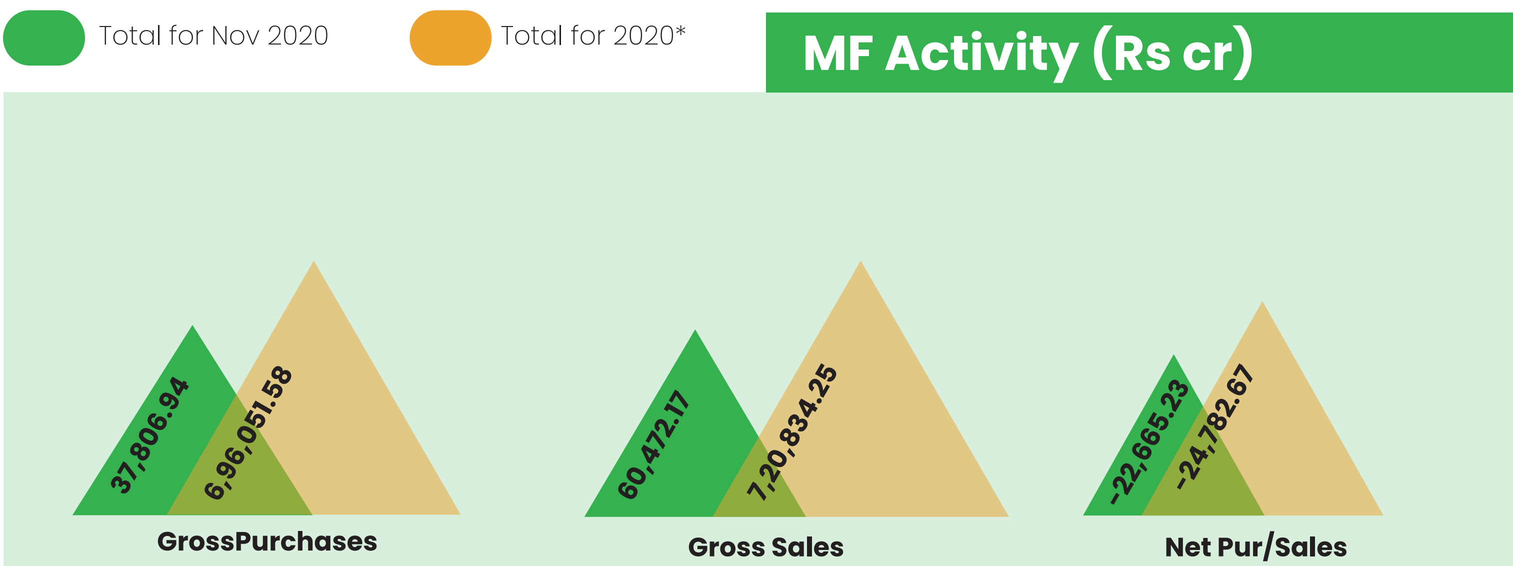
FII Activity (Rs cr)



*Till Nov 2020

(Source: SEBI)

MF Activity (Rs cr)



*Till 23rd Nov 2020

(Source: SEBI)

ESG INVESTMENTS ARE FAST GAINING TRACTION IN INDIA

ESG investing, or investing based on environmental, social and governance parameters, is an investment philosophy that has gained popularity across the world in the past few years. Mint decodes what this concept means and how it can be applied in India.

How do we define ESG investing?

ESG investing is synonymous with sustainable investing. It is an umbrella term for investments that seek positive returns by engaging with ethical firms. ESG investors avoid stocks of companies that fail to meet certain environmental, social or corporate governance standards. Examples of such stocks could be heavily polluting chemical companies, or companies which have poor labour standards, or are unfriendly to minority shareholders. ESG investing has gained currency across the world in recent years, with funds following the model surpassing $1 trillion in assets in August 2020.

Have any of the Indian funds adopted ESG?

A number of mutual fund houses have launched ESG funds in India. Axis AMC launched Axis ESG Fund in February 2020 and SBI reclassified its equity fund as an ESG Fund in 2018. Mirae Asset Mutual Fund launched an ESG Exchange Traded Fund (ETF) in October 2020. However, there are no uniform standards for ESG yet and fund houses have adopted their own methods to determine which stocks make the ESG cut. Alternatively, you can construct your own ESG portfolio, but this will require you to devote a significant amount of time and energy towards researching these companies.

How have the returns of ESG funds been so far?

Theoretically, giving up certain categories of stocks should reduce returns. However, in India, ESG has delivered higher returns over certain time periods by screening out firms with issues. For instance, as of 30 October, the Nifty ESG Index delivered a five-year return of 10.80% CAGR, vis-à-vis 8.99% on Nifty 50, but funds have different methodologies, and so returns may vary.

What should be kept in mind while investing?

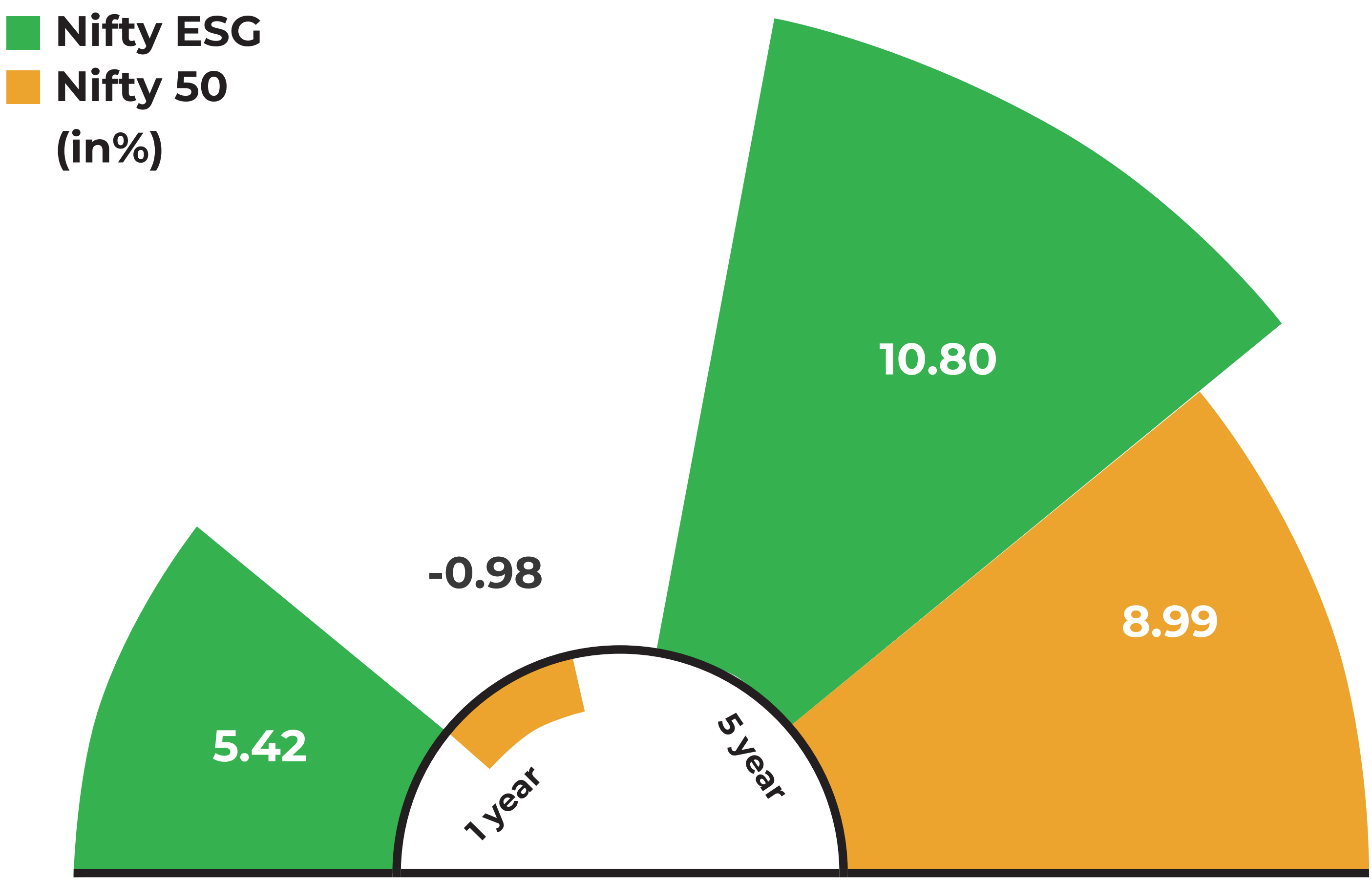
First, verify that the fund offered is following ESG principles rather than using it as a marketing ploy, by checking its portfolio thoroughly. Secondly, check the methodology. What may be ESG to the fund house may not be ESG for you. For example, the methodology may not have equality for LGBTQI persons as a criterion in some jurisdictions, but it may be something that you as an investor care about. Fund houses usually make the selection criterion available on their websites.

Are there other ways to invest responsibly?

Yes, apart from funds branded as ESG, there are other ways to ensure that your fund manager is investing ethically. Mutual Funds have to post their participation and voting records in companies on their websites each year as per Sebi rules. You can take some time to study this. The regulator has also come up with a stewardship code that all AMCs have to comply with. Also, pay attention to aspects like fund manager remuneration and how the fund house responds to investor grievances when you look at mutual funds

OUTPACING BENCHMARK

The ESG Index has outperformed the Nifty 50 over the past one and five year-periods. As of 30 October, the Nifty ESG Index delivered a five-year return of 10.80% CAGR, vis-à-vis 8.99% on the Nifty 50.



Data as of 30 October

Recent ESG fund launches

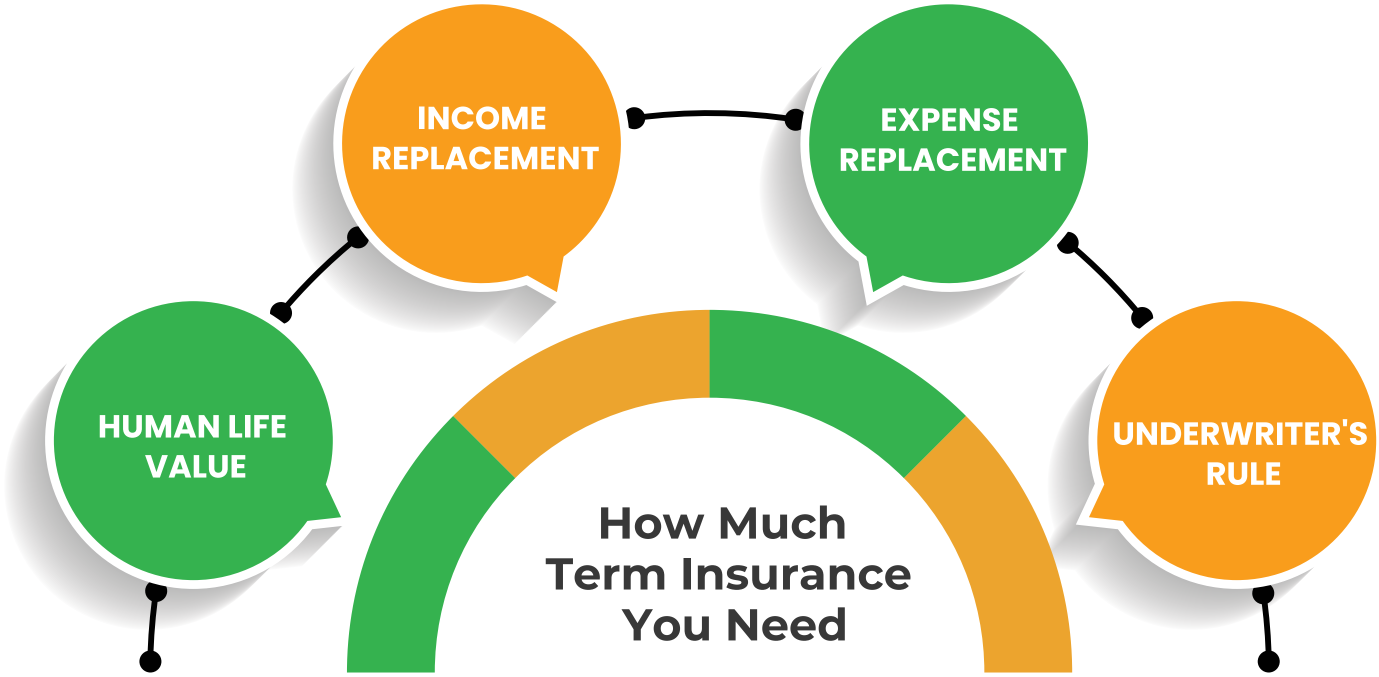
- **Mirae Asset ESG Sector Leaders ETF Oct 2020**
- **ICICI Prudential ESG Oct 2020**
- **Axis ESG Equity Feb 2020**

FOREIGN FUND FLOWS SMASH RECORDS IN NOVEMBER

- The floodgates have truly opened in November, as foreign portfolio investors (FPI) have poured in I over $74 billion, or 54,573 crore, into stocks this month the highest-ever for a month both in local currency and US dollar terms. And, they may not be done just yet with four more trading sessions to go.
- The Previous record for flows in dollar terms was seen in September 2010. In rupee terms, this August had seen record flows of 45,637 crore, data compiled by BS Research Bureau shows. The sharp inflows have catapulted the benchmark Sensex and Nifty indices 12 per cent this month to new lifetime highs.
- Weakness in the dollar, optimism around the US election results and progress of Covid-19 vaccine trials spurred global investors' risk appetite.
  Biden's election was good for Asia and China. There is a bit of extra optimism regarding India because the economic and earnings recovery.
  Since May, over 1.5 trillion or $20 billion has flown into domestic stocks the most-ever on a rolling seven months basis.
- There is so much stimulus that is being offered by western governments they have to find places where they can invest. Because fixed-income virtually gives no returns. Indian markets have been doing well. The turnaround in the September quarter results has helped. Some virtually written-off sectors like autos and banks have done very well.
- Another technical factor that has propelled the flows been MSCI's move to increase India's weighting in its global indices. September quarter earnings, which relative to expectations, have been among the best in recent memory, with far more companies beating revenue and earnings estimates than is usual. The MSCI announcement of an increased weightage for Indian stocks in its indices, which led to incremental buying by active FPI funds ahead of the event.
- Lastly, the recent positive Covid-19 vaccine data and the uncertainty around the US elections having lifted - the latter is seen as a positive for Ems, including India.
- The surge in flows has pushed markets into expensive territory. However, investors seem to be paying little heed to valuations.
- The Nifty valuation at about 21x forward P/E is by no means cheap. But valuations have taken the backseat for now, given low bond yields and supportive central banks, both of which we expect to continue. Instead, investors seem to be focusing on incremental data points both globally and locally.

FOUR METHODS TO CALCULATE HOW MUCH TERM INSURANCE YOU NEED

The covid-19 pandemic has driven home the point that taking life insurance is one of the most important financial decisions that one can make. The demand for life insurance plans spiked following the outbreak. When it comes to life insurance, term covers are the most efficient as they give maximum cover at lowest cost Term covers are the simplest form of life insurance that pay out the sum assured if the insured dies during the term of the policy. There is no payment in case the insured person survives the term
However, just buying life insurance is not enough. The key is to get adequate sum assured to take care of your family's needs. But how much is enough? Insurance protects you against unforeseen demise of the bread-earner, so that the future lifestyle or goals of the family do not get disrupted. The cover is not dependent on the present income; it is dependent on the future value of the goals that you have decided for your family.



We look at four methods—human life value, income replacement value, expense replacement method and underwriter's thumb rule—that can how much life cover you need.

HUMAN LIFE VALUE

This method considers the economic value or human life value (HLV) of a person to the family. The concept primarily considers the value of future income, expenses, liabilities and investments
Under the HLV method, you need to consider your income, expenses, expected future responsibilities, and goals to determine the insurance need. This method is suggested as this gives better clarity keeping in mind the inflation.
If your goal is to sustain the present lifestyle of your family in the future, then determine how much it costs in today's rupee value. This will help decide the amount of cover that you should take on their websites.
This method recommended by most insurance companies and many insurers an HLV

FOUR METHODS TO CALCULATE HOW MUCH TERM INSURANCE YOU NEED

INCOME REPLACEMENT

Under this method, it is assumed that life insurance should replace the lost earnings of the breadwinner. One of the simplest ways to calculate your replacement value is: insurance cover = current annual income x years left to retirement. **For example**, if you are 40 years old, your yearly salary is 15 lakh and you plan to retire at the age of 60 years, the cover you will need is 3 crore (15 lakh x 20). However, one of the drawbacks of this method is that it can suggest a very high cover by considering future income.

EXPENSE REPLACEMENT

Under this method, which is recommended by financial planners, individuals need to calculate their day-to-day household expenses, loans and goals such children's education, as well as providing for financially dependent parents for their entire lives. The figure you reach is the total money that your family will need. The next step is to deduct the present value of your investments and life cover you already have. While calculating the value of your investments, exclude assets such as the house you live in home and car, as your family members are likely to continue using them. The figure you get by deducting investments and insurance cover from expenses and goals will give you an idea how much cover you need.

I suggest expense replacement method, as it gives a more accurate picture of the insurance coverage amount and cover expenses of the survivors till the insured's life expectancy.

UNDERWRITER'S RULE

For calculating the minimum cover you need, you can go by the common thumb rule of having a sum assured that is 10 times your annual income. So if your current annual income is 10 lakh, you should have a life cover worth at least 1 crore. However, according to investment advisers, this method does not give the exact picture. Most of the insurance companies promote insurance cover of 10 times your annual income. That is the reason it has become a thumb rule. The minimum cover should be at least 15-20 times your annual income. Insurance companies also offer cover of 25 times your annual income.

It's possible that your existing cover seems inadequate either because your life value is increasing or because the value of your goals has increased or the goals have changed. If that's the case, go for cover enhancement or buy a fresh policy. The present creed of products has a feature of enhancing a cover at different life stages. But if your life insurance provider doesn't offer this feature, then it might make sense to buy a second cover. The cover enhancement feature allows the sum assured to rise at different life stages chosen by you such as marriage or birth of a child by a specified amount, but do remember that this might translate into increase in the premium as well. It makes sense to compare premiums and plans as per your requirements. Take professional help to determine the policy type and the coverage that will best fit your budget and your family's financial needs.

RENEWAL HEALTH PREMIUMS RISE, YET BUYING EARLY MAKES SENSE

- Thanks to the covid-19 pandemic, health insurance has finally started seeing the transition from being a good-to-have product to a must-have product in 2020. This led to a rise in demand for health insurance this year. However, the change in the perception of people is accompanied by a rise in premiums.
- An online marketplace for insurance, showed that around 66% of policyholders saw their premiums rise by up to 30% compared with last year. However, just 8.3% of policyholders saw a rise of 15-30%, while a majority of them (43%) saw the increase in the range of 0-5%. A small number of people also saw their premiums surging by more than 100% in the last few months, said the survey conducted among Policybazaar customers.
- Insurance companies hike the price of policies based on the claims experience, the age of the policyholder and the sum insured. Any rise in premiums generally hits senior citizens the hardest. A 48-year-old Twitter user said that the premium for a more than 17 years old health policy went up from ₹21,762 to ₹66,667, a 200% jump in 2020. The policy included a cover for his 75-year-old father and 66 years old mother.
  The increase in the case of senior citizens is relatively higher compared with middle aged persons, as there is a higher risk of hospitalization in this age group.
- It is often suggested that one should buy a health insurance cover as early as possible, because the earlier you buy a health cover, the greater will be the benefits. However, with the recent hike in premiums, several policyholders are questioning whether this advice still holds true, on social media platforms such as Twitter.
  Let's take a look at the reasons why insurance premiums have risen this year and why it's still important to get a policy cover early on in your life.

REASONS BEHIND RISE

The premiums have increased by up to 100% by certain insurance companies for some policyholders at a time when the world is struggling with covid-19, but the virus is not solely responsible.

- According to experts, the overall hike happened with the Insurance Regulatory and Development Authority of India (Irdai) broadening the scope of coverage to include conditions such as mental illnesses and HIV-AIDS. The regulator has also been standardizing the products and has reduced the list of non-payable items, expenses that are not payable by your policy.
  Insurance companies have this year seen multiple issues, for instance alarmingly high hospital bills not only for the covid-19 treatment but also for other treatments. Healthcare inflation has always been high.
- The covid-19 put extra pressure on the insurers, as such type of costs and treatments for a pandemic were never included in the pricing for health insurance. This black swan event was never factored in the pricing models by the insurance companies.
  Premium revision is based on the claims experience, which is reflected in the increased cost per claim plus addition of covid-19 claims. However, looking at the increased cost of medical treatment in view of extra care, sterilization and sanitization required now, the cost of treatment is currently higher. It is always important to insure health as a priority to ensure financial planning and avoid the medical expenses burden at any point of illness.

RENEWAL HEALTH PREMIUMS RISE, YET BUYING EARLY MAKES SENSE

GETTING INSURED EARLY

With renewal prices rising for senior citizens, many in the middle age groups have started wondering whether they should delay buying insurance as this might help them save on the premiums for some years. However, experts say that this might not be a wise decision.

- Eligibility is the most important factor to consider, which makes buying health insurance policy early on advisable. If you were to contract certain diseases such as Parkinson's Disease, stroke, cancer, or type 1 diabetes, later in your life, it may get difficult for you to buy health insurance at all.
- Experts advise insuring parents early on, so that the cumulative bonus and other benefits such as health wellness can be availed of on the policies bought for them. A cumulative bonus in health insurance refers to the monetary advantage you get as a reward for not making any claims in one policy year.
- It is always advisable to have a separate plan for children and spouse as well as parents. This will ensure that overall premiums come down, as the premiums are calculated based on the eldest member's age.
- However, individuals can also consider buying a single policy for family members, including parents, depending on their convenience and tax planning.

  Note that it may make sense to go for separate plans in view of the tax deduction rules under the Income-tax Act.

  The premium paid towards a health insurance policy for self and dependant spouse or children is tax-deductible up to ₹25,000. Premiums paid for parents who are senior citizens will give an additional tax deduction of ₹50,000. So buying separate policies may get you a deduction of up to ₹75,000. This may go up to ₹1 lakh, depending on yours and your parents' age.

ARIHANT TAKE

Experts say that rising premiums is a signal that having a health policy is more important than ever before. "The premiums have increased because the cost of healthcare has increased and so has the scope of the cover. So, if these two things have increased, it makes more sense to buy health insurance now, even if the premiums are higher, because the affordability is again going to get more difficult for the user.

- As you age, health insurance premiums are bound to increase. Buying insurance early on will ensure that you are not denied a cover even if you get diagnosed with additional health conditions later in life.

SIX CHANGES IN FY20 ITR FORMS THAT YOU SHOULD KNOW ABOUT

If you are thinking of filing your income tax returns (ITR) now to avoid the last-minute rush, it's a sensible thing to do. The last date for filing ITR has been extended to 31 December 2020. But before you undertake the exercise, it would help to know the changes that the income tax department has made in the notified ITR forms for FY20.

The tax department brings in a few changes in the tax forms almost every year to ease the process of tax filing and increase compliance. Here are the changes in this year's ITR forms that you should know about.

STOCK DETAILS

Now long-term capital gains (LTCG) from equity shares and mutual funds above ₹1 lakh are taxable. A grandfathering mechanism has been introduced for listed shares and specified units purchased before 31 January 2018 on which such tax is not levied. To capture these details, a separate Schedule 112A has been introduced in the ITR forms. You are required to disclose details of sale of equity share in a company or unit of equity-oriented fund on which Securities Transaction Tax (STT) is paid under Section 112A.

Providing scrip-wise details in FY20 ITR forms is required to be filled up only for reporting of LTCG that is eligible for the benefit of grandfathering. Grandfathering is computed based on the cost, sale and market price as on 31 January 2018 for each share or unit and, hence, there is a need to capture the details.
There are other details to be provided as well. Taxpayers will need to provide international securities identification number (ISIN), name of the scrip, number of units or shares sold, sale price, purchase cost and fair market value (FMV) in Schedule 112A form at the time of tax filing. These details can be obtained from the taxpayer's stock statements.

For shares or units bought after 31 January 2018, a consolidated entry instead of scrip-wise details would suffice. Without this reporting requirement, there may be situations where a taxpayer may not claim or wrongly claim the benefit of grandfathering due to lack of understanding. The scrip-wise disclosure would enable tax authorities to cross-verify the details electronically with stock exchanges and brokerages companies.

SIX CHANGES IN FY20 ITR FORMS THAT YOU SHOULD KNOW ABOUT

TAX-SAVING DETAILS

Due to the covid crisis, the tax department allowed taxpayers to claim deduction, including under Section 80C, for FY20, for investments made till 31 July 2020 instead of till 31 March 2020. To claim such benefit, you will have to give details in ITR forms under a new schedule. Leave the column blank if you don't want the benefit for FY20 but would like to avail of it in FY21 instead.

The benefit of Section 80D (for tax benefit on medical insurance) on premiums paid for self and family and parents (including senior citizens) require to be mentioned separately. Earlier, you could mention a consolidated amount under Section 80D for medical insurance premium paid for self and family and parents.

OTHER CHANGES

- **Details of additional bank account:** You can provide details of more than one bank account in which you want a tax refund.
- **PAN and Aadhaar details:** In the house property schedule in ITR-2, you need to disclose permanent account number (PAN) or Aadhaar of the co-owner or tenants. In the capital gains schedule in ITR-2, too, PAN or Aadhaar of the buyer of immovable property is required. Earlier, only PAN was required in both cases.

New conditions to file ITR: If you have gross taxable income, without any deductions, below ₹2.5 lakh, you are not required to file ITR. But if you have made certain specified transactions, you will need to file ITR from this year. These transactions include depositing more than ₹1 crore in one or more current accounts in FY20, spending more than ₹2 lakh on foreign travel; and paying more than ₹1 lakh as electricity bill in FY20.

Keep these changes in mind to file error-free returns.

ArihantCapital
Generating Wealth

WHAT SHOULD YOU DO IN VOLATILE MARKET CONDITIONS?

- Always aim to "buy low and sell high", redeeming now means you are doing exact opposite.
- Despite short termvolatility, markets have created wealth over the long term
- Staying invested across market cycles helps you to reap the benefit of compounding
- Spend more time in the market to create potential wealth than timing the market

Missing just a few best days in market can substantially reduce your returns potential as shown in the illustration below.

	Compounded Returns	Value of Rs. 10 lakh invested on Jan 3, 2005 (Rs.)
Missed 5 Best Days	7.83%	31,74,400
Missed 10 Best Days	5.67%	23,29,210
Missed 15 Best Days	3.78%	17,65,313
Missed 20 Best Days	2.00%	13,53,776
No Missed Days	11.14%	50,48,152

So stay invested through market ups and downs and you could benefit over the long-term

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