CHRIST UNIVERSITY
BANGALORE, INDIA
Declared as Deemed to be University under Section 3 of UGC Act 1956

DEPARTMENT OF MANAGEMENT STUDIES

VOLUME: 20
EDITION: JULY 2012

FINOMETRICS

MASTER OF FINANCIAL MANAGEMENT

INDEX

PRIYA VILLAGE ROAD SHOW → 1

INFLATIONARY GAME OF CONSTRUCTION INDUSTRY → 2

MERGING MUTUAL FUNDS → 3

TEASER LOANS → 5

BREAKING THE LIBOR → 7

RISKS RELATED TO BONDS → 9

R.I.P, NOKIA? → 11

MANAGEMENT GURU: MICHAEL PORTER → 13

ADITYA BIRLA GROUP – M&A → 15

SILENT INDIA-WILL THE TIGER EVER ROAR? → 16

NO PERFORMANCE, NO NFO → 17

LIBOR, THE GAUSSIAN COPULA AND THE SOCIOLOGY OF FINANCE → 19

HIGH FINANCE: A FARCE OR PURE FICTION! → 20

INDIAN POPULATION-DEMOGRAPHIC DIVIDEND OR POPULATION? → 21

ARTHAYUDH 2012- RACE TO THE OLYMPUS → 22

EDITORIAL TEAM

PRIYA VILLAGE ROAD SHOW

Priya Village Roadshow (PVR) Cinemas is one of the largest cinema chains in India. The company, which began as a joint venture agreement between Priya Exhibitors Private Limited and Village Roadshow Limited in 1995 with 60:40 ratio, began its commercial operations in June 1997. By introducing the multiplex concept in India, PVR Cinemas brought in a whole new paradigm shift to the cinema viewing experience: high class seating, state-of-the-art screens and audio-visual systems.

Stocks of PVR can be bought for a short-term horizon. The value of the stock has been on an uptrend since March 2011. In the recent, the stock took support at its twin base around Rs 147 and resumed its up move. The stock surged 6% breaching its near-term resistance. However, its 21 and 50 day moving averages are averaged. The daily moving average indicates a buy and this stock is surely in the bullish zone.

There is an upward move and the price target can reach upto Rs.168.5 or Rs. 173.5 in the future. The short-term perspectives can consider buying the stock with a stop at Rs.158.

REPORT CARD:

Attribute	Value
Market Capital (Rs.cr)	283.85
PE ratio	17.66
EPS (Rs)	5.92
Sales (Rs Crore)	307
Face Value (Rs)	10
Net profit margin (%)	4.53
Reserves (Rs.cr)	221.64
Book value	91.64
Dividend yield	0.96

INFLATIONARY GAME OF CONSTRUCTION INDUSTRY

The Competition Commission of India (CCI) had imposed a 6,307-crore penalty on 11 cement companies for forming a cartel. It has concluded that cement makers have controlled the supply through under-utilization of capacity.

The CCI found various discrepancies in the working of the cement companies, which included deliberate under-utilization of production capacity to create scarcity in the market and hence lead to an artificial inflation of prices.

"We are happy that CCI has taken action to penalize the cement companies, as it would give a boost to the construction industry leading to the revival of our economy, which is currently going through a difficult phase," BAI Secretary Anand Gupta said.

The domestic cement industry is unique with 57 per cent of the capacity being consolidated with the top eight players. The rest of the industry is highly fragmented with small-to-medium sized companies. They mostly have uneconomical scale of operations. Smaller firms with uneconomic cost structures would become uncompetitive and face very significant deterioration in their credit profiles, said Fitch.

As such the fragmentation level in the industry is expected to reduce. Larger and vertically integrated companies are likely to gain market share. Fitch has maintained a negative outlook on the cement industry for the last two years. The industry has been struggling with excess capacity given the existing muted demand scenario. The cement manufacturers, on whom the penalty has been imposed are ACC, Ambuja Cements, Grasim Cement now merged with Ultratech Cement, JK Cements, India Cement, Madras Cement, Century Cement, Binani Cement, Lafarge India and Jaypee Cements

Priyank Hariyani
yourpriyank_2007@yahoo.co.in

MERGING MUTUAL FUNDS

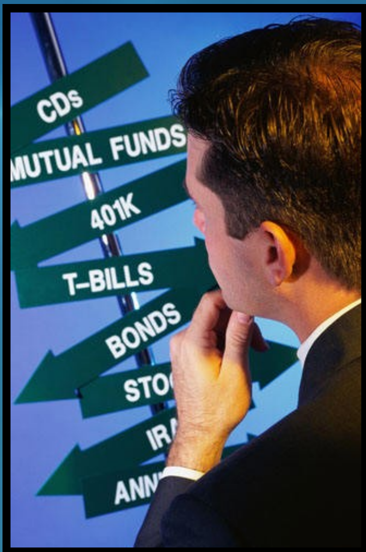
Mutual funds are embracing the practice of merging one mutual fund scheme into another. Sundaram Mutual Fund has announced merger of Sundaram India Leadership Fund into Sundaram Growth Fund. Another such move has come from public sector player - SBI Mutual Fund. SBI One India Fund will be merged into SBI Magnum Equity Fund. Value Research, a mutual fund tracking entity has assigned four star rating to SBI Magnum Equity Fund and has not rated SBI One India Fund. Sundaram India Leadership Fund is a four star rated fund whereas Sundaram Growth Fund is a three star rated fund.

These mergers come after U.K.Sinha, chairman, Securities Exchange Board of India, expressed concerns over underperformance of equity schemes in Mutual Fund Summit held in June 2012. Experts are expecting some more such instances in near future, as mutual funds consolidate their product portfolios. Many times fund houses prefer to merge their underperforming schemes into larger schemes that are performing better.

In the last year, fund houses such as JM AMC, Franklin Templeton AMC too has announced mergers of schemes. Franklin Templeton has opted to merge Franklin Pharma and Franklin FMCG Sector funds into Franklin Prima Plus Funds. Both the schemes were doing good and experts reckoned this move as a part of AMC's steps towards consolidating their product offerings.

INVESTORS TAKE A STEP BACK

Investors withdrew a net $7.7 billion from U.S. stock funds in June, according to industry consultant Strategic Insight. It was the fourth consecutive month that money was pulled out of stock funds and the biggest monthly total this year. Through June, net withdrawals total $15 billion.



The Standard & Poor's 500 stock index rose about 4 percent in June, but the previous month's 6 percent decline apparently was fresh in investors' minds. Although cash flowed out of U.S. stock funds last month, Strategic Insight said last week that investors deposited a net $5.4 billion into funds investing in foreign stocks. Year-to-date, international stock funds have attracted $33 billion.

NET INVESTMENTS IN MUTUAL FUNDS

Inflows (Rs. in Crore)			
Category	April	May	June
Income	17,874	1580	1567
Equity	-455	506	-186
Balanced	23	61	19
Liquid	75,752	25,052	-25,128
Gilt	-230	-371	115
ELSS	-160	-86	-100
Gold ETFs	50	-41	-227
Other ETFs	-51	32	15
Fund of Funds	-11	9	-44
Net Flow	92,746	26,742	-23,969
AUM	6,80,154	6,99,284	6,88,825
Growth in AUM (in per cent)		2.8%	-1.5%
Source :AMFI			

FALL OF THE ASSET BASE

Huge outflows worth over 25,000 crore from the liquid funds has led the Indian mutual funds to log a near 1.5 percent decline in their asset base in June on a month-on-month basis. However, there is nothing unusual about it as quarter-end outflows from liquid funds are a regular feature in the industry. Liquid fund, which receive investments from corporates, withdraw their short term investments to meet the payment of advance tax and dividends.

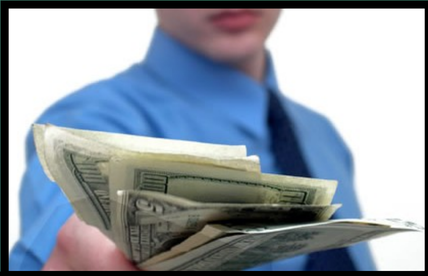
The equity market represented by the benchmark S&P CNX Nifty has increased by over 7 percent in the month of June. With Prime Minister Manmohan Singh once again heading the finance ministry, the equity market is expecting that fresh economic reforms would be propelled from his side.

However, equity and ELSS schemes have witnessed redemption pressure in the month of June. Capturing the paradox of equity markets, this lack of confidence witnessed amongst the investors regarding equity funds is on an uptrend and the people have redeemed in order to book profits or to cut down their losses.

Aswathi TC
aswathitcvarrier@gmail.com

TEASER LOANS

What are Teaser Loans?



Investopedia defines a Teaser Loan as: An adjustable-rate mortgage loan in which the borrower pays a very low initial interest rate, which increases after a few years. Teaser Loans try to entice borrowers by offering an artificially low rate and small down payments, claiming that borrowers should be able to refinance before the increases occur.

This basically means that initially, for a short fixed period, the borrower will enjoy a fixed rate of interest irrespective of what the market conditions are; and after the end of that period, the rates are subjected to an increase or decrease, depending on the existing current market rates.

As the very name suggests, Teaser Loans have been designed to "tease", or attract a home loan borrower in seeking a new loan. These loans have a relatively low, fixed interest rate in the initial 2 years, say around 8 to 8.5%. However from the third year onwards, the rates revert to a higher fixed or floating interest rate, which would be subject to the then prevailing market rates.

TO INVEST OR NOT TO INVEST

Advantages:

- With low rates of interest initially, teaser loans make home loans affordable for new borrowers.
- It serves as an advantage to borrowers, especially if there is likelihood for the rates to move up shortly.

Issues:

- One of the major concerns of the RBI is the EMI affordability once the rates are revised. With the shift in interest rates, the resultant EMI could end up being a burden to the borrower, especially if it is much more than what was expected.
- With banks following aggressive practices to lure new customers, borrowers are seldom made to understand the difference in the initial year's EMI versus the EMI for the rest of the loan tenure. Many lenders do not provide appropriate illustration of the interest regime, after the initial discounted period.

RBI's CONCERN

The Reserve Bank of India (RBI) recently raised concern over teaser home loans being offered to lure new home loan customers. In the current scenario of rate fluctuations and global financial crisis, the implication of such loans, on borrowers as well as on banks, has caused worry to RBI.

Keeping the above points in context, the Reserve Bank of India has expressed its concern that in case the floating rates shoot up, borrowers could default in their EMI payments. Such EMI defaults are not a good sign for the borrower or for the asset books of the lending bank.

Therefore, RBI has recently increased the teaser loan standard asset provisioning to 2% from 0.4%, and has capped the home loan limit at 80% of the value of the property.

TEASER LOANS v/s HOME LOANS

The main issue arising in a teaser loan versus a regular home loan is that no clarity is available to borrowers, on the subsequent interest rates after the initial fixed rate years. It is only after the initial tenure, that borrowers get the actual lender's reference rates and an understanding of the effective cost of the loan.

With RBI's stringent move, we could probably hope for more transparency and prudence from lenders offering such loans.

Radhayya S.M
smradheya@gmail.com

BREAKING THE LIBOR

By now almost everyone has heard of "LIBOR" and Barclay's involvement in manipulating interest rates. Yet the Barclay's Bank scandal over LIBOR, the London Interbank Offered Rate, that affects some $800 trillion in interest rates including mortgages, credit cards, student loans et al, is just the tip of the iceberg of the financial fraud hitting the headlines.

There are several reasons that this scandal will remain in the public eye with Barclays at the centre. But due to the nature of the market's attention span and the way in which news is reported, only the most egregious offenders will be highlighted. And by being the first bank to come forward, Barclays will be a mainstay of the story regardless of the extent of other banks' involvement.

There are twenty banks that contribute to the calculation of the LIBOR rate including banks such as Barclays, Deutsche Bank (DB), Royal Bank of Scotland (RBS), Credit Suisse (CS), Citigroup (C), UBS (UBS), HSBC (HBC), and JPMorgan Chase (JPM).

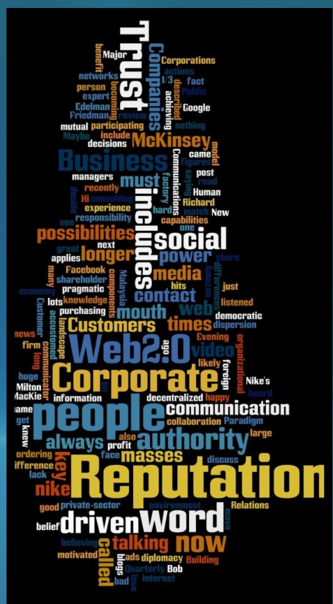
Now there are new revelations the New York Federal Reserve knew about Barclay's manipulations of LIBOR way back in 2007 and did nothing to stop it. Apparently, a Barclay's employee sent an e-mail to the New York Fed saying, "Draw your own conclusions about why people are going for un-realistically low rates". He indicated other big banks were also manipulating the rates and that Barclay's just wanted to "fit in with the rest of the crowd". Remarkably the bank itself was aware of the manipulations and in an internal report that same year said, "Our feeling is the LIBOR"s are again becoming unrealistic and do not reflect the true cost of borrowing".

Of course the Barclay's scandal became known just months after the JP Morgan Chase trading loss story broke revealing some $2 billion in losses (now estimated to be $7 billion) by the bank from high risk hedging trades that went sour and then compounded when the traders didn't reveal the true extent of the losses. These losses involved "complex derivatives" that still are completely unregulated even as they were at the center of the sub-prime mortgage bubble bursting in 2008 and the subsequent financial meltdown that brought the great recession.

Now one can say the Barclay's scandal, the JP Morgan trading debacle and the Wells Fargo bias suit are all separate and unrelated occurrences that just happen to involve the big banks. And to some extent that is true.

But if nothing else, all these cases reveal regulation and oversight of their activities is wholly inadequate and these banks are gaming the system in their favour and unless serious regulations are enacted to curb their excesses, it is all but guaranteed they will continue their fraudulent activities.

The quantitative effects of this scandal will be massive and very difficult, if not impossible, to estimate at this stage. Fines will be levied, lawsuits will be filed, criminal charges will be made, and regulations will be tightened.



The qualitative effects are even more difficult to measure but no less important. Bankers are already hated by voters and are punching bags for politicians - the fixing of LIBOR rates confirms many of the worst aspects of bankers' reputations. And Barclays' reputation has been greatly tarnished with the stigma of this scandal.

And in the end it is the people, not the bank perpetrators, who will be the ones that will be caught holding the bag and would suffer the consequences in harsh austerity measures, loss of jobs, foreclosures, bankruptcy and economic calamity.

Manasa R
manasa10020@gmail.com

RISKS RELATED TO BONDS

There are a number of risks associated with investing in bonds. The investor can minimize or increase his exposure to certain risks by investing in bonds with properties designed to minimize or accentuate certain risks. An investor who wishes to minimize his exposure to interest rate risk may invest in a bond with a relatively short maturity, high coupon payments, or even adjustable coupon payments. The more frequent and less constrained the coupon payments are, the lower the interest rate risk of the bond.

INTEREST RATE RISK

Interest rate risk is often the major factor influencing a bond's market price and total return. The market prices of most bonds move in the opposite direction of a change in interest rates. If the general consensus among bond investors is that the rate of inflation will increase in the future, lowering the purchasing power of the dollar, then the investor will demand a higher return for investing in a bond.

REINVESTMENT RISK

Reinvestment risk is related to interest rate risk, but has the opposite effect on a bond's performance. Reinvestment risk refers to the risk that the rate at which coupon and principal cash flows from a bond are reinvested will be lower than the expected rate in effect when the bond was purchased. If expected interest rates decrease during the holding period of a bond, the value of the coupon increases, if it is paid at a fixed rate, while the reinvestment value of the coupon flows decreases, due to the lower market rates earned on the reinvested coupon.

CREDIT RISK

Credit risk is the risk that the issuer of a bond will be unable to make the coupon and principal payments specified for a given bond. This risk is the risk that most investors focus on when purchasing bonds, but it usually has less of an effect on returns than some of the other risks, namely interest rate risk or call risk. Credit risk is usually quantified by comparing a bond's yield to that of a bond with a similar maturity and cash flows but with negligible credit risk, i.e., a Treasury security.

CALL RISK

Many bonds have call features as part of their structures, and these call features represent another risk to the bondholder. A bond with a call feature can be redeemed by the issuer prior to maturity at a specified price.

LIQUIDITY RISK

Liquidity risk refers to the ease with which a security can be purchased or sold. Bonds that trade frequently and in large amounts, such as Treasury securities, usually have less liquidity risk than bonds which trade less frequently.

Liquidity risk is usually indicated by the difference between the bid, or the price at which a market maker will purchase a security, and the offer, or the price at which a market maker will sell a security. The difference between the bid and the offer prices represent the cost of trading the security, and the spread between the two reflects the market maker's uncertainty as to the value of the security. Liquidity risk becomes a smaller factor in overall return as an investors holding period lengthens .

INFLATION RISK

Inflation risk refers to the risk that the rate of inflation that is experienced by the investor will be higher than anticipated when the bond was purchased, resulting in reduced purchasing power. This risk can be reduced through the use of adjustable rate bonds, whose coupon payments increase or decrease based on the level of a stated index.

CURRENCY RISK

An investor is exposed to currency risk if a bond is denominated in a currency other than his home currency. If the value of the currency in which the bond is denominated decreases in value relative to the investor's home currency, the investor will receive smaller interest and principal payments than were expected. The investor is also exposed to the interest rate risk and market risk that is present in the foreign market where the investment takes place.

EVENT RISK

Event risk refers to the possibility that there may be a single event or circumstance that could have a major effect on the ability of an issuer to repay a bond obligation. This could be an industrial accident or takeover in the case of a corporate bond, or a major natural disaster in the case of a municipal bond.

Mrinomoy Chakraborthy

mrinmoychakraborty09@gmail.com

R.I.P, NOKIA?

It is hard to imagine that Nokia, which until last year was a leader in the mobile phone industry, is today struggling to even maintain basic sales performance levels.

Will Nokia's enormous existing user base and continued growth in developing regions be enough to prevent eventual sublimation into Bill Gates Jurassic beast?

Experts are arguing that the natural conclusion of the Microsoft pact makes the future purchase vital for Microsoft. After revising its earnings estimates downward in May, Nokia on Thursday shared abysmal results for the second quarter.

The onetime clear leader of the first smartphone era has tumbled down to what looks like the third spot for smartphone sales, definitely behind Apple and likely behind Samsung as well. With a new chief executive in Stephen Elop, Nokia is surely in transition, but a transition to what?

The first reaction to these financial figures was one of sympathy, and one of optimism. But after digesting the news a little more and thinking about the path Nokia travelled to get to its current low point, experts don't see how the bleeding is going to stop this year.

Here are some reasons why the Finnish mobile phone maker needs to really worry:

- **Feature phones can't save the day.** Nokia's own sales numbers reflect this point: Total revenue from sales of mobile phone handsets declined 20 percent from a year earlier and 25 percent from the previous quarter. Combine the sales drop with a 3 percent decline in the ASP of Nokia's mobile phones, now €36 ($51.20), and you can see that Nokia's bread and butter contributed to its $692 million quarterly loss.

- **Existing smartphones aren't helping.** So as feature-phone sales are in decline, one would hope that high-profit-margin smartphones can help make up the difference. That's not happening, given that the company didn't capitalize on the smartphone market the way Apple and Samsung did, for example.

A smartphone answer doesn't exist yet. In other words, Nokia's smartphone transition is still fraught with risks for many reasons, and it's going to take Nokia time to hone its skills on a new platform.

Android squeezes at the top and bottom. High-end smartphones are selling well in regions that can afford them. At the same time, cheap Android smartphones are popping up in areas where feature phones once reigned.

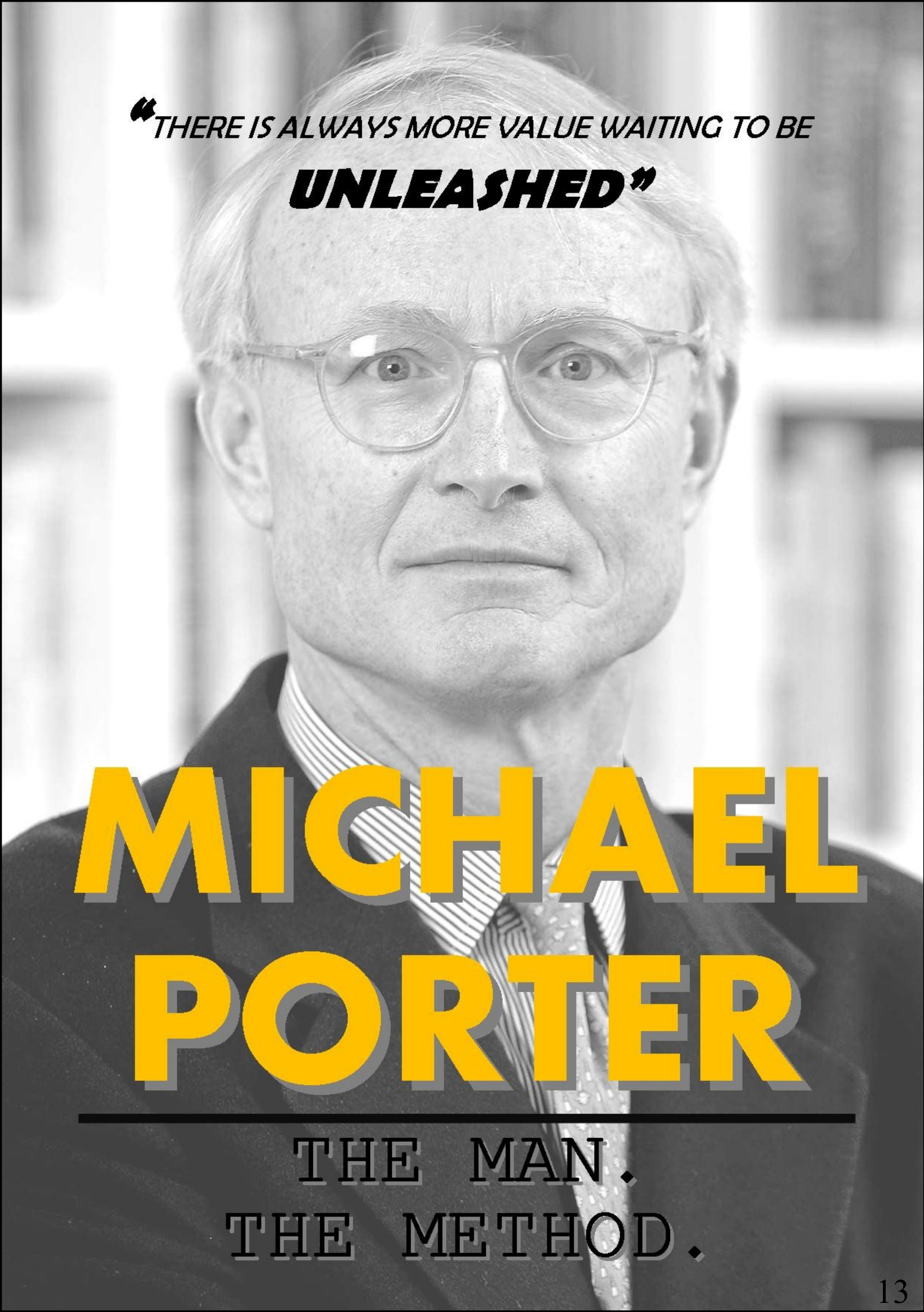
Think of India and the next 500 million mobile users. Look to China, where Nokia moved 52 percent fewer phones this quarter than during the previous one. In these areas, inexpensive, low to mid-tier Android phones are arriving and offering much more functionality for just a little more money over feature phones.

How much destruction can one brand take? Among the many tangible negatives for Nokia today, there's a massive intangible as well: a tarnished brand. As sales of Nokia devices continue to stumble, the brand itself loses value in terms of consumer and investor confidence. With smartphones, the brand is tied not just to hardware but also to software and services: Consumers are purchasing brand platforms and ecosystems when they buy a handset.

CONCLUSION

It's never good to see a global leader heading towards a "has been" status, especially with all the innovation Nokia has brought to so many people around the globe. But the sad reality remains that Nokia has very few options left, and it would truly take nothing less than a technological miracle to make this brand what it was just an year back. Like they say, Time Will Tell.

Ranjith K Rajan
ranjithk_rajan@yahoo.com



"THERE IS ALWAYS MORE VALUE WAITING TO BE **UNLEASHED**"

MICHAEL PORTER

THE MAN.
THE METHOD.

Michael E. Porter is the Bishop William Lawrence University Professor at Harvard Business School. A leading authority on company strategy, the competitiveness of nations and regions, and strategic approaches to societal problems, Professor Porter's work is widely recognized in governments, corporations, non-profits, and academic circles across the globe. A sought after teacher, he also chairs Harvard Business School's program for newly appointed CEOs of multibillion dollar corporations.

Professor Porter's core field is competition and company strategy. He is generally recognized as the father of the modern strategy field, and his ideas are taught in virtually every business school in the world. Professor Porter's work has also re-defined thinking about competitiveness, economic development, economically distressed urban communities, environmental policy, and the role of corporations in society.

Professor Porter has won numerous awards and honors, including Harvard's David A. Wells Prize in Economics for his research in industrial organization, the Academy of Management's highest award for scholarly contributions to management, the Adam Smith Award of the National Association of Business Economists, and the John Kenneth Galbraith Medal. He has been elected an Honorary Fellow of the Royal Society of Edinburgh and other honorary societies. The recipient of twenty honorary doctorates and several national honors, he received the first ever Lifetime Achievement Award from the United States Department of Commerce in 2008 for his contribution to economic development.

Professor Porter has founded three major non-profit organizations: The Initiative for a Competitive Inner City (ICIC) in 1994, which addresses economic development in distressed urban communities; the Center for Effective Philanthropy, which creates rigorous tools for measuring foundation effectiveness; and FSG, a leading non-profit strategy firm serving NGOs, corporations, and foundations in the area of creating social value.

ABG's ACQUISITION-TERRACE BAY PULP MILL

Aditya Birla group is acquiring Terrace Bay Pulp mill, a North American paper grade pulp company by the July end. This would be the group's sixth acquisition in about six months and 28th overall. The mill is considered an anchor mill due to its location and significant consumption of residual chips produced by regional saw mills. The group is acquiring the mill for $110 million and will make a further investment of $250 million. 40 percent of the shares will be held by the group's Grasim industries and the rest by Thai Rayon Public Co Ltd.

The major move of the acquisition is the conversion of the mill into a dissolving grade pulp mill. The entire process is to sustain growth which moves from plantation to pulp to fibre. On conversion of the mill, the pulp will be used for the group's VSF plant word wide. The conversion will happen only in 2016. Until then the mill will produce paper grade pulp.

The mill was placed under the Company's Creditors Arrangement Act in January 2012 and the group acquired the mill through a Special Purpose Vehicle AV Terrace Bay Inc. The transaction is subject to court approvals in Canada and other regulatory authorities in Canada, Thailand and in India. The group's significant presence in Canada and its relationship with the government and the community helped the group in easy acquisition of the mill. This is yet another milestone for Aditya Birla Group.

The Aditya Birla Group has a significant presence in Canada. Its major companies – AV Nackawic, AV Cell in the pulp and fibre business; Aditya Birla Novelis in the metals business; Aditya Birla Minacs in the ITES business and Columbian Chemicals in the Carbon Black business – all have highly successful operations in Canada. The Aditya Birla Group has a 6,000 strong workforce operating in the country.

Nandita Varma S

varma_nanditha@yahoo.co.in

SILENT INDIA-WILL THE TIGER EVER

Slowing growth, a falling rupee, sliding stock markets, a rising current account deficit, drying foreign inflows and policy paralysis at the centre. Things certainly don't look rosy for India.

With the rupee down 22 percent in the last 10 months and a 6 percent drop in stock markets so far, with the IIP down by a 2.5 percent, it time for the government to seriously rethink its strategy ahead of the 2014 general elections.

It took Pranab Mukherjee nearly two months to clarify his controversial set of General Anti-Avoidance Rule (GAAR) proposals, only to defer it by a year, after an investor backlash. Which only makes one wonder what took the government so long to issue such clarifications, which could have helped revive much-needed inflows and improve sentiments? And even when it did, it failed to pacify investors.

The only problem with our country is that rules are changed too quickly, and most conveniently. Convenient to whom is another story altogether. And while the government is busy making all these (unnecessary changes and the so called corrections, one simple thing that it fails to realize is that they end up hurting themselves, by denting the debt capital markets, and it this hurt that flows on a long-term basis.

And the numbers speak for themselves: On one hand we saw net portfolio outflows of $540 million in March and April, compared with $13 billion in inflows in January-February. The investment climate looks subdued, with net outflows of around $50 million.

And who ends up suffering all this wonderful belting is none other than the famous common man. The RBI's measures have so far failed to arrest the rupee's decline, which is likely to hurt everyone as it makes everything from cars to television sets expensive. This just adds to the pain of managing already high inflation.

The fact that India is putting more and more things on the backburner will not help boost sentiment. The government, sooner or later, will need to take a serious look at curbing subsidies and its import bill, and tackle supply side bottlenecks and push reforms. It appears it is more a matter of when, than if.

Devin Thomas

devinthomas.000@gmail.com

NO PERFORMANCE, NO NFO

SEBI has issued clear guidelines to mutual fund houses that they cannot issue NFOs until and unless their performances are satisfactory. SEBI hopes that this will put pressure on such mutual funds to deliver returns closer to or better than the benchmark indices.

The consistent underperformance of various mutual fund schemes is a cause of concern for those AMCs whose instruments have been underperforming since a long time. The regulator is also working on measures to revitalise the mutual fund industry based on suggestions received from various stakeholders on:

- Allowing Fungibility in expense ratio.
- Crediting back the exit load to a fund's net asset value instead of giving it to the AMC.
- Single cheque payment for both investments as well as advisory services.
- Utilisation of stock exchange mechanism and the brokers' network for sales and distribution of mutual fund products and multiple share classes.

IMPACT ON INVESTORS

If the above proposal by SEBI is implemented, it would bring in more accountability and responsibility in the way the assets are managed by the mutual fund houses. Moreover, the focus would shift on performance. As a consequence to the same, investors would witness less of NFOs flooding the market and their could see a revival in the performance of their underperforming mutual fund scheme(s) due to this strong stance proposed by the SEBI.

However, this proposal put forth by SEBI is very prudent, and will go a long way in protecting the interest of investors. It is necessary that the proposal is implemented immediately thus aiding underperforming mutual fund schemes perform better. Also, those who are not in favour of the SEBI’s proposal should understand that by taking such a step (of denying NFOs), the capital market regulator is advising the underperforming student (mutual fund house) to study well (improve mutual fund schemes performance) and not denying him or her from education.

Bottom 10 Diversified Equity Mutual Funds

Scheme Name	3-Yr CAGR	Std Dev.	Sharpe Ratio
JM Multi Strategy (G)	-3.5	6.25	-0.12
Reliance Equity (G)	-0.9	5.37	-0.12
JM Equity (G)	-0.4	5.87	-0.09
LIC Nomura MF Top 100 (G)	1.5	5.35	-0.08
LIC Nomura MF India Vision (G)	2.3	5.47	-0.06
LIC Nomura MF Opp (G)	2.9	5.43	-0.06
Taurus Bonanza (G)	3.1	5.01	-0.07
Birla SL Special Situations (G)	3.3	5.60	-0.05
Baroda Pioneer Growth (G)	3.4	5.65	-0.04
Birla SL Adv (D)	3.8	5.66	-0.04
BSE SENSEX	6.0	5.54	-0.01
BSE-100	5.9	6.30	-0.01
BSE-200	6.2	5.63	-0.01
BSE-500	6.4	5.65	0.00
CNX 100	7.0	5.68	0.00
S&P CNX Nifty	6.7	5.69	-0.01

Suraj.S

suraj.bhat007@gmail.com

LIBOR, THE GAUSSIAN COPULA AND THE SOCIOLOGY OF FINANCE

I have blogged about the sociology of finance several times (for example in 2010, and in 2011). Two pieces that I read (or in one case re-read) recently have reinforced my view that this literature is important for understanding modern finance. When the penalties imposed on Barclays by the UK FSA and the US CFTC brought Libor back into the limelight, I found myself re-reading McKenzie's fascinating description of the Libor fixing *(Donald McKenzie, "What's in a Number?", London Review of Books, 30(18), 25 September 2008, pages 11-12)* based on his ethnographic study carried out prior to the financial crisis. McKenzie tells us very casually that a mere $50 million or so may fall short of reasonable market size which for the major currencies would be of the order of several hundred millions.

The second paper that I have been reading also co-authored by McKenzie is weightier and more recent (Donald McKenzie and Taylor Spears, "'The Formula That Killed Wall Street'? The Gaussian Copula and the Material Cultures of Modelling", June 2012). This paper discusses the well-known (and by now notorious) Gaussian copula model for pricing CDOs.

The crucial claim in this paper is that Gaussian copula models were and are crucial to intra- and inter-organizational co-ordination, while simultaneously being 'othered' by the modellers themselves. The word 'other' might be a simple word, but it has a complex meaning. What is being argued is that the modellers steeped in the culture of no-arbitrage modelling never 'naturalized' the Gaussian copula and did not even regard it as a proper model. The dissonance between actuarial models and no-arbitrage models is also brought out very well. I found myself thinking that the battle between CreditMetrics and CreditRisk+ more than a decade ago was also one between actuarial models and no-arbitrage models.

As an aside, the authors also bring up the issue of counterperformativity (models being invalidated by their widespread adoption): "models used for governance are undermined by being gamed; models used to hedge derivatives are undermined by the effects of that hedging on the market for the underlying asset" They also speculate on the possibility of 'deliberate counterperformativity': "the employment of a model that one knows overestimates the probability of 'bad' events, with a view to reducing the likelihood of those events."

SOURCE:http://www.iimahd.ernet.in/~jrvarma/blog/

ACKNOWLEDGEMENT:***Borrowed from the vast knowledge bank of renowned financial thinker and active blogger Prof. Jayanth R. Varma)***

HIGH FINANCE: A FARCE OR PURE FICTION!

We all have heard of High Street, High Maintenance, High Velocity and even High Tea! But ever heard of High Finance?
Yes! Such a term does exist.
The dictionary defines High Finance as those financial transactions that are extensive and complex in size and scope.

In other words, it is another name for complex financial transactions. And it is such complex and insufficiently understood financial instruments that seemed to fly in the face of the views disseminated by eminent economists that self-regulated markets were the most transparent ones.

For instance, the notion that basically unsound mortgages can be turned into gold through "structured product innovations" unrestricted by any supervision other than the existence of a market for them came unstuck when even Mr. Ben Bernanke admitted to some confusion as to what those products were. The flip side of the coin is, of course, the information gap. With assets of dubious quality, from the murky to the toxic, bundled into sophisticated financial instruments- structured credit products in the secondary market- that only the extensively informed issuers can understand.

Information has become even more exclusive and skewed, and this process has led to a contradiction, with another market principle- that of financial inclusion.

The corollary is yet another rupture, and this time of 'principles', as investors surrender their responsibilities for due diligence to credit ratings agencies, with consequences that can and will sparked the implosion that we experienced just a while back.

The need of the hour is to make informed, wise decision; to be more risk-averse and less risk-oriented; to be patient and to wait, for the markets and it's fluctuations to become welcoming again.

Ann George
mailtoanngeorge@gmail.com

INDIA'S POPULATION-DEMOGRAPHIC DIVIDEND OR EXPLOSION?

India has the second highest population in the world and it will overtake China by 2030. According to International Monetary Fund, India is in the middle of a major demographic transition, where the working age ratio is set to rise from about 64% currently to 69% in 2040 . This means an addition of over 300 million working age adults.

This would make India the largest single positive contributor to the global workforce over the next three decades and deal with "Demographic Dividend". Demographic dividend is the benefit a country gets due to increase in the working age population compared with dependants such as children and old people. When an economy's working age population rises, so does its growth in per capita income resulting in "demographic dividend". This usually lasts for at least five decades.

Demographic dividend causes a bulge in the working age ratio, thus contributing to higher savings rates and increasing domestic resources available for productive investment. Hence when India arrives at a more stable and slow population growth rate, it is easier for the economy to grow. The question of whether a large population is a bane or a boon has changed into the need for creating a sustainable population to keep economic growth going. To cater to this, the government has come out with a skill development mission to create a skilled population of 50 million.

There is an urgency to have right policies in place; otherwise demographic dividend can turn into a demographic disaster. This is because of the small window of opportunity which if not utilised would be difficult for India to make the necessary leap. India has to harness its mammoth manpower into a skilled workforce so as to enhance the quality in the group. So, that India's workforce can be the best in the World.

Sunil
sunilantonz@gmail.com

ARTHAYUDH 2012

Race To The Olympus – a competition amongst the best, and all it would take is all you've got!

A platform which encourages you to never bother to be just better than your contemporaries or predecessors, but to try and be better than yourself!

As they say you can fight without ever winning, but never ever win without a fight. This year's fest promises to be a culmination of 7 grand events, which would require extensive union and concurrence, making the entire run very exhausting, but a rewarding one in the end.

During the course, do not be afraid to give up the good to go for the great!

You would be tested on your Ability- Of what you are capable of doing, your Motivation- To determine what you do, and your Attitude- To assess how well you do it.

Arthayudh 2012- An avenue which urges you to shoot for the Moon; and even if you miss it, you will end up landing amongst the Stars!