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THE WEALTH INCORPORATION, FINANCE CLUB

CHRIST UNIVERSITY INSTITUTE OF MANAGEMENT PRESENTS

CHAANAKYA

.....Tracking the Economy

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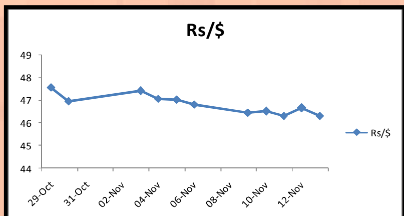
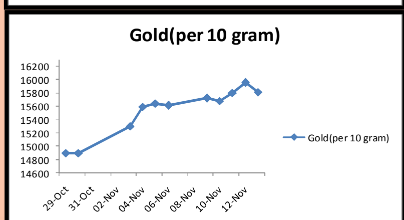
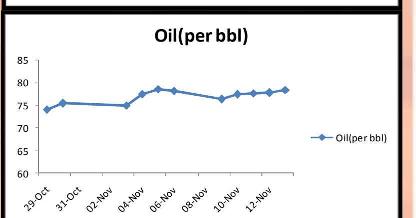
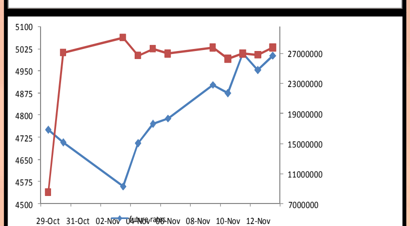
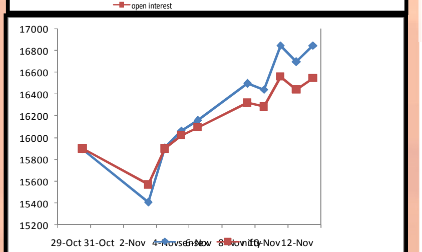










International Headlines

- U.S authorities seized 9 failed banks in a single day, the most in a single day since the financial crisis.
- British to gather 84% stake in RBS making it virtually nationalized.
- Denbury to buy Encore for $3.2 billion.
- J&J to slash 8000 jobs worldwide.
- GM's U turn on opel sale sparks backlash in Germany.
- After Honda and BMW, Toyota pulls out of F1.
- Goldman sachs to sell half its holding in China's Shineway group for 5 times profit.
- AIG one of the worst hit companies in the financial crisis files a $455 million profit.
- G 20 agrees on framework to push balanced global growth.
- Google and the Authors guild file a deal to form a massive online library.

National Headlines

- Accentium web launches Taaza.com, a multi-vertical Information Portal.
- Spyware firm PC Tools forays into Indian market.
- Delta group received BSNL award for best telecom equipment manufacturer.
- India-EU free trade agreement to be expected by 2010.
- RIL finds oil in Gujarat's Cambay basin.
- Infosys BPO buys U.S. firm McCamish systems, to pay $38 million upfront.
- HDFC to buy stake in Credila Financial.
- Norwegian telecom major Telenor to compete in India, but won't drive price cuts.
- ONGC stumbles upon uranium in Assam.

Key Rates

Repo – 4.75%
Reverse Repo– 3.25%
Call rate– 2.15-3.35%
Inflation– +1.51% till Nov 13
Forex Reserve- $285.414 billion till Nov 13
91day T-Bill- 3.2754%
IIP– +9.1%, magnitudeà301.4 as on 12th Nov
6.90 GS 2019 à 7.3206-7.3594%

INSIDER TRADING SCAM YET AGAIN!!!!

Insider trading is buying or selling of a security by someone who has access to material, non-public information about the security

After weeks of speculation on Wall Street, there was a fresh round of insider trading charges on 15th October 2009, that were aiming at hedge funds and the networks of market scandal that are prevalent on trading floors, where the Federal Bureau of Investigation (FBI) has charged 14 people, including two Indians (Mr.Deep Shah and Mr.Gautham) and the Wall Street professionals, in the $53 million insider trading scam, the largest case in the United States. The latest action brings the number of people who have been charged in the case to 20, including four Indians.

Besides hedge fund managers, lawyers and corporate insiders, the newly charged persons include former employee of Moody's Investor Service Deep Shah who has been charged with conspiracy and securities fraud and Mr Gautham Shankar, a former proprietary trader at Schottenfeld Group, New York. Of the 14, 8 were arrested, the 9th being sought after and 5 other defendants have pleaded guilty in federal court in New York

The scam came to light last month with the arrest of the Sri Lankan Tamil-origin billionaire, Mr Raj Rajaratnam, the founder of the Galleon Group and hedge fund operator. Raj Rajaratnam of Galleon Group was arrested in New York according to various reports and charges with 13 counts of securities fraud and conspiracy following a FBI investigation into Galleon Group's trading patterns. The stocks rose quickly and predictably after the announcement of a deal, enabling conspirators to make large and low-risk profits in a matter of days.

In contrast, much of the complaint against Rajaratnam focuses on his habit of swapping tips and rumours in advance of quarterly earnings reports and other corporate announcements, a practice on Wall Street that has been routine atleast until now.

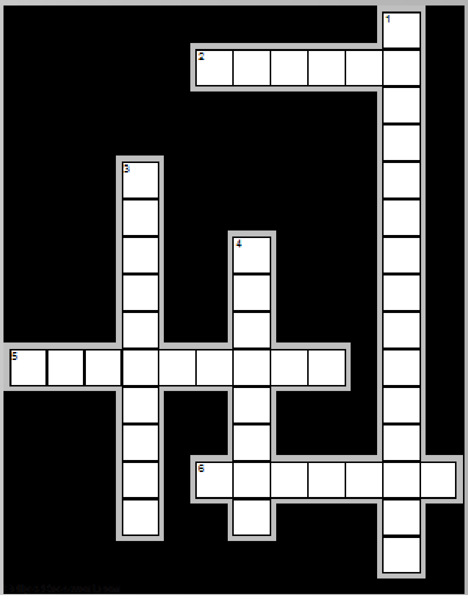
Crossword...

ACROSS

2. A ratio used to determine return relative to drawdown (downside) risk in a hedge fund.
5. A type of bond that offers investors the option to reinvest coupon payments into additional bonds with the same coupon and maturity.
6. A type of option whose payoff depends on whether or not the underlying asset has reached or exceeded a predetermined price.

DOWN

1. An arrangement in Australia that eliminates the double taxation of dividends.
3. An inducement, using maximum incentives and financial benefits, for an older worker to take "voluntary" early retirement.
4. An option that may only be exercised on expiration.



The changing nature of money is only one facet of the financial services revolution.

Scott Cook

The Baltic Dry Index: Evaluating An Economic Recovery

Among the array of traditional economic indicators is a cryptic indicator that often goes unnoticed by some investors, the Baltic Dry Index. This number provides investors with an indication of global supply and demand of major raw material used at the beginning of production, and thus has provided a gauge of the world's economic growth and product either consider it a good indicator, especially when looking for hints of economic recovery; or they think investors shouldn't rely on it, suggesting that leaning on this investment tool as a crystal ball to foresee the direction of stock markets or the global economy isn't the best idea.

The Baltic Dry Index

The Baltic Dry Index is a barometer for shipping costs of dry bulk commodities including iron ore, coal and grain. Global shipping brokers are asked every workday about their pricing by the Baltic Exchange, which consists of more than 550 members that includes professionals in the international dry shipping industry and maritime lawyers and arbitrators. The exchange calculates the Baltic Dry Index by estimating the average time charter rate of four indices that represent the vessel types. Each of these vessels makes up 25% of the Baltic Dry Index:

Vessel type	Deadweight (tons)
Capesize	172,000
Panamax	74,000
Supramax	52,454
Handysize	28,000

Source: The Baltic Exchange

The Baltic Dry Index dates back more than 250 years to the first use of the name at the Virginia and Baltick Coffee House in Threadneedle Street in London, according to the Baltic Exchange. Merchants and ship's captains who frequented the shop negotiated terms for the shipment of cargo.

It wasn't until 1985 that the Baltic Exchange established the Baltic Dry Index. The Baltic Dry Index was calculated using voyage rates along more than two dozen routes until July 2009. This was based on a move to boost derivative trading.

The Index Highs and Lows

It's often assumed that when the Baltic Dry Index rises, the increase is indicative of a stronger demand for commodities, as producers are buying more materials, meaning that companies are growing. When the shipments increase, economies tend to do well. A Baltic Dry Index that trends downward leads to the thought that producers don't believe consumer demand is high and the companies are slowing down their production.

Debating the Pros and Cons

In addition to these predictive qualities of the Baltic Dry Index, analysts in favour of it also think it's reliable because it provides real-time updates. The information is current compared to traditional economic indicators. It doesn't have speculative content. Actions are limited to those involved with the contract: the people with the cargo and those who have the ship for the cargo. Thus, the index can't be manipulated as the amount of ships has been fixed. Analysts who aren't too convinced by its predictability consider the Baltic Dry Index an indicator, but not necessarily the best. First, the Baltic Dry Index can be very volatile, at times simulating a roller coaster ride on the charts. The recession that began in 2007 illustrated these swings - hitting extreme highs and severe lows.

I'd like to live as a poor man with lots of money. - Pablo Picasso

Inflation is taxation without legislation. - Milton Friedman

Recent Trends in Baltic Index

Between January, 2006 and October, 2007, the Baltic Dry Index increased more than 400%, largely due to the significant growth in the global economy for manufactured products, according to a report entitled ***Recent Movements in the Baltic Index***, released by the Federal Reserve Bank of St. Louis in March, 2009. By late January, 2008, it dropped 6,052 points, only to reach its all-time high of 11,440 points in June 2008. But as of November 31, 2008, the index was at its lowest level since January of 1987 - 715 points, added the report. The doubters also think little or no relationship exists with the stock market, for instance the S&P 500 and the Baltic Dry Index had a negative correlation during 2009; while one rose, the other declined.

Conclusion

The Baltic Dry Index provides a glimpse of global trade via the transport and production of major raw materials - it involves the assessment of shipping rates worldwide. The concept has been around since the 1800s and is still evolving. It has intrigued many analysts with its predictability and other perks, such as its real-time data and inability to be manipulated. Others think it's too volatile for it to be considered reliable, and shouldn't be compared with the stock market. Regardless, the Baltic Dry Index is an indicator worth examining, but make sure to gather some context by not using it as the only means to reach a conclusion.

BUZZ WORDS...

Blotter

A record of trades and the details of the trades made over a period of time (usually one trading day). The details of a trade will include such things as the time, price, order size and a specification of whether it was a buy or sell order. The blotter is usually created through a trading software program that records the trades made through a data feed.

Flash Price

Ticker tape display designation used when volume on an exchange is so heavy that the tape runs more than five minutes behind. The "flash price" interrupts the delayed prices to show the current price of a heavily traded stock.

Capping

Placing selling pressure on a stock in an attempt to keep its price low or to move its price lower, in violation of NASD rules.

Gap Risk

The risk that an investment's price will change from one level to another with no trading in between. Usually such movements occur when there are adverse news announcements, which can cause a stock price to drop substantially from the previous day's closing price.

Air Pocket Stock

A stock that experiences a sudden drop, similar to a plane hitting an air pocket. Air pocket stocks are usually the result of investors reacting to negative news.

Ankle Biter

Stock issues with a market capitalization of less than $500 million. Also known as "small cap" stocks.

Owning a home is a keystone of wealth... both financial affluence and emotional security.

\- Suze Orman

SME LISTING ON STOCK EXCHANGE

By SONIA JANS- II MBA-A

To promote the growth of SME sector in India, which currently contributes to about 17%of the GDP,SEBI has adopted a new platform for listing of SME's on stock exchange.

There are certain requirements that SEBI has mandated for the listing process. The paid up capital requirement would be Rs.10cr to 25cr and the minimum lot size for investment would be 1 lakh. This has been specially designed to attract the HNI's who are more knowledgeable and are willing to take higher levels of risk. The merchant bankers to the issue have to underwrite 15% of the issue and also have to ensure that 100% is underwritten. They are also entrusted with the responsibility of market making for a period of 3 years. This would boost up investor confidence in SME investment.

SME's that would be listed on a separate platform would be exempted from ICDR (Issue of Capital and Disclosure Requirements). This may create a situation of regulatory arbitrage as the SME's that are already listed on NSE and BSE can now get listed on the separate platform without ICDR. But they will have to furnish their balance sheet results on a half yearly basis. The listing of SME's on stock exchange would also enable them to raise low cost capital and would increase their brand awareness and thereby global reach of their products.

But the SME investments will have to face serious issues like liquidity crunch. This would be mainly due to higher levels of risk involved in the investment and the larger lot size of 1 lakh, which would prevent the retail investors from investing in it. There are also concerns regarding whether the listing would serve the real purpose of helping the needy SME's as those which really require capital for establishing themselves may be too small to meet SEBI criteria.

Another major challenge that SME listing would have to face is approaching and convincing the right SME's to get listed. SME's may not be ready to get listed due to fear of dilution or loss of management control. Also the visions of fines and jail terms of previous under reported income or tax evasions may prevent entrepreneur from submitting his financial records and thereby getting listed.

And after all these, if the SME's fail to avail enough public subscription to raise capital, all the efforts would be in complete vain. So as investors we will have to wait and see whether the listing would actually serve the purpose or not.

Quiz...

1. In money market, what is the term used for the non-convertible paper money?
2. Which is India's first Credit Rating Agency set up jointly by LIC, GIC, UTI, ICICI and Asian Development Bank in January 1988?
3. What does 'Asset Tripping' mean?
4. What is a 'Credit Crunch'?
5. Who is the first woman became the President of Madras Chamber of Commerce?
6. What is the exchange rate of one currency for another over a fixed period of time called?
7. Who founded the famous Wall Street Journal?

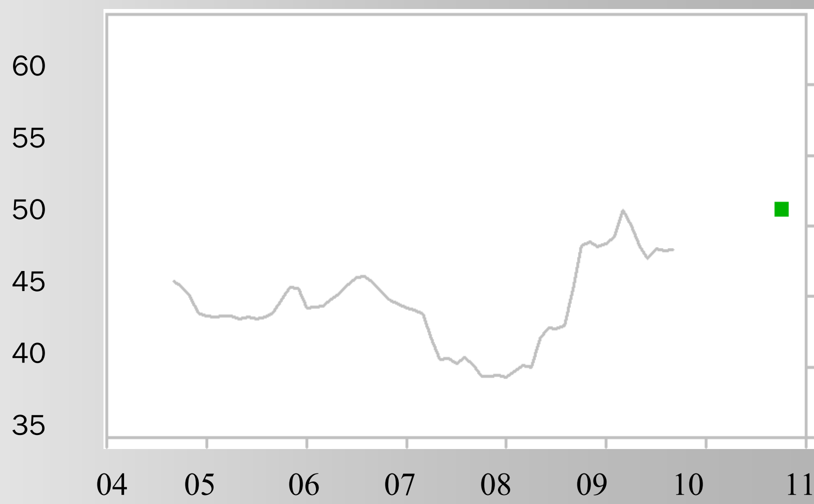
War has been good to me from a financial standpoint but I don't want to make money that way. I don't want blood money. - Ted Turner

DOES CURRENCY DIRECTS BOT OR BOT DIRECTS CURRENCY?

By Amrinder Virdi (MBA II)

RUPEE VARIATION CHART OVER SIX YEARS

y axis shows the rupee value from 35 to 60



The article is going to take into consideration the Balance of Trades (BOT) in India for last 6 years and its effect on the Indian Rupee to analyze whether currency directs BOT or BOT directs currency.

This diagram shows the variation of rupee from 2004 to 2010. We will compare this diagram with the balance of trade data and try to find out the relation between the different changes in respective figures.

The chart given below shows the 13 years rupee rates and its variation is to be watched carefully. These figures are showing the continuous decline in the value of the Indian Rupee from 1995 to 2002. The year 2003 was the good one for Indian exports boost, though India did have imports in data but exports boost was really significant which led the rupee appreciate for the first time after 7 years.

YEAR	1995	1996	1997	1998	1999	2000	2001
Rs.VALUE	32.4	35.5	36.3	41.3	43.1	45.0	47.2
YEAR	2002	2003	2004	2005	2006	2007	2008
Rs.VALUE	48.6	46.6	45.3	44.0	45.2	41.2	43.4

Comparing the figures of 2003, 2004 and 2005 we find that the currency moves from 46.60 to 44.01 and the balance trade has moved from -65741 to -125725. Although the imports have increased significantly but the rupee has appreciated from 46.60 to 45.28. REASON? Increase in imports generally signal the weakness in the currency. Again in the year, the rupee was around 44.01 and still the balance of trade was in negative territory.

Trade deficits are paid for out of foreign exchange reserves and may continue until such reserves are depleted. At such a point, the importer can no longer continue to purchase more than is sold abroad. This is likely to have exchange rate implications.

YEAR	09-10	08-09	07-08	06-07	05-06	04-05	03-04
EXPORTS	311715 (-20.4)	766935 (16.9)	655863 (14.7)	571779 (25.3)	456418 (21.6)	375340 (27.9)	293367 (15)
IMPORTS	497108 (-23.3)	1305503 (29)	1012312 (20.4)	840506 (27.3)	660409 (31.8)	501065 (39.5)	359108 (20.8)
BOT	-185393	-538568	-356449	-268727	-203991	-125725	-65741

The year 2006 sees significant appreciation in the rupee to 45.17. From the table it is clear that in the year 2006-07, exports have increased more than imports so that effect could fluctuate the currency. A net inflow of foreign currency tends to strengthen the home currency vis-à-vis other currencies. This is because the supply of the foreign currency will be in excess of demand. A good way of ascertaining this would be to check the balance of payments. If the balance of payments is positive and foreign exchange reserves are increasing, the home currency will become stronger.

India is continuously suffering with trade deficit for many years. Considering the data for 2003, 04, 05 the picture is not clear whether rupee is directly affected by balance of trades or not but taking into account the data for 2007, 08 and 09 we see that the both exports and imports have fallen significantly. The rupee has also appreciated heavily from 45 to 41 in 2007 and then depreciated to 43 in 2008. The graph clearly shows that the rupee has a good appreciation in 2007-08 and balance of trade has increased at a lesser pace, i.e trade deficit has reduced so there are some other macroeconomic factors which may have affected the value of rupee.

Again the recession period in 2008 shows the reduction in global demand which has led to heavy decline in the exports which led to the depreciation in the rupee. Huge money was sucked out of the Indian equity markets, declining the demand for Indian rupee and depreciating the currency to the current rate of 47.37. However there are other factors which affect the currency fluctuations like strength of economy, economic expectations, inflation rate, capital movements, balance of payments, monetary and fiscal policies etc. so rupee fluctuation doesn't directly depend on the balance of trade but currency rates may influence the exporters' or importers' wealth.

The valuation of the Indian currency highly depends on RBI that manages the 'balance of payments', slight modification in which can define the over or the under valuation of the Indian currency. There are number of different factors which affect both balance of trade and Indian currency. Though they definitely affect each others' fluctuation but not solely.

Hence in Indian context, following points are necessary to be kept in mind:

- It is better to keep trade surplus for the developing economy like India.
- Government should look for the policies encouraging exports.
- There should be a proper balance between the exports and imports to maintain the rupee value at a appropriate level.
- Indian industries should manufacture quality products to boost our exports so that we should not completely depend on imports.
- Good economic planning for natural calamities would definitely help Government to be independent.

Did You Know?

1. Rural India has found a growth opportunity in venture capitalists and private equity funds. Microcredit firms and microfinance companies, who invest in social projects involving rural poor, are witnessing large capital inflows from strategic investors. According to experts, private equities and venture capitals are hotting up in social sectors, as they involve livelihood funding and not lifestyle funding. Loan defaulting is not very common in social financing. As a matter of fact, non-performing assets for most rural microfinance firms could even be lower than 1% of their net worth which is much lower than top-rung banks.
2. The Bombay stock exchange is likely to launch a derivative product next month which will expire in the middle of the month but not on the last Thursday of every month. It has got SEBI's approval. The move is aimed at boosting the fortunes of BSE's sagging derivatives segment, which has not been able to compete with rival NSE's derivative segment. NSE's dominance in the equity derivatives segment has been a cause of concern for the market regulators.
3. The Chinese currency 'Renminbi' or people's money established in 1948, is popularly known as Yuan. It was made fully convertible on the current account in 1996, when it was pegged to the dollar. The dollar peg was however abandoned since July '05, with the Yuan having been pegged thereafter to a basket of currencies and allowed to move up or down in a narrow range of 0.3%..
4. G 20 is a group of 20 countries which was established in 1999 to bring together systemically important developing and industrialized important economies of the world to discuss key issues in the global economy. It brings together industrial and emerging-market countries from all regions of the world. Together, the member countries represent around 90% of global GDP, 80% of

COMMODITY TRADING IN INDIA

By Andrea Simento

Introduction

The size of the commodities markets in India is quite significant. Of the country's GDP of Rs 13,20,730 crore (Rs 13,207.3 billion), commodities related (and dependent) industries constitute about 58%. Indian markets have recently thrown open commodity derivatives for retail investors and traders to participate. For those who want to diversify their portfolios beyond shares, bonds and real estate, commodities are a viable option.

With the setting up of three multi-commodity exchanges in the country, retail investors can now trade in commodity futures without having physical stocks. This article aims at giving Retail Investors a fair idea as to how to trade in Indian commodity markets.

Currently, the various commodities across the country clock an annual turnover of Rs 1,40,000 crore (Rs 1,400 billion). With the introduction of futures trading, the size of the commodities market grow many folds here on

Getting Started...

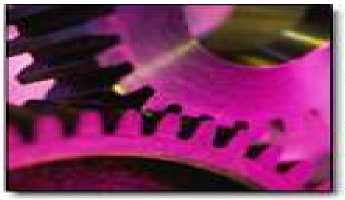
There are three options - the National Commodity and Derivative Exchange (NCDEX), the Multi Commodity Exchange of India Ltd (MCX) and the National Multi Commodity Exchange of India Ltd (NMCEI). All three have electronic trading and settlement systems and a national presence.

The first and foremost step in Commodity Trading like any other trading mechanism is choosing a broker through whom trades can be executed.

Several already-established equity brokers have applied for membership with NCDEX and MCX. The likes of Refco Sify Securities, SSKI (Sharekhan) and ICICI commtrade (ICICIdirect), ISJ Comdesk (ISJ Securities) and Sunidhi Consultancy are already offering commodity futures services. Some of them also offer trading through the Internet just like in the case of equities. You can also get a list of more members from the respective exchanges and decide upon the broker to choose.

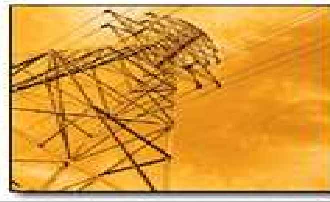
To start trading you will need only one bank account. You will need a separate commodity Demat account from the National Securities Depository Ltd (NSDL) to trade on the NCDEX just like in stocks.

You will also have to enter into a normal account agreements with the broker. These include the procedure of the Know Your Client (KYC) format that exist in equity trading and terms of conditions of the exchanges and broker. Besides you will need to give you details such as PAN no., bank account no, etc.







Initial Investment

The initial amount invested can be as low as Rs 5,000. All that is needed is money for margins payable upfront to exchanges through brokers. The margins range from 5-10% of the value of the commodity contract. While you can start off trading at Rs 5,000 with ISJ Commtrade other brokers have different packages for their clients.

For trading in bullion, that is, gold and silver, the minimum amount required is Rs 650 and Rs 950 for on the current price of approximately Rs 6500 for gold for one trading unit (10 gm) and about Rs 9500 for silver (one kg).

The prices and trading lots in agricultural commodities vary from exchange to exchange (in kg, quintals or tonnes), but again the minimum funds required to begin will be approximately Rs 5,000.

Delivery Mechanisms

All the exchanges have both systems - cash and delivery mechanisms. If you want your contract to be cash settled, you have to indicate at the time of placing the order that you don't intend to deliver the item.

If you plan to take or make delivery, you need to have the required warehouse receipts. The option to settle in cash or through delivery can be changed as many times as one wants till the last day of the expiry of the contract.

Brokerage Commissions

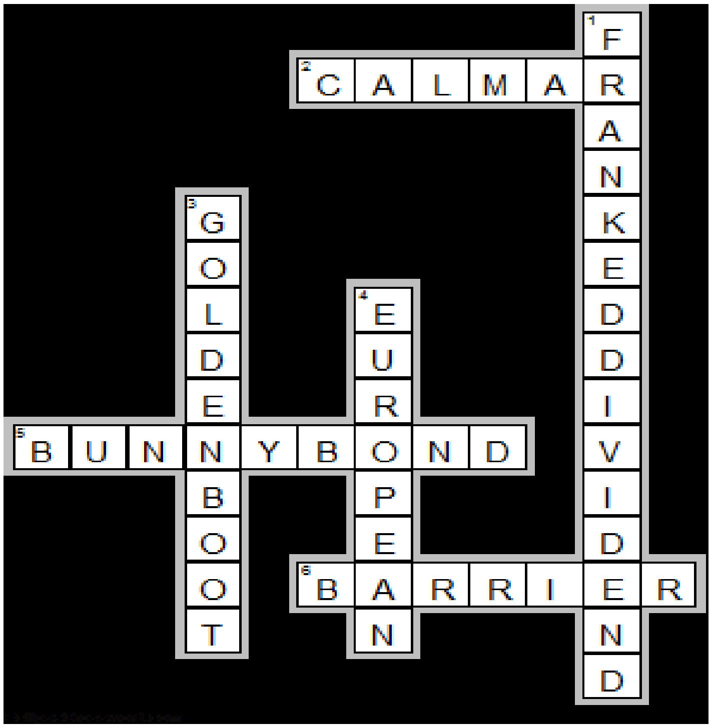
The brokerage charges range from 0.10-0.25% of the contract value. Transaction charges range between Rs 6 and Rs 10 per lakh/per contract. The brokerage will be different for different commodities. It will also differ based on trading transactions and delivery transactions. In case of a contract resulting in delivery, the brokerage can be 0.25 – 1% of the contract value. The brokerage cannot exceed the maximum limit specified by the exchanges.

Tradable Commodities

Though the government has essentially made almost all commodities eligible for futures trading, the nationwide exchanges have earmarked only a select few for starters. While the NMCE has most major agricultural commodities and metals under its fold, the NCDEX, has a large number of agriculture, metal and energy commodities. MCX also offers many commodities for futures trading.

To be continued in the next issue…

Crosswords Answers



Quiz Answers

1. Flat money
2. Credit Rating Information Services of India Limited, CRISIL
3. Buying a company to sell its assets
4. Supply of credit falls, though there is sufficient demand
5. Mallika Srinivasan
6. Swap or Currency Swap
7. Charles Dow and Edward Jones

TEAM

Abhinav Srivastava & Nitin Mishra	Investors check
Megha Garg	Quiz & Did You Know
Ravi M R	Debate
Ramya	Financial Scandals
Andrea Simento	Commodities Market
Supreetha	Article
Mantri Ankit Atul	Quotes & Buzz Words
Pottim Sahiti Reddy	Crosswords
Vipul Jain	Graph, Rates
Amutha Priya D	News
Manesh Paul Mani	Jr. Co-ordinator
Archana Kushwah	Co-ordinator
Gyanesh Shroff, Bhargav K & Navakranth Pothkanoori	Compiling and Editing