The top 6 diversified equity funds of 2006	SBI Magnum Global	SBI Magnum Contra	Sundaram BNP Select Midcap	Reliance Growth	SBI Magnum Multiplier Plus	Birla Sun Life Equity
	68.4%	62.6%	51.6%	50.6%	49.3%	47.5%

3-year CAGR as on December 20

fund strategy

The tower of wealth

The key to profiting from the market lies in not finding the leaders all the time, but in allocating your money sensibly. How to do it right

Prasunjit Mukherjee

It would be neat if we could identify the leader funds all the time and enter them before they made their mark. Obviously, we can't. But it doesn't matter, I have found out. The key to finding everlasting prosperity in the equity market is not finding the leaders all the time, but in distributing your savings in such a way that the allocation itself helps you find some funds that will grow exponentially. Those performers will make for disappointments and pull the overall portfolio returns to above-market levels.

I have devised a concept called the Tower of Wealth. Think of your portfolio as a pyramid, where the broad base lends strength and carries it, while the narrow apex aims higher. The Tower has three broad categories based on which a portfolio is constructed.

The pyramid

Base level. This is the core holding of the portfolio, which should comprise 40-50 per cent of your total allocation. It essentially comprises diversified equity funds, but only three to four schemes, not more. The perception that one must buy many funds to have a diversified allocation is a myth. We are talking funds here, not individual stocks. The more funds we buy doesn't necessarily mean more diversification. It only means we are getting into all kinds of funds, eventually leading us to sub-optimal returns.

This category should include diversified equity funds that have a relatively longer history of performance, especially those that have seen good times and bad. They are likely to deliver market or near-market returns, but importantly they won't provide nasty surprises. Your holding period should be long term — at least three years, if not more — and you should resist transacting at every turn in the market.

Take-off level. Here, you get more ambitious with returns, for which, you take on more risk. This category, to which you should allocate a maximum of 40 per cent of your portfolio, consists of funds that are slightly more risky in their investment construct, but not purely speculative. The idea is to let fund managers make active calls and beat the market, but if they aren't successful or if the market falls sharply, the portfolio does not receive a walloping.

This cluster features mid-cap, multi-cap, flexi-cap and opportunity funds. Again, the operative criteria is not to bank too heavily on funds that have turned in some great returns in the immediate past, but rather on those that have shown resilience in taking knocks and have come back to life with every upturn in the market. Ideally, your time horizon should be more than a year. Discuss with your investment planner the investing style of a fund manager, the idea being to avoid repetition among your picks.

Flying high. The apex of the pyramid is the high risk, high return level — sector funds or contra funds. Your exposure to this category should not exceed 15 per cent of your portfolio. This segment feeds the speculator in us, but by placing a ceiling, it restricts manoeuvrability.

Managing this category demands agility and acumen. It demands having two to three schemes at a time and reviewing performance and prospects on a weekly or fortnightly basis. Be prepared to book losses or reap gains as and when they happen, but don't get carried away by the euphoria of the upswing or be plagued by the doom of the downturn. If you do, or are unable to catch the breaks, avoid this category.

Imaging by PALLAVI

The rules

Finally, to successfully build and thrive in the Tower of Wealth, I have ten commandments of do's and don'ts.

- Plan the segments with care. And once you have, don't change them.
- Never move your money from a lower level to a higher level.
- Reinvest the profits that you make in the 'flying high' level in the two lower segments.
- The Tower grows the maximum when the base level grows. So, try to grow the base level.

The tower grows most when the base is strong. Invest 50% in diversified equity funds

- Attempt to grow the portfolio a little every time rather than wait for the one big multi-bagger.
- Never have more than 10 schemes in your portfolio.
- Very few NFOs (new fund offers) are novel and worthy of investment.
- Never borrow to invest.
- If you've made a mistake, rectify it, but don't avoid it.
- Always weed out the laggards first, do not touch the gainers.

Happy investing. ■

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art funds

Splash and dash

The investment canvas is getting bigger and colourful. Invest, but only a fraction of your portfolio

Deepti Bhaskaran

When the definitive history of Indian art as an investment is written, 2006 might well be referred to as an epochal year. It was the year in which the concept of mutual funds — pooling of sums of monies, diversification, sharing of risk, the hand of experts — found its way into the sphere of art.

The growth

Four art funds were launched in 2006, with the biggest of them being Osian's Art Fund, which collected Rs 102 crore. More players are lining up art funds, while the existing ones are planning larger ones. Spurring them on is an explosion in interest in Indian art, which has increased liquidity hugely. Says Gaurav Karan, partner, Crayon Capital: "In 2003, $4.5 million worth of Indian art was auctioned. This figure has increased to $170 million in 2006."

Returns have been equally impressive. Because of the fledgling and unorganised nature of this business, many figures are bandied about, but each one makes a strong case of why, if you have ample money (at least Rs 10 lakh) and some appreciation of this medium, a small part of your portfolio should be going here. The Osian's art index, for instance, has grown at a compounded annual rate of 43.9 per cent since 1997. Says Amit Vadhera, partner, Crayon Capital, which runs an art fund: "In the last four years, average price appreciation through auctions has been 100 per cent."

Such returns are unmatched, and gallery owners and art fund managers give the impression such returns can be sustained for some years to come. Whether there is any hype in such performances and projections is difficult to gauge, which is why any pure investment decision in this medium should be laced with caution. It should also be based on an understanding of the way art funds are currently structured, notably their high costs, lack of liquidity and absence of regulation.

The models

The five art funds currently in place can be, in mutual fund parlance, broadly split into two: closed-end and open-ended. Four of these funds, including the Osian Art Fund and the Yatra Fund, are closed-end. The fund has an initial offer, during which it raises money from investors. It uses this money to buy artworks, which it holds or sells periodically. On completion of its tenure (typically, three years), it distributes the proceeds to its investors.

In between, there are many heads that chip away at returns. Funds charge 5-9 per cent a year of the corpus towards fund management and administrative (insurance, custody and legal) expenses. It's much less than the 25-40 per cent commission you would pay to a gallery or an auction house if you sold a work, but it is still significant. Next come taxes — the fund pays a corporate profit tax of 33.8 per cent on its capital gains.

Then, there's profit sharing. If it earns a minimum rate of return, it keeps part of the return. In Osian's Art Fund, that threshold is 15 per cent. Illustratively, the Osian's art fund has realised an annualised post-tax, post-expenses return of 34.9 per cent. The first 15 percentage points will go to investors. Of the remaining 19.9 percentage points, Osian's keeps 30 per cent (6 percentage points), which means an investor's net return is 28.9 per cent.

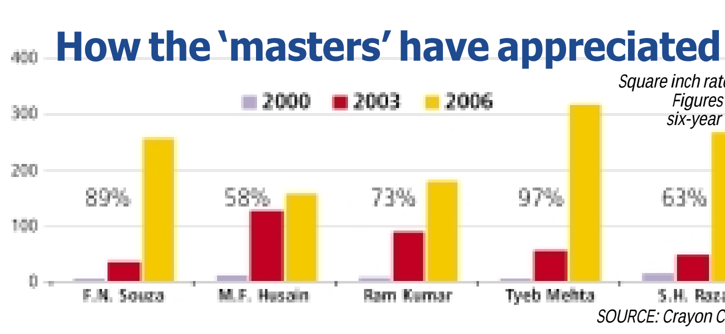
The open-ended model, currently adopted by only Copal Art Fund, is more like an alternative to buying from a gallery. Copal gives you two options: either buy paintings worth that amount from it, under guidance from Copal, and take them home, or give them the money to manage. Says founder Ajay Seth: "We have five categories of artists: masters, future masters, gallery-established, gallery-acceptable artist and amateurs. Depending on your outlay and your risk appetite, we draw up an allocation."

This model has its pros and cons. It is a cheaper alternative to buying from a gallery (15 per cent gross expenses), the entry barriers are lower (Rs 10,000, says Seth), and the tax is less (20 per cent for long-term gains with indexation and marginal rate for short-term gains). The drawback is that if you decide to take the artwork(s) home, you bear the risk and, unless you have a very large outlay, you don't diversify.

The outlook

The return figures and auction numbers quoted are great, but don't take the return figures at face value. Says Neville Tuli, founder, Osian's Art Fund: "Not every artwork has appreciated. When we talk about price appreciation, we are looking at the top 51 artists with historical background. In this context, the price appreciation has been 35-40 per cent since July."

One thing's for sure: Indian art is on the uptick. Says Vadhera: "It comprises only 1 per cent of the global art market, which means there is a lot of growth to be covered." Invest, but in moderation. Says financial planner Amar Pandit allocating 5-7 per cent of your portfolio to this asset class. "The lack of regulation, transparency in valuations and daily NAVs makes art a secondary investment vehicle." Maybe 2007 will address those issues. ■



SOURCE: Crayon Capital

RAAJAN

- There are five art funds in the market, more in the works
- Gains have been fantastic, but costs and taxes are high
- Expenses range from 5-9 per cent a year, tax is 33.8 per cent of gains
- Gains to be shared with sponsor if returns exceed a certain rate
- These funds are not regulated
- Transparency levels are low
- Minimum lock-in of three years

money talks

Invest up to $50k abroad

The RBI (Reserve Bank of India) has increased the overall remittance limit for individuals from $25,000 to $50,000. It has also changed the basis for calculating this limit from calendar year to financial year. The limit includes gifts, donations and equity investments in overseas companies listed on a recognised stock exchange abroad. Also, the reciprocal shareholding condition — the overseas company should hold at least 10 per cent in an Indian company listed in India — for investment has been scrapped.

LIC bonus for 2005-06

LIC (Life Insurance Corporation) has announced bonus rates for its policies for 2005-06. The bonus, per Rs 1,000 sum assured, on various plans for a term of 16 years and above is as under

Whole-life	66
Endowment	40-46
Moneyback	37-42
Jeevan Mitra, Saathi	43-47
Jeevan Surabhi	39-47
Jeevan Anand	40-44
Jeevan Rekha	33-48
Jeevan Anurag	32-35
Jeevan Tarang, New Jeevan Suraksha	32
New Jeevan Dhara	31

NSE adds 26 stocks in F&O

The National Stock Exchange will add 26 scrips in the futures and options segment with effect from December 29.

- Aban Offshore
- Amtek Auto
- Bajaj Hindusthan
- Balrampur Chini Mills
- Bata India
- Bharat Earth Movers
- Bombay Dyeing
- Crompton Greaves
- Gateway Distriparks
- GTL
- Gujarat Alkalies & Chem.
- Hindustan Construction
- Hinduja TMT
- Jaiprakash Associates
- JSW Steel
- Kotak Mahindra Bank
- Lupin
- Mcdowell
- Nagarjuna Construction
- Praj Industries
- Shree Renuka Sugars
- Sesa Goa
- Triveni Engineering
- Tata Teleservices
- Ultratech Cement
- Voltas

New Airtel prepaid plan

Airtel has introduced a new pre-paid plan in the National Capital Region, Gup Shup Easy Recharge. The plan, which has a validity of six months, is priced at Rs 299, and comes with a talk time of Rs 100 and free Airtel-to-Airtel local talk time worth Rs 200.

SBI Gold debit card

SBI (State Bank of India) has launched an international debit card with higher withdrawal and transaction limits. Called the SBI Gold Debit MasterCard, it is for deposit holders with an average quarterly balance of Rs 50,000. The card has a daily cash withdrawal limit of Rs 50,000 and transaction limit of Rs 2 lakh. ■

market movers

	Price (Rs) 21 Dec	Change (%) 1 week	Change (%) 1 year	12 mth (Rs) High	12 mth (Rs) Low
Large caps (Market cap of more than Rs 5,000 cr)					
GAINERS					
Glenmark Pharma.	620	14.2	101.5	633	228
JSW Steel	361	12.5	60.0	372	184
United Spirits	883	8.0	89.1	914	362
LOSERS					
Zee Telefilms	264	-25.3	59.5	381	149
BF Utilities	2,840	-12.7	442.8	3,395	480
I-Flex Solutions	1,758	-12.6	71.8	2,069	840
Mid caps (Market cap of Rs 1,000-5,000 cr)					
GAINERS					
Jai Corp	2,169	27.6	1,883.7	2,169	102
Karnataka Bank	151	26.5	36.4	154	74
ABG Shipyard	278	26.3	-3.2	425	199
LOSERS					
Ansal Properties	869	-13.7	355.0	1,134	183
Shree Renuka Sugars	423	-13.2	-18.4	1,667	420
Matrix Laboratories	207	-11.4	-11.6	313	184
Small caps (Market cap of Rs 100-1,000 cr)					
GAINERS					
Arrow Webtex	663	36.4	447.7	948	107
Sharyans Resources	258	35.5	57.6	314	147
Teledata Informatics	27	31.0	4.6	29	9
LOSERS					
Bayer Diagnostics	717	-20.5	27.5	979	332
Royale Manor Hotels	64	-19.5	174.3	92	20
Polyplex Corporation	83	-18.3	-57.8	202	83

Source: CMIE Prowess