

## NRI investors, have your cake and eat it too!

NRI investors are watching the current bearish days on the Indian stock market with trepidation. From the peak of the bull run at over 20,000 on June 8, the Sensex has plummeted to less than 14,000 now. The rise in crude prices has fuelled inflation at over 11 percent and the recent monetary policies to curb demand have accelerated the decline of the Sensex.

Considering the current volatility in the equity market, what does an NRI investor do? For some, the knee jerk reaction would be to panic and start selling in anticipation of the market weakening further due to rocketing oil prices and spiralling inflation.

For others, it could be 'Hold on!' The market can go lower and better bargains can be picked up for stocks, including blue chips. It all depends on how much lower will be the market decline and for how long.

And as Indian stocks may get sucked in the global spiral of depression, the third option for some NRIs would be to buy right now, as the market seems to be heading to its bottom.

This opposite view is for the adventurous. Those who look to the silver lining and have an appetite for risk taking think that the market will go up again because of India's overall economic strength.

Inflation in India is expected to come down after six months, according to the finance minister. So these investors are bullish on the long-term prospects of the Indian economy where the Risk-Reward Ratio is in their favour. Thus they can invest now to add low priced stocks to their portfolios for possible high gains later on.

Finally, there are the extra-cautious NRI investors. They do not want to speculate in the market but want to safeguard their hard earned investment funds 100 percent and so go for fixed returns. With real returns from fixed income options turning negative due to spiralling inflation and uncertain equity markets in the medium term, they do not know what to do.

Now with all these conditions, how can you have your cake and also eat it? Since stocks are not the answer for these trepid investors, mutual funds have recently launched innovative structured products for them. Known as Equity-Linked Fixed Maturity Plans, these schemes provide a 100 percent capital safety with returns linked to the equity market albeit with some conditions.

Investment advisor Sanjay Durgan of AbunDanze explains how it works: 'There is an Initial Value, Observation Value and the Closing Value of the Reference Index that is NIFTY. The Observation Date for NIFTY is fixed as the last Thursday of every month during the tenure of the plan. Returns are determined based on the difference between the Closing and Initial Value of NIFTY. Depending on the structure of the scheme, the Closing Value could be the average of the last three months NIFTY Observations of the period of the scheme.'

Adds Durgan: 'Depending on the structure of the scheme, the Initial Value of NIFTY could be the closing date of investment in the plan or some average of the initial few months. Observation dates for NIFTY are fixed as the last Thursday of every month. The catch lies in the Observation Values that are pre-conditions known as 'triggers' that could apply if any Observation Value were to breach them.'

For example, if at Closing Level, NIFTY rises by 50 percent from the initial level, the investor gets 150 percent participation (i.e. 50 multiplied by 1.5 ensures 75 per cent absolute return on investment).

However, a trigger condition could be if NIFTY were to rise by more than 100 percent or any Observation Date, then the investor gets a flat 65 percent absolute return after 36 months.

If NIFTY falls, the investor still gets the principal amount in full. The minimum amount for investment is Rs.5,000 and the period is fixed for such investments. It can be 21, 36 months or as structured by the fund house.

In this 'heads you win and tails you win' situation, a risk averse investor is protected for the face value of the capital with a potential to generate returns linked to the equity market.

Since these are close-ended schemes, they are ideally suited for those who have the relevant time horizon for investment and are looking for a little more excitement than the plain old vanilla fixed-income options.

'Though the capital is safe, the returns are maximized only if the market moves within a certain range. This is more like the casino that works on probabilities but your money is safe,' said Durgan. If you are a conservative investor, this is a 'win-win' situation.

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