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your MONEY

GUIDE TO EARNING, INVESTING AND SPENDING

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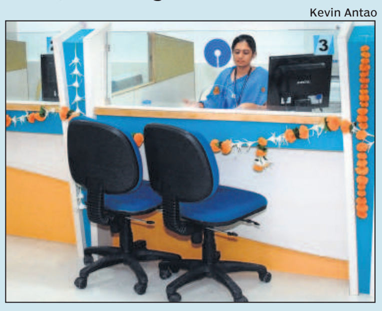
> That men do not learn very much from the lessons of history is the most important of all the lessons that history has to teach.
> Aldous Huxley

loose change

Banks cut lending, deposit rates

Many public sector banks have reduced lending and deposit rates, following the Reserve Bank of

Kevin Antao



India's liquidity easing measures. However, private sector players are watching the liquidity situation carefully before slashing rates. So wait a bit longer for cheaper loans.

Inflation inches up again

Reversing its five-week downward trend, inflation inched up to 10.72% on rising prices of essential commodities and some manufactured items. After declining to 10.68%, inflation rose by 0.04 percentage points for the week ended October 25, as prices of edible items including rice, wheat, potatoes, tea, butter and salt firmed up.

11.15% interest on FD

ICICI Home Finance has launched a special offer on fixed deposits. It is offering FDs at 11.15% per year, payable annually on 15-, 20- and 30-month deposits. It is also offering an additional benefit of 0.35% for senoir citizens. This offer is valid only for a limited period.

Four for the road

We present a few simple rules that will help ensure a smooth drive to financial security, so that you can avoid a detour by the school of hard knocks

Madhu T

Some things can only be learnt the hard way. At least that's how many investors seem to have thought these past couple of years. Some of them splurged and had a good time; a few gambled in the stock market; still others went on a borrowing binge to buy their second car. And now, as they face the music, the dissonance is painful.

And that pain, coupled with an uncertain future, many are turning overnight into fastidious savers, and suddenly appreciating that their parents' way of life, uncool though it may have seemed, is better in the end. "I have lost count of the number of foreign holidays we had in the last three years," says Rakesh, a businessman. "Business was doing well, and we never thought we were doing something wrong. My father often told me to save more for a rainy day, but I never gave it much thought."

Financial advisors caution that it is natural for people to get carried away by the feel-good factor, and start splurging on things they love. "I've come across countless cases of even the most thoughtful of people committing the silliest of mistakes," says one advisor. "Recently, I came across a case of a person who abandoned his entire savings plan, and was spending, until recently, like there was no tomorrow."

Mahesh Benkar

Rule number 1

Make hay while the sun shines. Money makes us happy. And lots of it can lull us into the delectable delusion that the good times will never stop. That is exactly how Renjit was thinking, when he started getting regular performance-related rewards from his office. He neglected the fact that his profession was related to the stock market, and that he was riding the boom. "I was doing really well, bringing in new clients everyday, and I was rewarded well for it. My mistake was that I happily spent all the extra cash I got," he says ruefully.

He has a grim forecast this year: "Performance-related pay is a major part of my salary. I don't think I'm going to get it this year." So now Renjit is saving all he can. "I've cut down on unnecessary expenses. We plan all our purchases, and don't intend to buy anything fancy. For our family holiday this year, we're going to a friend's farmhouse," he adds. Moral of the story: save while the going is good.

Rule number 2

Resist the temptation to tinker. Ganesh, a novice in the stock market, was thrilled to see his money grow by leaps and bounds these past two years. He decided to deploy more of it in the stock market. Within a year, he had broken all his fixed deposits and transferred the money to stocks. Luckily, at least his provident fund account escaped this fate. With the market being what it is these days, Ganesh has watched his wealth shrinking as fast as it grew. The truth is finally sinking in: reckless investing doesn't yield good results. Unfortunately, there's nothing Ganesh can do. "I'm hoping the market goes up a bit, so I can at least recover my capital," he says, sadly. He readily admits that he himself is responsible for the mess. "I entered into the market with my annual bonus of Rs 60,000. I hadn't really planned to put more cash into the market, but I got carried away."

Rule number 3

Ask yourself, "Do we really need it now?" Prashant, who used to work with a KPO, says, "From a 21" television to a 29" one, then to plasma, then LCD...I was just fascinated by latest gizmos. Computer accessories, iPods—I was crazy about these things, and I spent like crazy." He realised how perilous his financial situation was only when he got the pink slip from his employer. He had barely enough money to tide him over for a month. "I don't know what would have happened if I hadn't got my current job within that time," he says.

Being single, he was able to scrape through somehow. He is grateful for the lesson, scary though it was. "My mistake was that I never asked myself whether I really needed the stuff I was buying. I mean, who needs to upgrade their plasma TV to an LCD in six months!"

Rule number 4

Be choosy about the advice you take. Listening to advice is important, but listening to all and sundry could be one of the costliest mistakes an investor could make. Worse, it could lead an investor to alter a perfectly sane investment plan.

> Opinions in the media are mostly an expert's take on a trend, warns a fund manager. Ordinary investors can't change their plans based on a passing trend. So listen to the right advice

"Most people don't understand that the opinions they hear in the media are mostly an expert's take on a particular trend," says a mutual fund manager. "As a lay investor, you can't change your investment plan based on some passing trend. One should understand that such advice is meant only for speculators."

The same rule applies to advice from friends, no matter how well-meaning. People love to boast about the killing they made in the stock market, but remain rather silent on the losses they suffered. That's just human nature, and your friends are, well, human. Much as you love them, do take their advice with a pinch of salt.

The ABC of ETFs

This dummy's guide to exchange traded funds tells you all you wanted to know but were afraid to ask

Shruti Jain

Tejal Pandey

An exchange traded fund (ETF) is essentially an index fund that trades like a stock and is listed on the exchange. Although popular abroad, it's still a new concept in India. Currently, India has 16 ETFs, with total assets under management of Rs 4,182 crore as of September 2008. In the US, by contrast, there are 707 ETFs, with combined assets of $585.9 billion or Rs 27.5 lakh crore.

An ETF is a single security representing a basket of stocks that corresponds to a particular index, say, the S&P CNX Nifty or Sensex. The ETFs trading value is based on the net asset value of the underlying stocks that it represents. Much like an index fund, an ETF offers built-in diversification. But because ETFs can be bought or sold within the trading day, they offer the flexibility of a stock. Like individual equity securities, ETFs are traded on a stock exchange and can be bought and sold throughout the day through a broker-dealer, just like Infosys or Reliance Industries shares.

Why invest in an ETF?

The popularity of exchange traded funds is growing: they combine diversification, cost efficiency and flexibility in a single investment.

Firstly, with an ETF, you trade a basket of stocks for a single brokerage, saving money on trades. Secondly, there are no short-term redemption loads. Thirdly, ETFs allow you to take advantage of intraday changes in the market, as they trade throughout the day, like stocks. They let you benefit from sophisticated trading strategies such as hedging, diversification, and arbitraging between futures and cash market. And lastly, you can choose from a range of ETFs, including funds that modify standard indices and sector-specific funds.

Types of ETFs

ETFs can be broadly classified into index, commodity, and bond funds.

Most ETFs are index funds that hold securities and attempt to replicate the performance of a stock market index. An index fund seeks to track the index's performance by holding either the contents of the index, or a representative sample of securities in the index.

Commodity ETFs invest in commodities such as precious metals and futures. In India, we only have gold ETFs. As for bond ETFs, there is currently only one available in India, namely Liquid BeES.

There are other types of ETFs, such as currency ETFs and actively managed ETFs but they are not yet available in India.

Where can I buy ETFs?

ETFs trade like stocks, and like them, ETF units can be bought or sold through an equity broker of the exchange on which the fund is listed.

Are ETFs like index funds?

ETFs and index mutual funds both seek to match the return of a market index. Both suit investors looking for diversification. However, there are important differences.

The first is the minimum investment. For investors with limited funds (say, less than Rs 1,000) who want to get started in the stock market, ETFs offer a cheap entry option—you can buy even one lone share, if you so choose. Index mutual funds require a minimum investment of Rs 5,000.

Another difference is ease of use. ETFs can be bought or sold any time the market is open, via your brokerage account. There are no hassles of filling up application or redemption forms, since you hold ETF units in your demat account. Index funds, on the other hand, can only be redeemed at the closing price of each day.

A third difference is in tracking error, which determines how closely an ETF mirrors the return of the underlying index. Generally, the tracking error of an ETF is lower than that of an index fund, indicating better replication of the underlying asset.

Fourthly, the expense ratio is generally lower for ETFs. And lastly, index futures give you tax benefits on only short-term capital gains, while ETFs give you long-term capital gains benefits, too.

> If you're looking for diversification but have only a small sum to invest, an ETF may make good sense. It lets you invest in the stock market without betting on a particular company

Are ETFs for me?

Here are some guidelines to help you know when to consider an ETF—and when not.

If you're trying to get market returns, or believe the index will yield good long-term returns, ETFs may be a good choice because of their low cost and diversification. But ETFs make little sense if you're trying to beat the market, since they only track market indices.

When you're looking for wide diversification but have only a small sum to invest, an ETF may make sense.

When you're unsure what to buy, but want to invest in equity, an ETF lets you invest in the stock market without betting on a particular company.

Do a background check

As with any investment, there's no substitute for doing your homework to ensure that you get what you pay for, and that it suits your needs.

Read the ETF prospectus carefully. Make sure you understand the index or underlying asset it's based on, the risks associated with the index or asset, and how it fits into your portfolio.

Scrutinise an ETF's holdings. Make sure the fund's label matches the underlying securities you want to buy.

The most valid criterion for evaluating an ETF is tracking error. Make sure your ETF has a low tracking error, otherwise your investing objective is not completely achieved.

And lastly, make sure you understand costs such as management fee and brokerage.

To sum up, then, exchange traded funds are best used as a long-term investment tool, ideal for filling asset allocation gaps and replacing higher-fee mutual funds.

Shruti Jain is Senior Vice-President, Arihant Capital Markets

Why quit when you can fix it?

Hate your job? In today's harsh economic environment, it may be more practical to identify the reasons and fix them, than to fly off the handle or let yourself be defeated easily. Here are a few tips

Dipta Joshi

Everybody gets the blues sometimes, and that's as true at one's job as it is outside the office. When the ennui sets in, it gets harder to retain the spring in your step as you head out to work each morning. The stress begins to show. You start coming up with reasons why your job is not right for you. But at a time when employees are being handed pink slips, it has become harder to assume that the "right job" is waiting for you just around the corner. So don't rush to type up that resignation—give your job one more chance. Here are some tips on changing your job from "boring" to "interesting".

Be the vehicle of change

This really is the first step to any change. List the problems you're having, and the possible solutions to them. Think about them, and you'll find there are many small and big changes that could improve your situation. List those changes and start working to implement them—that effort will have to come from you.

Change your perspective

It's all in the mind, say psychologists. Recall the reasons why, during your first few months on the job, you thought it was a great one. Unless your work situation has changed drastically, some of those reasons probably still hold true. For instance, Ritu, an operator in a call centre back office, hated the extended working hours at her workplace, yet spent a good five years at it simply because her colleagues were like an extended family.

> Before you march into your supervisor's office waving a list of demands, review your work carefully, from her point of view. Talking to the boss is best done when you're on a strong footing

Bring about real changes

Go back to that list of the positive changes you can make. Now is the time to bring them about. Often, the reason an employee wants to quit her job is that she feels she hasn't got what she deserves from her seniors. If you think you've been denied the promotion you deserve, for instance, consider talking it out with your seniors. But before marching into your boss's office waving your list of demands, review your own work critically—from the boss's point of view. Of course, keep in mind that talking it out is best done only when you are on a strong footing.

Reinvent your work

A good way to bring freshness to the same old job is to find new ways to do it better than before. It is this innovative outlook that has resulted in newer and improved versions of products and services in the market. Besides, at a personal level, being creatively involved will keep away the negative thoughts.

Yogesh Kumar

Advertise subtly

A good number of people have quit their well-paying jobs simply because they feel their hard work is appreciated. Often, this gives some people reason to blame their boss. But there's always the possibility that the oversight was not deliberate. Too often, employees keep rather low profiles, and thus remain unnoticed. If you're feeling overlooked, consider that it may be time to get out of the shadows. There's no call to brag about yourself; you can handle the situation in a subtle manner. When the opportunity—say, a regular feedback session—presents itself, take it to ensure that your boss is well aware of the efforts you've been putting in.

Tackle difficult colleagues

Often, the real reason people lose interest in their job is not the work itself, but the people at work. If there isn't a single person in your office with whom you can get along professionally, it's possible that the problem is yours, and not theirs. In today's corporate scenario, the inability to work in a team is considered a weakness.

But assuming the problem is not with you, and a problem colleague really is proving detrimental to your work, consider asking your supervisor to move you to another department, where you can meet new people, although you would also have to be ready to possibly do somewhat different work. Looking for a change within your existing corporate environment maybe easier, if minor irritations are the issue.

Giving in to the impulse to quit may seem the easy way out, but life may actually be easier if the problem can be reduced or fixed without giving up the job. Quitting is for smokers!