

# The Wisdom Of Buying Low & Selling High

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Market Cycles

Make market cycles work for you

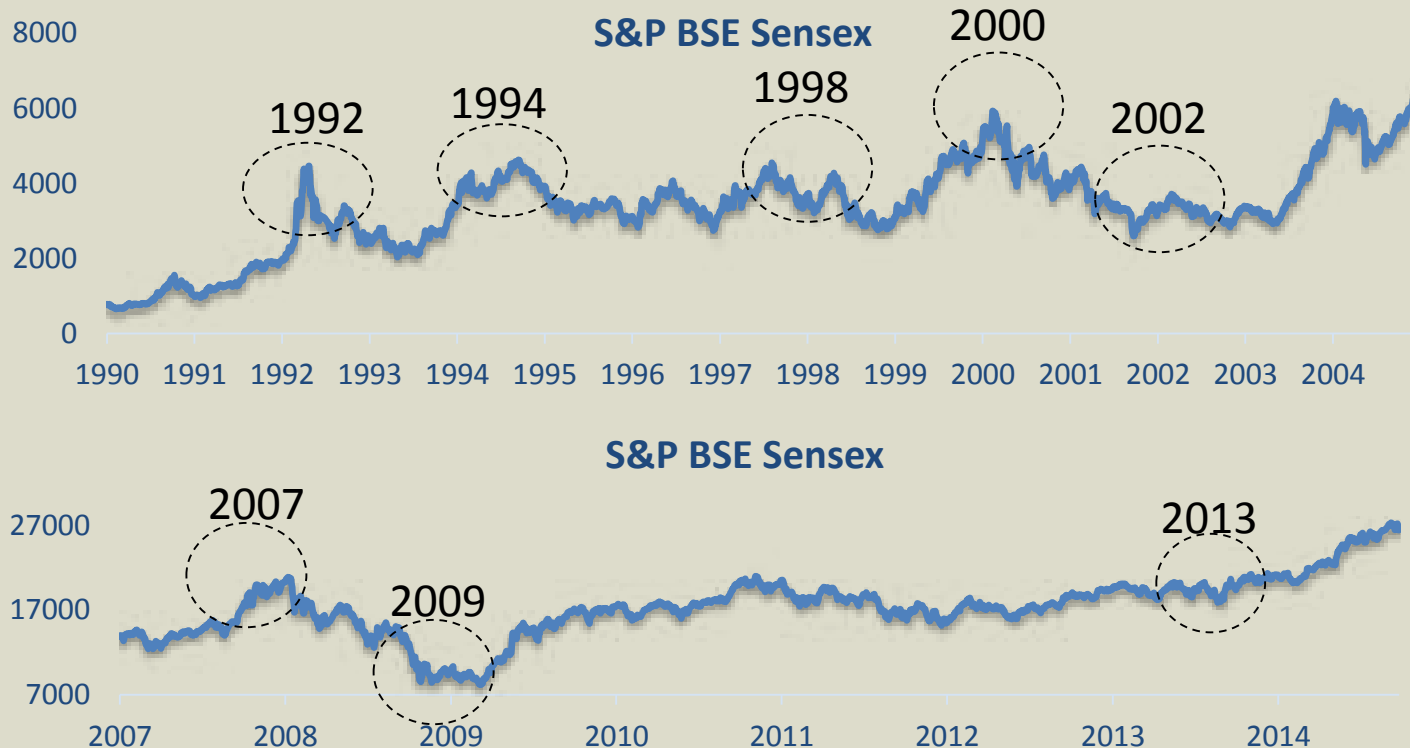
Price to Book Value model

ICICI Prudential Equity Income Fund

ICICI Prudential Balanced Advantage Fund

ICICI Prudential Dynamic Plan

# Equity Markets move in Cycles

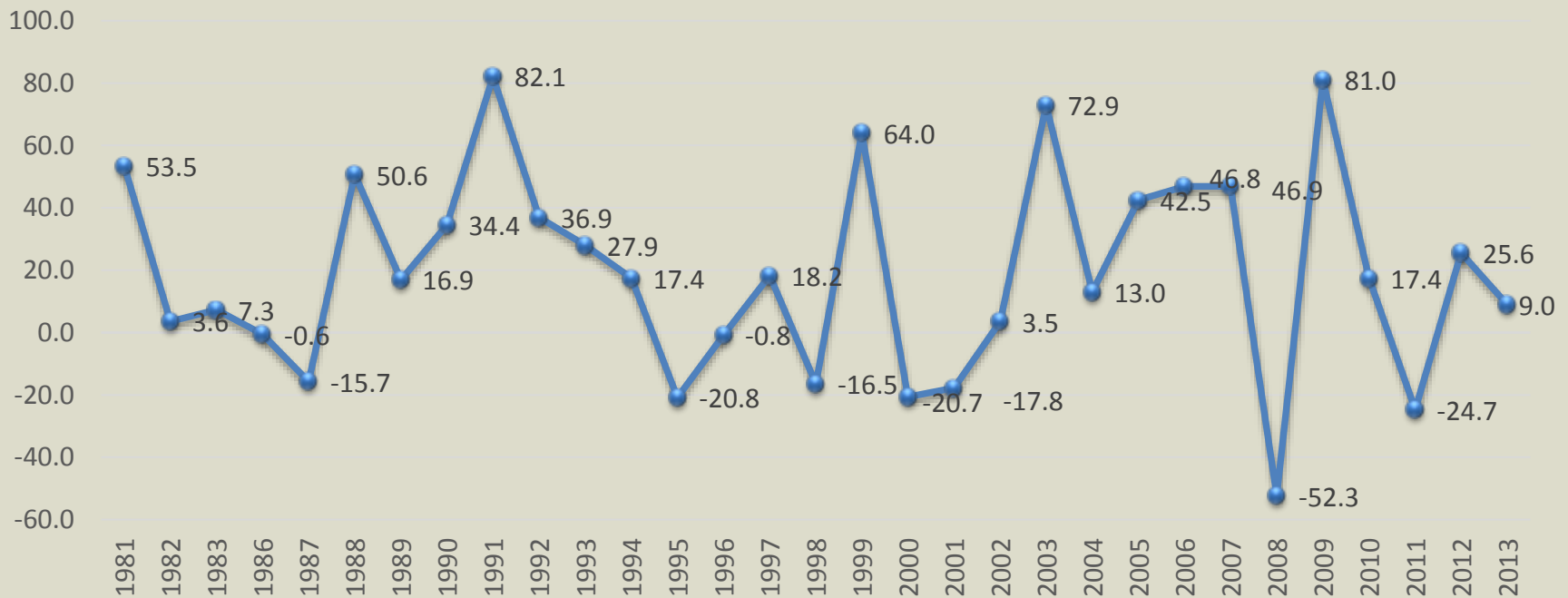


**Long Term trend of equity market is upwards.  
However, there are cycles in the intermediate period**

# Equity Markets move in Cycles

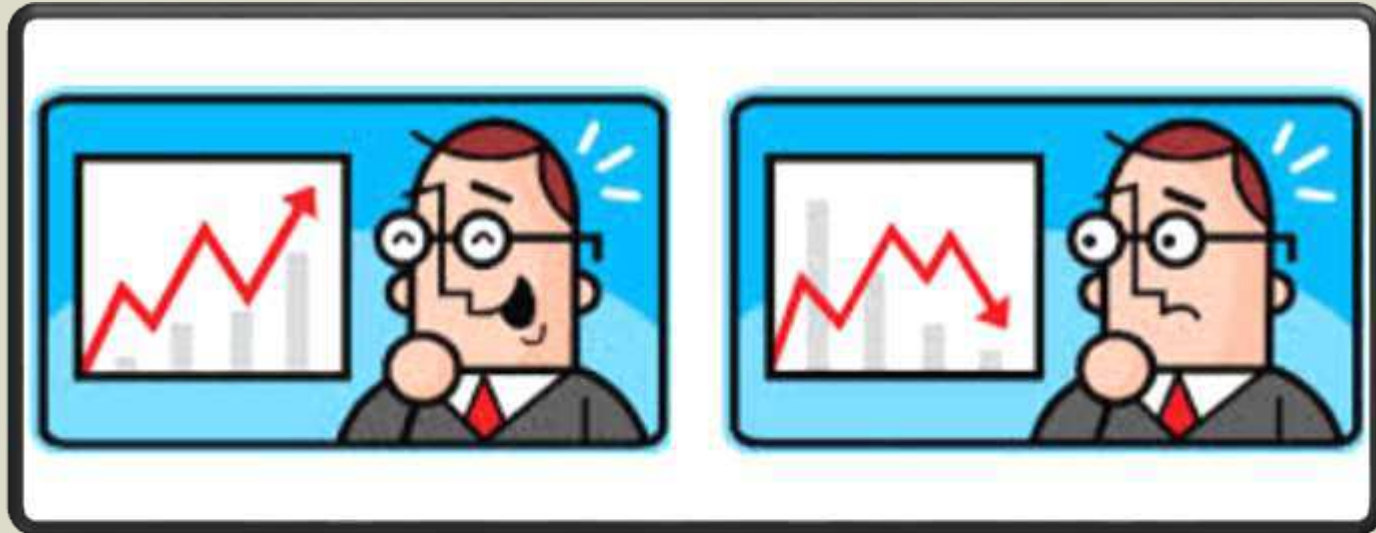


## YOY Market Returns



Data Source: Bloomberg

# Investor Sentiments

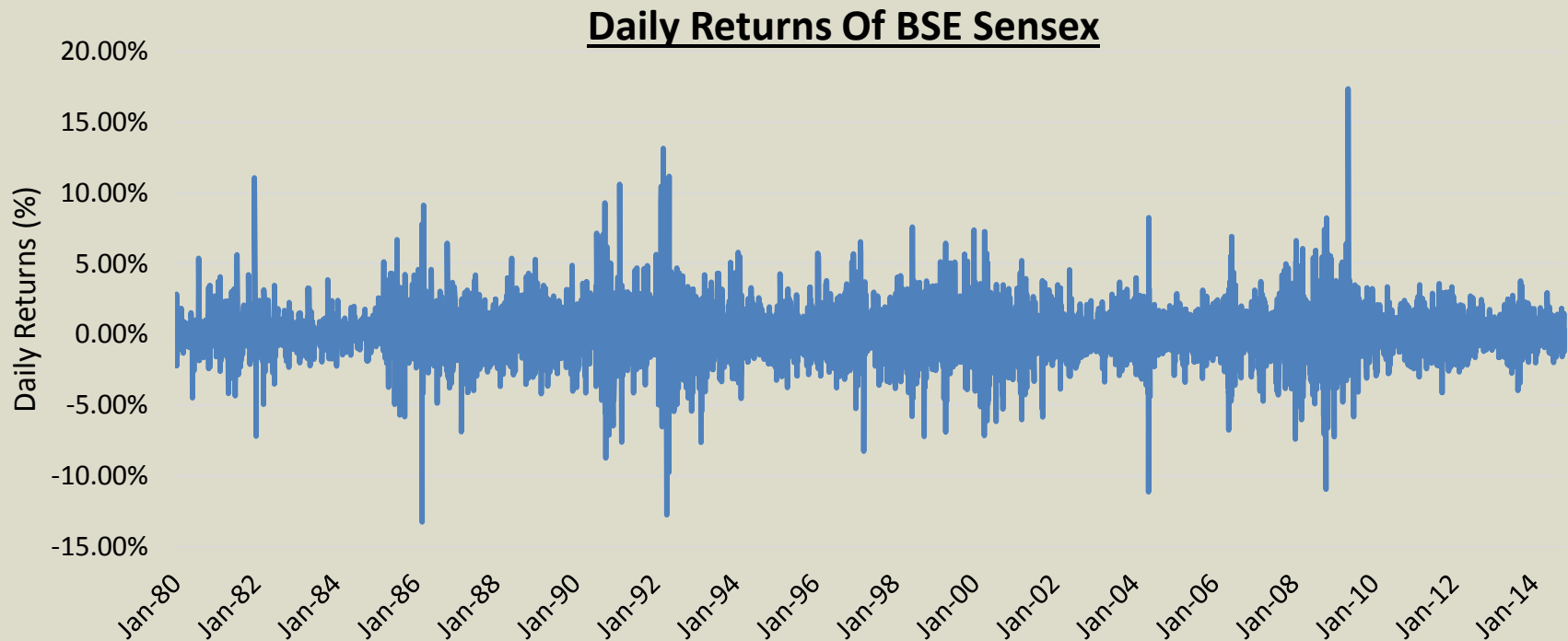


**Is This How You Feel When The Stock Market Goes  
Up Or Down?**

# ECG of Equity Markets



**..the behaviour is rational because equity markets have been unpredictable in the short run**



# Factors Effecting Equity Markets



Can you make these cycles work for you?





# Make Market Cycles Work For You



$$\text{Buy Low} + \text{Sell High} = \text{Alpha}$$



# Power of Buy Low, Sell High



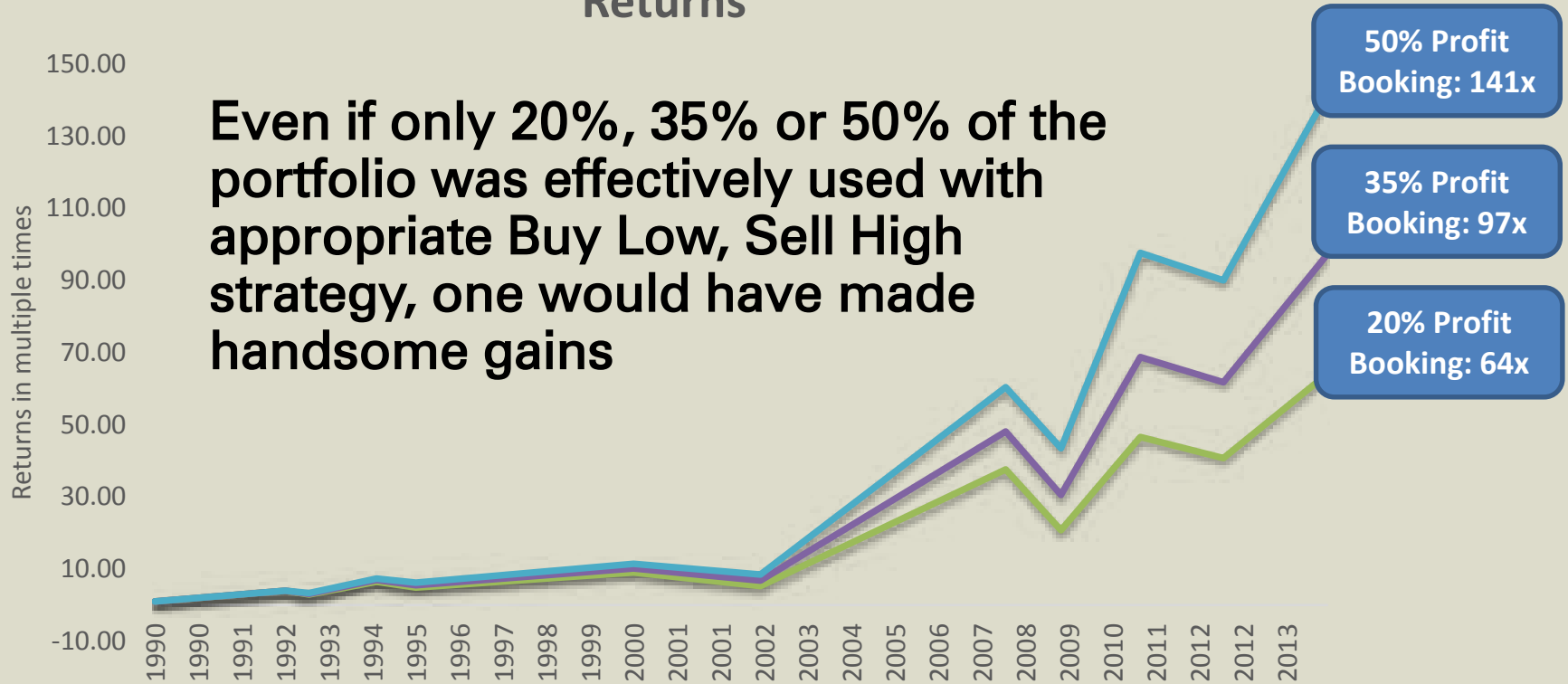
Date	S&P BSE Sensex Levels	Active Buy and Sell Strategy	Cumulative Value of Re. 1 invested
01 January 1990	783	buy	1
20 October 1992	3050	sell	3.89
27 April 1993	2070	buy	3.89
16 September 1994	4617	sell	8.69
03 July 1995	3182	buy	8.69
22 February 2000	5883	sell	16.06
28 October 2002	2834	buy	16.06
31 December 2007	20286	sell	114.92
27 February 2009	8891	buy	114.92
27 October 2010	20005	sell	258.56
23 July 2012	16877	buy	258.56
31 October 2014	27866		<b>426.49</b>

If someone were able to precisely predict market cycles the return would have been **426x** vs. **36x** with passive strategy

# Power of Buy Low, Sell High



## Returns

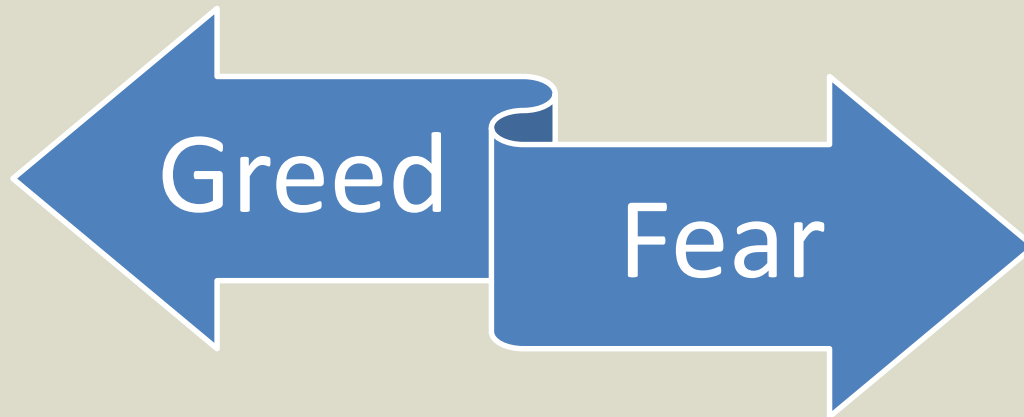


Portfolio % actively used	20%	35%	50%
Returns	64 times	97 times	141 times

..but this is not easy to do



**Investor sentiments makes it next to impossible**



- In Bull Markets, the lure of quick wealth is difficult to resist
- While in Bear Markets, investors panic and sell equity at rock bottom prices

# What is the Solution?



**How Do You Time The Market and Simultaneously Generate Returns out of Market Cycles?**

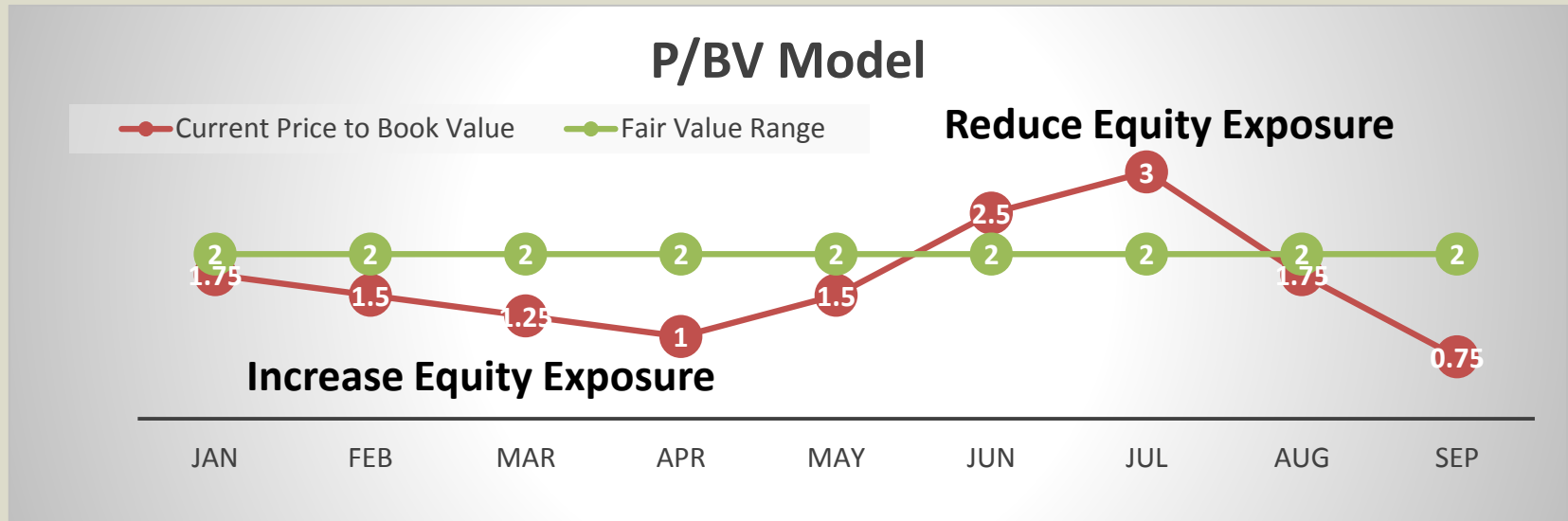


## Dynamic Price / Book Value Model

**A model that allows Buying Low and Selling High while limiting human emotions**



# Dynamic P/BV Model



- The model suggests reducing equity exposure when market valuations are expensive and increasing equity exposure when market valuations are cheap
- In the process the model enables buying stocks at lower prices and selling them at higher prices

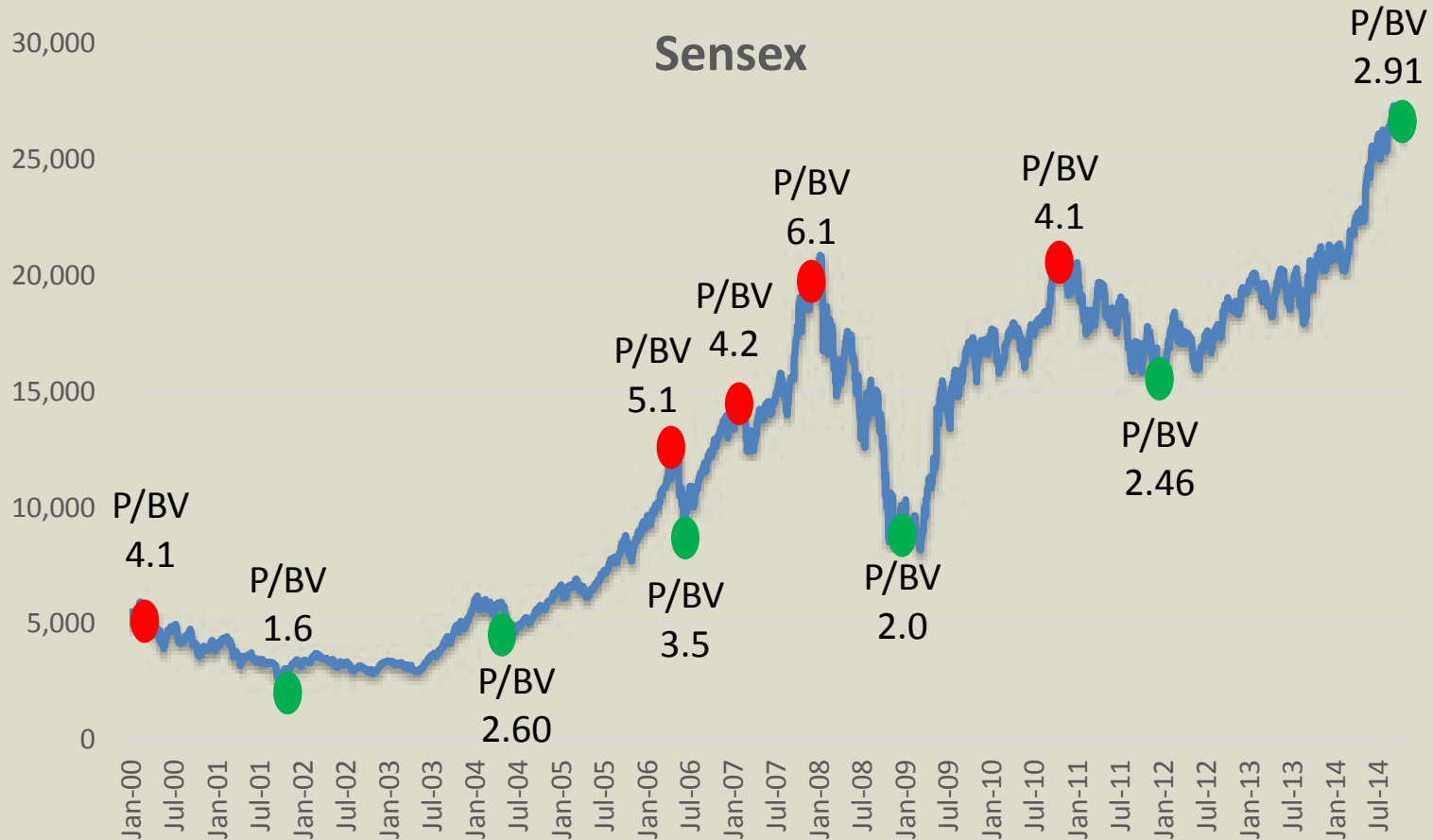
# Why Price to Book Value?



- Price-to-book value ratio (P/BV) is calculated by dividing the stock price to its book value per share
- Price to book value is less volatile as compared to price to earnings ratio
- Price to book value is better equipped in gauging intrinsic value of a company
- Book value is a balance sheet item, thereby more reliable than Earning Ratio



# Does P/BV model help



**Historically, P/BV has been most prudent indicator to judge market cycles based on valuation**

# Time Tested Model



3 Year Rolling Returns			
Month	ICICI Prudential Balanced Advantage Fund - Reg - Growth	ICICI Prudential Dynamic Plan - Growth	CNX Nifty Index
Oct 13	9.03	4.86	1.11
Nov 13	10.32	6.41	1.94
Dec 13	10.49	6.57	0.91
Jan 14	11.48	7.69	3.41
Feb 14	13.01	9.32	5.58
Mar 14	12.88	9.53	4.74
Apr 14	12.94	10.10	5.31
May 14	15.49	13.93	9.71
Jun 14	15.83	16.12	10.45
Jul 14	15.87	16.47	12.18
Aug 14	19.82	23.14	18.50
Sep 14	20.11	22.56	17.22
Oct 14	20.26	21.96	16.02

Ratios	I Pru BAF	I Pru Dynamic
Average Returns	13.88	12.13
Beta	0.61	0.86
Alpha	6.32	4.57
Excess Return for each unit of Market Risk	10.30	5.29

ICICI Prudential Balanced Advantage Fund and ICICI Prudential Dynamic Plan are being run on P/BV model since 2010. Both the funds have consistently outperformed and delivered significant ALPHA

Past Performance may or may not be sustained in future. Ratios based on 3 year rolling returns, Risk Free Rate to calculate Alpha taken as 8.5%.



Presenting investment solutions based on  
Price / Book Value Model

That aims to  
Buy Low - Sell High

**ICICI Prudential Equity Income Fund**

NFO Period: 18<sup>th</sup> November to 2<sup>nd</sup> December 2014

**ICICI Prudential Balanced Advantage Fund**

**ICICI Prudential Dynamic Plan**

# Solutions based on P/BV Model



## Conservative

- ICICI Prudential Equity Income Fund
- Equity levels: 20% – 40%

## Moderate

- ICICI Prudential Balanced Advantage Fund
- Equity Levels: 30 – 80%

## Aggressive

- ICICI Prudential Dynamic Plan
- Equity Levels: 65 – 100%



# ICICI Prudential Equity Income Fund

# ICICI Prudential Equity Income Fund



ICICI Prudential Equity Income Fund is an open ended equity fund that aims to:

- To generate regular income through investments in fixed income securities and using arbitrage and other derivative Strategies.
- To generate long-term capital appreciation by investing a portion of the Scheme's assets in equity and equity related instruments.

Instruments	Indicative Asset Allocation allocations (% of total assets)	
	Maximum	Minimum
Equity & Equity related instruments	75	65
Derivative including Index Futures, Stock Futures, Index Options, Stock Options etc	50	30
Debt , Money market instruments & Cash	35	25

# ICICI Prudential Equity Income Fund



## Investment Strategy

### Equity

- Use in-house Price to Book model to maintain the equity allocation with no market cap/style bias.

### Arbitrage

- Exploit arbitrage opportunities by buying stocks in the spot market and selling corresponding futures in matching positions, thereby capturing positive spread between the prices.

### Debt

- Dynamic management of duration based on interest rate outlook.

# Unique Fund Structure



*Debt Securities*



*Equity Arbitrage Opportunities*



*Net Long Equity Exposure*

60-80% of the net assets

20-40% of the net assets

**Regular Income**

**Potential Capital Appreciation**

**Equity Taxation (Tax efficient returns)**



# Tax Efficiency Illustration



Particulars	Traditional fixed return investment options	ICICI Prudential Equity Income Fund	Pre-tax return required for traditional fixed return investment options to meet the return of Equity Income Fund
Amount Invested	100	100	100
Taxable Gain	9	9	<b>13.63</b>
Value plus Gain	109	109	113.63
Applicable tax rate	33.99%	0%	33.99%
Tax Liability	3.05	0	4.63
<b>Post-tax gross value</b>	<b>105.95</b>	<b>109</b>	<b>109</b>
<b>Post-tax return</b>	<b>5.95%</b>	<b>9%</b>	<b>9%</b>

This table is only to illustrate the method of computing capital gain tax payable by an investor. The calculation given above is to ascertain the implication of capital gains tax on investment in equity oriented schemes and other investment options. Past performance may or may not be sustained in future. This calculation is based on prevailing tax laws and is applicable only in case of resident investors..

# Scheme Features



Type of scheme	An open ended equity scheme
Plans	Direct Plan and Regular Plan
Options	Cumulative, AEP Option(Appreciation and Regular) and Dividend (Reinvestment & Payout Option)
Dividend Frequencies	Monthly, Quarterly and Half Yearly
Minimum Application Amount	Rs.5,000/- plus in multiple of Rs.1
Minimum Additional Application Amount	Rs. 1,000/- plus multiple of Re. 1
Minimum Redemption Amount	Rs. 500/- and in multiple of Re. 1
Exit Load	For investments upto 18 months – 1% of applicable NAV
Benchmark Index	30% CNX Nifty + 40% CRISIL Liquid Fund Index + 30% CRISIL Short Term Bond Fund Index
Fund Manager*	Equity Portion - S.Naren and Chintan Haria Debt Portion - Manish Banthia

\*Fund Manager for overseas securities – Shalya Shah



# ICICI Prudential Balanced Advantage Fund

# ICICI Prudential Balanced Advantage Fund



Launched on December 30, 2006, ICICI Prudential Balanced Advantage Fund is an open ended equity oriented fund that aims at generating risk-controlled equity linked returns.

- The fund benefits out of market volatility by maintaining fair equity allocation levels based on market valuations.
- The fund allows investing in equity markets with a conservative “buy low-sell high” approach.
- Follows daily rebalancing of portfolio
- The fund also aims to provide monthly tax free dividends. (Dividend is subject to availability of distributable surplus and approval from Trustees)

# ICICI Prudential Balanced Advantage Fund



## Asset Allocation

- Manage net equity allocation between 30% – 80% based on in-house Price/Book Value model
- Balance 0 – 35% invested in debt instruments to generate stable returns

## Derivatives

- Derivative exposure used to hedge/rebalance the equity portion and maintain net equity allocation as suggested by the model
- Derivative exposure helps the fund maintain equity status and benefit from equity taxation

## Stocks/ Sectors

- Blend of Large and Midcap Stocks
- Top four sector allocation in line with the benchmark

# Investment Strategy



Manages Equity Exposure between 30% – 80% range based on P/BV model

In Overvalued Market,  
can decrease equity  
exposure to 30%

In Fair Value Market,  
can maintain balanced  
equity and debt  
exposure

In undervalued Market,  
can increase equity  
allocation up to 80%

Inherits the characteristics  
of a

**Hybrid Scheme**

Inherits the characteristics  
of a

**Balanced Fund**

Inherits the characteristics  
of an

**Equity Fund**

# Equity Taxation

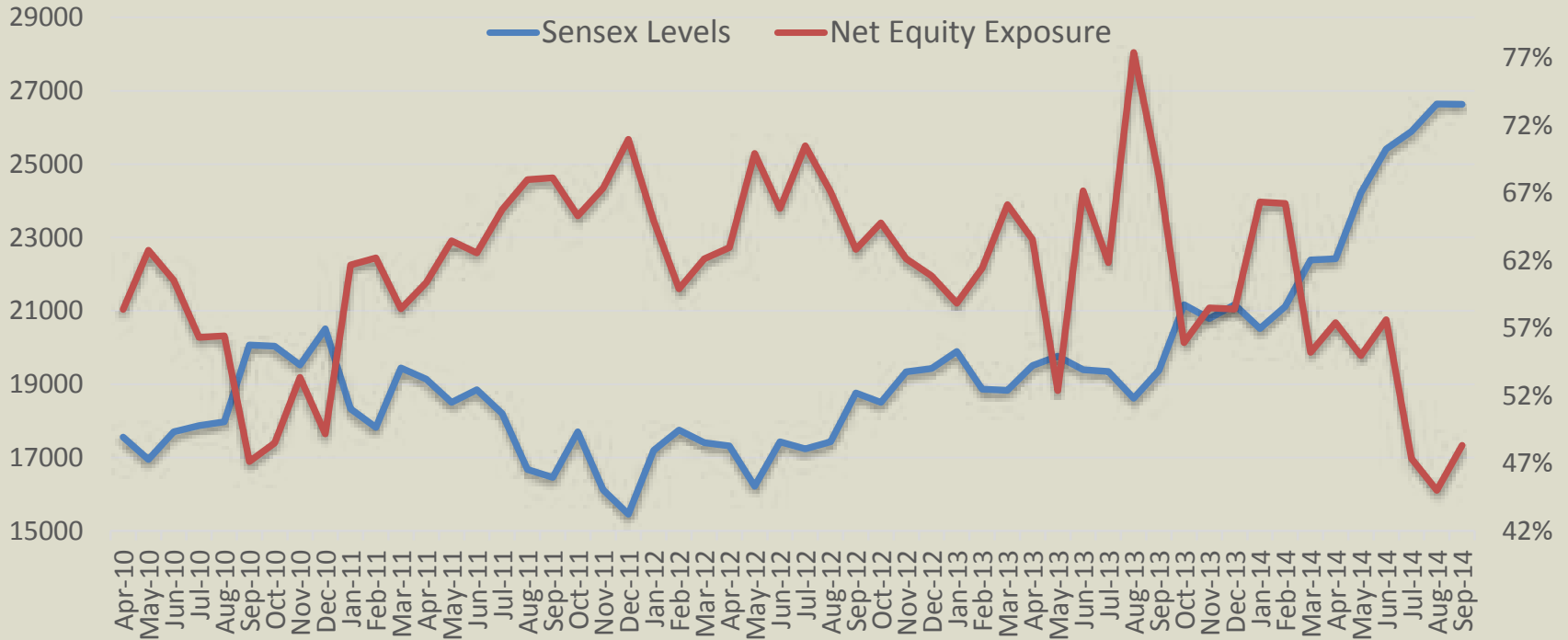


**Maintains Equity Fund status even when equity level goes below 65%**

Month	Desired Equity Level based on P/BV Model	Gross Equity Level	Derivative Position	Net Equity Level
Month 1	42%	67%	25%	$(67-25)$ 42%
Month 2	68%	68%	0%	68%
Month 3	50%	72%	22%	50%
Month 4	30%	66%	36%	30%

Gross Equity level are maintained above 65%

# Historic Asset Allocation Pattern



**The Line Chart above shows actual monthly net equity allocations in the scheme against Sensex levels**



# Tax Efficient



## A Tax Efficient Investment Solution

*When You Invest in ICICI Prudential Balanced Advantage Fund*

**No Capital Gains Tax After 1 Year**

**Dividend In The Hands Of Investor Is Completely Tax Free**

**Monthly, Quarterly And Annual Dividend Option Available**

# Scheme Features



Type of Scheme	Open-Ended Equity Fund	
Plans	Regular & Direct; Options – Growth & Dividend	
Minimum Application Amount	Rs. 5,000 (plus in multiple of Re.1)	
Minimum Additional Application Amount	Rs. 1,000 (plus in multiple of Re.1)	
Minimum Redemption Amount	Rs. 500 (plus in multiple thereof)	
Entry Load	Not applicable	
Exit Load	Upto 18 months from allotment	1% of applicable NAV
	more than 18 months	Nil
Fund Manager	<p>Equity: Mr. Manish Gunwani, managing this scheme since Jan 2012 &amp; has overall 17 years of experience and Ashwin Jain, managing this scheme since Oct 2014 &amp; has overall 7 years of experience</p> <p>Debt: Manish Banthia, managing this scheme since Nov, 2009 &amp; has overall 9 years of experience</p>	
Benchmark Index	Crisil Balanced Fund Index	
SIP / SWP / STP	Available (STP : In)	



# ICICI Prudential Dynamic Plan

# ICICI Prudential Dynamic Plan



Launched on October 31, 2002, ICICI Prudential Dynamic Plan is an open-ended diversified flexi-cap opportunities fund. The fund follows an active cash strategy and uses derivatives, which may help to mitigate downside risks while capturing the upside.

- The flexibility of higher allocation to cash in an expensive/volatile market is one of the distinguishing features of the Fund. The Fund is structured with intent to benefit from volatility and different cycles in equity markets.
- The fund has the flexibility of higher allocation to cash in an expensive market and higher allocation to equity during inexpensive market enables buy low and sell high strategy in a disciplined way.

# ICICI Prudential Dynamic Plan



## Cash Calibration

- Manage net equity allocation between 65% – 100% based on in-house Price/Book Value model
- Balance 0 – 35% invested in debt instruments to generate stable returns

## Derivatives

- Derivative exposure used to limit downside risks

## Stocks/ Sectors

- Invests across market capitalisation (large, mid and small) based on attractiveness of valuation across the segments
- Contrarian Sector calls

# Investment Strategy

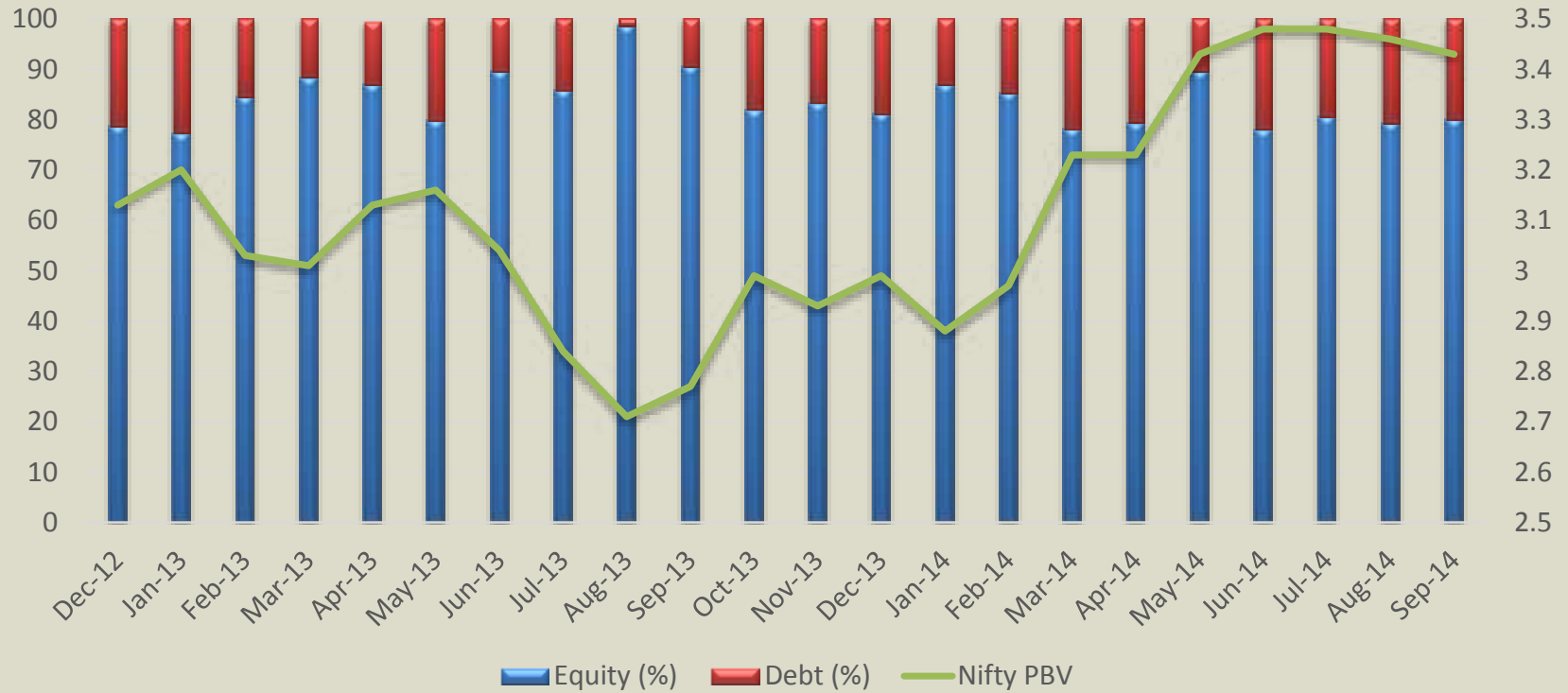


Market	Fully Valued	Undervalued	Volatile
Strategy	Defensive: Cash Calls, Value picks	Aggressive: Aims for 100% equity participation	Contra: Buy Low, Sell High, Cash calls, invests in large caps
Performance	Aims to participate in market rallies with controlled risk	Aims to outperform market	Aims to Outperform Market

# Cash Calibration



## ICICI Prudential Dynamic Plan equity levels vis-à-vis Nifty P/BV



# ICICI Prudential Dynamic Plan



Type of Scheme	Open-Ended Diversified Equity Fund	
Plans	Regular & Direct; Options – Growth & Dividend	
Minimum Application Amount	Rs. 5,000 (plus in multiple of Re.1)	
Minimum Additional Application Amount	Rs. 1,000 (plus in multiple of Re.1)	
Minimum Redemption Amount	Rs. 500 (plus in multiple thereof)	
Entry Load	Not applicable	
Exit Load	Upto 12 months from allotment	1% of applicable NAV
	more than 12 months	Nil
Fund Manager	<p>Mr. Sankaran Naren, managing this scheme since Feb 2012 &amp; has overall 23 years of experience.</p> <p>Mr. Mittul Kalawadia, managing this scheme since Feb 2012 &amp; has overall 7 years of experience.</p>	
Benchmark Index	CNX Nifty Index	
SIP / SWP / STP	Available (STP : In)	



# Disclaimer



**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**

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