INVESTMENT OPTIONS AFTER DEMONETISATION

With the digital cash push that the Government of India is suggesting to all citizens, it may be a prudent idea for investors to look at ways of saving digitally just as they are looking at ways of spending digitally, writes **SHALINI DHAWAN**

> THE CLEAR EFFECTS OF DEMONETISATION IN THE SHORT TERM SEEM TO SHOW THAT CONSUMPTION DEMAND HAS DROPPED. A DROP IN CONSUMPTION DEMAND MAY LEAD TO A SLOWDOWN IN THE GROWTH TRAJECTORY OF THE INDIAN ECONOMY FOR A FEW QUARTERS. NEVERTHELESS, WE ASSUME THAT THE DEMONETISATION PROCESS WILL RESULT IN OVERALL BETTER TAX COLLECTIONS

Ever since November 8, 2016, when the demonetisation was announced by Prime Minister Narendra Modi, a lot of investors seem perplexed about their money management, especially their cash management for regular needs. A lot of investors who were used to keeping cash at home for running their households are wondering if holding cash is a good idea anymore or are there other options available.

With the digital cash push that the Government of India is suggesting to all citizens, it may be a prudent idea for investors to look at ways of saving digitally just as they are looking at ways of spending digitally. Currently there are a whole host of innovative and new age ways of investing money, whether for immediate or for long term needs.

Use liquid mutual funds

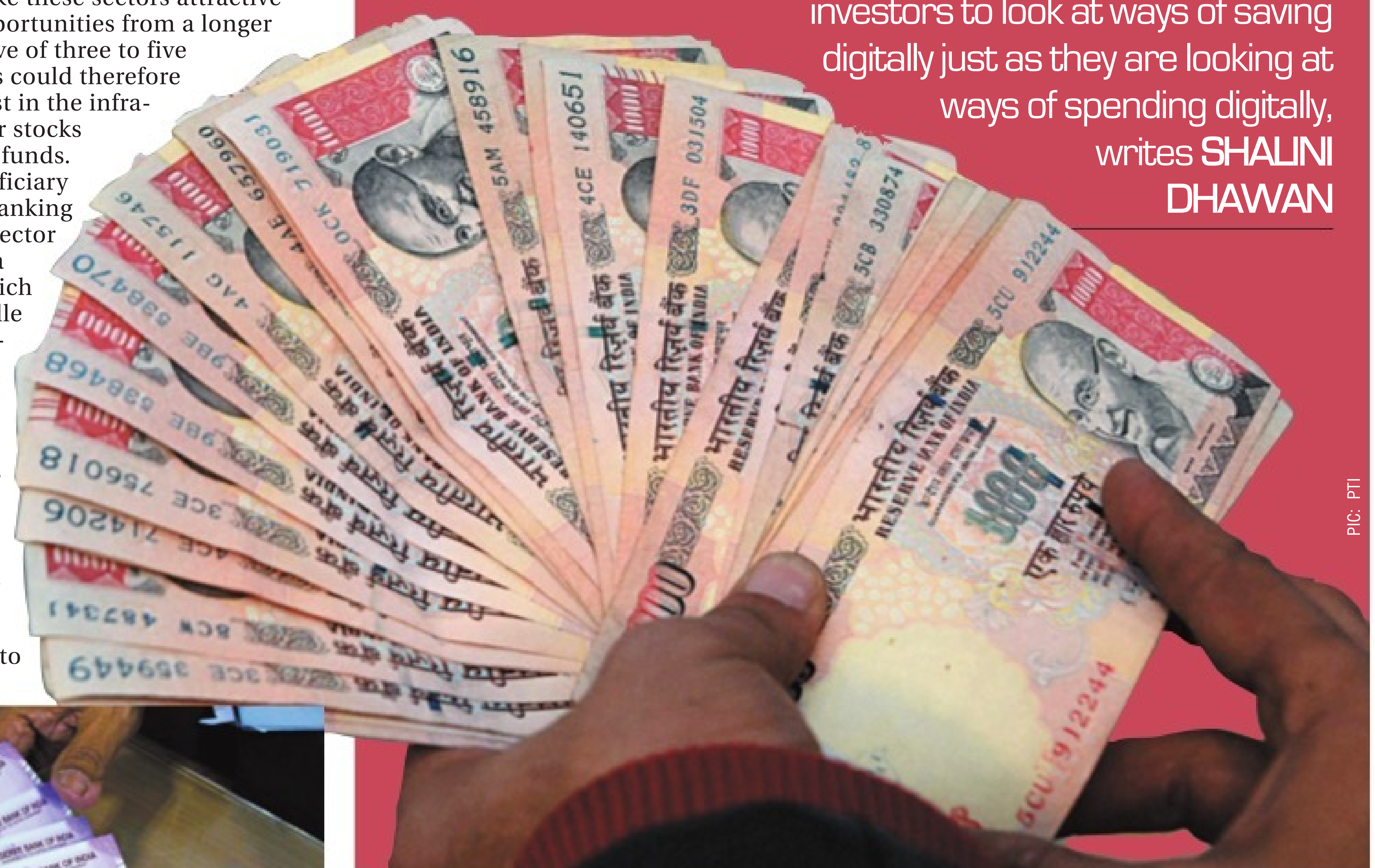
A lot of investors who may have found old high denomination notes as cash lying at home have deposited the same in their savings bank accounts. As a savings bank offer 4% p.a. return on your money, it may be prudent to look at moving all these additional funds into a liquid fund. This can be done online or on a mobile app, if you are a self directed investor or use the guidance of a SEBI Registered investment advisor. Liquid funds now offer same day access to your funds, a feature which was not available till recently. This means that by using an app on your phone you could easily invest excess available in your savings account into a liquid fund. Exits from such an investment are also easily done online or through an app so that you could access your funds the same day. As liquid funds currently are generating returns in the range of 6-8% range, investing in them would make sense rather than leaving your funds idle in a savings account.

Invest in sectors that will benefit from demonetisation

The clear effects of demonetisation in the short term seem to show that consumption demand has dropped. A drop in consumption demand may lead to a slowdown in the growth trajectory of the Indian economy for a few quarters. Nevertheless, we assume that the demonetisation process will result in overall better tax collections, due to shifting of the unorganised businesses into the formal banking system as well as the expected unearthing of black money. These additional inflows available to the Indian government may mean steady longer term growth for the economy in general and for certain sectors in particular.

For example: One of the beneficiaries of the enhanced government spending will be the infrastructure sector. From the additional funds collected from tax, the Government is expected to spend on infrastructure such as roads, rail, etc., which may make these sectors attractive investment opportunities from a longer term perspective of three to five years. Investors could therefore choose to invest in the infrastructure sector stocks and/or mutual funds.

Another beneficiary would be the banking sector, as this sector would receive a lot of funds which were lying as idle cash in the millions of households in the country. As of now the estimated deposits received by banks is in the range of Rs. 12 lakh crores. Let us assume a part of it goes back as cash into the economy, even then the balance funds should be available with the banks which shall lead to softening of rates on both deposits as well as lending rates in the market, boosting growth of this sector. Again here investors could buy into specific banks stocks or take a more sector specific approach and buy into a banking sector mutual fund or an ETF.



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Real Estate and Gold Assets

In India, gold assets are usually bought with consumption use in mind. A lot of demand for gold was funded by cash, mostly during wedding purchases. With demonetisation, gold demand has been hit. This is evident by the slide in gold prices. In fact in India, since we buy gold in INR, but as a lot of the gold is imported, prices of gold in India are also a function of the INR/USD exchange rate. Since with the announcement of the recent Fed hike, the outlook on the INR/USD exchange is not very favourable and higher US interest rate tend to be negative for gold price, it may not be suitable to invest in gold at this point in time.

The residential real estate sector which already had high inventories piled up, and was showing signs of a slowdown over the last couple of years, could also face further demand pressure with the announcement of demonetisation. Cash tended to be used fairly widely especially in secondary market purchases. With demonetisation, investors looking to invest in real estate may be better off holding their purchases unless the purchase is for end use and cannot be deferred.

Although the near team outlook for the Indian growth story seems sluggish on account of the temporary impact of demonetisation, overall the measures taken, coupled with other reforms initiated by the Government such as the real estate sector reforms, GST and inflation targeting by the RBI should ensure that investors would have ample investing opportunities in both equities and the fixed income markets going further, depending on their risk appetites and investment horizon.

(The author is Co-Founder and Director of Plan Ahead Wealth Advisors and can be contacted on shalini.dhawan@planahead.in)