treasury bills and CP/CDs, debt funds are offering an array of tax-efficient investment options.

The debt fund category includes products suitable for investors with different horizons and risk appetites. One can invest in passive buy-and-hold type of funds such as FMPs or take duration bets with dynamic bond funds. There are funds which take exposure only to corporate/government bonds, there are funds which have a very short-term horizon (liquid and ultra short-term funds) and then there are medium- and long-term funds.

Which of these are ideal for 2014? It depends upon your investment horizon and risk appetite.

"With medium-term rates attractive, investors may choose between FMPs and short-term funds depending upon their liquidity requirements. Duration funds will be attractive if the horizon is 18 months to two years as the rate cycle should turn positive for long bonds sometime over the next year on concerted policy actions to control inflation," says Munot of SBI Mutual Fund. "Investors should also look at corporate bond funds that can take advantage of the high yields being offered on corporate securities. In addition, those with a longer horizon (one-two years) can look at long bond funds that can offer a combination of high yields and capital appreciation," says Kamath of Franklin Templeton Mutual Fund.

Real Estate

In the absence of better returns from financial assets, real estate was most favoured by investors for the past five years. However, 2013 was different, as prices moderated and inventory rose sharply. What's in store for real estate investors in 2014? Will there be a further price correction and more opportunities for investment?

"I definitely foresee a correction across many cities. In fact, it is overdue. We are seeing a massive inventory of residential units in the larger cities. Developers with large shares of this will have little choice but to yield to the pressure on prices," says Colin Dyer, president and CEO, Jones Lang LaSalle Inc.

However, he feels that in areas where demand exceeds supply, there may not be any price correction. "Properties bought for investment will see more price corrections," he says.

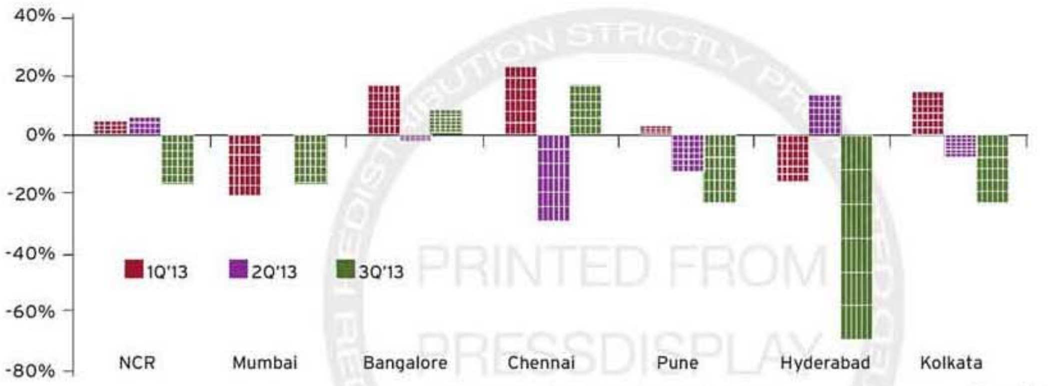
One of the reasons for the decline in demand is affordability. There are few options in the affordable housing category. Besides, the economic slowdown has affected incomes, diminishing the purchasing power of prospective buyers.

Lalit Kant, head, real estate, Arthveda Fund Management, says homes are becoming more and more unaffordable because of the sharp fall in people's purchasing power. This has happened largely due to the economic slowdown, which has affected incomes, impacting people's ability to pay EMIs.

But these factors have not yet led to any price fall, the reasons being the high land cost, delays in approvals (these can take one-and-half to three years depending upon the location and size of the project) and

DEMAND EASES

Quarterly change in absorption of houses during the first three quarters of calendar year 2013



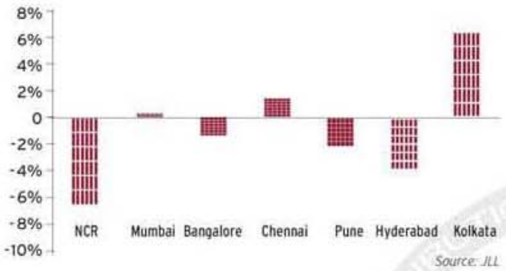
Source: JLL

FRESH SUPPLY

New housing stock (million sq ft) in Jan-Sep '13

SLOW UPTAKE

Yearly change in absorption of houses in Jan-Sep '13



Source: JLL

THERE MAY BE A FURTHER PRICE CORRECTION IN 2014, BUT A DRASTIC FALL IS LESS LIKELY CONSIDERING THAT THE INPUT COSTS HAVE INCREASED SHARPLY OVER THE LAST FEW QUARTERS, SAY MARKET EXPERTS

high labour, material and marketing costs.

"If you were to look at the last two years, land valuations have gone berserk. Meanwhile, persistent high inflation has resulted in increase in labour and material costs as well," says Viswajit Srinivasan, director, wholesale lending, Capri Global Capital, a company in the asset financing and lending business.

Kant says that despite low demand, builders are keeping card prices high as any downward revision in 'official' rates can have a cascading effect and cause a price crash.

Two events can significantly alter the real estate market in future—the passage of the real estate Bill and final guidelines on real estate investment trusts or Reits.

Reits are close-ended schemes that raise funds from the public and invest in real estate with an aim to provide returns to unit holders. If Reits become a reality, people will be able to invest as little as Rs 2 lakh in the real estate market. This will enable the sector, which is finding it difficult to raise money, get access to a new funding avenue. Besides, it will offer private equity funds and NBFCs an option to exit realty projects.

Dipesh Bhagtani, executive director, Jaycee Homes, says, "Reits could help companies raise funds. They will also encourage developers to think about long-term wealth creation."

The other significant event could be the passing of the real estate Bill. The Bill, which is for projects spread over at least 1,000 square metres or involving more than 12 apartments, requires all approvals to be in place before launch. It also has a provision to prevent developers from using money received for one project to fund any other project.

Industry players say the Bill will increase project costs. Malhar Majumder, director, Gliese Consulting, says, "The cost of regulatory compliance may increase prices in the short run."

Though there may be a further price correction in 2014, any drastic fall is less likely considering that the input costs have increased sharply over the last few quarters. The regulator's presence may increase costs but will also remove opaqueness in pricing and thus bring down prices over time.

Gold, other commodities

Gold lost its sheen in 2013 with prices declining 27% (from $1,700 to below $1,250 an ounce or oz) in the international market. In the domestic market, after giving 25% average return for five years, it fell 3.5% in 2013.

This was primarily due to strengthening dollar (gold is used as a hedge against the dollar). Domestic prices,