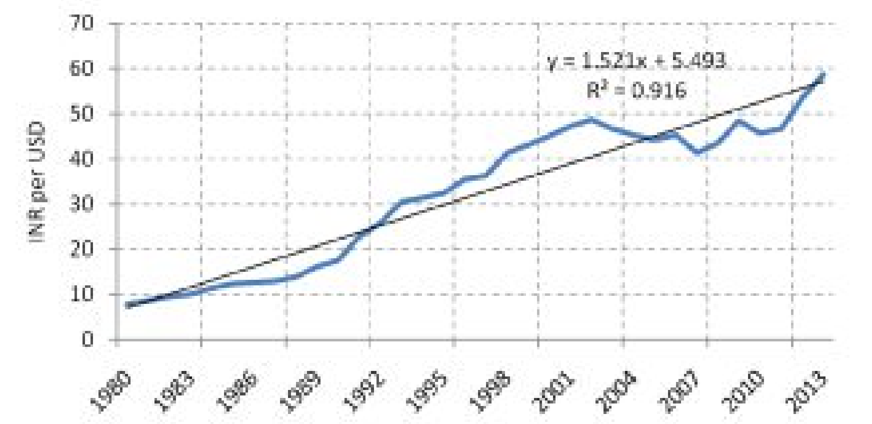
THE MOST VALUABLE PRODUCT EVER FROM APPLE – iPod, iPhone or iStock?

By Dr. Vikas V Gupta
Executive Vice President,
Traded Markets and Investment Research
ArthVeda Fund Management Pvt. Ltd.

"Investing in US also gives you economic diversification. Investing in US equity gives an opportunity to invest in the world economy as you invest in the largest MNCs having around 50% revenues from Non-US operations."

What is a common thread among products like iPhone, Nike shoes, HP Laptop, Timex watch, Intel processor chip and Microsoft Office? All of these are imported into India, sold by an American company and their prices depend on currency exchange rates. It may sound surprising but the fact is that more than one fourth of your expenditure basket is dependent on US dollar. Major chunk of the dollar dependency comes primarily from things like fuel, electronics, travel, education, and healthcare.

There is another important incidental fact that the rupee is depreciating consistently with respect to the dollar. The long-term average annual depreciation is around 4-6%. The chart below shows the long term trend of Rupee vs. US dollar (1980-2013). If one combines the two facts, it implies that if you save and invest in rupees only your purchasing power will continue to erode with the depreciating rupee and a growingly dollar-dependent purchase basket.



Now literally the million-dollar question is - **Is it sensible to have all your savings and investments in rupees when you know that your future spends will increasingly be dependent on US dollars?**

Therefore, there is a need to invest internationally. This will let you have dollar assets to meet your dollar dependent liabilities in future. Now, apart from the evident currency viewpoint, there are a number of other reasons that make it essential to invest internationally.

It gives you portfolio diversification. US and India are two very distinct countries. Hence, it gives you country diversification. While US is a developed market, India belongs to the emerging markets pool. US is much larger than India; US represent ~23% of world's GDP and ~36% of global market capitalization. Currency, inflation, monetary policy and sovereign rating of US and India have contrasting characteristics. Due to this the two capital markets have different risk and return profiles.

Investing in US also gives you economic diversification. Investing in US equity gives an opportunity to invest in the world economy as you invest in the largest MNCs having around 50% revenues from Non-US operations. All these factors effectively reduce the risk of your portfolio by lowering the overall dependence on any single economy.

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Just to mention the financial might of these companies, here are some interesting facts - Microsoft can buy Reliance Industries twice using only its cash and cash equivalents of $84 bn. P&G has 25 "billion-dollar brands" each larger than Videocon, Apollo Tyres or Bata India. And finally, top 3 US companies put together are greater than total Indian equity market.

P&G is one of the most globalized companies selling its products in more than 180 countries including India. Google, Apple and Microsoft are world leaders in technology and innovation with significant sales to Indian customers. McDonalds is one of the largest restaurant chains in India with more than 250 outlets. In essence, products and services offered by these companies are appreciated, cherished and bought everyday by Indians. **Isn't it a good idea to own a piece of their success story?**

Let's assume that you invested an equal amount of Rs.31,000 in Apple iStock(i.e. a stock of Apple Inc.) when you bought your first Apple iPhone in august 2008. Now, by the end of 2013, you would not only have a fantastic iPhone but Rs.1,40,000 in your iStock. Your Rs. 31,000 in Apple iStock would have grown at an incredible 32% CAGR resulting in 4-bagger in Lynch-speak. **You decide which was a better buy-the iPhone or the iStock?**

In the February 2014 issue, we discussed ArthVeda's Alpha Indexing Strategy which is a rules-based value investing strategy delivering superior risk adjusted returns over the benchmark. Here we talk about ArthVeda's Alpha US50 portfolio which is abrilliant way to get exposure to the best developed market of the world.Apart from all compelling reasons listed above there is another reason to go global – Returns!It comes as an icing on the cake. ArthVeda Alpha US50 has given better returns than Nifty50 as of 31st Dec 2013 for various holding periods of 1,3,5,7 or 10 years. Alpha US50 has done exceptionally well over last 5yr.During the calendar year 2013 Alpha US50 delivered whopping 66.7% return compared to a meager 8.1% return from Nifty50.

Dr. Vikas Gupta is Executive Vice President-Traded Markets and heads Investment Research and Product Development. He manages investment products on domestic and global listed equities targeted to investors from domestic and global markets. His value-oriented research framework transforms data and information into alpha-generating product and fund constructs.

Vikas has over 20 years of experience in research, strategy and operations in various CxO-level roles; he has been involved with several IPOs, private placements, and M&A transactions. His capabilities lie in strategic value creation by understanding the interplay of valuation drivers and sources of risk through in-depth research and analytics.

Vikas formerly served as Professor and research faculty at IIT Kharagpur and University of California. He has a B.Tech from Indian Institute of Technology (IIT) Bombay and earned his Masters and Doctorate from an Ivy League University - Columbia University, New York

ArthVeda Alpha US50 Index

ArthVeda Alpha US50 Index is an equi-weighted Index of best 50 US stocks. These 50 stocks are selected based on ArthVeda's Alpha strategy applied to the largest 500 stocks of US equity market which are also part of S&P500.

Till Dec'13	6 Mth	1yr	3yr	5yr	7yr	10yr
US50	25.2%	66.7%	37.5%	36.1%	18.5%	15.6%
Nifty (TRI)	8.5%	8.1%	2.1%	17.7%	8.1%	14.4%
Excess Return	**16.7%**	**58.7%**	**35.4%**	**18.4%**	**10.4%**	**1.2%**

Select US50 Index Constituents	
MICROSOFT CORP	ACCENTURE PLC
YAHOO! INC	WALT DISNEY
PROCTER & GAMBLE	ABBOTT LABORATORIES
GENERAL MILLS, INC.	PHILIP MORRIS
RALPH LAUREN	MEDTRONIC, INC.

Note: ArthVeda Alpha US50 Index beats Nifty (TRI) for all periods above (10yr to 6 months). The US50 returns are calculated in rupee terms. Source: ArthVeda Research, World Bank database.