

The world on my desktop

Abundant foreign exchange reserves have resulted in liberal remittance schemes, enabling high networth individuals to invest in global stock markets. Many leading banks and brokers, in tie-ups with global partners, are offering international trading options to Indians, says **Rajeshwari Adappa Thakur**

The acquisition of UK-based steelmaker, Corus, by the Tatas in early 2007 led to intense speculation in the scrip in global stock markets. Although the drama was played out in the UK, many Indians too speculated on the Corus shares and even ended up making substantial profits.

Thanks to the \$270-billion-plus foreign exchange reserves and liberal foreign exchange rules, Indians can now invest and trade in overseas stock markets. Like

Corus, many Indians can now flaunt a Microsoft or Google or stocks of any other global company in their equity portfolios.

The Reserve Bank of India (RBI), the country's central bank, has relaxed foreign exchange rules in recent years, which is encouraging a growing number of Indian investors to play the global stock markets.

Many leading banks and brokers, in tie-ups with global partners, are offering international trading options to Indians. The rapidly expanding high networth individual (HNI) population is all set to take advantage of the easier access to overseas markets.

Current regulations permit Indians to



Investing in new markets requires a study of these markets that may not be available to retail investors.

remit abroad up to \$200,000 per financial year. This money can be used to invest in stocks of global firms, invest in property or spend more while traveling abroad. That Indians are exercising the new option is seen from RBI's annual report that shows that Indian investors had remitted \$42 million by the end of March 2007, up from about \$13.3 million remitted in December 2006.

The central bank hiked the limit for overseas investments several times in recent months in order to encourage individuals to invest in overseas market. The RBI had first allowed Indians to invest abroad in February 2004, when it permitted investments of up to \$25,000 under its Liberalised Remittance scheme. In December 2006, RBI increased the outward remittance limit to \$50,000 and in April 2007, the limit was doubled to \$100,000. In September, the limit was once again doubled to \$200,000.

Under the scheme, resident individuals can acquire and hold immovable property or shares or debt instruments or any other assets outside India, without prior approval of the Reserve Bank. Individuals can also open, maintain and hold foreign currency accounts with banks outside India. It was, however, clarified that remittance from India for margins or margin calls to overseas exchanges / overseas counterparty are not allowed under the scheme.

The opening up of various sectors to foreign investment and the huge FII inflows - thanks to the global interest in India's growth story - has led to a steady increase in the country's foreign exchange reserves that now top \$270 billion.

HNI's, who would like to capitalise on

opportunities abroad as also diversify their investment portfolios are now able to take advantage, thanks to the liberalised RBI scheme. Traditionally, private bankers have been offering services on these lines to HNIs wherein they could invest out of India, subject to regulatory guidelines.

"Those at the top of the income pyramid probably already have investments abroad through international companies, etc," says Arun Kejriwal, a leading stockbroker. "The RBI move could benefit those a little lower in the pyramid but still part of the HNI group. About seven to eight per cent

of the top population could take advantage of this move."

Indians, who have the necessary resources, are taking advantage of this scheme to invest in overseas property as also in mutual funds that invest in international markets. Fidelity, Sundaram BNP Paribas Mutual Fund, Tata Indo Global Infrastructure Fund, Kotak Indo World Infrastructure Fund, and a host of others are making investments across a range of countries. There are many investors who are preferring to trade on their own.

And technology is now helping to



TOWERING RETURNS: There's a world beyond for Indian investors



WALL STREET ANYONE? Trading in the US exchanges is similar to that on Indian markets

broad-base the service, but experts caution retail investors as they may not have adequate knowledge of the overseas markets.

Many banks and brokers are now offering this service to a larger group of investors. Reliance Money, the financial services arm of the Anil Dhirubhai Ambani Group (ADAG)-promoted Reliance Capital,

was the first to give Indians access to overseas investments products.

Reliance Money has tied up with UK-based CMC Markets Plc, which has presence across more than 100 countries, has transactions in excess of \$1 trillion worldwide and offers more than 1,000 instruments across various asset classes. Reliance Money has also tied up with

The move could benefit those lower in the pyramid but still part of the HNI group. About eight per cent of the top population could take advantage of this move.

Alaron Trading Corp for commodities trading.

ICICIdirect.com, the stock broker affiliate of ICICI Bank, is the second brokerage house to offer an international trading window to Indian investors. ICICIdirect.com has tied up with Penson Financial Services Inc., the fourth largest clearing agent and broker in the US. With the tie-up, Indian investors would be able to invest in stocks, exchange traded funds, and index options listed on key stock exchanges such as the New York Stock Exchange (NYSE), Nasdaq and the American Stock Exchange.

Trading in the US exchanges is similar to that on Indian exchanges, but investors first need to open accounts for trading in the shares and remitting the monies. Apart from a brokerage charge, investors need to check out about other charges that may be applicable as these vary depending on the organisation through which one chooses to trade.

The Reliance Money service, called Market Makers, allows its customers the option to trade in foreign equities, commodities and currency. A minimum of \$500 is required to kick-start trading internationally.

Since trading in stocks would require a detailed study, currently there is greater interest in trading in indices like the Nasdaq, Dow Jones, Footsie (the FTSE index) etc. About 20-30 per cent of the trade is in equities.

However, commodities (gold, crude, copper, etc.) trading is more popular



with Indians – possibly because the Indian market mirrors the world markets – and up to 60-70 per cent of the trading is happening in this segment. There is a small segment that also invests and trades in international currency.

Sudip Bandyopadhyay, director and CEO, Reliance Money says it is an additional asset class for investors, but warns that the product is sophisticated and not for the retail mass market. It is a service that is aimed at HNIs who have the expertise (or can afford expert advice) and who would like to diversify further to offset country risk.

Investing in new markets requires a study of these markets that may not be available to retail investors. “It requires a certain maturity and we actively discourage small time investors,” says Bandyopadhyay. With few players offering overseas investments service today, it is still early days. Reliance Money, which launched the product last year, has about 3,000 investors, who trade on a regular basis.

“It is early days now, but in three to five years, we are likely to see good traction in this market,” adds Bandyopadhyay. The market potential could be estimated at about 15 per cent of the total HNI population of India.

At a time when the Indian markets are doing well and global investors choose to invest in India, not many would want to invest in overseas markets. But investing abroad need not mean investing in the developed world. Indians can take advantage of investing in the high-return developing markets like Vietnam and in East Europe.

Currently, with the rupee appreciating against the dollar, remitting money overseas is also a losing proposition. “The option is to hedge your currency at a small cost to cover the currency risk separately,” points out Bandyopadhyay. Reliance offers this facility to its traders, ensuring that they only need to undertake the trading risk.

Investing in more than one country can prove just as lucrative as investing across various asset classes does. Besides adding an international asset to one’s portfolio, the HNI Indian investor can undoubtedly proclaim: “the world is my oyster.”

PLAYING FOOTSI: Experts caution retail investors as many are not well-versed with international markets