

PROFES CAPITAL INSIGHTS

September 2026

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EDITORIAL NOTE

Dear Reader

August 2026 reinforced an important message for investors: India's growth story remains intact, but returns will increasingly depend on selectivity rather than broad market momentum.

The Nifty 50 remained range-bound through the month, while domestic institutional flows continued to provide stability. Foreign investors also returned as net buyers for the second consecutive month, signalling improving sentiment, although global uncertainty remains a factor.

The economic backdrop remains constructive. The RBI has retained its FY2027 GDP growth forecast at 6.7%, with the repo rate at 5.25%. Domestic consumption, manufacturing, services and investment continue to support growth. At the same time, crude oil prices above \$90 per barrel, currency pressures and geopolitical tensions remain important risks.

For equity investors, however, the more significant development is the increasing importance of earnings over liquidity. Q1 FY27 results demonstrated improving profit growth across several sectors, creating opportunities beyond the benchmark indices. Financials, industrials, capital goods, healthcare and selected technology businesses continue to offer attractive structural themes, provided valuations remain justified by earnings potential.

This makes valuation discipline and business quality critical. Strong revenue growth alone is insufficient; sustainable cash flows, return on capital, balance-sheet strength, competitive advantages and management quality must form the foundation of investment decisions.

Regulation is also becoming an increasingly important component of investment governance. SEBI's August initiatives around KYC, FPI onboarding, cybersecurity and digital market infrastructure reinforce the need for stronger operational controls and transparent compliance frameworks.

As we move towards the final quarter of 2026, we believe the market is entering a phase where stock selection will matter more than index direction. The opportunity lies not in chasing every rally or buying every correction, but in identifying businesses capable of converting India's structural economic growth into sustainable earnings and shareholder value.

Our philosophy remains unchanged: disciplined research, prudent risk management and long-term capital allocation are the foundations of enduring wealth creation.

Regards

Editorial Team

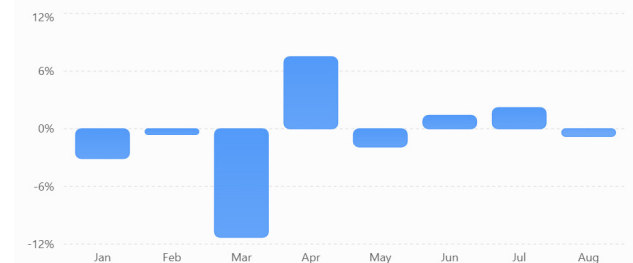
MARKET TRENDS

August 2026: Consolidation, Selectivity And A Market Waiting For Its Next Catalyst

August 2026 was a month of consolidation rather than conviction for Indian equities. After a strong recovery in April and a more measured advance in July, the market entered August with valuations, global rates, crude oil and foreign flows competing for investor attention. The Nifty 50 ended 28 August at 24,175.65, down around 0.8% for the month, while its year-to-date performance remained negative at approximately 7.5%. The Sensex similarly remained below its early-year levels.

Nifty 50 monthly performance in 2026

Monthly percentage returns through August 2026, highlighting the sharp March correction and subsequent stabilisation.



Source: ReturnsView; Nifty 50 historical market data.

The headline weakness, however, masks an important shift beneath the surface: volatility has declined, foreign investors have returned, and domestic liquidity continues to provide a strong cushion. This has transformed the market from a broad-based risk-on environment into one where stock and sector selection matters considerably more.

A Market Caught Between Support And Resistance

The dominant feature of August was range-bound trading. During the final full trading week of the month, Nifty remained within a relatively narrow 24,076–24,379 range, while the broader technical band remained around 23,900–24,750. The index repeatedly struggled to establish a sustained move above 24,300, while the 24,000 region emerged as an important psychological and technical support.

This price behaviour suggests that the market is currently in an accumulation/consolidation phase rather than a decisive bear-market breakdown. The inability to reclaim important moving-average levels remains a concern, but the repeated defence of the 24,000 zone indicates that buyers are still willing to step in on declines.

For investors, this environment favours staggered accumulation rather than aggressive chasing. Quality companies with earnings visibility, manageable leverage and strong cash flows are likely to remain better positioned than businesses dependent purely on valuation expansion.

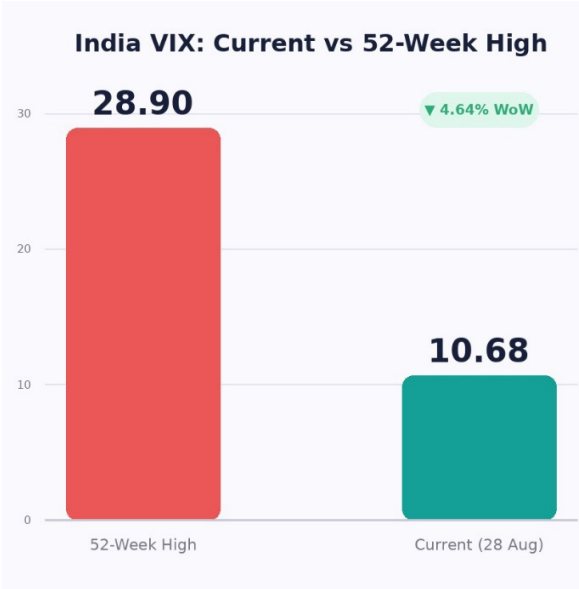
Volatility Has Fallen, But Risk Has Not Disappeared

One of the more interesting trends of August has been the sharp moderation in implied volatility. India VIX closed at 10.68 on 28 August, down 4.64% over the week and substantially below its 52-week high of 28.90.

At first glance, a low VIX suggests a relatively comfortable market environment. However, August demonstrated that low headline volatility does not necessarily mean low investment risk. The market witnessed sharp intraday swings around derivatives expiry and the newly introduced Closing Auction Session (CAS).

The first monthly derivatives expiry under the new closing mechanism produced unusually sharp movements, with the Sensex at one point losing more than 2,000 points within minutes before recovering substantially. The new 20-minute auction mechanism, introduced from 3 August, is also facing its first major test with the MSCI rebalance.

The investment implication is clear: portfolio risk should be assessed beyond VIX levels. Position sizing, liquidity and stock-specific volatility remain important, particularly in mid- and small-cap counters.



Foreign Money Is Returning, But Selectively

A major positive development during August was the reversal in foreign investor flows. Foreign Portfolio Investors (FPIs) invested approximately 30,919 crore in Indian equities during August, following inflows of around 20,200 crore in July. This marked the second consecutive month of foreign buying after four months of heavy selling.

The shift is significant because foreign selling had been one of the major pressures on Indian equities earlier in 2026. Improving corporate earnings, relatively resilient domestic economic activity and a more stable rupee appear to have helped restore some foreign investor confidence.

Domestic institutional investors, meanwhile, continued to provide structural support. Over the period from 28 July to 28 August, DIIs recorded net purchases of approximately 56,737 crore, significantly absorbing foreign selling during periods of weakness.

Macro Signals: Growth Remains The Cushion

The domestic macroeconomic backdrop remains comparatively supportive. In its August policy review, the RBI maintained the repo rate at 5.25% and retained a neutral stance. Importantly, it raised its FY2027 GDP growth forecast to 6.7%, while lowering its inflation projection to 5.0%.

This combination, healthy growth with a relatively stable monetary policy environment, provides an important floor for domestic equities.

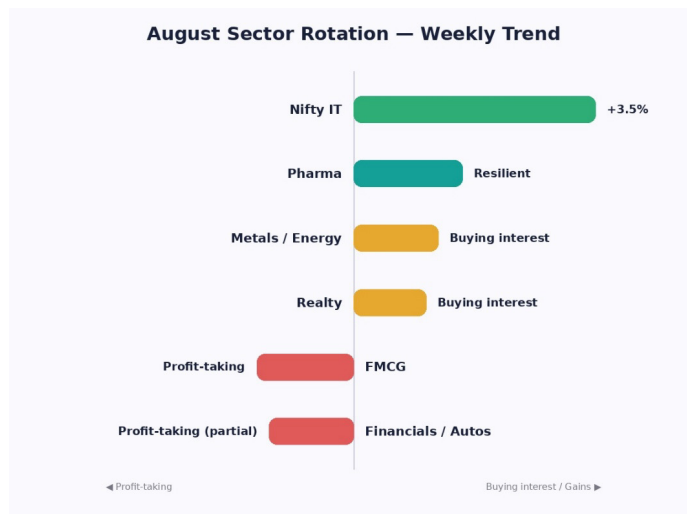
The key risk, however, is crude oil. Brent crude moved back above \$90 per barrel towards the end of August amid renewed geopolitical tensions in West Asia. Higher crude prices can affect India's inflation trajectory, current account dynamics, corporate margins and the rupee.

Earnings And Sector Rotation Drive Stock Selection

August also reinforced the importance of sector rotation. Technology stocks staged a notable recovery towards month-end, with the Nifty IT index gaining approximately 3.5% in the week ended 28 August, supported by strong global technology cues and Nvidia's earnings.

Pharmaceutical stocks also remained relatively resilient at several points during the month, while metals, energy and realty periodically attracted buying interest. Conversely, FMCG and some financial and automobile counters experienced bouts of profit-taking.

The divergence reinforces a broader investment lesson: the next phase of returns may come less from index beta and more from identifying earnings momentum before it becomes fully reflected in valuations.

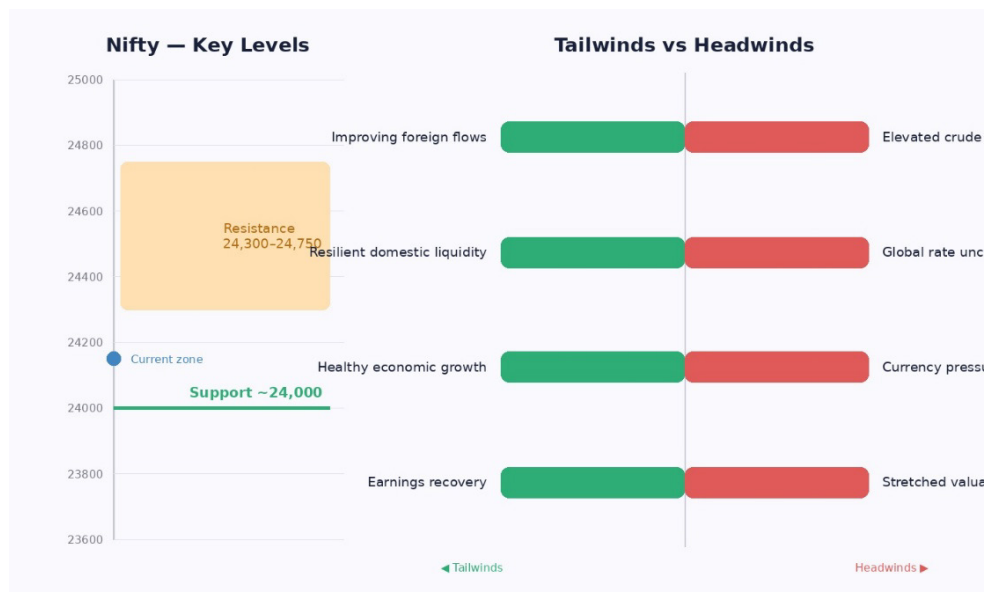


Investment Outlook: Selectivity Over Aggression

August therefore leaves investors with a market that is neither decisively bullish nor convincingly bearish. The 24,000 level on Nifty has emerged as an important near-term marker, while a sustained move above the 24,300–24,750 region would improve the technical picture.

The more constructive signals are improving foreign flows, resilient domestic liquidity, healthy economic growth and earnings recovery. The counterweights are elevated crude prices, global interest-rate uncertainty, currency pressure and stretched valuations in pockets of the market.

For investors, the appropriate strategy is therefore selective rather than speculative. Large-cap quality, earnings visibility, strong balance sheets and sectors benefiting from structural domestic growth should remain core portfolio priorities. Mid- and small-cap exposure can continue to offer opportunities, but valuations and liquidity deserve greater scrutiny.



ECONOMIC OUTLOOK

August 2026: Resilient Domestic Growth Meets A More Uncertain Global Backdrop

August 2026 presented a relatively constructive picture for the Indian economy, although the external environment became increasingly challenging. Domestic demand, manufacturing, services activity and capital flows continued to provide support, while geopolitical tensions, elevated crude prices, currency weakness and global trade uncertainty emerged as the principal risks.

The Reserve Bank of India (RBI) retained its FY2027 real GDP growth projection at 6.7%, while lowering its CPI inflation forecast to 5.0%. The combination of solid growth and moderating inflation provides a supportive macroeconomic foundation for investors, although the balance of risks has become more dependent on developments outside India.

Growth Momentum: Moderating, But Still Resilient

The Indian economy entered FY2027 with considerable momentum. The RBI raised its FY2027 GDP growth forecast from 6.6% to 6.7%, reflecting stronger-than-expected economic activity in the first quarter and continued resilience in consumption, manufacturing, services, investment and exports.

Economists surveyed by Reuters in August expected real GDP growth of approximately 7.1% year-on-year for Q1 FY2027, compared with 7.8% in the preceding quarter. While this represents moderation, it would still leave India among the fastest-growing major economies globally.

The more important takeaway is the quality of growth. Consumption remains an important support, while government capital expenditure and improving manufacturing activity are helping sustain investment. The risk is that geopolitical uncertainty and higher input costs could delay a broader acceleration in private-sector investment.

RBI FY2027 GDP growth outlook

RBI projections for real GDP growth across FY2027 quarters and the full financial year.



Source: RBI August 2026 Monetary Policy Committee projections.

Inflation: Comfortable For Now, But Risks Are Building

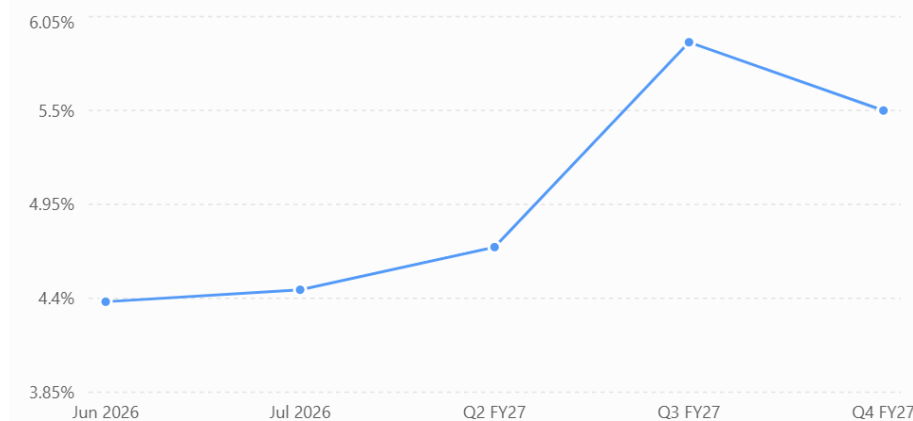
Inflation remained considerably more manageable than during previous commodity shocks. India's headline CPI inflation increased to 4.45% in July 2026, compared with 4.38% in June. Food inflation, however, was higher at 5.52%, indicating that food prices remain the principal domestic source of inflationary pressure.

The RBI nevertheless reduced its FY2027 CPI inflation forecast to 5.0%, from 5.1% previously. Its quarterly projections indicate inflation of 4.7% in Q2, 5.9% in Q3 and 5.5% in Q4.

The immediate investment implication is positive: inflation remains sufficiently contained to prevent an abrupt tightening of monetary policy. However, the equation could change rapidly if crude oil remains elevated or geopolitical disruptions intensify.

India inflation trajectory

Headline CPI inflation and RBI's FY2027 quarterly projections.



July 2026 is the latest official CPI reading available in August; later figures are RBI projections.

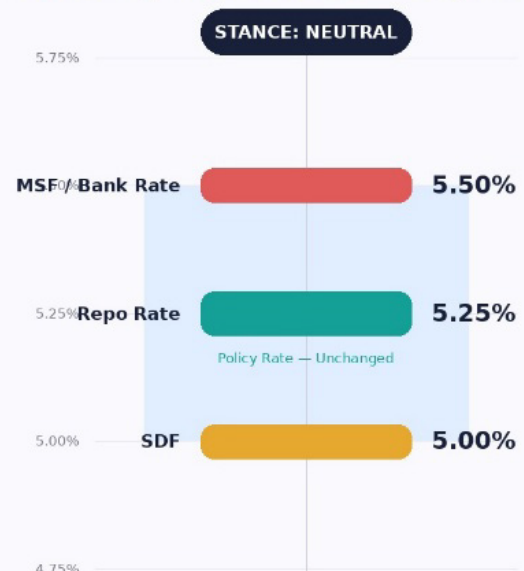
Monetary Policy: A Pause After Significant Easing

The RBI kept the repo rate unchanged at 5.25% at its August policy meeting and maintained a neutral stance. The SDF remained at 5.00%, while the MSF and Bank Rate stood at 5.50%.

The pause is significant because the RBI has already delivered substantial monetary easing since the rate-cut cycle began in 2025. At the current level, policy is considerably more supportive of economic activity than it was a year earlier.

For investors, stable policy rates create a relatively favourable environment for banks, lenders, rate-sensitive consumption and investment-linked sectors. At the same time, the neutral stance indicates that the RBI is unlikely to pre-commit to further cuts and will remain sensitive to inflation, currency and commodity developments.

RBI Policy Rate Corridor — August 2026



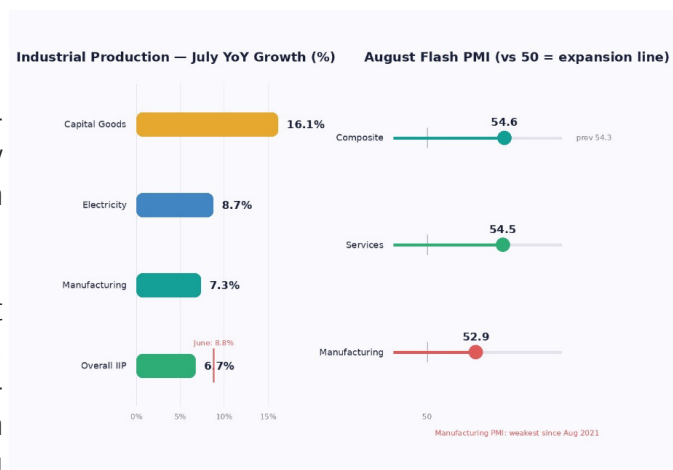
Manufacturing and Services: Two Different Signals

High-frequency indicators delivered a mixed but broadly positive message during August.

Industrial production grew 6.7% year-on-year in July, following revised growth of 8.8% in June. Manufacturing expanded 7.3%, while electricity generation grew 8.7%. Capital-goods output rose a strong 16.1%, an encouraging indicator for investment activity.

The PMI picture was somewhat softer. India's August flash Composite PMI rose marginally to 54.6 from 54.3, remaining above the 50 mark that separates expansion from contraction. Services strengthened, with the services PMI rising to 54.5, while manufacturing PMI slipped to 52.9, its weakest reading since August 2021.

The divergence suggests that India's growth engine remains active, but momentum is becoming less uniform.



External Sector: Export Strength Versus A Wider Trade Gap

India's external sector presents both an opportunity and a vulnerability.

Total exports of goods and services were estimated at \$80.14 billion in July, up 13.31% year-on-year. Imports increased faster, reaching \$95.16 billion, resulting in a combined trade deficit of approximately \$15.03 billion.

Merchandise exports reached a record \$44.24 billion, demonstrating the resilience of India's export base. However, merchandise imports rose to \$76.22 billion, pushing the goods trade deficit to \$31.98 billion, a six-month high.

For investors, this creates a two-sided equation: export-oriented sectors can benefit from global demand and currency competitiveness, while higher energy and imported-input costs can pressure margins and the rupee.

Crude Oil and the Rupee: The Biggest Macro Watchpoints

The most immediate external risk in August was the combination of higher crude oil prices and rupee depreciation.

Brent crude moved above \$90 per barrel, driven by renewed geopolitical tensions. On 31 August, Brent was around \$90.92, while the rupee traded near 95.44 per US dollar. The RBI intervened in the foreign-exchange market to cushion pressure on the currency.

This matters because India imports more than 85% of its crude oil requirements. A sustained oil-price shock can simultaneously increase inflation, widen the current-account deficit, pressure the rupee and raise operating costs for businesses.

Consequently, oil remains one of the most important macro variables for the second half of 2026.

Domestic Liquidity Remains The Structural Cushion

Despite global uncertainty, India's domestic economic foundations remain relatively strong. The RBI has highlighted resilient domestic demand, recovering manufacturing and services activity, improving monsoon conditions and a rebound in capital inflows as key supports for the economy.

GST collections also remained healthy. Gross GST revenue for July stood at approximately 2.11 lakh crore, representing growth of about 15.4% year-on-year, providing evidence of continued formal economic activity and consumption.

This domestic liquidity and demand base is particularly important for investors because it reduces India's dependence on foreign capital for sustaining economic momentum.

Investment Implications: Growth With Greater Selectivity

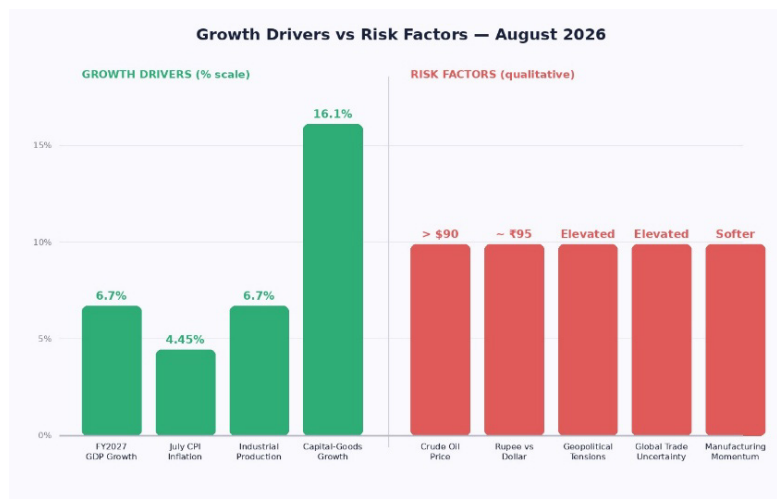
The August macroeconomic picture can best be described as "resilient growth amid rising external risks."

The positive side of the equation includes:



The principal risks are equally clear: crude oil above \$90, a rupee near 95/\$, geopolitical tensions, global trade uncertainty and softer manufacturing momentum.

For investors, this environment favours quality over indiscriminate exposure. Companies with strong balance sheets, pricing power, domestic demand exposure and limited dependence on imported inputs are better positioned to absorb external shocks. Export-oriented businesses may benefit from currency dynamics, but investors should distinguish between genuine earnings growth and temporary currency-driven gains.



REGULATORY UPDATES

August 2026: From Rule Changes To Regulatory Readiness

August 2026 was an active month for India's capital-market regulator, with SEBI issuing a series of measures focused on digital resilience, investor onboarding, KYC interoperability, mutual-fund processes, foreign portfolio investment and market infrastructure. Rather than representing a single directional shift in regulation, the month's developments point towards a broader regulatory objective: simplifying legitimate market participation while simultaneously raising the standards for transparency, technology, risk management and compliance.

SEBI regulatory activity during August 2026

Major SEBI circulars issued during August 2026, grouped by date of issuance. The chart covers the principal circulars listed by SEBI during the month.



Source: SEBI; selected circulars dated August 3–28, 2026.

For fund managers and investment professionals, the message is increasingly clear: compliance is no longer limited to periodic filings and documentation. Operational controls, cybersecurity, data integrity, investor onboarding and evidence-based internal processes are becoming integral parts of investment governance.

A More Digital, And More Defensible, Compliance Framework

One of the most important regulatory themes of August was technology and cyber resilience. On 24 August, SEBI issued measures relating to the alignment of its cyber-incident reporting portal with the FIRE format and introduced an IT Resilience Index for Market Infrastructure Institutions (MIIs).

These developments come against a backdrop of increasingly sophisticated cyber threats facing financial institutions. SEBI's broader cybersecurity framework already places emphasis on security monitoring, risk assessment, scenario-based testing, third-party risk and maintaining inventories of critical technology assets.

For fund managers, the implications extend beyond exchanges and market infrastructure. Cybersecurity is increasingly an investment-governance issue. Firms handling investor information, trading infrastructure, portfolio data and confidential research need controls covering access management, data protection, incident escalation, backup and recovery.

A practical compliance framework should therefore be able to answer three questions at any point: What happened? Who detected it? What evidence exists that the response was completed appropriately?

KYC Moves Towards Greater Interoperability

Another important August development came on 20 August, when SEBI enabled KYC Registration Agencies (KRAs) to share information with entities regulated by the International Financial Services Centres Authority (IFSCA).

This is particularly relevant as India's financial ecosystem becomes increasingly interconnected across domestic markets and the International Financial Services Centre at GIFT City.

The move can reduce duplication in KYC processes and improve information availability across regulated financial entities. For investors, this could translate into faster onboarding and fewer repetitive documentation requirements.

For regulated entities, however, interoperability creates a corresponding responsibility: data shared across institutions must be handled under appropriate governance frameworks, with controls around access, accuracy, privacy and retention.

Mutual Funds: More Standardisation At The Entry Point

SEBI revised the application form for Mutual Fund registration on 17 August 2026.

Although the change is primarily procedural, such amendments matter because the registration framework forms the foundation for how fund houses demonstrate eligibility, governance and regulatory preparedness.

The broader regulatory direction is towards standardisation: reducing unnecessary friction while ensuring that regulators receive relevant and consistent information.

For asset managers, this reinforces an important compliance principle: regulatory forms should never be treated as one-time paperwork. Changes in ownership, governance structures, key personnel, business activities or operating arrangements should trigger an internal review of regulatory documentation.

Online Bond Platforms Under Greater Regulatory Discipline

SEBI's 14 August modification to the regulatory framework for Online Bond Platform Providers (OBPPs) is another significant development. The measure combines regulatory modification with ease-of-doing-business provisions, reflecting the regulator's attempt to expand the digital corporate-bond ecosystem while maintaining appropriate investor safeguards.

The development is particularly relevant as India's fixed-income market continues to broaden beyond traditional bank and government-security channels.

SEBI also issued consultation papers on revising the advertisement code for OBPPs and introducing Fixed Income Channel Partners for distribution of fixed-income securities through online platforms.

For investors, the regulatory direction should improve transparency and market access. For distributors and investment firms, it reinforces the need to ensure that product communication clearly reflects risk, liquidity, credit quality, pricing and suitability rather than focusing exclusively on yield.

AIF Ecosystem: Faster Processing, Stronger Documentation

The regulatory focus on Alternative Investment Funds (AIFs) also continued through August, following SEBI's July introduction of the GARUDA, Green-Channel: AIF Rollout Upon Document Acknowledgement, mechanism for processing AIF placement memoranda.

The initiative is designed to make the processing of AIF documentation more efficient by allowing the regulatory process to move forward upon specified acknowledgement of documents.

This is an important example of the regulator attempting to balance speed with accountability. Faster processing can reduce launch timelines for fund managers, but it places greater emphasis on the quality of documentation submitted at the outset.

For AIF managers, this means that placement memoranda, investment strategies, risk disclosures, governance arrangements and investor-facing documentation should be reviewed with a "first-time-right" mindset.

The Compliance Imperative Is Becoming An Investment Imperative

The August regulatory landscape demonstrates a broader transformation underway in India's financial markets. SEBI is simultaneously reducing friction for legitimate participants and increasing expectations around operational resilience, transparency and governance.

For investors, this is ultimately positive. Better KYC systems, stronger cyber controls, more transparent bond platforms and more efficient onboarding can improve market integrity and reduce operational risk.

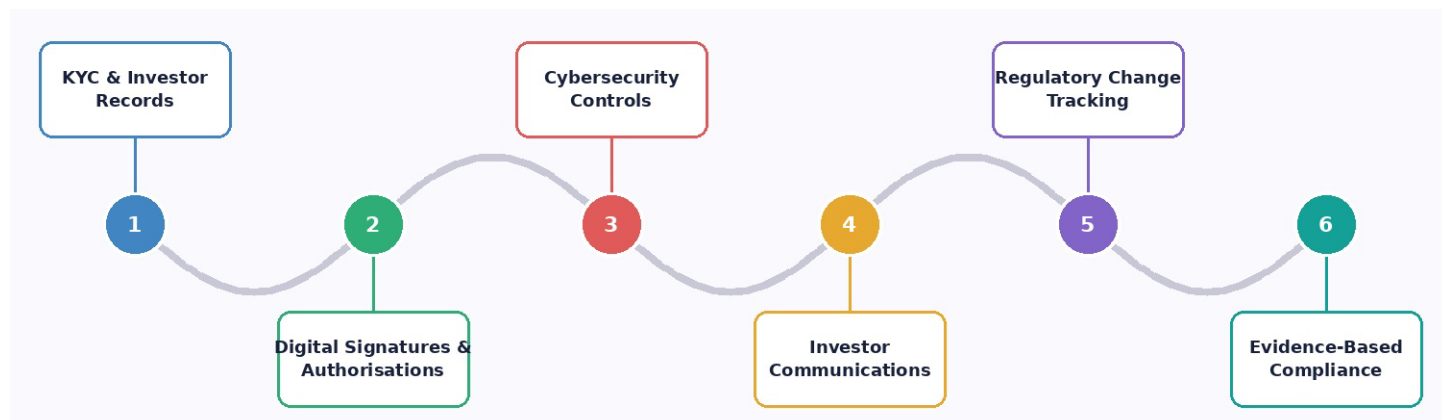
For fund managers, however, the cost of non-compliance is becoming increasingly asymmetric. Regulatory processes are becoming more digital, information is becoming more interconnected and supervisory expectations are becoming more data-driven.

The most effective approach is therefore not simply to "comply with the latest circular." It is to build systems capable of absorbing regulatory change continuously.

Compliance Corner: What Investment Firms Should Revisit

August's regulatory developments suggest that firms should treat compliance as a continuous operating discipline rather than a year-end exercise.

A practical monthly compliance review should include:



PORTFOLIO PERSPECTIVES

1) STANDARD DEVIATION

Understanding Standard Deviation: The Pulse Of Investment Volatility

In the world of investing, returns are never guaranteed. Markets go up, they go down, and sometimes they just stay flat. Amid all this uncertainty, investors need a way to measure and manage risk. One of the most widely used tools for this is Standard Deviation, a statistical term that tells you how much an investment's returns can vary over time.

What is Standard Deviation?

Standard Deviation, in simple terms, is a measure of how spread out the returns of an investment are from its average (mean) return. A high standard deviation means that the returns are more spread out, indicating greater volatility and risk. A low standard deviation shows that returns tend to be closer to the average, signaling more stability and predictability.

It helps investors understand one crucial question: "How much could my investment deviate from what I expect?"

The Formula (Simplified Explanation)

$$\sigma = \frac{1}{N} \sum_{i=1}^N (R_i - \bar{R})^2$$

σ

is the standard deviation

R_i to R_n

are the periodic returns

$\bar{R}$

is the average return

N

is the number of return observations

The calculation measures the average distance of each return from the mean. The result is expressed as a percentage, which investors interpret as the expected range of fluctuation.

Why Standard Deviation Matter To Investors



Helps measure risk

- Quantifies the ups and downs of an investment
- Higher deviation means more swings, more risk



Compares investments

- Two funds can share the same return
- Lower deviation usually reads as more stable



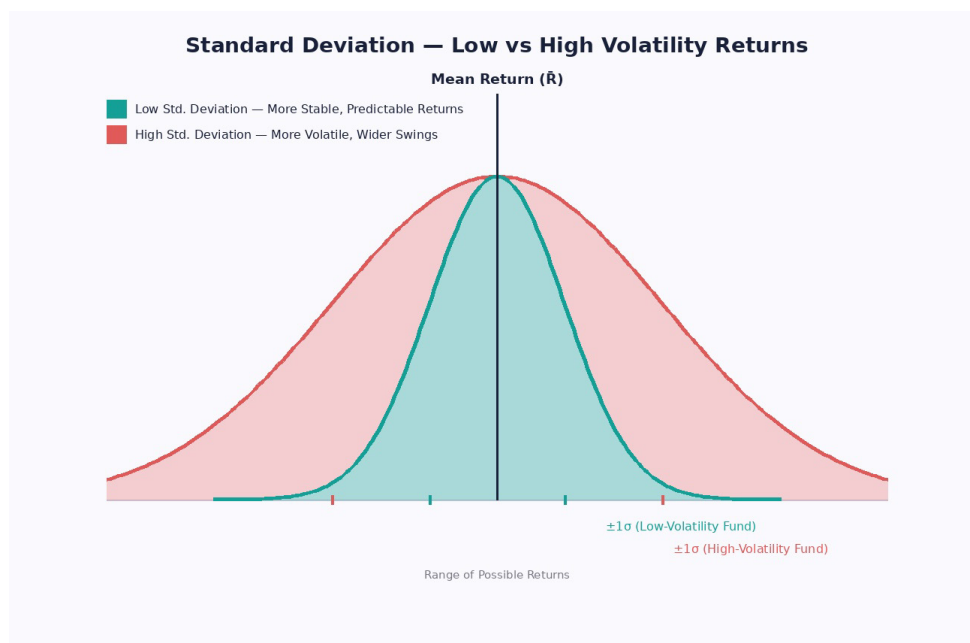
Shapes asset allocation

- Guides the mix of high and low volatility assets
- Helps balance a portfolio to fit comfort with risk



Aids in setting expectations

- Sets a typical range for likely returns
- Turns uncertainty into a plannable range



REAL-LIFE EXAMPLE

Let's say you have two mutual funds:

- Fund A has an average return of 10% and a standard deviation of 5%
- Fund B also has an average return of 10% but a standard deviation of 15%

That means Fund A is likely to fluctuate between 5% and 15%, while Fund B could swing between -5% and 25%. Even though both give the same average return, Fund A is far less volatile and might be more suitable for risk-averse investors.

Standard Deviation By Asset Class

Asset class	Typical std dev	Risk level
Government bonds	1% – 5%	Low
Blue-chip stocks	10% – 20%	Moderate
Small-cap stocks	20% – 35%	High
Cryptocurrencies	40%+	Very high

💡 Knowing this helps investors build portfolios that fit their personal risk tolerance and financial goals.

Standard Deviation VS. Beta

While both are risk indicators, they measure different types of risk:



Standard deviation

Total volatility of a security



Beta

Volatility relative to the market

❗ A stock can have a low beta, not closely tied to market movement, but still show a high standard deviation if its price swings wildly on its own.

STANDARD DEVIATION

Absolute Risk
(Total Volatility)



$$\sigma = \sqrt{\frac{\sum (R_i - \bar{R})^2}{n}}$$

Higher SD =
Less predictable returns

VS.

BETA

Relative Risk



$$\beta = \frac{\text{Covariance of stock \& market}}{\text{Variance of market}}$$

$\beta > 1$ = More volatile
than the market

Limitations Of Standard Deviation

Like all tools, standard deviation has its flaws:

- **Assumes normal distribution:** Markets aren't always symmetric; extreme movements can be more common than expected.
- **Ignores direction:** It treats gains and losses the same, though investors are usually more worried about losses.
- **Past performance bias:** It is based on historical data and may not predict future performance.

That's why investors are advised to use standard deviation alongside other metrics like Sharpe ratio, alpha, and drawdown statistics.

Practical Use In Portfolio Management



Practical use in portfolio management

- Conservative investors prefer funds with lower standard deviation to preserve capital
- Aggressive investors may accept higher deviation for a shot at bigger gains
- A diversified portfolio typically has lower standard deviation than the average of its individual components

Quick Stats And Facts



Quick stats and facts

- The S&P 500 has a long-term standard deviation of around 15%
- Target-date funds adjust allocation over time to reduce standard deviation as retirement nears
- Vanguard research found diversifying across uncorrelated assets can cut standard deviation by 30-40% without sacrificing returns

Standard deviation is like a risk thermometer, it doesn't tell you everything about an investment, but it gives a clear idea of how "hot" or "cold" the price swings might be. By using this tool wisely, investors can build portfolios that align with their comfort levels and financial objectives. In the ever-changing world of finance, standard deviation offers a touch of predictability, helping investors make smarter, more informed choices.

2) EVENT-DRIVEN STRATEGY

Key Features Of Event-Driven Strategy

1 Corporate action focus

Investment opportunities arise from events such as:

M&A — merger arbitrage

Restructurings & spin-offs — capital structure changes

Distressed securities — bankruptcy or reorganization

Buybacks & tender offers — impact share valuations

2 Return generation mechanism

- Exploits short-term mispricing from uncertainty or information asymmetry around the event
- Seeks to capture the spread between current price and expected post-event value

3 Risk-return profile

- Returns are often idiosyncratic — linked to event-specific outcomes rather than broad market trends
- Key risks include deal failure, regulatory intervention, execution risk, and liquidity risk

4 Use of leverage and derivatives

Funds may employ options, swaps, and structured products to hedge directional exposures or magnify returns.

Application In AIFs

- In India, Category III AIFs use event-driven strategies to provide absolute return potential.
- Such strategies are accessible only to sophisticated or accredited investors, given the complexity, high research intensity, and potential downside risks.
- They demand strong expertise in fundamental analysis, corporate finance, and regulatory landscapes.
- Strategic Importance
- Alpha Opportunities: Generates returns by exploiting market inefficiencies during transitional corporate phases.
- Diversification: Provides performance uncorrelated with traditional market indices.
- Special Situations Access: Enables investors to participate in unique opportunities not available in standard investment vehicles.

In summary, an Event-Driven Strategy is a specialized hedge fund technique that capitalizes on corporate actions and market events to generate alpha. While offering uncorrelated and opportunistic returns, it entails significant event-specific risks, making it suitable only for experienced investors within the AIF landscape.

INVESTING 101

Investing 101: The 3-Step Fund Factsheet Diagnostic

Before purchasing an Index Fund or ETF, experienced investors run a quick diagnostic check on the fund's Factsheet, the standardized single-page document detailing its underlying operations.

Evaluating a fund is not about reading dense financial disclosures line-by-line; it is about filtering out high-cost, illiquid, or overly concentrated options before committing capital. Here is the three-step framework for auditing any fund in under two minutes.

Step 1: Run The Cost & Liquidity Gateways (Pass/Fail)



Expense ratio test

Cost efficiency

Locate the fund's total expense ratio (TER). Broad-market passive index funds typically cost under 0.20% per year.

Threshold
under 0.20%

Real cost of 1.00%
\$100/yr per \$10,000 invested



AUM test

Fund viability

Check the total assets under management (AUM). Funds with over \$100 million benefit from operational scale, tighter spreads, and high liquidity.

Threshold
over \$100M

Below threshold
closure & capital gains tax risk

Step 2: Audit Index Replication (Quality Control)

Once cost and liquidity are confirmed, the next phase measures how effectively the fund executes its stated strategy.

- **Benchmark Alignment & Tracking Error:** Every index fund targets a specific benchmark (such as the S&P 500 or MSCI ACWI). Look for the Tracking Error metric, which measures the performance gap between the fund and its index. A tracking error close to 0.00% confirms high operational precision. A widening gap indicates poor internal trade execution or unnecessary cash drag inside the fund.

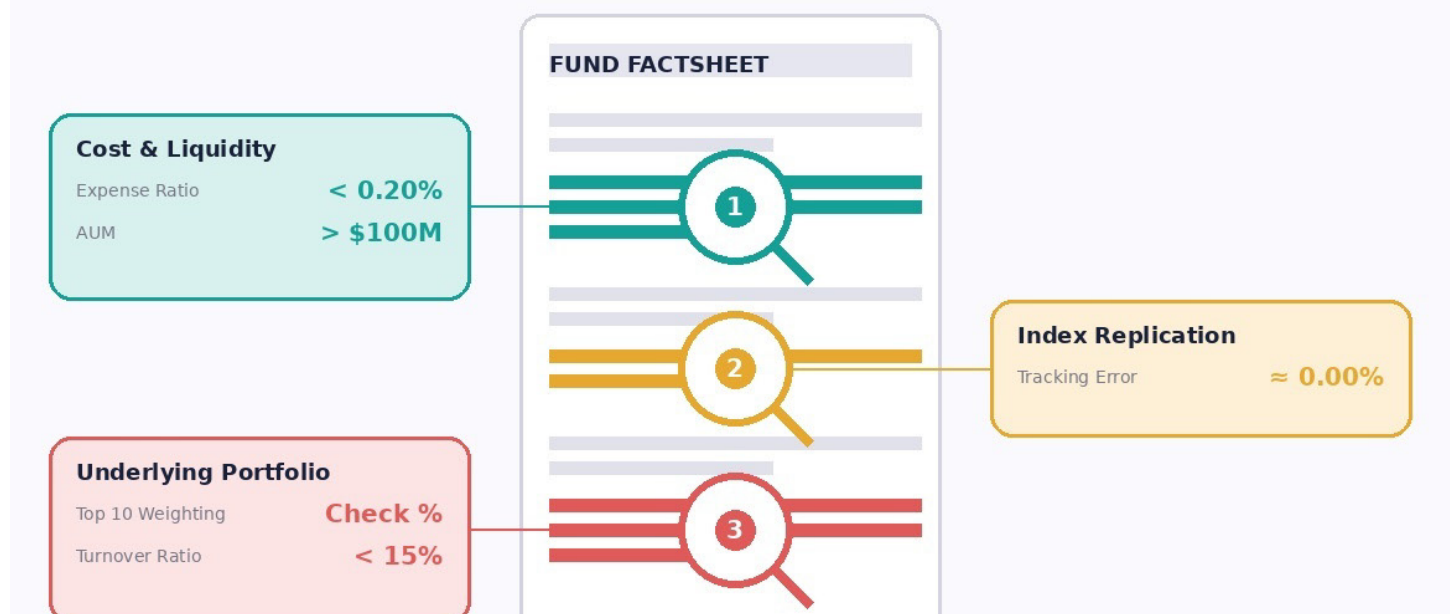
Step 3: Inspect The Underlying Portfolio (Risk Management)

The final step looks inside the fund to verify that actual holdings match expected diversification.

Top 10 Weighting: Review the percentage of assets concentrated in the fund's ten largest holdings. A fund labeled as "broad market" that holds 40%+ of its assets in just three mega-cap tech stocks exposes investors to concentrated volatility rather than true market-wide diversification.

- **Turnover Ratio:** Examine how frequently the manager trades underlying shares. Passive funds should exhibit low annual turnover (typically under 15%). High turnover generates internal transaction costs and triggers capital gains distributions that pass tax liabilities down to long-term holders.

Under the Magnifying Glass: The Fund Factsheet



MARKET MYTH BUSTING

Myth 1: High-Yield Dividend Stocks Are Always A Safe, Superior Way To Generate Passive Income.

The reality

A double-digit yield (8%–12%+) is often a red flag, not a bargain. Yield rises when a stock price collapses, signaling the market expects a payout cut or distress. Paying out all profits also leaves no capital to reinvest in growth.

The takeaway

Focus on dividend sustainability and total return, not the highest yield on paper. Quality businesses with modest, growing dividends beat high-yield traps over the long run.

Myth 2: Selling During A Market Crash Protects Your Wealth From Further Losses.

The reality

Exiting during a decline locks in paper losses and turns temporary volatility into permanent damage. The market's strongest recovery days tend to follow its worst drops — panic-sellers usually miss these rebounds, hurting long-term performance.

The takeaway

Downturns are the uncomfortable fee paid for long-term growth. True risk management happens before a drawdown through proper asset allocation — not during one through emotional reactions.

FINANCIAL PLANNING

Sinking Funds (Taming Phantom Expenses)

When a household budget gets crushed, it is rarely due to daily spending sprees. More often, the culprit is a predictable cost masquerading as a surprise: an annual auto insurance premium, property tax assessment, holiday gift list, or routine car service.

Financially healthy households do not rely on luck or high-interest credit cards to absorb these non-monthly costs. Instead, they use sinking funds, a strategic cash allocation model that breaks down irregular future bills into manageable, monthly line items.

Sinking Funds vs. Emergency Funds: Two Distinct Shields

Mixing all cash reserves into a single pool creates anxiety and confusion. Sinking funds serve a completely different operational role than a core emergency fund:

- **Sinking Funds (Targeting Known Expenses):** The mission is to fund predictable future obligations like auto insurance, vacations, or holiday gifts. The required amount equals the target expense divided by the months remaining, and the account balance fluctuates continuously as money is saved and spent.
- **Emergency Funds (Targeting Unknown Crises):** The mission is to absorb unexpected life shocks such as job loss, medical emergencies, or urgent home repairs. The target amount is 3 to 6 months of essential living expenses, and the balance remains untouched until a true crisis occurs.

The Three Sinking Fund Buckets

A well-structured financial plan organizes planned expenses into three core categories:

- **Fixed Annual Obligations:** Auto insurance, property taxes, annual software renewals, and HOA dues.
- **Predictable Maintenance:** Vehicle wear-and-tear (tires, brakes), home appliance replacements, and tech upgrades.
- **Lifestyle & Celebration:** Annual vacations, holiday gifts, weddings, and major milestones.

The Simple Math Behind Smooth Cash Flow

Setting up a sinking fund relies on a straightforward calculation:

$$\frac{\text{Monthly contribution}}{\frac{\text{Expected total cost}}{\text{Months until bill is due}}}$$

Practical Example: The Auto Insurance Turnaround

An annual car insurance policy costs \$1,200. Instead of taking a severe hit in December, an investor sets aside a fixed amount every month into a dedicated sinking fund.

Annual cost

\$1,200

Monthly set aside

\$100

- By the time the bill arrives, the money is waiting. Paying an insurer annually in cash up front often unlocks a paid-in-full discount, typically 5%-10% — turning simple organization into guaranteed, risk-free savings.

Storage & Automation: Out Of Sight, Out Of Mind

Leaving sinking fund cash inside a primary checking account creates an illusion of excess wealth. When a checking balance looks inflated, discretionary spending naturally rises—eating away at money meant for future bills.

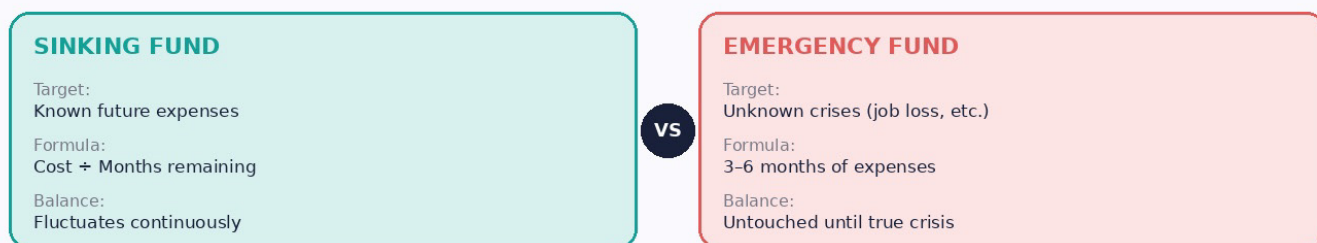
To keep cash organized and earning yield:

1. Use High-Yield Savings Sub-Accounts: Modern High-Yield Savings Accounts (HYSAs) offer digital “buckets” or sub-accounts under one master account. This keeps sinking funds visually isolated from daily spending while earning high liquid yields.

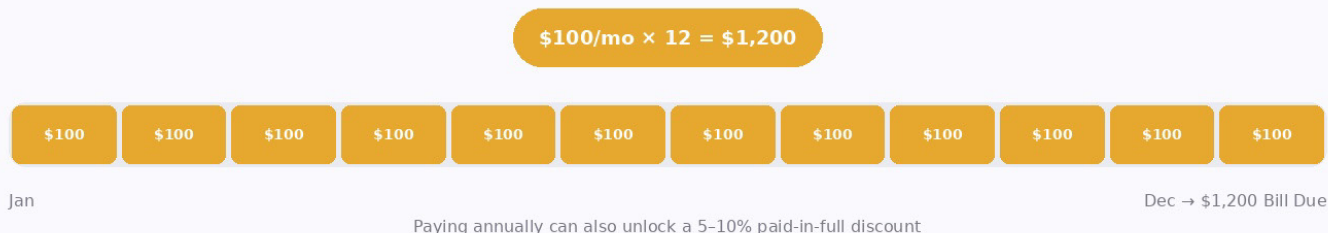
2. Automate on Payday: Scheduling automated transfers into sinking fund buckets immediately after payday ensures future obligations are funded before discretionary spending begins.

Sinking funds replace budget panic with operational calm. Planning for known expenses in advance keeps investors from tapping credit lines or selling long-term market assets at the wrong time.

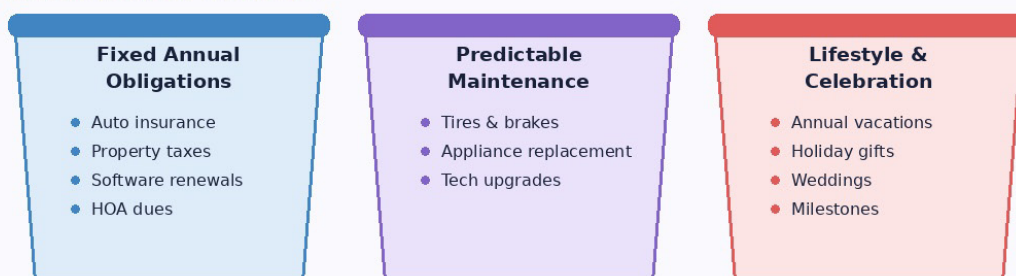
Sinking Funds — Taming Phantom Expenses



EXAMPLE: AUTO INSURANCE SINKING FUND



THE THREE SINKING FUND BUCKETS



MARKET ANALYSIS

By CA Paras Sachdeva

Market Analysis: Price Discovery Gives Way To Earnings Discovery

August 2026 was not a month of a decisive directional move in Indian equities. Instead, it was a month in which the market increasingly differentiated between price momentum and underlying earnings momentum. The Nifty 50 closed August at 24,169.75, ending the month approximately 1.2% lower, while the Sensex declined around 1.5%. Yet beneath this relatively modest index movement, there was considerable rotation across sectors, continued domestic institutional accumulation and a materially stronger Q1 FY27 earnings picture.

For investors, this divergence is important. The market is no longer being driven simply by liquidity or index-level momentum. Earnings quality, valuation discipline and sector-specific catalysts are becoming increasingly important determinants of returns.

The Technical Structure: A Market Searching For Direction

The Nifty's August price action was characterised by consolidation within a broad trading range. The index repeatedly encountered selling pressure around the 24,400–24,700 zone while the 24,000–23,900 region emerged as an important support area.

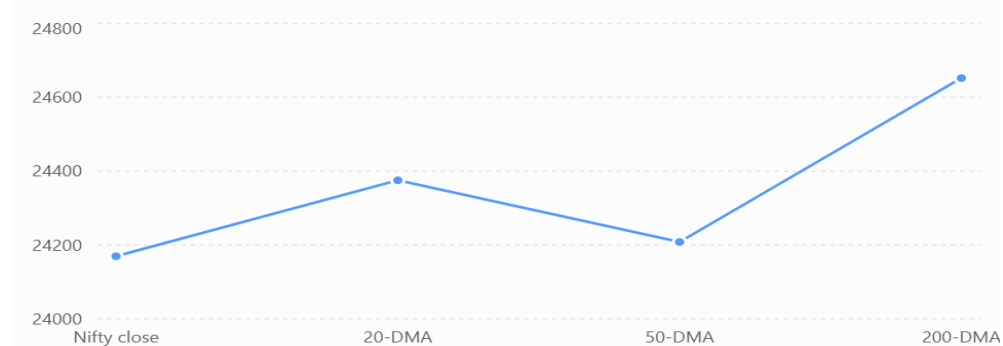
As of the latest available technical readings, Nifty's 20-day simple moving average stood around 24,375, the 50-day average around 24,208, and the 200-day average around 24,652. The index was therefore trading below all three important short-, medium- and long-term averages, suggesting that the immediate technical structure remained cautious.

Momentum indicators tell a similar story. The 14-day RSI was approximately 47, indicating neither an oversold nor an overbought market, while MACD remained in negative territory. The ADX near 15 suggested that the prevailing trend lacked sufficient strength to qualify as a decisive directional move.

This combination is particularly significant: the market is weak in momentum, but not yet technically broken.

Nifty 50: Key technical reference levels

Nifty's latest price compared with its major moving-average reference levels at the end of August 2026.



As of the latest available technical data on 31 August 2026; moving averages are dynamic and will change with subsequent sessions.

From a technical standpoint, a sustained close above 24,400 would be the first indication that short-term momentum is improving, while a decisive move above 24,650–24,700 would materially strengthen the medium-term structure. Conversely, a breach of 24,000, followed by a break below 23,900, would increase the probability of a deeper corrective phase.

Accordingly, the current technical setup favours confirmation rather than anticipation. Investors should be cautious about treating isolated one-day rallies as the beginning of a new bull phase.

The Technical Structure: A Market Searching For Direction

One of August's more important market signals came not from the index itself but from institutional flows.

On 28 August, FIIs sold approximately 5,040 crore, while DIIs bought approximately 5,184 crore. More importantly, domestic institutions had remained net buyers for 14 consecutive sessions at that point. For August as a whole, FIIs were still marginal net buyers of approximately 455 crore, whereas DIIs had invested roughly 53,679 crore by 28 August.

This is a material structural change. Domestic institutional liquidity is increasingly acting as a stabilising force whenever foreign capital turns cautious.

The implication is that index corrections may continue to find buyers, but this does not necessarily mean that every stock will participate. In fact, persistent DII buying alongside a relatively flat index can be a sign of portfolio reallocation rather than indiscriminate accumulation.

Earnings Finally Become the Centre of the Investment Case

The most constructive development of August came from the corporate earnings cycle.

Q1 FY27 earnings demonstrated that India's earnings recovery is becoming considerably broader. Nifty 500 companies recorded approximately 12% year-on-year net profit growth on 19% revenue growth. Excluding oil and gas, profit growth increased to approximately 23%. More importantly, 18 of 29 sectors delivered double-digit profit growth, indicating that the recovery is not restricted to a handful of companies.

The Nifty 50 picture was more measured. According to Chola Securities, aggregate Nifty 50 PAT increased approximately 5.4% YoY, while the broader 522-company universe excluding Nifty 50 delivered approximately 30.6% PAT growth. BFSI PAT increased 24.1%, while IT profits rose 12.9%.



This creates an interesting investment environment: large caps provide stability, while earnings acceleration is increasingly visible outside the benchmark.

Where Earnings Momentum Is Actually Concentrated

A closer reading of the earnings numbers reveals a significant sectoral distinction.

Financials remain one of the stronger earnings pillars, supported by credit growth and improving asset quality. Industrials, capital goods and automobiles also demonstrated healthy operating performance, supported by domestic demand and investment activity. Pharmaceuticals and consumer durables were other areas where earnings momentum remained constructive.

Information technology delivered a more nuanced picture. Q1 IT profits grew around 12.9% YoY, and the sector received a significant sentiment boost towards the end of August, with Nifty IT gaining more than 3% on 28 August.

However, investors should distinguish between earnings recovery and valuation re-rating. A company delivering strong profit growth can still produce poor shareholder returns if the stock has already discounted that growth.

Valuation: No Longer Cheap, But Not Uniformly Expensive

The valuation picture also argues against a blanket market view.

As of 28 August, the Nifty 500 traded at approximately 22.86x earnings, around 4% below its five-year median of 23.79x. On this measure, the broad market appeared closer to fair value than the expensive territory witnessed during previous valuation peaks.

However, aggregate valuation can be misleading. Different sectors and market-cap segments are trading at very different multiples. Consequently, valuation dispersion, not merely absolute valuation, is likely to create the next investment opportunities.

A high-quality company growing earnings at 20–25% with a durable competitive advantage may justify a premium multiple. Conversely, a cyclical business trading at a seemingly reasonable PE may still offer limited upside if its earnings are near a cyclical peak.

This is where fundamental analysis becomes particularly important.

Mid-Caps and Small-Caps: Growth Is Stronger, Risk Is Higher

The Q1 earnings data provides a compelling reason to remain constructive on selected mid- and small-cap businesses. Excluding oil and gas, HDFC Mutual Fund's analysis showed profit growth of approximately 20% for large caps, 26% for mid caps and 34% for small caps.



But stronger earnings growth does not automatically justify higher valuations.

Smaller companies generally carry greater sensitivity to liquidity conditions, funding costs, customer concentration and execution risk. In a market where institutional flows can produce sharp stock-specific moves, investors should demand balance-sheet strength and cash-flow conversion, rather than relying solely on reported PAT growth.

The appropriate framework is therefore not “large cap versus small cap”, but earnings visibility versus valuation versus risk.

The Investment Framework: From Beta To Business Quality

August's market action suggests that the next phase of returns is likely to become increasingly earnings-led rather than liquidity-led.

For a professional investor, three filters become particularly relevant:

- **First, earnings durability.** Temporary margin expansion should not be valued in the same manner as structural revenue and market-share growth.
- **Second, valuation discipline.** Strong earnings growth provides little protection if the entry multiple already discounts several years of future growth.
- **Third, balance-sheet quality.** In an uncertain global environment, companies with low leverage, strong operating cash flow and pricing power deserve a premium over highly leveraged businesses.

The distinction between accounting profit and economic value creation will therefore become increasingly important. ROCE, free cash flow, working-capital intensity and incremental capital productivity should be considered alongside EPS growth.

August Verdict: Consolidation Is Creating Selectivity

The August market should not be interpreted simply as a weak month. The index declined modestly, but corporate earnings improved, domestic institutional participation remained strong and valuation across the broader market was more reasonable than the headline index narrative suggests.

The technical picture, however, remains cautious. 24,400–24,700 is the key overhead supply zone, while 24,000–23,900 represents the immediate support band. Until the index convincingly resolves this range, investors should avoid extrapolating short-term movements into a broader market trend.

The more compelling opportunity may therefore lie beneath the index.

August has shifted the investment question from “Will the market rise?” to “Which businesses can compound earnings irrespective of the market's direction?”

For a long-term portfolio, that distinction is critical. The coming months should favour companies where earnings growth, cash generation, return ratios and valuation converge. In such an environment, disciplined fundamental research supported by technical entry points can offer a more robust approach than either momentum chasing or indiscriminate value hunting.

WEALTH QUEST

How to play

Guess the 5-letter finance word in 6 tries. After each guess, mark each box by hand.

-  Filled = right letter, right spot
-  Half-filled = right letter, wrong spot
-  Left empty = letter not in the word

Clue: a financial holding of value — a stock, bond, or property owned that's expected to provide future benefit.

1					
2					
3					
4					
5					
6					

 Right spot  Wrong spot  Not in word

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