YOUR MONEY

US-focused funds can cut risk

It can help you beat the risk of being invested only in one market with the rupee weakening against the dollar

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While the Nifty is down 5.40 per cent since November 8, primarily due to the demonetisation effect, the US benchmark S&P 500 is up 5.75 per cent since then. US-focused funds are up 0.87-3.96 per cent over the past month. Over the past year, these funds have given an average return of 11.20 per cent, compared to the Nifty's 4.09 per cent, underlining the need for Indian investors to diversify a part of their portfolio into US funds for those times when Indian equities are not doing too well.

Initially, there were fears before the US elections that the world's biggest equity market would tank if Donald Trump was elected President. But, the opposite has happened. “The US markets have done well because there is a feeling that Trump will be good for business. His promise to enhance infrastructure spending has led to stocks in related sectors doing very well,” says Sunil Singhania, chief investment officer (equity investments), Reliance Mutual Fund, which runs the Reliance US Equity Opportunities Fund.

There has also been a rotation of funds away from bond markets (which have sold off in the past few weeks) into equities. “Even financial stocks have done well as the transition team has pledged to repeal the Dodd-Frank Act of 2010, which imposes restrictions on the activities of Wall Street banks,” says Kunal Bajaj, founder and chief executive officer, Clearfunds.com, a Sebi-registered online investment advisor.

US funds' good run may not end even though the US Federal Reserve has spoken of raising interest rates thrice in 2017. In the past, the Fed has been notoriously slow in raising rates for fear of pricking a rally in equities. This is unlikely to change in the future. The primary reason why Indian investors should invest in US funds is to diversify their portfolio.

“The US market has a low correlation with the Indian market,” says Singhania. Indian investors, especially high net worth individuals, who have taken adequate exposure to Indian equities, should begin by investing about 10 per cent of their equity corpus in US funds.

DECENT PERFORMANCE

Fund	Returns (%) 1-year	Returns (%) 3-year
Edelweiss US Value Equity Offshore Fund(G)	17.56	9.72
ICICI Pru US Bluechip Equity Fund(G)	14.56	8.92
DSPBR US Flexible Equity Fund-Reg(G)	11.82	9.29
MOSt Shares NASDAQ-100 ETF	9.31	15.15
Franklin India Feeder - Franklin U.S. Opportunities Fund(G)	1.20	6.27

Note: Only funds with at least a three-year track record included

Source: Ace MF

Investing in US funds can also help Indian investors counter the effect of the rupee's depreciation against the dollar over the long term. “If you have financial goals that are dollar-denominated, such as your child's college education or foreign trips, you should invest a part of your corpus in US funds,” says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors. The rupee's depreciation provides a kicker to the returns of these funds.

Most of the stocks these funds invest in are of US-based multinationals. Investing in them is not just a bet on the US market but on multiple markets throughout the world. These funds can also give Indian investors access to stocks not found on the Indian bourses, such as large entertainment players (Walt Disney), hardware innovators (Apple), investment companies (Berkshire Hathaway), card companies (Visa), social media players (Facebook, Linkedin), and so on. These funds do carry the risk that if the US equity markets underperform, so will these funds.

Finally, all international funds are treated at par with debt funds for tax purposes. Only by investing for more than three years will you get the more beneficial tax treatment of 20 per cent rate with indexation benefit.