live mint

Print Close

Fri, Aug 05 2016. 12 17 PM IST

Market’s tide is high and you must hold on

Investors seem to be coming back to equity. But will they repeat the 2007-08 story and flee when another downturn arrives. Maybe and maybe not. This time, however, they are relying more on professional help for their investment decisions, this could mean that they will get the advice they need to make the most of a rising market

Lisa Pallavi Barbora

iStock Photo

Have you started a systematic investment plan (SIP) in an equity mutual fund (MF) or know a friend who has? Well, you aren’t alone. Data from industry body Association of Mutual Funds of India (Amfi) shows that there was a 12% increase in retail investor folios for equity-oriented funds this year till 30 June 2016, and 13% in financial year (FY) 2016, compared to a 7.6% growth in folios for FY15.

The last financial year was a landmark for equity-oriented mutual funds as they added net inflows of around `93,700 crore, compared to `80,800 crore in the previous year. Nearly 85% of equity assets under management (AUM) is from individual investors. And while foreign investors were net sellers, domestic institutional investors were big buyers in FY16. Portfolio management services (PMS) too have seen AUMs surge: listed equity PMS assets have increased nearly 3.5 times over the last 3 years, to `65,000 crore.

Vaidyanathan Ramesh, an IT professional, has been investing in equity for about two decades now. Over the years, Ramesh has learnt the nuances of equity investing. In recent years he could not invest in equity, given his two home loans. One of these was for an investment property, which he sold because rentals were not attractive. It took him 8 months to sell it. On reconsidering his investment options, Ramesh realised that a professionally managed equity portfolio was his best option. He has now reinvested these funds, and some more, in a long-term niche PMS strategy focused on picking high-quality stocks.

“In today’s scenario, I feel any surpluses are best allocated to equity rather than gold or land. Key is to remain invested—if you can sit through the lows, you will also see the highs,” said Ramesh.

Why is equity in favour?

Long-term efficiency of equity assets is only part of the story. First, physical assets haven’t held investor interest. Real estate prices have stagnated and gold is volatile too. Although last year gold returned about 24%, the year before that its prices had fallen around 11%. Gold is now inching back towards its peak of around `32,000 per 10 gram, but demand is weak. The average annualised return from gold over 10 years is around 12%.

Second, the optimistic scenario around policy changes is driving up expectations of earnings growth and overall growth in gross domestic product (GDP). The goods and services tax (GST) has done a lot for the market sentiment even before implementation. All these have improved the expectation of returns from equity.

Anjaneya Gautam, national head—mutual funds, Bajaj Capital Ltd, said, “The good monsoon and expected pick-up in consumption, thanks to the 7th Pay Commission and One Rank One Pension (OROP), is a positive for... the equity market. This sentiment is being communicated well to investors through various channels.”

But concerns on valuations are building up, given that benchmark indices are trading higher than historical valuations.

Investors worry less about all this, especially those who chose managed portfolios.

According to N. Arunagiri, managing director and chief investment officer, Trustline, a Chennai-based PMS provider, “Valuations have gone up very fast and for new clients we are being cautious in deploying money... We start buying with around 25% and leave the rest in liquid funds. Corrections don't take away from the positive trend in domestic markets."

Chasing returns?

The euphoria of 2007-08 brought a lot of domestic equity investors into the market, as past returns looked good. Are investors chasing returns again?

Prateek Pant, head-products and solutions, Sanctum Wealth Management, said, "The circumstances today are different.... Globally, the search for yield is leading to some exaggerated bets. At the moment, liquidity is driving prices and we don't advise staying out of the rally." However, Pant warned that Indian markets will get affected by negative news from global capital markets. And, investors should try to keep the conviction and remain invested through the market cycles.

Vishal Dhawan, founder and chief executive officer, Plan Ahead Wealth Advisors, said, "It's hard to assess whether the increased appetite for equity is because of the lack of alternatives or because investors understand that it's a long-term wealth creator despite interim falls."

Arunagiri added, "Investments aren't made in a lump sum; this smoothens out the volatility to some extent."

Managed portfolio

Echoing Ramesh's faith in equities, Suresh Srinivasan, also a long-time investor, decided to seek professional help.

Until recently, he relied on tips from various sources. While he tracked the performance of individual stocks, he never really knew the overall portfolio value. Srinivasan now prefers professionals to manage his equity investments, given that he has limited time and information. He had invested in property, but now also realises the importance of diversification. "Only real estate isn't going to cut it," he said. He used funds from selling a property to buy into a PMS scheme.

If you look at the data, while mutual fund and PMS assets have grown, there is no significant change in the proportion of delivery-based buying. Overall, trading quantity on NSE, for the capital market segment, has increased nearly 45% from what it was in FY14, but delivery-based trades have remained at 28%. Long-term equity investors go with delivery-based trading, and traders prefer futures and intra-day trades.

With a professional manager you don't have to worry about individual stocks' entry and exit points and you also benefit from the fund manager's experience.

Pant said, "Many people are increasingly moving towards professionally managed funds; they are happy to earn 15-20% annualised returns rather than trying to buy multi-baggers, which may not work out."

There is a caveat here: investors need to be discerning about which PMS to choose, as distribution focus on them has recently increased due to better commission structure, compared to MFs.

Mint Money take

A rising market will attract more investors. The task is to sustain this investment through the downturns. Confidence in professional management and better communication by fund managers and advisers is key this time around. Data from CAMS (Computer Age Management Services), which covers 92% of the mutual fund industry, shows that monthly SIPs have improved from around `2,500 crore in January 2016 to around `2,850 crore in June 2016.

The rise of SIPs in equity mutual funds, hopefully, indicates a long-term interest and an understanding that timing the market isn't an efficient investment strategy.