STPs a safer bet in this runaway market

By *Prashant Mahesh*, | Updated: Apr 26, 2017, 09.40 AM IST

If you are an investor waiting to deploy a lump sum amount in the stock market, this is not the best time. With the stock market at record high and valuations pricey, you would do better off by adopting a less-riskier strategy of investing in equities. Wealth managers are recommending clients to go for systematic transfer plans (STPs) to invest in large-cap equity funds and balanced funds of mutual funds.

In STPs, investors invest a lump sum amount generally in a liquid or ultra-short term fund and transfer a pre-defined amount at a regular frequency into an equity or balanced fund. Here, the lump sum amount does not remain idle and earns 6-7% annually , while a portion of the corpus is shifted to a fund of your choice.

"Use systematic transfer plans to invest incremental money in large-cap oriented equity mutual funds over a 12 month period," says Vishal Dhawan, chief financial planner at Plan Ahead Wealth Advisors.

In the midand small-cap space, valuations have sky rocketed in the last one year. Given the sharp run-up in midand small-cap funds, some wealth managers, believe incremental money at these levels should flow into large-cap funds only.

"We are apprehensive of lump sum investments at these high valuations, and recommend investors stagger their investments into equity mutual funds, as there will be lot of opportunities due to volatility ahead," says Vidya Bala, head of research, Fundsindia.com. She believes banks will see a lot of changes due to provisioning norms, which could impact margins, thereby throwing up opportunities.

It is very difficult to predict where the market is headed, some prefer to leave it to the fund manager to take a call. Wealth manager say if you have to bet a lump sum on equities, it should be done through dynamically managed equity funds.

"We recommend dynamically managed equity funds, where there is no human intervention and the debt-equity composition changes based on predetermined financial parameters," says Harshvardhan Roongta, CFP , Roongta Securities. Fund houses could allocate less to equity when valuations rise and gradually increase it as valuations dip, thereby protecting the investors.

Gain Count

Surging Returns from Equity MFs

Fund	1 Yr	3 Yrs	5 Yrs
Large Cap	19.45	14.18	14.09
Multi Cap	25.48	19.58	17.54
Mid Cap	30.51	27.00	22.76
Small Cap	37.29	35.00	27.15

Data as on April 25 (Figures in %)
SOURCE: Value Research