Stick to SIPs or STPs, experts advise MF investors

BY PRASHANT MAHESH, ET BUREAU | UPDATED: DEC 19, 2017, 10.20 AM IST

Post a Comment

Retail investors coming into mutual funds should stagger their investments via systematic investment plans (SIPs) or systematic transfer plans (STPs), say wealth managers. Also, they believe that first-time investors into the markets, should go for lumpsum investments in hybrid funds such as equity savings funds or asset-allocation funds.

This comes after the Nifty closed at 10,388 with valuations soaring after the BJP won the Gujarat assembly elections.

"Lower returns from fixed deposits and lack of alternative investment avenues are driving investors to mutual funds. It is very important that their savings are channelised in right products," says Anup Bhaiya, MD and CEO, Money Honey Financial Services.

Given the fact that valuations are elevated, financial planners believe first-time investors need to be careful while allocating money to equities at this point. Financial planners believe that equity valuations are on the higher side now with the Nifty 50 trading at a PE of 26.46, compared to the 10-year historical average of 20.69, a premium of 28%. The Nifty Midcap 150 trades at a PE of 54.32% — a 100% premium to the large cap Nifty.

"First-time investors have zero equity in their portfolio. From there, they should not jump to 100% equity mutual fund schemes, but opt for such hybrid funds where the equity component is far lower," says Kunal Bajaj, Founder, clearfunds.com.

Among the popular hybrid funds with low equity exposure are equity savings funds and asset-allocation funds. Equity savings funds have 30% of their portfolio in equities with the balance in arbitrage products and debt funds. Asset-allocation funds can vary the equity component in the portfolio from 30-80% based on market valuations. Funds such as ICICI Prudential Balanced Advantage Fund, Motilal Oswal Dynamic Equity Fund, IDFC Dynamic Equity and Aditya Birla Sunlife Balanced Advantage Fund are some of the popular funds in the asset allocation space, where fund managers have the flexibility to change the equity allocation between 30-80% of the portfolio based on their view of market valuations.

"Asset allocation funds follow an automated strategy to rebalance portfolios and work well for first time investors," says Vishal Dhawan, founder, Plan Ahead Wealth Advisors.

Retail investors have been pouring money into mutual funds. Assets under management of the industry rose 38% over the last one year to reach Rs 22.73 lakh crore. Distributors point out that a lot of new investors are coming into mutual funds for the first time. AMFI data shows that the mutual fund industry had added about 9.05 lakh SIP accounts each month on an average during the FY 2017-18.

Playing it Safe

	Returns (%)	
Dynamic Asset Allocation Fund	**1 year**	**3 year**
ICICI Pru Balanced Advantage	20.05	12.56
Aditya Birla SL Balanced Advantage	16.90	12.31
IDFC Dynamic Equity	17.73	8.36
Equity Savings Fund		
Kotak Equity Savings	14.47	9.67
Reliance Equity Savings	18.78	NA
HDFC Equity Savings Fund	16.66	NA

SOURCE: Value Research as on Dec 16, 2017. **NOTE:** Data for direct plans