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fund performance

Keep constant vigil

Choosing the right fund is only half the job done. Monitoring their performance thereafter is equally important. What documents do you need to look up for this task?

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THE INVESTMENT choices you make today will determine your financial position tomorrow. Thanks to the correction (the Sensex is trading at a PE of 9-10), the market at present calls for buying in a staggered manner and making best use of rupee-cost averaging. This is where investing through mutual funds — where your investments benefit from a professional fund manager's abilities — comes in. While some of you might have already started with your mutual fund investments, it is just half the work done. Constantly checking the performance of your fund is crucial for attaining your investment objective.

a Pune-based financial planner.

ENTRY AND EXIT LOAD. The fund sheet also publishes crucial details like the minimum amount that can be invested, the minimum SIP (systematic investment plan) amount, entry and exit load, and tax benefits, if any. All these factors are vital for an investors looking to commit his hard-earned money into a mutual fund.

If you bypass the broker and invest directly with the asset management company (AMC), you can save up to 2.25 per cent as entry load fee. Illustratively, an investment of Rs 60,000 per annum in a diversified equity fund for 12 years can save you more than Rs 24,000, if invested directly with the AMC.

PORTFOLIO. In the backdrop of the current global turmoil, where the root cause of the problem is buried in wrong choice of underlying securities, this section becomes really important. Check the type of stocks the fund has invested in and if the portfolio is concentrated or inclined towards one particular sector. "Investors must look at the portfolio to see if the investment objective that has been stated and the actual portfolio mirror each other. If the portfolio does not match the objectives, a person should exit the fund. This is because that particular portfolio might work for that particular period, but it might not be necessarily good for the investor in the long run," says Vishal Dhawan, a financial planner. Adds Parekh: "In the prevailing market conditions, investing in a debt fund is a good idea, but we need to check which sectors the underlying bonds or papers in that debt product belong to. If the realty sector is not doing well, then you should be cautious. And if the portfolio is tilted towards any such sector, you should withdraw."

EXPENSE RATIO. As we move into an environment where costs will be more important because of lower returns, the net return is affected if the expenses charged by the mutual fund company are high. The lower the expense ratio, the better it is for you. "On the equity side, the change in expense ratio might not be that significant. But on the debt, certainly, a person should keep a tab on the expense ratio. The returns on debt funds being on the lower side, they can be severely impacted if there is a change of even a few basis points in the expense ratio. Moreover, if you are really looking at long-term portfolios, then even a 50 basis point change in the equity fund might mean a lot of difference," says Dhawan.

DEGREE OF CHURN. Most fact sheets these days disclose more information than simply the portfolio, including risk ratios and turnover ratios. "Once the investor has had a look at the portfolio, he gets an idea of what the fund manager is saying about the investment scenario, and what exactly is he doing on the ground," says Ashutosh Wakhare, a Nagpur-based financial trainer. Too high a degree of churn raises costs, increases the risk that the fund manager may make a wrong call, and could even indicate a lack of conviction about his investment choices.

Half-yearly portfolio statement

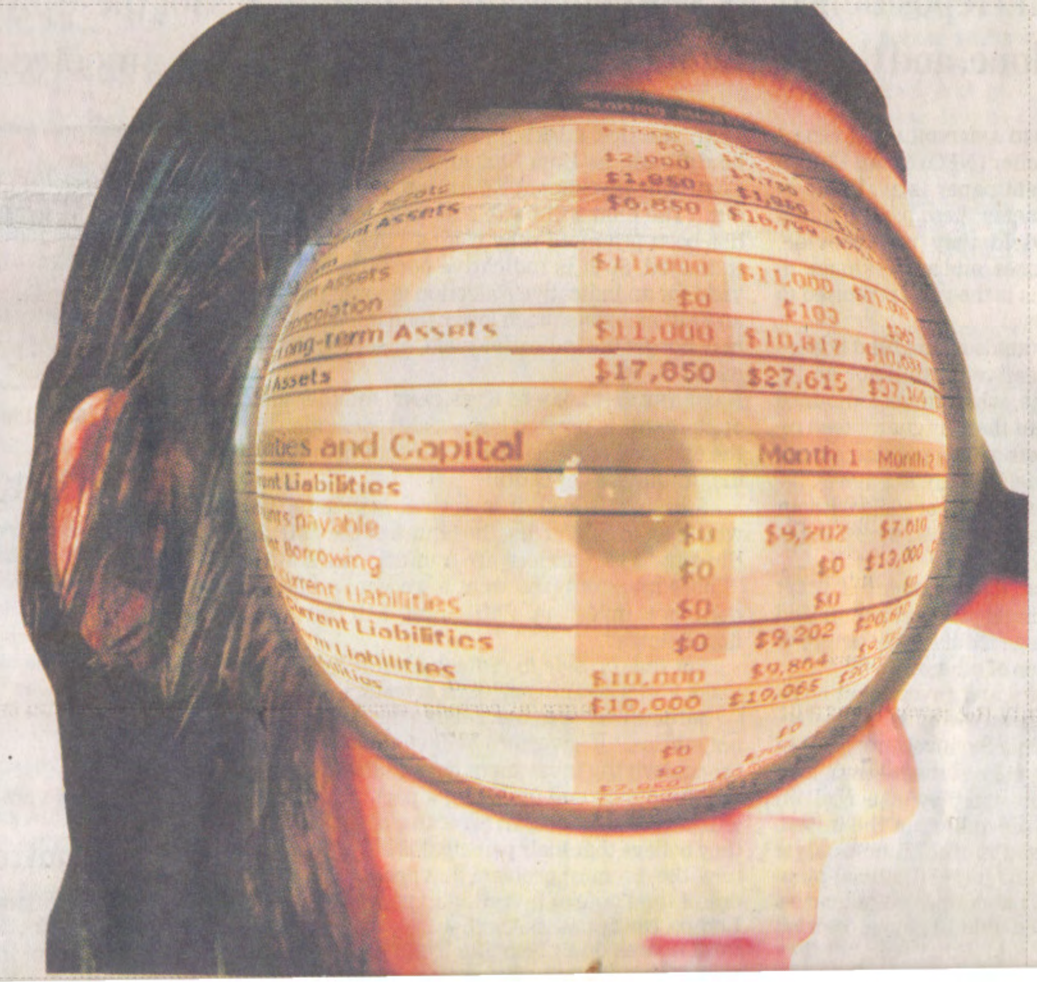
Besides the fact sheet, the half-yearly report by the AMC also holds a lot of information. In the case of equity funds you can see the portfolio composition, the cash position, who the fund manager is,

Keep a watch

With 32 mutual fund houses and hundreds of funds of a wide variety available, choosing a good mutual fund can be quite a herculean task for the lay investor. Even after choosing the fund, it is imperative to keep a check on its performance. "Once in a month monitor the portfolio," says says Bharat Parekh, chief executive officer, Insurance and Financial. Here's a quick guide on what information you need to look up before and after making an investment, and where it is available, to ensure that your fund is in sound health.

Fund fact sheet

This small booklet is one of the important documents you must go through before making an investment decision. As every investment decision is guided by a goal, the first thing to take note of is the objective of the fund. "The objective of the fund should be aligned with the investor's own investment objectives. For example, if you are looking at long-term diversified equity investments, there is little point in investing in a debt fund or even in an equity fund that is either sectoral or investing in small caps," says Veer Sardesai,



market capitalisation, past performance, and so on. In case of debt funds, watch out for the bond ratings, how many are listed or unlisted, and duration of the portfolio. "In the wake of the global meltdown, it is important to take note of information like whether the AMC is profitable or not," says Sardesai.

Annual report

In the case of equity funds, investors should look out for the exposure of the scheme and the fund house to various industries, fund manager's report on fund performance, and his views on the markets.

In the case of debt funds, an investor should look out for expense of the fund, the fund manger's view on interest rates and its expected impact on returns.

"Investors must read the reports to find out about new changes in regulation, such as the introduction of KYC (know your customer), and the abolition of entry load on direct applications. Such changes can make a lot of difference to returns," says Sardesai.

Since a mutual fund is a risk-based product, only with constant monitoring can you emerge a winner. ■

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