Midcap SIPs Disappoint, but ‘Offer Opportunities’

SIP INVESTMENTS over 3-year period in 22 out of 25 midcap funds see negative returns; all 13 small-cap funds in red

Prashant.Mahesh@timesgroup.com

Mumbai:

Investors who started their systematic investment plans (SIPs) in mutual fund schemes betting on mid-cap shares three years ago are staring at losses on account of the sell-off since January 2018. Financial advisors suggest investors with higher risk appetite could increase the quantum of their SIPs in mid-cap schemes because the valuations have become cheaper after the fall.

As per data from Value Research, investments made through the SIP route for a three-year period in 22 out of 25 mid-cap funds in the regular plans are in the red. In the small-cap space, all 13 funds are in the red for the same period.

The reason for three-year SIPs in mid-cap funds making losses is that the investments were made when these shares were at record highs and subsequently they fell. Since January 2018, the mid-cap index has fallen 25% and small-cap index has dropped 40% as against the 6% rise in the Nifty. Many midand small-cap shares have fallen by 50-70% from their highs.

“Three years ago, you started when valuations in the midcap space were rich. Now is a phase of staying put and continuing with your SIP. Have a five-year plus horizon and you shall be rewarded,” said Amol Joshi, founder, Plan Rupee.

It is difficult to ascertain when the investments would start showing returns as it is dependent on market conditions. Moreover, midand small-cap shares rally only when sentiment is bullish. But, data show these shares have returned 12-15% on an average over a 7-10 year period.

On a three-year basis, SIPs in three mid-cap funds — Axis Midcap (7.04%), Reliance Growth (0.44%) and Tata Midcap (0.34%) — would have managed to stay afloat.

As per research by Motilal Oswal Securities, the Nifty Midcap 100 price to earnings (P/E) ratio — a widely tracked valuation measure — has corrected from 25.6 times in August 2018 to 14.3 times. The brokerage house points out in terms of valuation, mid- and small-cap stocks trade at a 19% discount to Nifty 50. This suggests mid-cap valuations have become cheaper, but many in the market feel uneasy about buying them now because of hazy earnings prospects with the economy slowing down.

Fund managers of mid-cap funds are a lot more optimistic.

“Profit growth for the universe of companies in the Nifty Midcap 100 for March 2020 is estimated to be about 15%. This comes in after companies posted poor results for the last two financial years when profits were down 12% CAGR," said Akash Singhania, fund manager, Motilal Oswal Mutual Fund, who manages its mid-cap fund.

Investors must build a diversified portfolio of equity mutual funds which could include index or large-cap, mid-cap and international funds, said Vishal Dhawan chief financial planner at Plan Ahead Wealth Advisors.

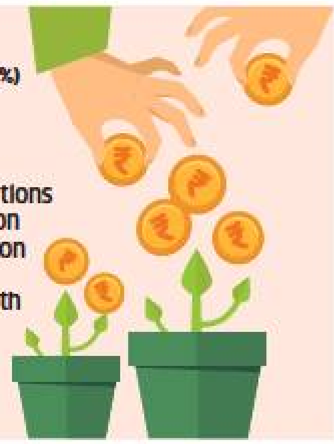
"Those with just midcap funds in their portfolio need to diversify their portfolios which will help them not just see the returns from this segment in isolation," he said.

Average SIP Returns (%)

Category	3 year	5 year
Large Cap	5.45	7.09
Large & Mid-cap	0.55	5.52
Mid-cap	-2.98	3.31
Multi-cap	1.98	5.85
Small-cap	-6.96	1.61

Source: Value Research

FOR REGULAR PLANS The calculations are based on SIPs made on the 1st of every month



EXPERTS SAY

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