YOUR MONEY

# Avoid hard knocks in equities with dynamic funds

## Give Motilal Oswal AMC's dynamic equity fund time to develop track record before you invest in it

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When the equity markets are rallying, investors often make the mistake of abandoning their asset allocation. They don't book profits, and in fact, pour more money into equities. When the market cycle turns, the portfolios of such investors take a big hit. Again, when markets are down and stocks are available at cheap valuations, investors stay away. All this happens because emotions like greed and fear govern decision-making. Dynamic equity funds aim to protect investors from such behavioural weaknesses. Motilal Oswal Asset Management Company (AMC) has launched a new fund offer (NFO) in this category called Motilal Oswal MOSt Focused Dynamic Equity Fund.

This type of fund changes its allocation to equities and debt depending on market valuations, raising it when markets are down and lowering it as markets move up. The new fund will use an in-house valuation parameter, the Motilal Oswal Value Index, an equal-weighted index created using the price-to-earnings ratio, price to book value ratio, and dividend yield of the Nifty.

The fund's allocation to equities can range from 30 to 100 per cent; debt allocation from zero to 35 per cent; and allocation to equity derivatives from zero to 35 per cent. Since the fund will never have an equity allocation (equity and derivatives combined) below 65 per cent , it will enjoy the favourable tax treatment that pure equity funds do. The fund will follow a focused (relatively concentrated portfolio) strategy, as the AMC's other equity funds do. Selection of stocks will be bottom-up and across market caps. The fund manager will follow a buy-and-hold strategy. He will focus on picking quality businesses that enjoy an enduring competitive advantage and are available at reasonable valuations. Says Taher Badshah, senior vice-president and co-head (equities) at Motilal Oswal AMC, who will manage this fund: "Investors can put their money in it without worrying about market levels. They will also not have to bother about rebalancing, which the fund will do on their behalf."

### PROS & CONS OF A DYNAMIC EQUITY FUND

- These funds reduce equity exposure as markets move up, increase it when markets fall
- Take emotions like greed and fear out of investing
- Give investors a smoother ride

Investors in this fund should, however, be prepared for periods of underperformance vis-a-vis diversified equity funds. "A rally in the markets can continue for a long time. Since these funds begin to cut equity exposure as the rally begins, they tend to miss out on a lot of the upside," says Vidya Bala, head of research at Fundsindia.com. She, however, adds these funds are capable of providing sound returns across market cycles.

The AMC's focused approach has its pros and cons. "While a focused approach can deliver high returns when the bets work well, the converse also holds true," says Bala. This approach has served the AMC well so far. The fund house's diversified equity funds have a sound track record, although not a very long one as the fund house was started in May 2013.

Dynamic equity funds are suited for conservative investors. "Those who have been investing in fixed-income instruments but now want a taste of equities, could invest in dynamic equity funds," says Himanshu Dani, founder, Invest Search. Some of the funds in this category with a long and sound track record are ICICI Prudential Dynamic, Invesco India Dynamic Equity, Tata Equity PE and Franklin India Dynamic Equity PE Ratio Fund of Funds. One-year returns of these funds range from 10.96 to 26.36 per cent; three-year returns range from 15.07 to 32.79 per cent; and five-year returns are 11.52-19.12 per cent. Only those prepared to invest across one whole market cycle (up and down) should invest in this category. Give Motilal's new fund some time to build a track record before you invest in it.

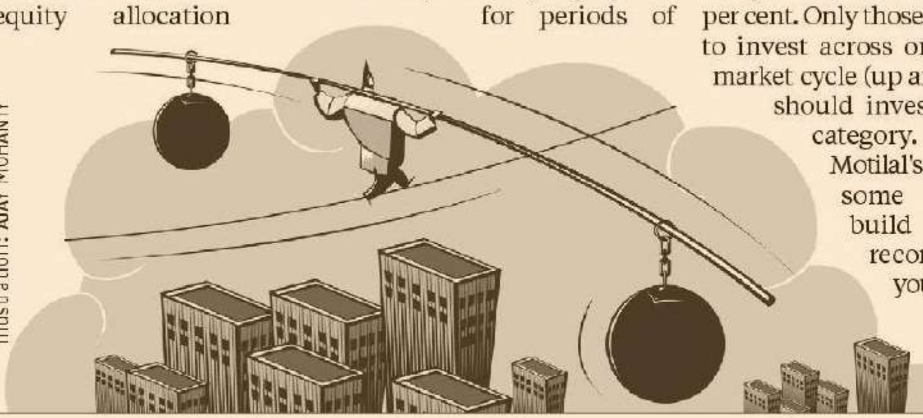
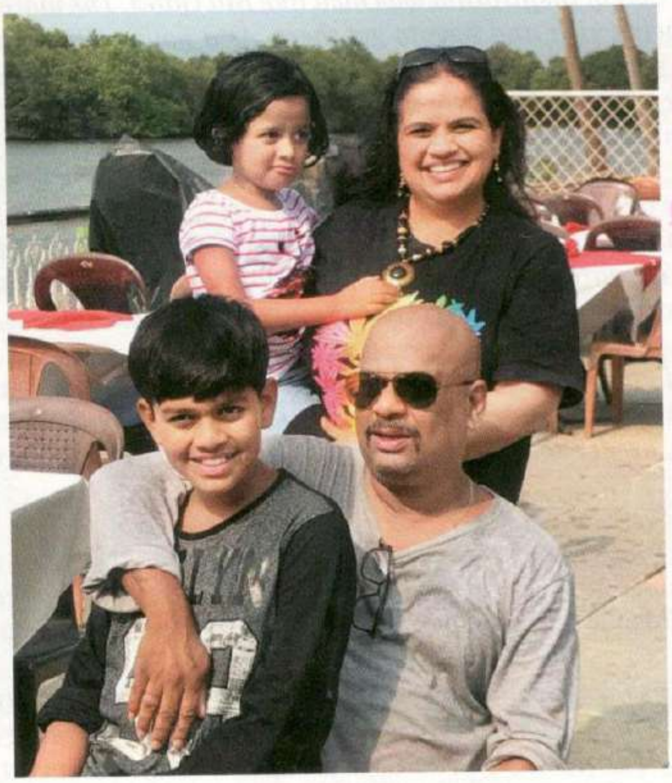


Illustration: AJAY MOHANTY

# Remain Invested For Future Goals

Linking investment planning to financial goals adds an emotional connect

With exceptional clarity on her goals and ambitions, Nipa Balakrishnan, a mother of two, has been working with Tata Consultancy Services as a Manager for the last nine years. She has a son, Navedh (11) and daughter, Prisha (4) and just like any other parent, her financial goals are based on her family's needs. She further sought for a financial planner who could understand and guide her towards her goals. This decision lead to a synergy that helped her sail through problems – persistence and lack of conviction.



Himanshu Dani, Founder, Invest Search, helped in identifying her goals and quantifying them financially along with a time frame. With an eye towards Naved's higher education, Balakrishnan had aimed at accumulating ₹25 lakh by the time he turns 15. Keeping in mind her long- term investment horizon and risk apetite, Dani advised her to start an SIP for ₹10,000 per month in equity funds.

Post the global recession, markets had been recovering during 2009-10 from deep corrections. Earnings were stagnant, leading to minimal growth in the next three years.

With annualised returns of around 6.70 per cent in 2012-13, three years into investing, it was indeed challenging to reinforce Balakrishnan's conviction to continue and remain invested in the markets to reap significant benefits. The advisory team guided her by continuously reminding about her goal and the need to stay invested. With renewed confidence and support, she decided to continue and a year later, the market rally compensated for the earlier periods and gave around 23.50 per cent annualised returns over the entire investment tenor.

When one links investment with specific financial goals, there is a purpose and accordingly an action plan—adding an emotional connect. Also, it helps to suitably select the mutual fund categories and schemes that work best for the risk appetite and investment horizon.

This entire episode also highlights the crucial need of financial advisors. With a financial advisor to guide and advise through the investment journey, the short-term market hiccups are easier to be absorbed. More importantly, financial advisor acts as a strong pillar in one's investing journey, motivating them to remain invested across market cycles and letting them reap benefits of their invested hard earned money.

| Particulars | Investment Cost | Portfolio Value | CAGR | Absolute Return |
|---|---|---|---|---|
| As on 31/12/2011 | ₹1,40,000 | ₹1,14,486 | -29.40% | -18.22% |
| As on 31/12/2012 | ₹2,47,500 | ₹2,75,480 | 9.70% | 11.30% |
| As on 31/12/2013 | ₹3,60,000 | ₹4,00,934 | 6.70% | 11.37% |

**Himanshu Dani,**
*Founder, Invest Search*

**Disclaimer**

Financial Planning of Nipa Balakrishnan is based on the "personal opinion and experience" of Himanshu Dani and that it should not be considered professional financial investment advice. No one should make any investment decision without first consulting his or her own financial advisor and conducting his or her own research and due diligence.