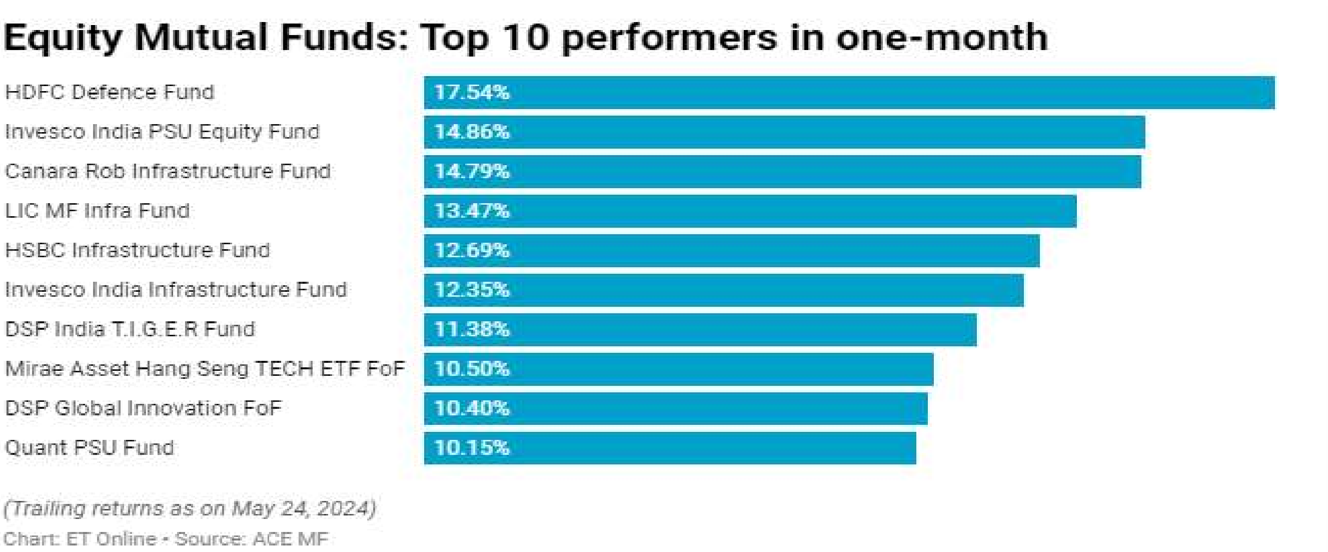
Dilemma before mutual funds investors: Buy now or wait till election results?

By Surbhi Khanna, Published on June 04, 2024

With the stock market behaving unpredictably in a highly volatile environment amid Lok Sabha elections, mutual fund investors are caught between fear and greed. On one hand, investors are fearing a correction as the market is already at peak and on the other hand the boom is bringing in FOMO.

In the last month, sectoral/thematic funds have topped the return chart and offered double-digit returns. HDFC Defence Fund, the topper in the list, gave 17.54% return in the last one month. Invesco India PSU Equity Fund and Canara Robeco Infrastructure Fund offered 14.86% and 14.79% returns, respectively.



Mirae Asset Hang Seng TECH ETF FoF gave 10.50% return in the last one month. DSP Global Innovation FoF and Quant PSU Fund delivered 10.40% and 10.15% returns, respectively.

Thematic/ sectoral funds and small cap funds have managed to offer good returns. Should an investor invest in these schemes before the election results?

"We would advise that investors do not formulate their investment strategy basis election outcomes. Thematic and small cap funds are ideally not recommended as small caps and most sectors are quoting at significant premiums to their long-term valuations," said Vishal Dhawan, CEO, Plan Ahead Wealth Advisors, a wealth management firm in Mumbai.

"I think it will not be wise for the investors to take a sectoral bet and take a much larger risk. The political stability by way of continuation of Government and thereby policy continuity is expected and has already been priced in. But election results can, at times, be very unpredictable as we had seen during 2004 election results. There can be a huge short-term impact on the market and investors can lose money if they are considering investments for the short term," said Rajesh Minocha, a Certified Financial Planner (CFP), Founder of Financial Radiance.

In the last three months, only two categories gave double-digit returns. Infrastructure funds and energy & power funds delivered 15.76% and 13.08% returns respectively. Mid cap and thematic funds (which excludes international and MNC funds) gave an average return of 9.83% and 8.62%, respectively.

Technology based mutual funds were the laggards in three months and 2024 so far. The category lost around 4.42% in the last three months and gave the lowest return of 3.04% in 2024 so far.

Now the question comes: will the winners remain the same after the election results? “No one can predict the markets but a stable government is always positive for equities. Also, the micro and macro economical conditions of India look very strong, so the long-term growth story of India is intact. If someone wants to invest lumpsum today then investing in reasonable valuation pockets is very important.,” said Rushabh Desai, Founder of Rupee with Rushabh Investment Services.

“We would therefore recommend that investors stay with flex cap funds in this environment and invest with a longer term view rather than just basis possible election outcomes. SIPs and STPs should also continue,” recommends Dhawan.

Now coming to the performance of equity categories in 2024 so far. Around 14 categories have offered double-digit returns with Infrastructure funds leading the return chart. The category has offered an average return of 26.89% in 2024 so far, followed by energy & power funds which delivered 22.73% return in the above said period. Mid cap funds and small cap funds gave 16.20% and 11.45% returns respectively in the same time period.

Large & mid cap funds gave an average return of 13.80% in 2024 so far. Flexi cap funds and ELSS funds offered 11.90% and 11.86% returns, respectively, in the same time period.
Looking for the best investment opportunity? What should be the best asset allocation strategy to follow for an investor with moderate risk appetite in such a volatile environment? The three analysts recommend the best investment opportunity in the current volatile market.

“For investors with a moderate risk appetite, they should consider balanced advantage funds or asset allocation funds where portfolios would automatically be rebalanced basis different models that schemes in these categories use. Once again, SIPs and STPs should be continued,” recommends Vishal Dhawan.

Rajesh Minocha, “For someone with a moderate risk appetite, investments in hybrid funds like balanced funds, balanced advantage, dynamic asset allocation and multi-asset funds are important. The equity component can be considered only through large-cap index funds, flexi-cap funds, multi-cap and large and mid-funds. Some amount of mid-cap funds can also be considered. However, exposure in sectoral funds and small-cap funds should be avoided.”

And lastly, “Currently investing in growth style funds, large cap funds and dynamic asset allocation funds makes more sense because growth strategy has underperformed vs value strategy, large cap valuations are reasonable vs mid & small caps and bond yields are in their peak range. I feel dynamic asset allocation funds are in a sweet spot today. But before making any investments always stick with your goals, time horizon, risk appetite and asset allocation,” Desai advises.

Note, we considered all regular and growth options for the analysis. One should always consider risk appetite, investment horizon, and goal before making investment decisions.