

MF investment strategy: Be wary of rich valuations

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Mutual fund investors are in the crosshairs due to the widespread offloading of stocks by foreign institutional investors (FIIs), expensive valuations of the Indian markets compared to global peers, and nervousness ahead of the Lok Sabha election results.

The benchmark S&P BSE Sensex has slipped nearly 1,400 points (1.8 per cent) month-to-date (MTD) in May, while the Nifty50 index has declined 387 points (1.67 per cent) during the period. The S&P BSE MidCap index has shed 1 per cent thus far in May, while the S&P BSE SmallCap index slipped 2.43 per cent. While stock market investors, analysts said, should brace for volatility ahead and remain stock-specific, mutual fund investors, they suggest, may consider a staggered investment approach at the current market levels.

Stock market and mutual fund investors, they added, need to be wary of rich val-

INCOME/DEBT ORIENTATION*

FUND	Net inflow (₹ crore)
Liquid	102,751.50
Low duration	7,757.59
Short duration	2,533.41
Medium duration	-425.00
Long duration	580.64
Gilt	5,210.00

GROWTH/EQUITY ORIENTATION*

Smallcap funds	2,208.70
Midcap funds	1,793.00
Largecap funds	357.56

OTHER CATEGORIES

Hybrid funds	19,862.90
All index funds and ETFs	11,504.90

*Refers to inflows; Monthly data for April 2024

Source: Amfi

uations in equity markets at this point, and should acknowledge the potential risks ahead.

SIPs in Index Funds and Flexicap Funds, said Vishal Dhawan, founder of Plan Ahead Wealth Advisors, could

be a good approach to take when allocating money to

mutual funds at this point to get the benefits of rupee-cost averaging with equities.

"In certain categories like Balanced Advantage Funds, where equities and debt are combined in different mixes, a lump sum may be considered," he added.

An index fund typically invests in stocks that imitate a stock market index like the Nifty50, and S&P BSE Sensex. These are passively managed funds where the fund manager invests in the same securities as present in the underlying index and in the same proportion. On the other hand, Flexicap Funds are open-ended, dynamic equity funds which invest a minimum of 65 per cent in equities across companies with varied market capitalisation. According to Association of Mutual Funds in India (Amfi) data, the MF industry's net asset under management (AUM) reached ₹57.3 trillion in April, with systematic investment plan (SIP) accounts touching 87 million.

Gross inflows

The MF gross inflows through the SIP route also topped the ₹20,000-crore mark for the first time in a calendar month as investors opened a record 6.4 million SIP accounts.

Liquid Funds saw net inflows of ₹1.02 trillion, Low

Duration Funds saw inflows of ₹7,757.5 crore, Short Duration Funds ₹2,533.4 crore, Medium Duration Funds (-) ₹425 crore, and Long Duration Funds ₹580 crore in April 2024, according to Amfi data.

Market capitalisation-wise, largecap funds saw a net inflow of ₹357.56 crore, midcaps ₹1,793 crore and smallcaps ₹2,208.7 crore in April. Gilt Funds, meanwhile, saw a net inflow of ₹5,210 crore; Hybrid Funds' category ₹19,862.9 crore; and Other Schemes' category (including index funds and ETFs) ₹11,504.9 crore.

S Naren, executive director, and chief investment officer at ICICI Prudential AMC advised investors to opt for hybrid/asset allocation strategies like multi-asset allocation, aggressive hybrid, balanced advantage, or equity savings offerings.

"For those considering incremental allocation to equities, we believe largecaps are better placed than mid and smallcaps, given the relatively attractive valuations and better margin of safety," he added.

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