YOUR MONEY

CORRECTION IN SMALLCAP FUNDS

Trim exposure if it exceeds 20%, avoid complete exit

SANJAY KUMAR SINGH & KARTHIK JEROME

Smallcap funds have declined 21.6 per cent over the past three months. Many investors, who were highly bullish on this segment during the bull run of 2023 and 2024, are a shaken lot today. They must adopt the mantras of asset allocation and long-term investing to weather this phase.

Volatility may continue

The inflated valuations of smallcap stocks are getting corrected. "After Covid, small and midcap companies experienced faster growth than large caps, leading to significant rerating. The decline over the past six months reflects a reversal of this rerating," says Shreyas Devalkar, head-equity, Axis Mutual Fund.

The global climate is also contributing. "We are amid tremendous global uncertainty, which has the potential to reshape global trade. Markets are likely to remain volatile till investors figure out the 'new normal'," says Shiv Chanani, senior fund manager-equity, Baroda BNP Paribas Mutual Fund. A few other factors have also played a part. "Aggressive foreign institutional investor (FII) selling and moderate quarterly earnings from Indian companies have also contributed. We expect the next quarter to remain volatile," says Nehal Mota, co-founder and chief executive officer (CEO), Finnovate.

Earnings-related uncertainty continues to weigh on small caps. "Though valuations have eased, uncertainty around earnings growth persists. These stocks are also not yet significantly undervalued," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

Long-term outlook positive

Despite short-term headwinds, experts remain optimistic about the smallcap category. "As India moves from being the world's fifth-largest economy to the third-largest, the smallcap space will continue to provide tremendous opportunity for wealth creation," says Chanani.

Government initiatives like the production-linked incentive (PLI) scheme and support for micro, small and medium enterprises (MSMEs) are strengthening Indian manufacturing and services.

"These measures will enhance the growth potential of smallcap companies," says Mota. Technology and financial firms, key segments within small caps, are set to grow rapidly. "Increased digital adoption, fintech expansion, and a robust financial ecosystem position these sectors for growth," adds Mota. The small and mid-cap space offers exposure to niche sectors not available in large caps. "Their smaller size and promoter-driven nature also provide the potential for faster growth," says Devalkar.

Chanani anticipates a turnaround as global trade stabilises and earnings improve. "We expect earnings growth to accelerate from the first half of FY26, when the base becomes favourable," he says.

Dhawan adds that injection of ample liquidity and initiation of rate cuts by the Reserve Bank of India could also provide support to smaller firms.

Overexposure to one segment is risky

One takeaway from recent market movements is the importance of factoring in volatility, not just returns. "High beta funds rise faster than the market during uptrends but fall more during downturns," says Abhishek Kumar, Securities and Exchange Board of India (Sebi)-registered investment adviser and founder, SahajMoney.com.

This cycle has reinforced the need to avoid excessive exposure to any single segment.

Existing investors: Pare exposure

Investors should review their smallcap allocation. "Even with a long horizon, smallcap exposure should be limited to 10-20 per cent of the equity portfolio," says Dhawan.

Exiting entirely may not be wise. "Investors with long-term goals should hold on to their positions," says Kumar.

Continuing with systematic investment plans (SIPs) during downturns has paid off historically. "Whenever the market has fallen by more than 20 per cent, the average compounded annual growth rate over the next seven years plus has been around 20 per cent," says Mota.

INVESTING FOR LONG TERM PAYS

Smallcap fund returns (%)

	5-year	10-year
Nippon India	36.52	20.41
SBI	27.87	18.96
Quant	48.23	18.94
Axis	27.73	18.06
HSBC	32.61	17.83
Nifty (250 TRI)	31.37	13.4

Above one-year returns are compound annualised. Returns are of direct-growth plans

Source: Navigation RA

Green card holders: Don't sign documents under pressure, experts warn

Indian green card holders returning to the United States are encountering tougher scrutiny, with some facing secondary inspections and overnight detentions by US Customs and Border Protection (CBP) officers. Some have been pressured into voluntarily surrendering their green cards by signing Form I-407. Under the US Immigration and Nationality Act (INA), green card holders returning after an absence of more than 180 days are treated as seeking re-admission and can be assessed for inadmissibility.

While abandonment of residency is usually considered for absences exceeding a year, lawyers say shorter trips are now drawing scrutiny.

What should green card holders do?

Ketan Mukhija, senior partner at Burgeon Law, advises caution. Do not sign Form I-407 without consulting an attorney. Green card holders are entitled to due process and cannot lose their status without a hearing before an immigration judge. If detained or pressured at a port of entry, stay calm, request legal counsel, and avoid signing any documents without advice. Lawyers advise green card holders to carry documents proving their ties to the US to reduce complications<.

Read full report here: https://mybs.in/2elUtbo

COMPILED BY: SURBHI GLORIA SINGH