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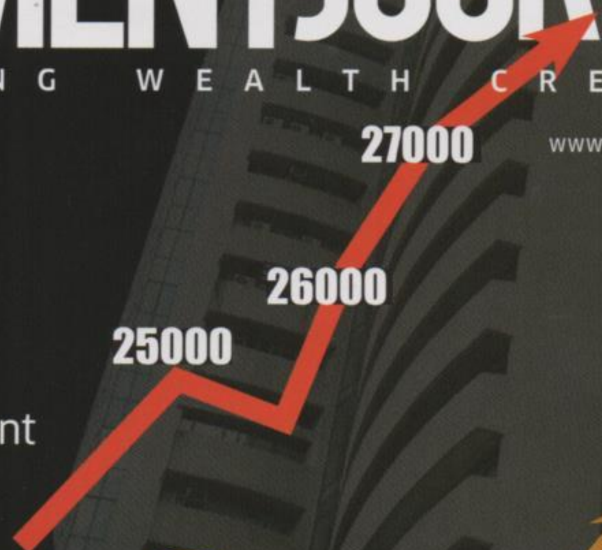


**Editor's Keyboard**

100 Days Of Modi Government

# Markets On Fire

**Flushed with institutional money, markets are touching new highs**

NEW

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# The Retail Investor's Dilemma

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**Since balanced funds are available from mutual funds, should I invest in them or invest in equity funds and debt funds separately? Which is the better path?**
***- Prem S., Mumbai***

T Prem, I am assuming that you are comfortable with the equity ratio of about 65 per cent to 70 per cent which balanced funds generally opt for. While 'balanced' could mean 50 per cent in debt and 50 per cent in equity, this is not what really happens. The Income Tax law states that a fund that maintains a level of 65 per cent in equity will be treated as an equity fund and hence dividend distribution tax will not apply. (For debt funds, there is a dividend distribution tax of 28.33 per cent which is not particularly tax-friendly.) To avoid incurring DDT, many funds stick to a minimum of 65 per cent in equity at any point of time.

To arrive at a conclusion, I have analysed a few balanced funds versus a combination of a few top performing equity funds along with a 30 per cent in Franklin India Short Term Income Plan representing the debt funds.

| | 3 Years | 5 Years | 7 Years |
|---|---|---|---|
| Category: Balanced Funds | | CAGR, % PA | |
| Birla SL '95 Fund(G) | 17.90 | 15.17 | 12.79 |
| HDFC Balanced Fund(G) | 19.89 | 19.91 | 16.36 |
| HDFC Prudence Fund(G) | 19.75 | 18.87 | 15.29 |
| ICICI Pru Balanced Fund-Reg(G) | 21.46 | 18.34 | 12.13 |
| SBI Magnum Balanced Fund-Reg(G) | 21.75 | 13.77 | 11.11 |
| AVG | 20.15 | 17.21 | 13.54 |

The performances of a set of combinations were like this:

| 70% Allocation | 30% Allocation | 3 Years | 5 Years | 7 Years |
|---|---|---|---|---|
| Canara Rob Emerg Eq Fund-Reg(G) | Franklin India Short term Income Plan | 23.48 | 19.73 | 12.39 |
| Franklin India Prima Plus Fund(G) | | 17.53 | 14.38 | 11.66 |
| HDFC Equity Fund(G) | | 17.86 | 15.52 | 13.18 |
| ICICI Pru Value Discovery Fund-Reg(G) | | 24.39 | 19.16 | 16.71 |
| IDFC Premier Equity Fund-Reg(G) | | 18.86 | 17.87 | 16.27 |
| AVG | | 20.42 | 17.33 | 14.05 |

The performance of the HDFC and IPru balanced funds do stand out in their own peer group and also when compared with a set of self combined funds, as in Table 2.

But a deeper study would require us to examine the risk taken to obtain the higher returns in the balanced funds. An apt measure is the downside risk and the Sortino ratio. This calculation reveals that the balanced funds of Table 1 exposed the investor to a higher degree of volatility than the constructed set of Table 2.

But the return delivered for incurring this higher volatility was not commensurate with the risk taken. Hence it does seem that for a less volatile performance, a constructed set of carefully chosen equity funds is better. Another feature of balanced funds in the period under examination is that they were relatively tilted towards mid-cap stocks, and hence the need to have mid-cap funds in Table 2!

For a passive investor who is not too mindful of a degree of higher volatility, the HDFC or ICICI Prudential balanced funds seem alright. But if one wants greater control of the portfolio, a chosen set of equity funds and debt funds that are best of breed in their categories may be better.

> For a passive investor who is not too mindful of a degree of a higher volatility the HDFC or ICICI balanced funds are good; otherwise a set of equity and debt funds areseems to be a better choice.

*Disclaimer: Past performance does not guarantee future returns. The mutual funds which have been mentioned are indicative of historical performance only. Please consult your financial advisor before investing in mutual funds.*