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# WEALTHWISE

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## Wealthwise

“Wealthwise” is a monthly publication brought to you by Wiseinvest Advisors. Wiseinvest Advisors is a quality investment advisory firm that specializes in mutual funds. Though mutual funds are a simple way to invest money, you can get the best only if you get professional advice. Our CEO, Mr. Hemant Rustagi, is a well known mutual fund expert. He brings with him an experience of more than 16 years in the mutual fund industry. He regularly writes articles for major national dailies and business magazines as well as appears as a mutual fund expert on many investments related TV shows. Besides, our team of advisors has professionals who have spent years in the mutual fund industry. In the last five years, thousands of our clients have benefitted from our quality advice and have made mutual funds as the mainstay of their portfolio. You can benefit too from our expertise for your existing as well as new investments in mutual funds. All you need to do is to just call up any of the branches or email your requirements at [information@wiseinvestadvisors.com](mailto:information@wiseinvestadvisors.com) and our professional advisors will do the rest.

Dear Investor,

At the outset I would like to wish you and your family a “Happy Diwali and Prosperous New Year.” We, at Wiseinvest, would like to renew our commitment to get you the best results on your hard earned money, in keeping with your risk profile and investment objectives.



The stock market has apparently moved into a consolidation phase during the month of October 2010. While the Sensex was down by 2.02%, the mid-cap and small cap indices were up by 1.08% and 1.86% respectively. We expect this liquidity driven rally to take a pause and that would provide a good opportunity to investors to buy at good valuations. However, medium to long-term prospects of the market continue to be healthy.

There is a renewed interest in the IPOs after the resounding success of the Coal India Issue. One can expect a lot of action in this space as some of the government owned companies like Steel Authority of India, Power Grid, ONGC and Indian Oil Corporation as well as in the private sector are planning to enter the markets in the next few months. Of course, attractive pricing backed by strong fundamentals will decide the kind of response each one of these will receive from different set of investors. Investors will do well to analyse IPOs thoroughly before deciding to invest in them.

The two key events that could impact the stock markets in the coming days are going to be the meeting of the US Federation Reserve's Federal Open Market Committee (FOMC) to announce further quantitative easing to pump the US economy and the RBI's mid-term review of its monetary policy. As inflation continues to be a challenge for the RBI, it may go for another rate hike.

For those investors who are looking to invest for a certain period and would like to earn stable returns, Fixed Maturity Plans (FMPs) continue to be a good bet. However, before investing in them one has to be sure about the time horizon as secondary market does not provide an efficient exit route.

Warm regards,

**Hemant Rustagi**  
Chief Executive Officer

**Wiseinvest**  
With YOU, in meeting  
FINANCIAL CHALLENGES

Address to be affixed here

## The Stock Market performance during October 2010.

Indices	1st October 2010	29th October 2010	Change in (%)
Sensex	20445.04	20032.34	-2.02%
MIDCAP	8213.67	8302.56	1.08%
SMLCAP	10403.65	10597.59	1.86%
BSE-100	10837.96	10639.96	-1.83%
BSE-200	2579.38	2541.85	-1.46%
BSE-500	8135.23	8036.88	-1.21%

See how you could have created wealth by investing through a Systematic Investment Plan (SIP) in Kotak Midcap (Growth option) as on 30th September 2010.

Period	Investment	Kotak Midcap (Growth)		CNX 500*	
		Value (₹)	Returns (%)	Value (₹)	Returns (%)
1 year	60,000	76,793	56.0	72,716	41.7
3 years	1,80,000	2,87,411	32.9	2,88,164	33.1
5 years	3,00,000	4,77,609	18.7	5,24,129	22.5
Since Inception (Feb 24, 2005)	3,35,000	5,67,226	18.8	6,26,494	22.5

Monthly SIP amount being ₹ 5,000. Returns <1 year: Absolute ; Returns > 1 year: Compounded Annualised Growth Rate (CAGR)

Past performance may or may not be sustained in future.

\*Indicates Benchmark of the Scheme

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[www.kotakmutual.com](http://www.kotakmutual.com)



### Risk Factors:-

Kotak Mid Cap is an open ended equity growth scheme. Investment Objective: - The investment objective of the scheme is to generate capital appreciation from a diversified portfolio of equity and equity related securities. Mutual Funds and securities investments are subject to market risks. There is no assurance that the Scheme's objective will be achieved. NAV of the Scheme's Units can go up / down depending on factors and forces affecting securities markets. Past performance of Sponsor / AMC / Fund does not indicate the scheme's future performance. Kotak Mid Cap is only the name of the Scheme and does not in any manner indicate either the quality of the Scheme, its future prospects and returns. Statutory Details: Kotak Mahindra Mutual Fund is a Trust (Indian Trust Act, 1882) Investment Manager: Kotak Mahindra Asset Management Company Ltd. Sponsor: Kotak Mahindra Bank Ltd. (Liability Rs. Nil) Trustee: Kotak Mahindra Trustee Company Ltd. Please read the Scheme Information Document (SID) and Statement of Additional Information (SAI) carefully before investing. SID and SAI are available on [www.kotakmutual.com](http://www.kotakmutual.com)



TODAY'S MID-CAPS. TOMORROW'S LARGE-CAPS.  
INVEST IN KOTAK MID-CAP

# DSP BR Small & Midcap Fund

## Investment Objective

DSP BR Small cap and Midcap fund is an open ended equity growth scheme that primarily seeks to generate long term capital appreciation from a portfolio substantially constituted of equity and equity related securities, which are not part of top 100 stocks by market capitalization. From time to time, the Investment Manager seeks to participate in other equity and equity related securities to achieve optimal portfolio construction.

The fund is managed by Mr. Apoorva Shah. The fund has a corpus of Rs. 1,104.39 crores as on October 29, 2010.

## Investment Strategy

The scheme focuses on growth oriented small and midcap stocks and is actively managed by the fund manager. The fund manager believes that there are many opportunities in this space as small and midcap companies generally trade at a discount to their large cap counterparts. Besides, this space remains attractive due to the presence of new businesses and growth opportunities in the sunrise sectors. The fund manager is optimistic on the market and continues to remain fully invested with 96% exposure to equities.

## Top 10 sector as on September 30, 2010

Sector	Percentage (%)
Consumer Non Durables	12.81
Pharmaceuticals	8.63
Industrial Capital Goods	6.81
Finance	6.63
Software	6.14
Fertilizers	5.97
Construction	4.18
Pesticides	4.12
Gas	3.76
Industrial Products	3.68

## Performance as on 29 October, 2010

Fund	3 Month*	6 Month*	1 Year*	2 Year**
DSP BR Small & Midcap	14.89	23.14	55.87	74.75
BSE Sensex	11.34	14.45	24.79	48.82

\*Absolute \*\* Annualised. Past performance may or may not be sustained in future.

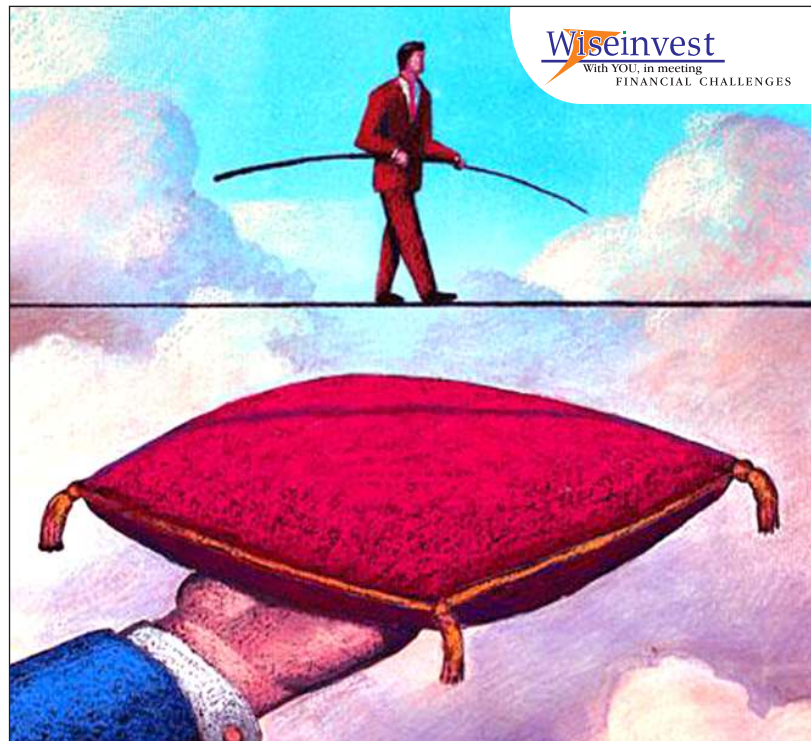
## Top 10 holdings as on September 30, 2010

Company Name	% of Corpus
Bayer Crop Science	2.96
Tata Chemicals	2.83
Bharat Forge	2.80
E I D-Parry (I)	2.75
Thermax	2.74
Info Edge (India)	2.64
Alstom Projects	2.60
Eicher Motors	2.46
Torrent Pharmaceuticals	2.30
Jubilant Organosys	2.29
<b>Others</b>	<b>73.34</b>
<b>Total</b>	<b>100</b>

## Our recommendation

The scheme is suitable for investors who already have an existing portfolio & have adequate exposure to diversified funds. This fund can be ideal option for investors who do not mind going that extra mile & taking extra risk to enhance their returns as small and midcap companies have immense growth potential as they operate on a smaller base. However, it is important for investors to take a long term view, if they choose to invest in this fund.

To know more about this fund and/or to invest in this fund, please call any of our offices. The contact details have been provided on page 6.



## Managing risk and rewards is an art You can count on us to manage both for you

Relying on the past performance alone can be very tempting to invest in mutual funds. But for experts like us, it is just one of the parameters in the selection process. We go beyond performance and select funds that suit your needs and your risk profile. The key to mutual fund success is to invest in the right funds and in the right proportion. Besides, our research team is well equipped to track funds and ensure that your portfolio has the best funds at all times.

Wiseinvest Advisors an Investment Advisory firm that specializes in mutual funds. We follow a disciplined and transparent approach for building as well as monitoring your mutual fund portfolio. A monthly portfolio statement keeps you up-to-date. When you have a mutual fund expert just a phone call away, then why risk your life savings with someone who will learn how to invest with your money. Call any of our branches and you will experience a whole new world of mutual fund investing.

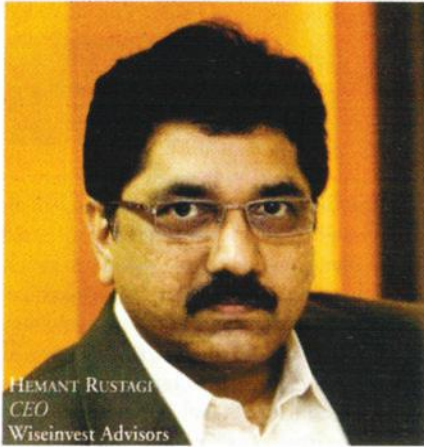
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[www.wiseinvestadvisors.com](http://www.wiseinvestadvisors.com)

Mutual Fund investments are subject to market risk, please read the offer document carefully before investing.

## Wiseinvest in the News

Article of our CEO published in Dalal Street Journal - October 24, 2010.



# The Eagle Eye Approach

Investors stand to derive the maximum yield from their mutual fund investments if they monitor their portfolio well but avoid making hasty changes. Remember, the right selection and regular monitoring are important for long-term investment success.

### KEY POINTS

- Investing for long periods requires an investor to have patience to wait out short-term market volatilities.
- It is important to remember that a portfolio review shouldn't always be done with the sole purpose of making changes in the portfolio.

**I**t is heartening to see an increasing number of investors taking the selection process seriously than ever before or while investing in mutual funds. They have begun to consider factors such as suitability of the fund, past performance, investment philosophy and universe i.e. what is likely to be the strategy of the fund, and the kind of stocks one can expect to see in the portfolio, as well as the level of flexibility that a fund manager enjoys in managing the fund. This will go a long way in not only benefiting the investors in the long run but also keep the fund managers on their toes.

However, many investors are still not sure about how frequently they need to review their portfolio and what strategy to adopt for selling a fund. There is no doubt that reviewing one's portfolio is one of the most important ingredients to achieve investment success on a consistent basis. At the same time, doing so on a daily basis, as many investors do, can be counter-productive.

Investing for long periods requires an investor to have patience to wait out short-term market volatilities and uncompromising focus on the long-term investment goals. That's why the right selection process at the start of the investment programme becomes crucial. In other words, if you select well at the start, it will do your portfolio a world of good. As regards monitoring the portfolio, it will be a good idea to begin reviewing the portfolio on a quarterly basis. Regular monitoring would prompt you to ask relevant questions to your advisor, if you have one. This in turn would make you a better investor over time and ensure that your portfolio remains on track. Besides, don't forget to review the portfolio in greater detail when your investment goals or financial circumstances change.

It is important to remember that a portfolio review shouldn't always be done with the sole purpose of making changes in the portfolio. While one shouldn't hesitate in making changes if required, it will be wrong to consider

short-term performance to identify non-performing funds in the portfolio. While there cannot be a set formula for determining the perfect time to sell, one can follow certain guidelines while deciding to sell an investment in a mutual fund scheme.

### Here are some of these:

- ✓ Consider selling a fund when your investment plan calls for a sale rather than doing so for emotional reasons.
- ✓ Hold a fund long enough, i.e. at least for a couple of years to evaluate its performance. If you regularly move in and out of funds more frequently than that, you are in reality just gambling and seeking the luck that may bring you short-term performance.
- ✓ It's time to sell a fund when you need the money.
- ✓ It's time to sell a fund when it no longer meets your needs. If you have done a good job of selecting the fund initially, this will only be the case if the fund changes its objective or investment style, or if your needs change.

Some investors make the mistake of holding on to their funds for too long. But they are in the minority. Many more investors err on the side of selling funds without giving them time to show what they can do. While analysing the performance of funds, remember that negative returns from a fund may not necessarily mean poor performance. Even the best of the fund managers are likely to give negative returns during steep market downturns. Therefore, the time period considered also signifies the true level of performance. For example, short term negative returns in line with the market from a fund that has been doing well for years means nothing and hence should be ignored.

Similarly, even a bad fund manager can give decent returns when the markets are doing well. One should be vigilant enough to monitor whether the fund manager has enhanced the returns of a fund by increasing the risk level. For example, this could be by way of increasing exposure to mid-cap and small-cap stocks significantly when the markets are doing well. Therefore, both the right selection and regular monitoring are important for your long-term investment success. Remember, it is not either-or, but both. ■

Dalal Street Investment Journal ■ Oct 11 - 24, 2010

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# Performance of Select Funds

Data as on October 29, 2010

## EQUITY FUNDS

### Diversified

Fund	Launch	1-Month*	3-Month*	6-Month*	1-Year*	2-Year**	3-Year**	5-Year**
Birla Sun Life Frontline Equity Plan A	Aug-02	0.54	10.46	14.70	29.87	55.95	8.32	26.57
Canara Robeco Equity Diversified	Sep-03	-1.39	7.96	13.11	34.16	60.28	6.49	22.62
DSPBR Top 100 Equity Reg	Feb-03	-1.06	10.84	14.82	25.30	46.80	6.92	27.23
DWS Alpha Equity Regular	Jan-03	0.95	11.47	14.97	28.10	46.13	2.80	24.87
DWS Investment Opportunity Regular	Jan-04	0.17	10.10	11.69	29.58	50.00	2.71	26.27
Fidelity India Special Situations	Apr-06	1.86	11.48	18.17	37.08	53.94	6.55	—
Franklin India Prima Plus	Sep-94	-1.32	10.74	14.44	33.11	48.48	5.16	25.37
HDFC Equity	Dec-94	1.38	14.33	24.00	43.47	68.73	12.83	28.54
HDFC Top 200	Sep-96	0.60	12.87	21.18	35.40	60.64	12.07	28.54
ICICI Prudential Focused Bluechip	May-08	2.50	13.22	20.42	37.10	62.51	—	—
ICICI Prudential Discovery	Jul-04	0.73	8.90	14.68	43.06	82.80	18.46	23.95
Kotak 30	Dec-98	0.88	10.40	15.58	26.22	44.65	2.13	23.00
Kotak Opportunities Fund	Aug-04	1.14	13.09	17.86	33.43	56.15	4.86	25.86
Reliance Growth	Oct-95	3.15	12.97	16.07	39.36	58.92	9.62	27.93
Reliance Regular Savings Equity	May-05	2.43	12.30	17.77	39.12	62.96	15.07	27.75
Reliance Vision	Oct-95	-0.08	11.19	17.80	32.78	52.73	3.37	23.77
Religare Contra	Mar-07	1.39	9.60	14.41	30.57	64.32	10.81	—
SBI Magnum Sector Umbrella - Contra	Jul-99	0.22	9.94	12.83	25.77	53.03	4.21	24.61
SBI Magnum Multiplier Plus 93	Feb-93	2.25	10.72	17.69	37.04	53.94	3.94	25.41
Sundaram Select Focus	Jul-02	0.77	11.29	14.63	27.26	37.93	-0.21	24.28
Tata Equity PE Fund	Jun-04	0.55	11.04	14.12	31.48	60.18	8.03	24.98
Tata Select Equity Fund	Apr-01	-0.36	10.30	13.60	37.48	62.55	-0.63	21.52

### Sector, Specialty & Tax Saving

Canara Robeco Infrastructure	Nov-05	-2.00	7.01	9.20	26.36	58.10	-0.95	—
DSPBR T.I.G.E.R. Fund	May-04	-0.24	10.31	14.33	29.80	52.11	-0.69	24.77
ICICI Prudential Infrastructure Fund	Aug-05	-1.27	5.81	8.00	19.87	45.09	1.05	27.45
DSPBR World Gold Fund	Aug-07	1.38	15.26	18.67	24.13	59.54	8.23	—
Reliance Banking	May-03	6.68	26.90	41.19	66.95	81.82	28.05	33.35
Reliance Diversified Power Sector	Apr-04	-1.22	4.81	6.32	18.26	51.12	7.13	36.02
Canara Robeco Equity Tax Saver	Mar-93	-0.79	9.20	13.58	38.12	67.85	10.75	25.77
SBI Magnum Taxgain Scheme 93	Mar-93	0.46	8.70	12.94	25.91	49.46	1.15	20.41
Sundaram Tax saver	Nov-99	1.07	11.40	15.66	24.62	45.20	6.05	23.91

### Midcap & Smallcap

Birla Sun Life Mid Cap Plan A	Oct-02	2.96	11.47	14.59	33.53	67.96	8.38	26.00
DSPBR Small and Mid Cap Reg	Oct-06	3.33	14.89	23.14	55.87	74.75	13.25	—
IDFC Premier Equity Plan A	Sep-05	0.96	10.98	22.09	51.46	69.99	17.49	32.65
Principal Emerging Bluechip Fund	Oct-08	1.43	11.40	15.64	41.38	—	—	—
Sundaram Select Midcap	Jul-02	3.45	15.65	24.05	44.38	69.00	11.06	29.21
Sundaram S.M.I.L.E.	Jan-05	1.10	10.25	16.10	29.74	68.43	9.61	25.25

### MIP

Canara Robeco MIP	Apr-01	0.3222	2.8623	4.5601	11.0976	20.0793	7.8494	13.4139
HDFC MIP LTP	Dec-03	0.4233	4.1373	6.7382	13.5806	25.2498	11.1415	13.1562
Reliance MIP	Dec-03	0.075	3.4481	5.74	12.0028	22.4891	13.8495	13.4764
Principal MIP Plus	Dec-03	0.3085	2.2474	3.4452	7.1614	16.2775	8.2963	10.3719

### Hybrid: Equity Oriented

Fund	Launch	1-Month*	3-Month*	6-Month*	1-Year*	2-Year**	3-Year**	5-Year**
Birla Sun Life 95	Feb-95	0.68	7.81	13.79	28.38	50.14	11.47	21.88
HDFC Prudence	Jan-94	1.11	9.78	18.19	38.57	58.62	14.00	24.55
Reliance Regular Savings Balanced	May-05	0.83	10.58	15.25	36.84	56.58	15.04	19.02

### Debt Oriented & Liquid Plus Funds

Funds	Launch	1 Week*	1 Month*	3 Months*	6 Months*	1 Year*	2 year**	3 Year**
Birla Sun Life Dynamic Bond Ret	Sep-04	0.0678	0.1307	1.2002	2.1165	5.748	8.9936	9.7919
BNP Paribas Flexi Debt Reg	Sep-04	0.1332	-0.3523	0.6373	1.2815	4.5347	10.4257	10.2974
Templeton India Short-term Income Ret	Jan-02	0.0963	0.2207	1.2389	2.1777	6.6484	10.0616	9.1123
Templeton India Income Opportunities	Dec-09	0.0999	0.2216	1.4547	2.6999	—	—	—
BNP Paribas Money Plus Reg	Oct-05	0.1287	0.506	1.4833	2.7549	5.1099	6.3269	7.1422
Kotak Floater LT	Aug-04	0.1288	0.528	1.4539	2.7739	5.2443	6.0994	7.0508


\*Absolute \*\* Annualized.

### Dividends declared by equity and equity-oriented funds during the month of October 2010

Scheme name	Date	Dividend declared in Rs. Per unit
SBI Magnum Multiplier Plus (D)	01/10/2010	7.00
Sahara Wealth Plus - VPO (D)	06/10/2010	4.00
Sahara Wealth Plus - FPO (D)	06/10/2010	4.00
UTI Transport & Logistics (D)	06/10/2010	2.00
Tata Equity P/E Fund (TO-A5%) (D)	11/10/2010	1.75
Tata Equity P/E Fund (TO-B 10%) (D)	11/10/2010	3.50
Birla Sun Life Equity Fund (D)	15/10/2010	5.00
Birla Sun Life Top 100 (D)	15/10/2010	1.00
IDBI Nifty Index Fund (D)	15/10/2010	0.40
Kotak Select Focus Fund (D)	15/10/2010	1.25
Principal Emerging Bluechip(D)	18/10/2010	1.00
Franklin India Oppor. (D)	22/10/2010	1.00
Franklin Infotech Fund (D)	22/10/2010	2.00
Tata Select Equity Fund (D)	22/10/2010	5.00
Religare Business Leaders (D)	23/10/2010	1.20
UTI Pharma & Health (D)	28/10/2010	1.70
Birla SL Dividend Yield (D)	29/10/2010	0.75
ICICI Pru Equity Opportunities (D)	29/10/2010	0.50
ICICI Pru Power (D)	29/10/2010	1.00
Sahara Growth Fund (D)	29/10/2010	7.50

Please check whether you have received dividend for the fund/s that you may have in your portfolio out of this list. In case, you do not maintain any portfolio statement, Wiseinvest Advisors can do that for you free of charge. Once we have the details, we would send your updated statement every month. You can contact our corporate office or any of the branches to avail of this free service.

Mutual funds, like securities investments, are subject to market and other risks. As with any investments in securities, the NAV of units can go up or down depending on the factors and forces affecting capital markets.



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# Active Vs Passive Fund Management

One of the most fundamental and controversial investment debates has been over active versus passive fund management. While indexing i.e. passive fund management is considered to be an integral part of portfolio building in the developed markets, it has not become popular in India so far. That's because Indian economy has been growing at a much faster pace and that resulted in the markets doing very well. Consequently, several individuals stocks did much better than indices and that helped actively managed funds in giving much better returns than the broader market.

Indexing is a type of passively managed strategy that seeks to track the performance of a benchmark market index like BSE Sensex or S&P CNX Nifty. One of the ways of practicing a passive fund management strategy is through an index fund. In an index fund, the fund manager maintains the portfolio of all the securities in the same proportion as in the benchmark index. Therefore, any trading done by him is not to sell non-performing securities and to buy better performing ones but to mimic a changing index and to deal with fresh inflows and outflows on account of redemptions. Simply put, passive fund management strategy is easy to understand as it follows a safe approach to investing. In India, there are index-based stock funds as well as Sector index funds.

Then there are Exchange Traded funds (ETFs). An ETF combines the features of an index fund as well as stocks. Unlike Index funds, ETFs are listed on the stock exchanges and their prices are linked to the underlying index. ETFs can be bought and sold like any other stock on an exchange. Therefore, one can invest at real time prices as against the end of the day prices as is the case in open-ended schemes. Besides, there is no paper work involved for investing in an ETF.

ETFs are also known to be more efficient than Index funds in terms of mimicking the performance of the underlying index. That's because ETFs have lower expense ratio and are also not required to keep some cash to meet the on-going redemptions. ETFs can be used as a hedging vehicle too. In addition, the smaller denominations in which ETFs trade relative to most derivative contracts provide a more accurate risk exposure match, particularly for small investment portfolios.

The most common ETFs in India track an index. These ETFs do not stick to the basic Sensex and Nifty, but offer more options to investors. Nifty Bees, Junior Bees, Gold Bees, Bank Bees and Hang Sang Bees are some of the ETFs traded in India. Gold ETFs have a significant presence and are actively traded in India.

Active fund management is a strategy where the fund manager makes a decision on which security to include and which one to exit. This is done in order to maximize the returns for investors. The basic difference between active and passive investing is like the difference between the actions of an individual i.e. the fund manager and the action of the market as a whole. Therefore, the fund manager of an actively managed fund plays a crucial role in implementing the fund's investment strategy and philosophy. He aims to outperform the fund's benchmark by doing superior stock selection as well as by riding the upswing and missing the falls by actively managing the portfolio.

If one were to analyze the performance of an actively managed fund vis-à-vis an index fund, one would generally find that during an initial phase of a market rally, index funds perform better than actively managed funds. However, as the rally continues and percolates down to different markets segments and sectors, actively managed fund start out-performing the index funds.

The table below highlights the performance of some of the leading index funds as well as actively managed funds:

## Performance of Index Funds

Fund	1 Year*	2 Year*	3 Year*	5 Year*
Franklin India Index NSE Nifty	17.30	12.14	7.33	17.88
HDFC Index Sensex	15.96	10.11	3.40	15.60
UTI Master Index	16.60	11.65	5.95	18.16

\*Annualized return. \*\* Performance as on September 10, 2010.

## Performance of Actively Managed Funds

Fund	1 Year*	2 Year*	3 Year*	5 Year*
HDFC Top 200	32.35	27.04	18.51	26.66
HDFC Equity	45.18	32.15	18.35	26.62
Reliance Growth	34.37	25.37	16.36	24.38
IDFC Premier Equity Plan A	56.96	35.20	25.26	-
Fidelity Equity	37.63	25.54	13.15	22.69
ICICI Prudential Dynamic	31.69	20.55	12.66	23.17

\*Annualized return. \*\* Performance as on September 10, 2010.

As is evident, actively managed funds have been able to put up a much better show over different time periods. Needless to say, the ability to move in and move out gives an active fund manager a great advantage over a passively managed fund. Moreover, considering that index funds are effectively run by computers and the fact that price sensitive information keep appearing regularly, actively managed funds have a proven edge.

While supporters of active and passive fund management strategies continued their debate, some of the alternate investment strategies have been making attempts to get noticed. One such development is emergence of Quant funds i.e. a short name for quantitative funds. Quant funds first emerged in 1970s in the US. However, the real spurt in the growth happened during the last decade or so. Today, there are funds launched by many of the leading fund management companies in the US like Vanguard, Federated, Janus, American Century, Alliance Bernstein, Evergreen and Charles Schwab.

These funds have reached Indian shores too. Lotus mutual fund became the first one to launch a quant fund in the year 2007. Lotus India AGILE (now known as Religare AGILE) fund invests in a set of stocks out of 50 stocks NSE Nifty index. To be precise, the fund invests 9 % of its asset in 11 chosen index stocks and the balance 1% in debt. The fund house followed this by another quant based ELSS. Reliance Mutual Fund was the next to join the bandwagon by converting its index fund into a quant fund called Quant Plus Fund. Recently, Canara Robeco Mutual Fund too launched a quant based fund i.e. Canara Robeco Large Cap Plus fund. The fund will focus on both quantitative technique and fundamental research. The quant model for this fund will monitor 150 large cap stocks and try to gauge investment signals by assessing by assessing valuations, earning revision and momentum in the stocks.

A quant fund selects stocks based on quantitative analysis and look for anomalies and non-obvious patterns in the market. These anomalies or patterns can present a great investment opportunity for short as well as long-term investors.

As is evident, a quant fund focuses on a scientific approach to earn returns for its investors. Before putting to use, the strategies are thoroughly tested over different time periods. Therefore, one of the major advantages of a quant fund is that it is model driven and is emotionless. This helps a quant fund in enhancing the efficiency of the fund management process. Quant funds can also be an ideal option for international investing especially considering that sheer immensity of global markets makes it impossible for humans to keep up.

Like other investment approaches, there are a few drawbacks of this one too. Firstly, even the most sophisticated of computer models can't account for all the variances of the market. It is often said that a quantitative investment processes lack human judgment. The fact, however, is that human judgment plays an important role in working out the model based on which a quant fund operates. It will not be wrong to say that a quant fund differs from a traditional manager only in terms of timing and not in terms of judgmental input. While it is true that experience and understanding play a crucial role while researching stocks but they hardly make any difference in implementation. However, another factor that cannot be ignored is that it is the humans who build models and their intervention can sometimes create bias in the process.

Cont. on page 6...

## Active Vs Passive...

Cont. from page 5...

Besides, the methodology of stock selection is not very transparent for many quant funds. It is quite common for many quant funds to withhold information on the criteria that forms the basis of their model for the fear of being copied. Some of the quant funds have a very complex strategy that many investors find it difficult to understand. Another drawback is that quant funds can have a flawed strategy in case the input for the model is faulty. After all, a computer can only analyze that information which is fed into it.

For a quant fund to succeed it is necessary that data set for testing should be as extensive as possible. Preferably, it should include a full economic cycle as well as different market conditions. It is a critical ingredient to achieve success on a consistent basis. Some of the quant funds in the initial stages failed as they limited testing to too short a period. Another threat is that these models can be copied and lose their edge in terms of alpha.

Even the most elegant of the models cannot predict unpredictable events. The poor show by quant funds during the market downturn in 2008 in both US and Indian markets have raised questions about the ability to these funds to handle such market conditions. However, it wouldn't be fair to expect these quant models to work in all market conditions. The fact is that no model works all the time.

For Indian investors, quant funds may not become a significant addition to their portfolios in the near future but they are likely to make their presence felt as they become conversant with their working. The traditional fund management, however, will continue to rule the roost.

Coming back to the debate of active and passive fund management, the growth of active as well as passive fund management styles (not to forget alternate investment styles) provide investors with an opportunity to invest in the style they are comfortable with. By doing so, they can get the best results and that too in keeping with their risk taking abilities. Though Indexing as a strategy provides an inherent advantage of lower costs, not many investors are able to enjoy this benefit as their holding period is generally much shorter than that of investors in actively managed funds. The urge to book profits at a certain market level compels them to redeem their holdings from time to time. Investors will do well to take a long-term view to benefit from inherent advantages offered by passive fund management.

As both the strategies have some positives and negatives, a blend of active and passive funds could be a good strategy. While the right way to decide on the portfolio composition depends on each investor's time horizon, risk profile and the size of the portfolio, as a thumb rule, the portfolio can be indexed to the extent of 15-20%. In fact, mutual fund investors also have the advantage of investing in "enhanced index funds" i.e. funds that seek to slightly out-perform a specific index while maintaining an overall risk profile comparable to the index.

As investment environment gets more challenging, investors are likely to use the best of both humans as well as machines. Let us not forget that while humans are good at collecting data, machines are good at processing them.

(This article written by our CEO was published in Business & Management Chronicle-November 2010)

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**ICICI Prudential Infrastructure Fund**  
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Performance returns as on 30<sup>th</sup> September 2010 (Growth Option)

Scheme	1 year	3 year	5 year	Since Inception
ICICI Prudential Infrastructure Fund	15.28%	7.77%	24.64%	25.93%
SENSEX (Benchmark Index)	18.61%	6.27%	18.20%	20.01%

ICICI PRUDENTIAL MUTUAL FUND  
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**'Largest' is with reference to assets under management of infrastructure funds.** Source: www.valueresearchonline.com. The inception date is 31/08/05. Returns shown above are compounded annualised returns. The since inception return is calculated on NAV of ₹ 10/-. NAV of Growth Option is considered for computation and does not include the load. The performance shown above does not necessarily indicate future returns and may not necessarily provide a basis for comparison with other investments. **Statutory Details:** ICICI Prudential Mutual Fund (the Fund) was set up as a Trust sponsored by Prudential plc (through its wholly owned subsidiary namely Prudential Corporation Holdings Ltd) and ICICI Bank Ltd. ICICI Prudential Trust Limited (the Trust Company), a company incorporated under the Companies Act, 1956, is the Trustee to the Fund. ICICI Prudential Asset Management Company Ltd (the AMC), a company incorporated under the Companies Act, 1956, is the Investment Manager to the Fund. ICICI Bank Ltd and Prudential Plc (acting through its wholly owned subsidiary namely Prudential Corporation Holdings Ltd) are the promoters of the AMC and the Trust Company. **Risk Factors:** All investments in Mutual Fund and securities are subject to market risks and the NAV of the Schemes may go up or down, depending upon the factors and forces affecting the securities markets and there can be no assurance that the fund objectives will be achieved. Past performance of the Sponsors, AMC/Fund does not indicate the future performance of the Schemes of the Fund. The Sponsors are not responsible or liable for any loss resulting from the operation of the Schemes beyond the contribution of an amount of ₹ 22.2 lacs, collectively made by them towards setting up the Fund and such other accretions and additions to the corpus set up by the Sponsors. **ICICI Prudential Infrastructure Fund** is an open-ended equity scheme that seeks to generate capital appreciation & income distribution to unitholder by investing predominantly in equity and equity related securities of the companies belonging to infrastructure development and balance in debt securities & money market instruments. Investments in the scheme may be affected by trading volumes, settlement periods, volatility, price fluctuations, liquidity risks, derivative risk, market risk, risk relating to fluctuations in foreign exchange for investments in foreign securities, lending & borrowing risks, credit & interest rate risks relating to debt investment. **Entry Load:** Nil. **Exit Load** (a) If the amount, sought to be redeemed or switched out, is invested for a period of upto one year from the date of allotment - 1% of the applicable NAV; (b) If the amount, sought to be redeemed or switched out, is invested for a period of more than one year from the date of allotment - Nil. **ICICI Prudential Infrastructure Fund** is only the name of the scheme and does not in any manner indicate either the quality of the Scheme or its future prospects and returns. Please read the Statement of Additional Information and Scheme Information Document carefully before investing. \*Tarakki does not mean guaranteed future returns.

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