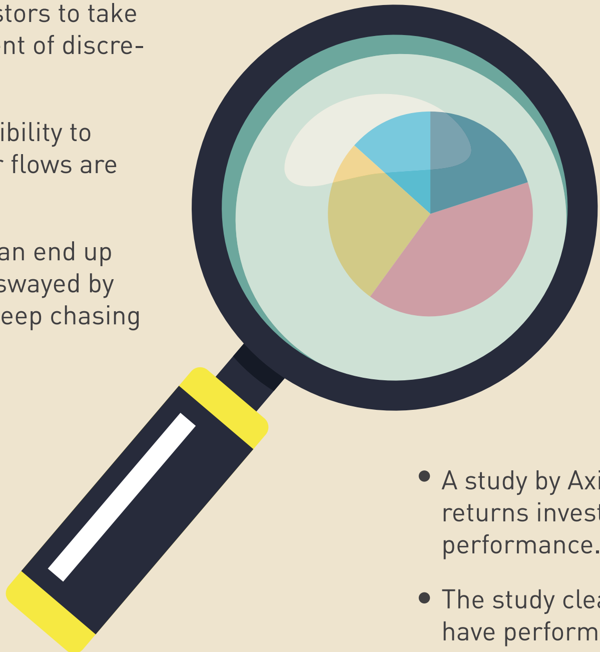
Are investors creating enough wealth from their mutual fund investments

Findings from an in-depth study

AXIS MUTUAL FUND

Background

- Given a lack of forced-savings programs in India, there is an onus on investors to take regular decisions on deployment of discretionary savings.
- On the one hand this gives flexibility to investors to decide where their flows are allocated.
- However this same flexibility can end up being harmful if investors get swayed by short term market noise and keep chasing the latest performer.

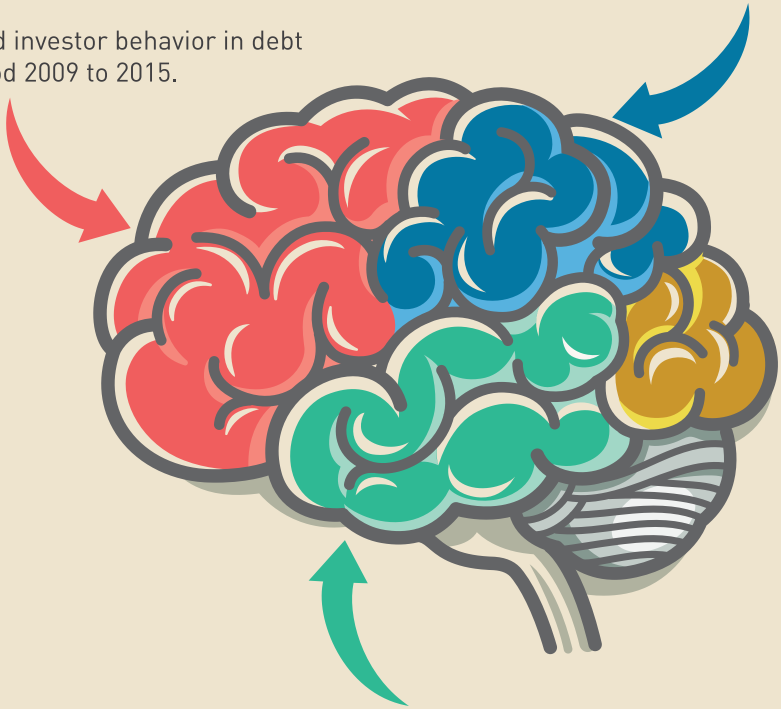


- A study by Axis Mutual Fund reveals what returns investors are getting vs the fund performance.
- The study clearly shows that while funds have performed, investors have not been able to make the most of it.
- The obvious reason – investor behavior, where-in investors get influenced by short-term market movements and take sub-optimal decisions which have an adverse impact on their returns.

The Study

- We analyzed investor behavior between 2003 and 2015.
- The analysis was carried out separately for equity and multi-asset (hybrid) funds.
- Further we analyzed investor behavior in debt funds over the period 2009 to 2015.

We conducted a comprehensive analysis of the effects of Indian investors' investment behavior (buy-sell decisions) on their long term performance.



- We also looked at fund returns under different mode of investments, lump sum (buy and hold) and systematic regular investments (such as SIPs).
- Once again investor returns are worse than fund returns in either of the 2 scenarios.:
- The chart below summarizes the findings over the long term (2003 to 2015 for equity and hybrid funds, 2009 to 2015 for debt funds):

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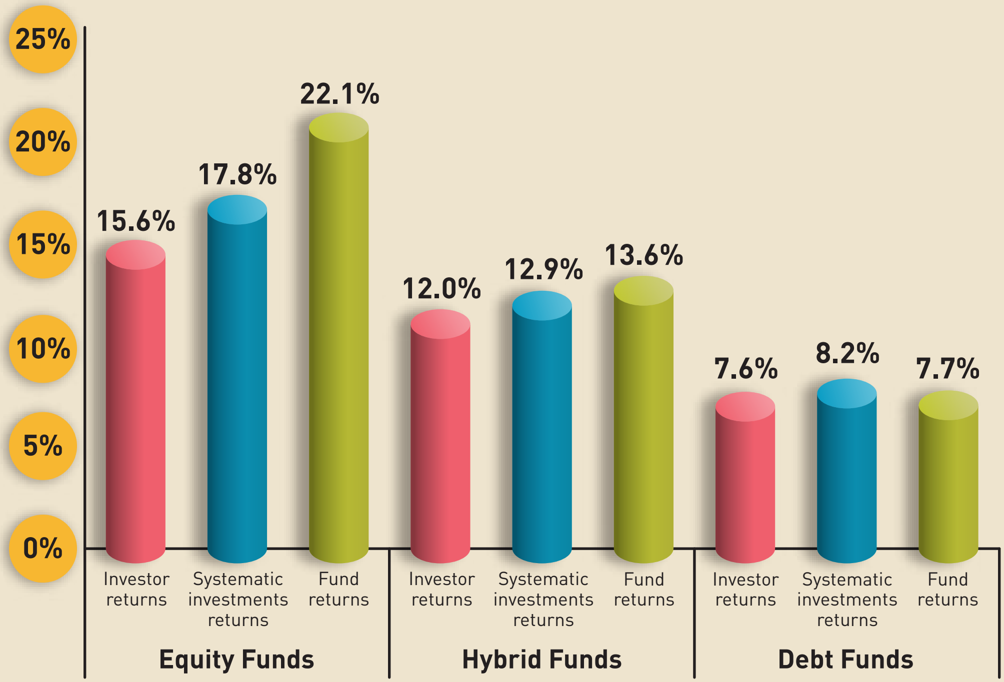
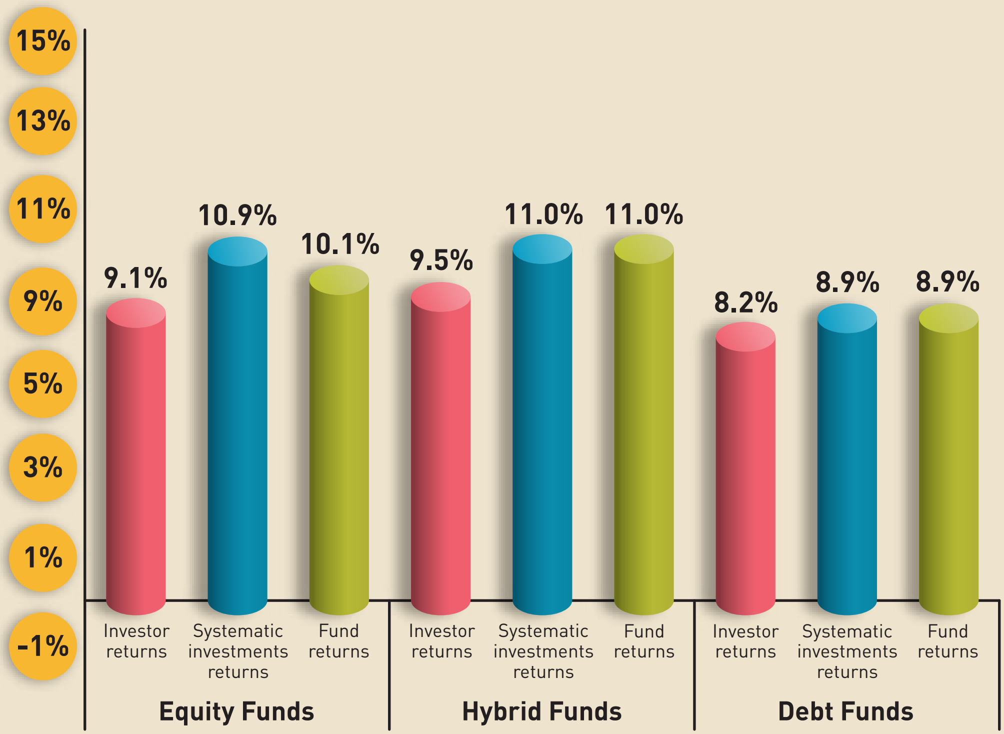
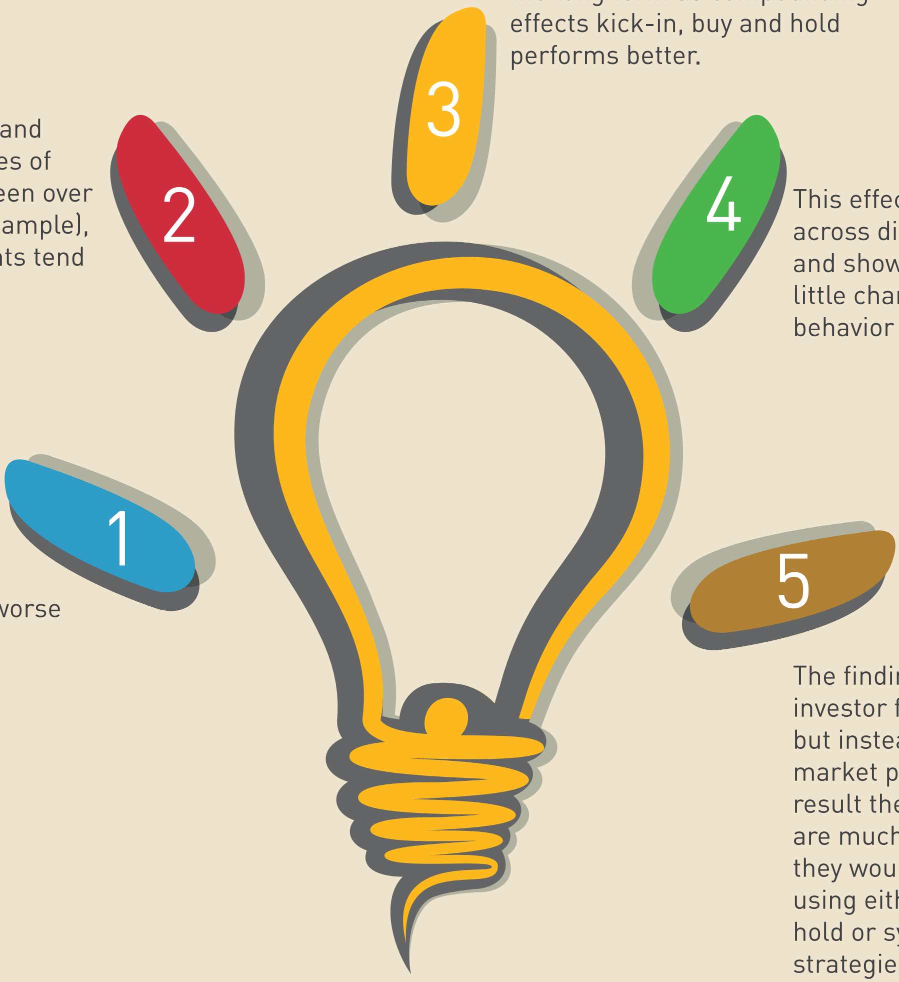


The same observation is true if we take a shorter time period of 5 years (2011-2015) as seen below:



The Findings



Investor returns are worse than fund returns.

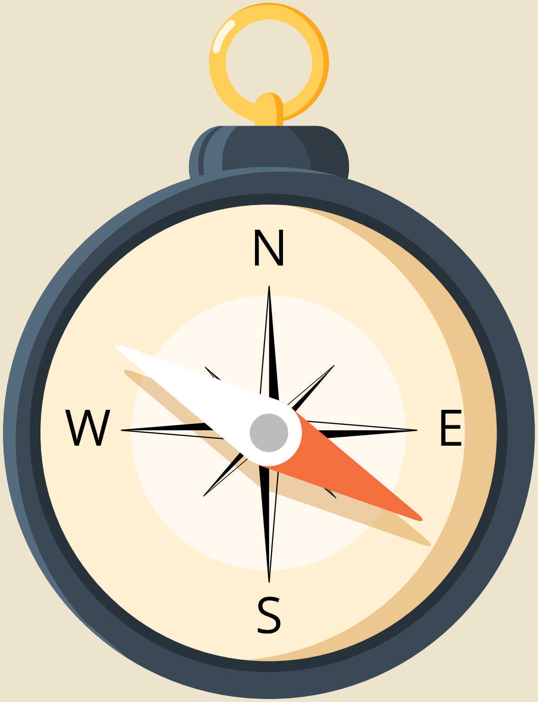
Over shorter periods and especially during times of higher volatility (as seen over the last 5 years for example), systematic investments tend to do better.

Between buy and hold and systematic investment strategies, it is seen that over the long term as compounding effects kick-in, buy and hold performs better.

This effect is persistent across different time periods and shows that there has been little change in investor behavior over the last 15 years.

The findings conclude that investor flows are not stable but instead tend to follow market performance and as a result their realized returns are much worse than what they would have achieved by using either simple buy and hold or systematic investment strategies.

What should investors therefore do?



1

Investors should not get bothered by short-term market movements and instead focus on their goals and make appropriate investment decisions.

2

Investors should, on a regular basis, invest their savings. Systematic Investment Plans or SIPs are quite well suited for investors that have regular cash flows as they take away the operational challenges of investing every month/quarter.

3

Investors need to stay disciplined and focused on the long term while making allocations in order to get the best outcomes from their investments.

4

The evolved set of investors should embrace STP (Systematic Transfer Plan) & SWP (Systematic Withdrawal Plan), in addition to SIPs.

Disclaimer

• The analysis used regular growth plan returns for all actively managed diversified funds for which data was available during the period. All analysis was done using monthly AuM and return data.

• Equity Funds: All open-ended, actively managed diversified funds for which data was available during the period.

• Debt Funds: All open ended debt schemes excluding liquid, ultra short term and gilt schemes for which data was available during the period

• Hybrid Funds: All open–ended hybrid schemes including MIP, balanced and other asset allocation schemes.

• Fund Returns: Fund returns represent the asset weighted returns for all funds. Investor Returns: Investor returns represent the consolidated returns that were realized by all investors adjusting for their inflows/outflows into individual schemes. These were computed using an IRR approach after calculating net sales into each fund. SIP returns are calculated based on investments made quarterly at the end of the month. Data as on 30th April 2016. Source: AceMF, MFI Explorer, Axis MF Analysis

Statutory Details and Risk Factors

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