Investor Returns – Using your Mutual Funds More Effectively

Thinking ALOUD

An Axis Mutual Fund Initiative

AXIS MUTUAL FUND

Understanding Investor Psyche

Like markets, investing in equity mutual funds needs patience while investing. After all equity mutual funds are pooled vehicles to invest into domestic and global equity markets. Indian mutual funds across the industry especially ones that have been around for 10 years or longer have created significant value. Their performances are typically monitored by reviewing fund NAVs over a period of time.

Much too often, investors try to extrapolate returns looking at past returns while making investment decisions only to get disheartened by near term performance. Further the cycle of switching between poor performing funds in favour of funds where near term performance looks strong repeating the cycle. This vicious cycle often results in sub optimal returns over the entire investment period.

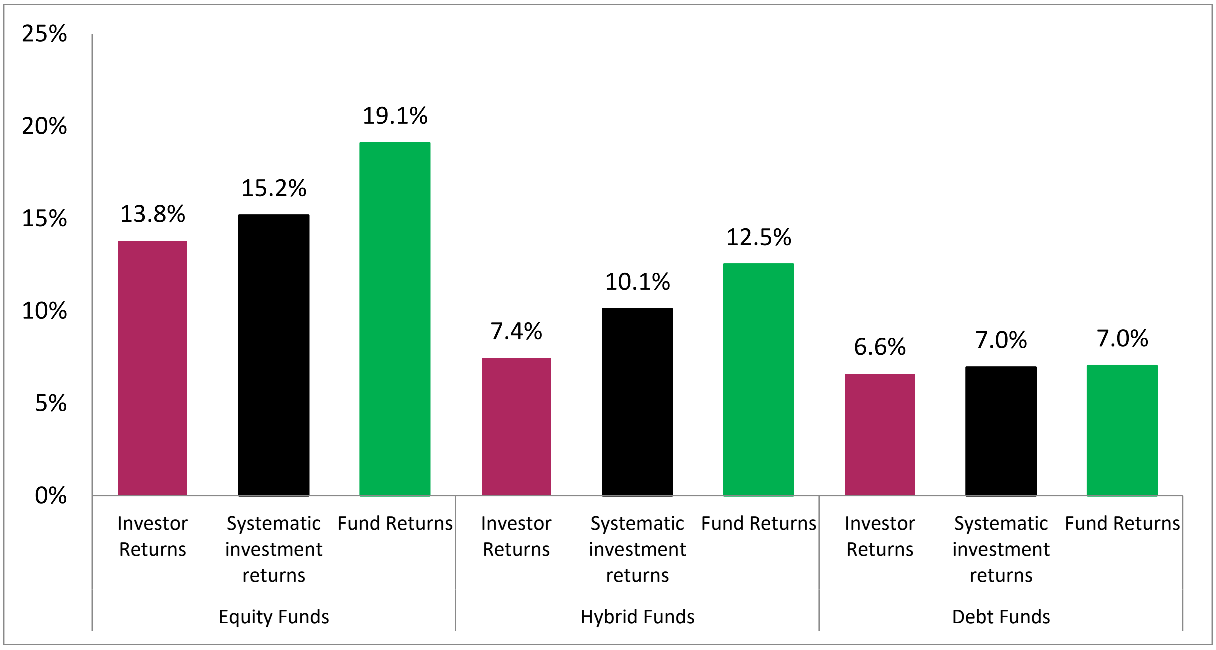
Indian mutual funds, and by extension fund managers, at least the well-established ones have built their reputations over time on the back of a solid investment philosophy. While the philosophies may differ, the end goal is to deliver a healthy investor experience through the entire investing journey. Economic and market specific cycles determine how well a fund house or a fund manager navigates through an economic cycle. At the end however, funds with a defined strategy, style and philosophy have outperformed peers that sway with the markets in terms of investing strategy.

From an investor standpoint, in addition to staying invested, conviction in the fund manager and his/her philosophy is critical to extracting maximum investing utility from MF investments. This attribute to fund investing is not unique to India alone. Globally this phenomenon has played out time and time again.

Trends of Investing – Identifying the mistakes retail investors make

To quantify the effects of Indian investors' frequent churn decisions on their long-term returns, we at Axis MF analysed investor behaviour for equity and hybrid funds over the last 20 years (2003-2022) and debt funds over the last 14 years (2009-2022). Apart from calculating point-to point investor and fund returns, we also looked at returns delivered through systematic investments (such as SIPs). The chart below summarizes the findings for equity and hybrid funds (over 2003-2022) and for debt funds (over 2009-2022)

Comparison of Fund Returns, SIP Returns, and Investor Returns

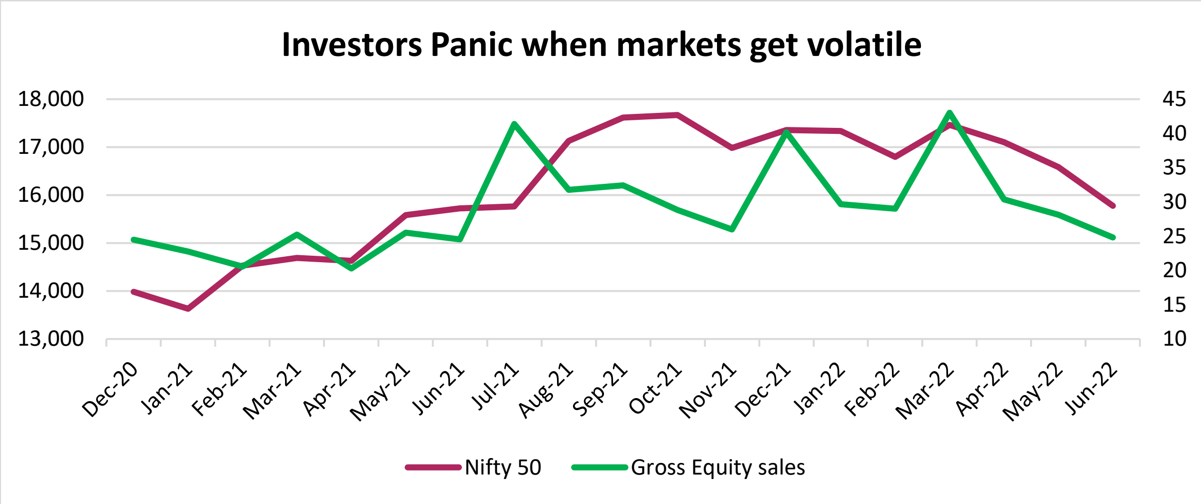


Equity/hybrid funds data pertain to the period 2003-2022; debt funds data pertains to 2009-2022.
Source: Axis MF Research. **Past performance may or may not sustain in future.** The above study is to explain investment habits and is not an investment advice

Emotions have a significant bearing on investing returns especially in today's environment of 'information overload'. Equity markets are all about the big picture. However too often emotions are swayed by myopic views portrayed by social media, newsprint and even TV channels. The resulting distortion often leads to rudimentary mistakes made while taking investing decisions.

SIPs have been widely publicised as an efficient yet effective medium for retail investors to participate in equity markets as they offer twin benefits of regular investing and cross cyclical investing. SIPs help mitigate the issue of timing the market through regular, equalized allocations over time and are well-suited for investors who have regular cash flows as they can automatically invest every month/quarter with ease.

The chart below explains a classic example of emotional investing by retail investors in MFs over the last 2 years. Gross equity sales have followed the trend of the market – represented by the NIFTY 50 (India's most widely tracked equity index). This is one of the prime reasons for investor returns being lower than the fund returns. A basic solution to this problem for investors is to stay invested through the complete market cycle rather than chasing a trend during a particular time period



Source: AMFI, NSE, Axis MF Analysis; Nifty 50(LHS); Gross Equity sales in lakhs (RHS)

Thumb rules for investing in MFs

Habits to avoid:

- Overreacting to market sentiment. Avoid the greed and fear cycle
- Focusing too much on short-term returns. Avoid chasing short-term performance for long-term gains
- Taking knee-jerk investment decisions. Avoid impulsive investing, rather, invest in a systematic manner to make the most of compounding and rupee cost averaging

What investors should do to take full advantage of their investments:

- Start early and invest regularly. This way, you stand to gain the full benefit of compounding
- Don't get swayed by market noise in the short term. Stick to systematic investing even when the market is going through a correction.
- Invest in long-term funds/strategies. Avoid following risky short-term market fads

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