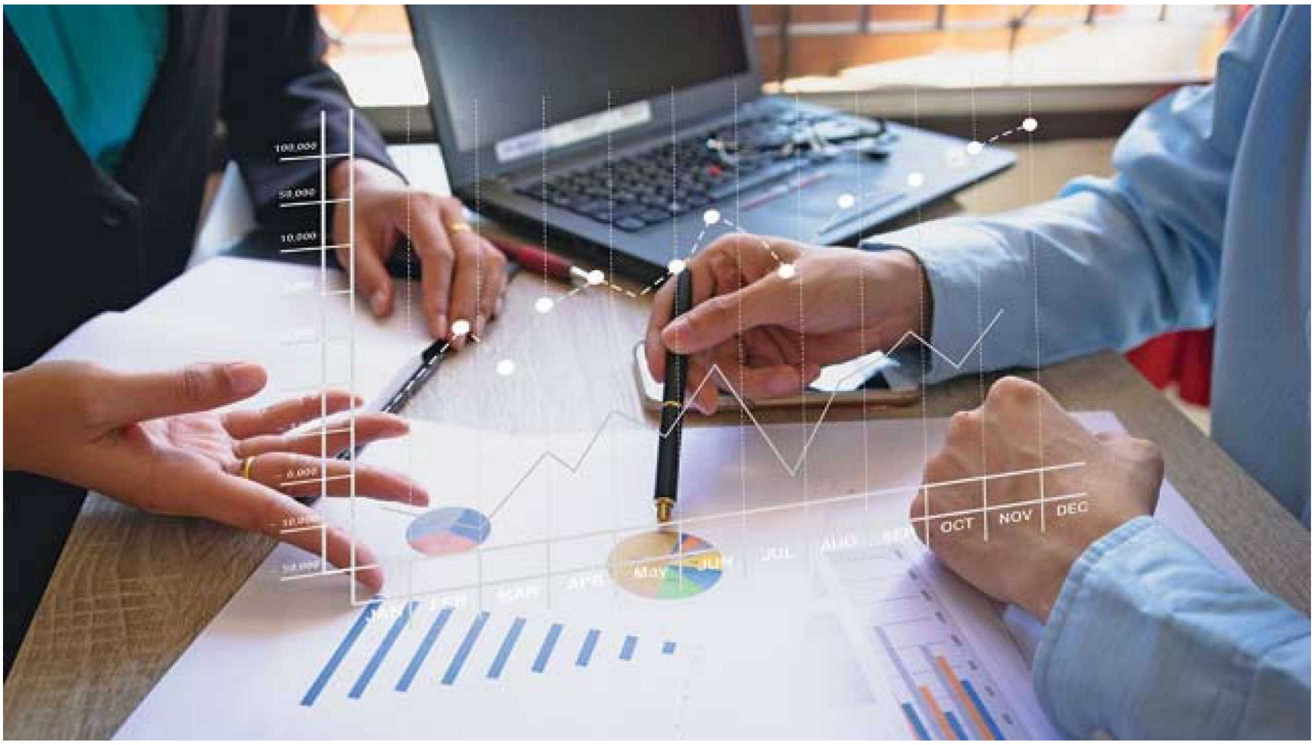
# Is your portfolio underperforming?




Investors , Thinkstock



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Frontline indices Sensex and Nifty have been extremely buoyant and creating new lifetime highs over the last few trading sessions. In fact, Sensex created history by closing at a lifetime high of 38,000+ levels on August 9.

Surprisingly, however, there are many investors who have been experiencing their portfolios underperform the benchmark and are not happy with their portfolio performance. At times like these, it is important to pause and understand the recent Market rally in a little more detail:

(a) After net outflows of approximately Rs 13,300 crore for April-June period, inflows from Foreign Institutional Investors (FIIs) have been positive for July-August (month to date), with net inflows of Rs 1,500 crore. Owing to increasing Assets Under Managements, domestic Mutual Funds have consistently supported equity markets with net flows of approximately Rs 35,500 crore April-August (month to date).



(b) In the emerging market universe, India has been among the best-performing markets in the MSCI EM Index. MSCI India Index has outperformed the MSCI EM Index by 13% over the last one year. The outperformance is particularly stark in the last couple of months.

(c) In light of the outperformance and historic highs, we also need to focus on valuations. Sensex is now trading at P/E of 26.5. Current P/E is approximately 40% higher than the 10-year average. At such a high P/E, any earnings disappointment could lead to a sentiment reversal.

(d) The market breadth is skewed. Five sectors have been positive contributors in this calendar year. IT (30%) and FMCG (14%) being the top two performers, while consumer discretionary (-31%) and telecom (-30%) being the bottom two. In terms of sectoral breadth, five BSE sectoral indices have been positive, in comparison with 13 sectoral indices that have been negative. Clearly, the market rally does not seem to be broad based.

(e) Mid caps have outperformed large caps by approximately 100% in the last five years. Investors holding mid-cap equity stocks or having indirect exposure to mid-cap stocks through MFs, have mostly likely benefitted immensely from this phenomenal outperformance in the last five years. However, in 2018, year to date, the trend has sharply reversed. While mid caps have corrected, Sensex has rallied, leading to mid caps underperforming the benchmark by 20%.

**Way forward for an investor:**

**Portfolio Review:** If not done already, than this is the most opportune time to call your relationship manager and review your portfolio to evaluate and understand your holdings vis-a-vis your goals and performance of your portfolio vis-a-vis underlying benchmarks.

**Asset allocation:** Asset allocation review is extremely important owing to three important dynamic factors:

**Equities:** Given the record high of frontline indices, investors should thoroughly evaluate their direct equity holdings and MFs having equity component. Investors holding large-cap stocks or index funds might have witnessed significant rally, thereby skewing their equity allocations.

**Fixed income:** Given the two recent monetary policy rate hikes there is a broad consensus amongst economists that the rate cycle in now gradually moving in the upward direction. Accordingly, it is important to review your fixed income holdings in reference to changing interest rate scenario and reduce as much duration as is possible in your portfolio.

**Booking partial profits:** As they say, the proof of the pudding is in the eating. Similarly, it is important to periodically book partial profits and wait for the right opportunity to reinvest.

**Investment approach:** In line with our cautious optimism view, we recommend a staggered approach for investing your surplus and partially booked profits. Given the historic highs, we believe avoiding lumpsum investing and following a staggered approach for your investments shall help you benefit from the ongoing rally while providing you with an averaging opportunity in-case of any significant correction.



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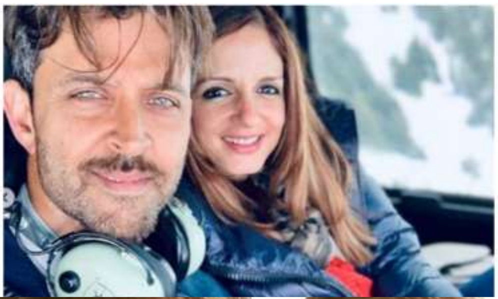

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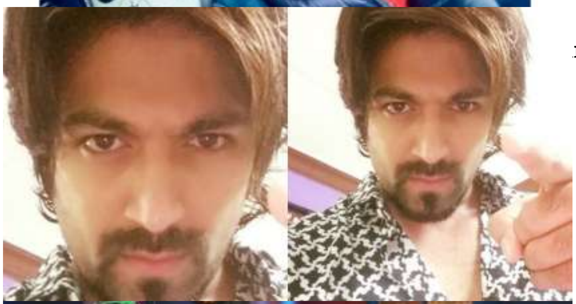

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