

How To Choose a Mutual Fund? A Step-by-Step Guide

Pattu

freefincal.wordpress.com

Disclaimer

- I am sharing with you the method I use to choose MFs.
- I cannot be held responsible for the decisions you make based on this method.
- I am not affiliated with Value Research or any MF house.
- This is purely for educational purposes only

First: Be Clear about ...

- Why you to want invest?
- When you need the money and how much by choosing a realistic rate of inflation.
- How much you **can** invest each month and how much you **need** to invest each month (use a goal planner)
- Choose a reasonable rate of return.
- For goals more than 5 years away it is advisable to invest a large portion (~ 60% or more depending on your risk taking ability) in equity MFs.
- The following assumes two equity MFs are being chosen for long term goals.

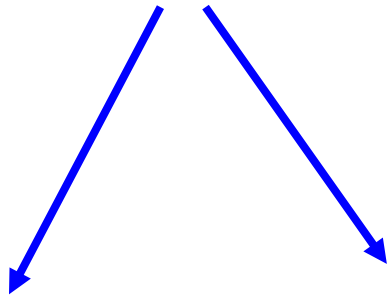
Second: The portfolio

- An absolute beginner to MFs is advised to choose a 'balanced MF' first. This invests partly in equity and partly in bonds. This is to understand how a MF behaves.
- While you can try this, if you are clear about step 1 you go ahead and choose a 'large cap' fund. This type of fund invests in fundamentally strong companies called 'blue-chip' companies and is generally less risky and provides reasonable returns. Let us see first see how to choose such a MF. This will form part of your 'core' equity portfolio

A Model Portfolio

Equity Mutual Funds (60%)

Debt Mutual Funds
/FD/RDs/PPF etc (40%)



Core MFs
Large-Cap
60-70%

Satellite MFs
Mid-cap,
Mid- and small-cap MFs
40-30%

This is just one of the many ways of constructing a portfolio.
There is no one way to make a perfect portfolio. To each his/her own.
We will see how to choose large cap funds and mid- and small-cap funds

Third: Resources

- There are several equally good resources to choose a good MF.
- Value Research Online
- Morning Star India
- Money Control
- Live Mints list of 50 funds
- Outlook Money's list of 50 funds
- I am used to Value Research Online's format so I will use that here.
- Please remember choosing good funds yourself take some effort initially. With time you will get used to it. The effort will give you a sense of control and fulfillment.

Go to Value Research Online and click on Funds

The screenshot shows the Value Research website homepage as of December 20, 2012. The browser's address bar displays the URL www.valueresearchonline.com/default.asp?r=r#. The navigation menu includes links for Home, My Portfolio, Tax, Funds, Learning Center, Archive, Ask, Subscribe, and About Us. A blue arrow points from the text above to the 'Funds' link in the navigation menu. The main content area features several sections: a search bar, a 'Mutual Fund investments are subject to market risks...' warning, a 'SIMPLY TRANSACT ONLINE - Purchase' button with a 'Redeem' link, an article titled 'A Matter of Priorities' with sub-sections 'Uniquely Defensive' and 'Half Century', and a 'Subscription Centre' section with another 'Mutual Fund investments are subject to market risks...' warning.

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Thursday, December 20, 2012


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Fund Analyst Choice

Uniquely Defensive
 Research Desk | Dec 19, 2012
 Morgan Stanley A.C.E. has mixed value- & growth-oriented investing to deliver consistently...

Fund Family Update

The Vast Fund Universe of SBI
 Research Desk | Dec 19, 2012
 The fund house has the complete array of funds in its stable to suit different needs...

Search Tools

Family Scan
 Know the fund family in detail.

Choose AMC

- TOOLBOX**
- My Portfolio
 - My Watchlist
 - Fund Selector
 - Fund Compare
 - Fund Ranking
 - Category Performance

Fund Performance

Top 10
 Open
 1 Year
 All Equity

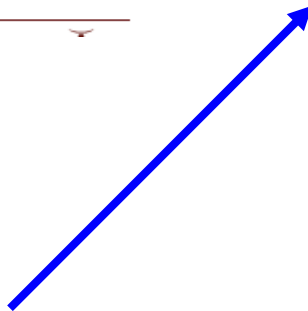
Bottom 10
 Open
 1 Year
 All Equity

Category Compare
 Quickly compare all funds in a fund category

Open End
 Choose Objective

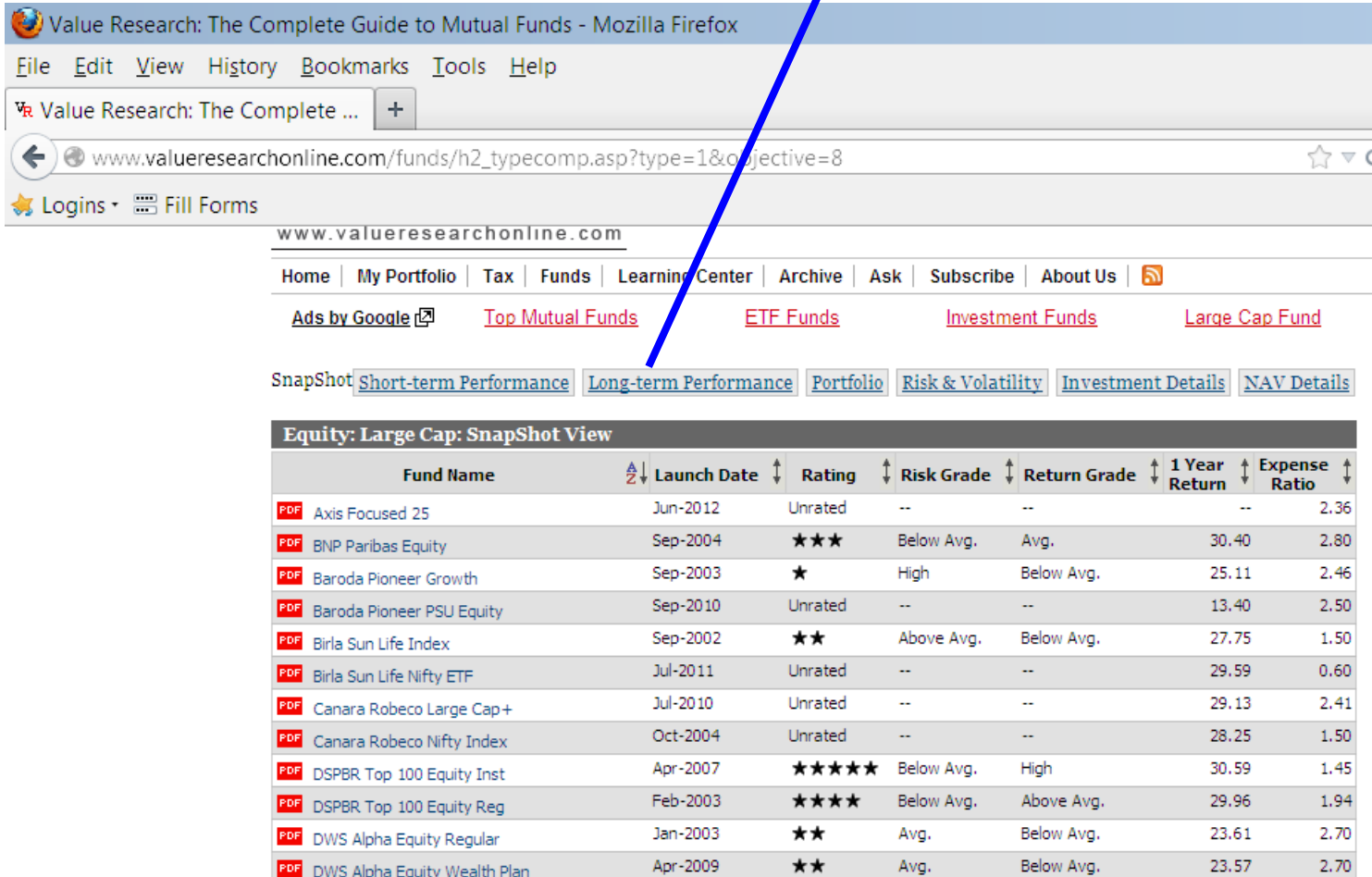
SERVICES

Choose Equity: Large Cap from the drop down list



- Choose Objective
- Debt: FMP
- Debt: Gilt Medium & Long Term
- Debt: Gilt Short Term
- Debt: Income
- Debt: Liquid
- Debt: Others
- Debt: Short Term
- Debt: Ultra Short Term
- Equity: Banking
- Equity: FMCG
- Equity: Infrastructure
- Equity: International
- Equity: Large & Mid Cap
- Equity: Large Cap**
- Equity: Mid & Small Cap
- Equity: Multi Cap
- Equity: Others
- Equity: Pharma
- Equity: Tax Planning
- Choose Objective

Choose long-term performance. Ignore the star ratings!



Value Research: The Complete Guide to Mutual Funds - Mozilla Firefox

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Snapshot Short-term Performance Long-term Performance Portfolio Risk & Volatility Investment Details NAV Details

Equity: Large Cap: Snapshot View

Fund Name	Launch Date	Rating	Risk Grade	Return Grade	1 Year Return	Expense Ratio
Axis Focused 25	Jun-2012	Unrated	--	--	--	2.36
BNP Paribas Equity	Sep-2004	★★★	Below Avg.	Avg.	30.40	2.80
Baroda Pioneer Growth	Sep-2003	★	High	Below Avg.	25.11	2.46
Baroda Pioneer PSU Equity	Sep-2010	Unrated	--	--	13.40	2.50
Birla Sun Life Index	Sep-2002	★★	Above Avg.	Below Avg.	27.75	1.50
Birla Sun Life Nifty ETF	Jul-2011	Unrated	--	--	29.59	0.60
Canara Robeco Large Cap+	Jul-2010	Unrated	--	--	29.13	2.41
Canara Robeco Nifty Index	Oct-2004	Unrated	--	--	28.25	1.50
DSPBR Top 100 Equity Inst	Apr-2007	★★★★★	Below Avg.	High	30.59	1.45
DSPBR Top 100 Equity Reg	Feb-2003	★★★★	Below Avg.	Above Avg.	29.96	1.94
DWS Alpha Equity Regular	Jan-2003	★★	Avg.	Below Avg.	23.61	2.70
DWS Alpha Equity Wealth Plan	Apr-2009	★★	Avg.	Below Avg.	23.57	2.70

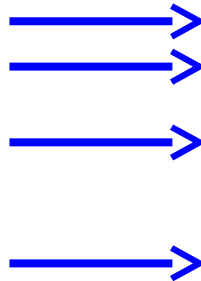
Added for convenience you would need to remember the column headings!
 Easy enough to get used to

Equity: Large Cap: Long-term Performance

Fund Name	1-Y Return (%)	1-Y Rank	3-Y Return (%)	3-Y Rank	5-Y Return (%)	5-Y Rank	7-Y Return (%)	7-Y Rank	10-Y Return (%)	10-Y Rank
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PDF Tata Index Sensex B	28.29	12/81	6.83	31/66	--	--	--	--	--	--
PDF Taurus Nifty Index	28.87	33/81	--	--	--	--	--	--	--	--
PDF UTI Leadership Equity	30.31	13/81	5.54	42/66	-1.25	40/47	--	--	--	--
PDF UTI Top 100	26.10	62/81	6.84	23/66	--	--	--	--	--	--
PDF DSPBR Top 100 Equity Reg	29.96	16/81	8.27	14/66	4.95	3/47	16.30	1/37	--	--
PDF Franklin India Bluechip	26.80	59/81	9.58	5/66	5.29	2/47	14.65	2/37	26.29	1/25
PDF SBI Magnum Equity	30.55	11/81	8.33	13/66	1.92	12/47	14.51	3/37	24.65	4/25
PDF HDFC Index Sensex Plus	29.15	29/81	7.87	18/66	4.30	4/47	13.77	4/37	22.15	7/25
PDF ICICI Prudential Top 200 Inst I	39.82	2/81	9.61	4/66	2.83	10/47	13.70	5/37	--	--
PDF ICICI Prudential Top 100	31.21	8/81	9.13	9/66	3.83	5/47	12.98	6/37	22.95	6/25
PDF Kotak 50	24.66	66/81	6.37	27/66	0.71	20/47	12.61	7/37	24.93	3/25
PDF DWS Alpha Equity Regular	23.61	70/81	3.21	60/66	-0.24	33/47	12.42	8/37	--	--
PDF ICICI Prudential Top 200	37.92	3/81	8.24	15/66	1.57	15/47	12.35	9/37	24.98	2/25
PDF ICICI Prudential Index	27.11	53/81	6.26	30/66	1.42	17/47	12.13	10/37	19.64	11/25
PDF Sundaram Select Focus Reg	22.14	75/81	3.24	59/66	-2.18	43/47	12.07	11/37	23.80	5/25
PDF ICICI Prudential SPiCE	29.85	18/81	6.81	24/66	1.60	14/47	12.02	12/37	--	--
PDF Goldman Sachs Nifty ETS	27.76	47/81	6.32	29/66	1.15	18/47	11.83	13/37	19.67	10/25
PDF ING Large Cap Equity	32.19	7/81	7.57	19/66	1.42	16/47	11.54	14/37	--	--
PDF Baroda Pioneer Growth	25.11	65/81	1.45	65/66	1.81	13/47	11.51	15/37	--	--
PDF UTI Mastershare	26.16	61/81	7.51	20/66	2.07	11/47	11.36	16/37	20.28	9/25
PDF Franklin India Index NSE Nifty	28.42	37/81	6.01	35/66	0.51	22/47	10.98	17/37	18.94	13/25

Let us look at these 4 funds



Fund	10-Y rank	7-Y rank	5-Y rank	3-Y rank
DSPBR Top 100	-	1/37	3/47	14/66
Franklin India Bluechip	1/25	2/37	2/47	5/66
HDFC Index Sensex Plus	7/25	4/37	4/47	18/66
ICICI Pru Top 100-G	6/25	6/37	5/47	9/66

The 1-Y rank is irrelevant and I won't give much weight to 3-Y rank too
So which is the long-term consistent performer?

Franklin India Blue Chip, followed by ICICI top 100, and then DSPBR top 100

We have short listed 4 funds out of 81 funds. **Any one of these should be good enough choices.**

Before deciding let us try and learn more about these funds and see if we can pick one

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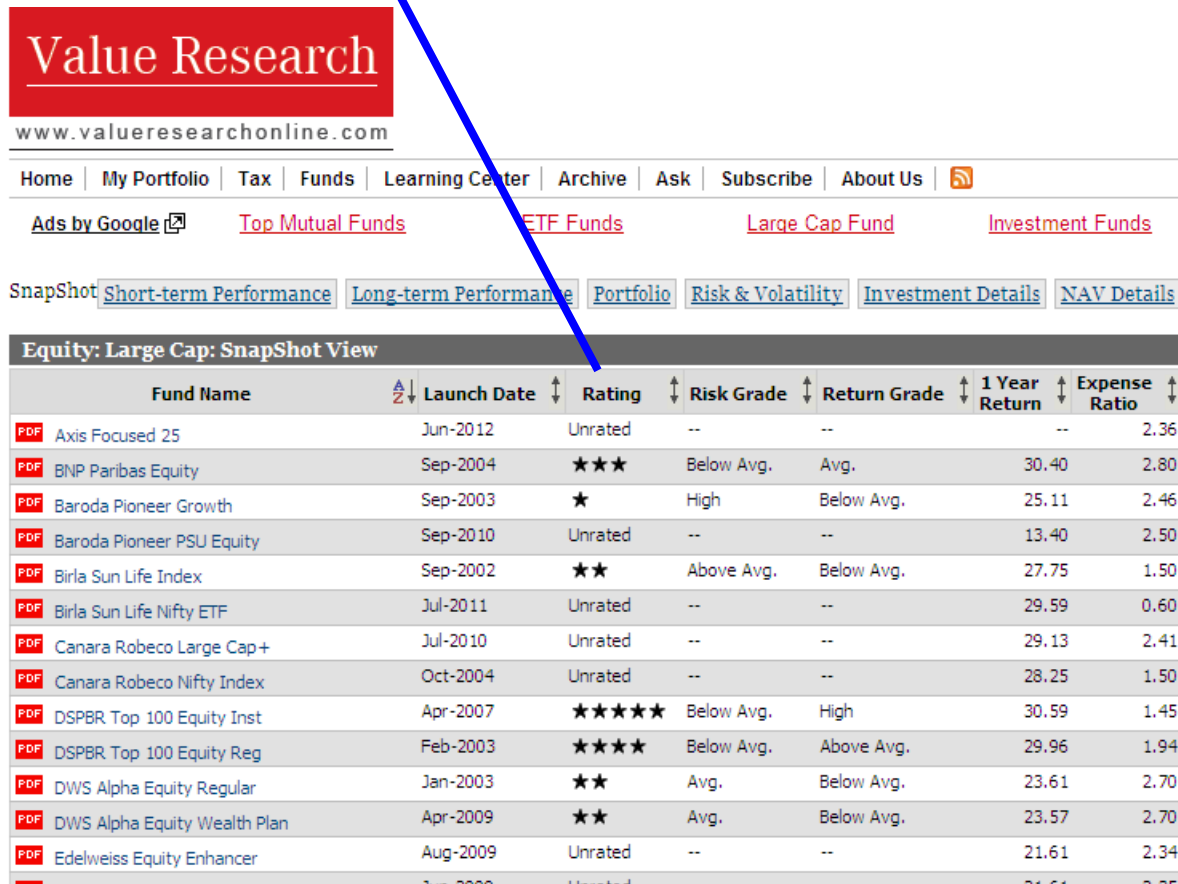
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Equity: Large Cap: Long-term Performance

Fund Name	1-Y Return (%)	1-Y Rank	3-Y Return (%)	3-Y Rank	5-Y Return (%)	5-Y Rank	7-Y Return (%)	7-Y Rank	10-Y Return (%)	10-Y Rank
 Axis Focused 25	--	--	--	--	--	--	--	--	--	--
 BNP Paribas Equity	30.40	12/81	9.32	6/66	-1.40	41/47	10.35	24/37	--	--
 Baroda Pioneer Growth	25.11	65/81	1.45	65/66	1.81	13/47	11.51	15/37	--	--
 Baroda Pioneer PSU Equity	13.40	80/81	--	--	--	--	--	--	--	--
 Birla Sun Life Index	27.75	48/81	5.25	45/66	-0.30	34/47	10.34	25/37	18.02	16/25

Click 'rating'. This is only to conveniently locate the short-listed funds.
 Don't get swayed by ratings!



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Equity: Large Cap: Snapshot View

Fund Name	Launch Date	Rating	Risk Grade	Return Grade	1 Year Return	Expense Ratio
Axis Focused 25	Jun-2012	Unrated	--	--	--	2.36
BNP Paribas Equity	Sep-2004	★★★	Below Avg.	Avg.	30.40	2.80
Baroda Pioneer Growth	Sep-2003	★	High	Below Avg.	25.11	2.46
Baroda Pioneer PSU Equity	Sep-2010	Unrated	--	--	13.40	2.50
Birla Sun Life Index	Sep-2002	★★	Above Avg.	Below Avg.	27.75	1.50
Birla Sun Life Nifty ETF	Jul-2011	Unrated	--	--	29.59	0.60
Canara Robeco Large Cap+	Jul-2010	Unrated	--	--	29.13	2.41
Canara Robeco Nifty Index	Oct-2004	Unrated	--	--	28.25	1.50
DSPBR Top 100 Equity Inst	Apr-2007	★★★★★	Below Avg.	High	30.59	1.45
DSPBR Top 100 Equity Reg	Feb-2003	★★★★	Below Avg.	Above Avg.	29.96	1.94
DWS Alpha Equity Regular	Jan-2003	★★	Avg.	Below Avg.	23.61	2.70
DWS Alpha Equity Wealth Plan	Apr-2009	★★	Avg.	Below Avg.	23.57	2.70
Edelweiss Equity Enhancer	Aug-2009	Unrated	--	--	21.61	2.34

Equity: Large Cap: SnapShot View

Fund Name	Launch Date	Rating	Risk Grade	Return Grade	1 Year Return	Expense Ratio
PDF DSPBR Top 100 Equity Reg	Feb-2003	★★★★	Below Avg.	Above Avg.	29.96	1.94
PDF Franklin India Bluechip	Nov-1993	★★★★	Low	Above Avg.	26.80	2.15
PDF HDFC Index Sensex Plus	Jul-2002	★★★★	Below Avg.	Above Avg.	29.15	1.00
PDF ICICI Prudential Indo Asia Equity Inst Invest Online	Sep-2007	★★★★	Low	Above Avg.	27.06	2.25
PDF ICICI Prudential Indo Asia Equity Retail Invest Online	Sep-2007	★★★★	Low	Above Avg.	27.06	2.25
PDF ICICI Prudential Top 100 Invest Online	Jun-1998	★★★★	Below Avg.	Above Avg.	31.21	2.25

Notice that none of our funds have 5-star ratings! Ratings are short-term Indicators and investors should not be swayed by them, especially when changing from one fund to another.

FI Blue Chip has a risk grade of 'low; but a high expense ratio of 2.15
HDFC sensex plus has the lowest expense ratio (1.00) but and 'below avg.'
risk grade and comes last in the rank comparison (based on returns)

I would prefer to go with a low risk and choose FI Blue Chip. Before we finally decide let us use what Value Research has to say about each of these funds.

Fund	Value Research Opinion ('Why Invest')
<p>DSPBR Top 100</p>	<p>Risk: This fund's portfolio is very actively churned, which adds to cost and impact returns.</p> <p>Why invest? Stable performance has been the hallmark of this fund which has resulted in assets managed by this fund swelling to Rs 3,385 crore as on September 30, 2012, making it one of the top-10 big funds.</p>
<p>Franklin India Bluechip</p>	<p>Risk: It tends to have phases of underperformance in the short- to medium-term</p> <p>Why invest? Consistently high risk-adjusted score along with high-return and low-risk grade since mid-2005 with below-average risk grade on most occasions make this fund a compelling core holding.</p>
<p>HDFC Index Sensex Plus</p>	<p>Why invest? An excellent pick for risk averse investors looking for returns stability. The portfolio does not deviate much from the Sensex, yet it manages to marginally do better than the Sensex.</p>
<p>ICICI Pru Top 100-G</p>	<p>Risk: Sector bets that are widely different from the Nifty index, could impact returns in the short- to medium-term.</p> <p>Why invest? It manages to contain downsides better than its benchmark during periods of market correction and is less volatile. The hedged positions have worked to contain downside protection, which makes this fund a long-term safe bet.</p>

What can we conclude?

- The value research comments suggest that all four funds have different advantages and risks but in the long-term all 4 funds are good performers.
- So again any of these should be a good choice. I would prefer FI Blue Chip because of its 'low' risk grade. Individual opinions on which among these 4 (or others among the 81 large cap funds) to invest will vary. But the long term performance of these four cannot be disputed.

You can stop the analysis here or if you can stomach some more I strongly suggest that we further analyze the risk and return parameters of these funds which forms the basis of the 'risk grade' and return grade'

To do this first we need to look at some definitions

Alpha

It is a measure how much it has outperformed its benchmark index. Higher (positive!) the alpha the better.

Beta

Measure of volatility. Beta of 1.3 means fund is 30% more volatile than the market as a whole. So low beta is important for risk averse investors

R-Squared is a measure of performance closely related to the index. Higher the value closer will the performance. (All large cap funds will have high R-squared)

Standard Deviation: Higher the std. dev. higher the fluctuations in returns.

Sharpe Ratio: Measure of return wrt to risk. A good fund get returns without too much risk and will have higher Sharpe ratio

A risk-averse investor will look for reasonable returns and with low fluctuations in return. So they will look for reasonably high alpha, low beta, low R-squared, low std- dev, and high Sharpe ratio

Now Let us look at these numbers for our funds

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Equity: Large Cap: SnapShot View

Fund Name	Launch Date	Rating	Risk Grade	Return Grade	1 Year Return	Expense Ratio
IDFC Nifty	Apr-2010	Unrated	--	--	30.81	0.25
IIFL Nifty ETF	Oct-2011	Unrated	--	--	30.25	0.25
Reliance Index Nifty	Sep-2010	Unrated	--	--	29.75	0.40

In the page you will see a table with the following columns (see also next slide)

[SnapShot](#) | [Short-term Performance](#) | [Long-term Performance](#) | [Portfolio](#) | [Risk & Volatility](#) | [Investment Details](#) | [NAV Details](#)

Equity: Large Cap: Risk & Volatility View

Fund Name	Fund Risk Grade	Standard Deviation	Sharpe Ratio	Beta	Alpha	R-Squared

Make a table on a sheet of paper as shown in the next page. You need to find the parameters corresponding to these funds and also the max. and min. values.

Yes it is a painful. But it is your investment and if you want to do it yourself you need to put in the effort). Once you get used to it you don't need tables. Trust me, put in the effort and it will be rewarding.

Equity: Large Cap: Risk & Volatility View							
Fund Name	Fund Risk Grade	Standard Deviation	Sharpe Ratio	Beta	Alpha	R-Squared	
PDF HDFC Index Sensex Plus	Below Avg.	17.10	0.18	0.87	1.77	0.99	
PDF HSBC Dynamic	Below Avg.	15.87	-0.01	0.80	-1.41	0.97	
PDF HSBC Equity	Below Avg.	16.66	0.01	0.85	-1.07	0.98	
PDF ICICI Prudential Top 100	Below Avg.	18.32	0.23	0.92	2.82	0.97	
PDF ICICI Prudential Top 100 Inst I	Below Avg.	18.33	0.31	0.93	4.21	0.97	
PDF IDFC Imperial Equity	Below Avg.	15.49	0.01	0.78	-1.04	0.96	
PDF Kotak 50	Below Avg.	15.57	0.09	0.78	0.18	0.94	
PDF Religare AGILE	Below Avg.	16.70	0.12	0.76	0.84	0.79	
PDF Religare Business Leaders	Below Avg.	16.70	0.10	0.85	0.34	0.98	
PDF UTI Mastershare	Below Avg.	16.39	0.17	0.83	1.48	0.97	
PDF Baroda Pioneer Growth	High	19.75	-0.15	1.00	-4.55	0.98	
PDF JM Equity	High	21.14	-0.13	1.07	-4.38	0.97	
PDF LIC Nomura MF Equity	High	18.58	0.00	0.95	-1.40	0.98	
PDF LIC Nomura MF Opportunities	High	18.76	-0.04	0.95	-2.19	0.98	
PDF LIC Nomura MF Top 100	High	19.15	-0.12	0.97	-3.75	0.98	
PDF Reliance Quant Plus Retail	High	20.71	0.18	1.05	1.99	0.98	
PDF Franklin India Bluechip	Low	15.88	0.29	0.80	3.35	0.96	
PDF ICICI Prudential Focused Bluechip Equity Inst I	Low	17.00	0.44	0.86	6.12	0.97	
PDF ICICI Prudential Focused Bluechip Equity Retail	Low	16.98	0.39	0.86	5.36	0.97	
PDF ICICI Prudential Indo Asia Equity Inst	Low	14.56	0.28	0.70	3.00	0.87	
PDF ICICI Prudential Indo Asia Equity Retail	Low	14.56	0.28	0.70	3.00	0.87	
PDF UTI Top 100	Low	15.41	0.13	0.76	0.84	0.92	

Interesting!



This is the page from which you need to construct the table in the next slide. Note that there are six funds incl. FI Blue Chip with 'low' risk grade. We will get back to this.

Fund	Std Dev	Sharpe ratio	Beta	Alpha	R-Square
DSPBR Top 100	16.94	0.17	0.85	1.59	0.95
Franklin India Bluechip	15.88	0.29	0.80	3.35	0.96
HDFC Index Sensex Plus	17.10	0.18	0.87	1.77	0.99
ICICI Pru Top 100-G	18.32	0.23	0.92	2.82	0.97
Maximum	21.14	0.44	1.07	6.12	1.00
Minimum	14.56	-0.19	0.70	-4.55	0.79

Desirable quantities (max. and min.) are highlighted in bold

Large cap funds will closely resemble the index so R-squared is not a factor
 FI Blue Chip has a reasonable low beta, high alpha, high enough Sharpe and low enough std dev. which is why it has a risk grade of 'low'.

DSPBR Top 100 has a low alpha and therefore a low Sharpe ratio because its beta is higher than FI Bluechip's. The same argument can be made for HDFC Sensex Plus.

ICICI Top 100 has lower alpha and higher beta compared to FI Blue Chip.

So again FI Blue Chip emerges as a good choice for a risk-averse investor

Lets Decide!

- Now go back to slide 18 and look at the six funds with 'low' risk grade. Which is the best?
- FI Bluechip** is certainly one of the best but so is **ICICI Pru Focussed Blue Chip Retail** In fact it is pretty good! Better than many of the funds in our shortlist!
- So why didn't it make our short list? Because it is a four year old fund and we have been looking at older funds (4 funds at least 7 years old and 3 at least 10 years old)
- We started this process by choosing old funds with good track records. So we did not look at newer funds which are also good.

Lets Decide!

- Did we miss out because of our strategy. No. An older fund has weathered more market history and I would prefer an old fund with good numbers than a new fund with good numbers.
- Although there is nothing wrong with choosing a good newer fund as long as one is calm and doesn't take any knee-jerk decisions about fund changing.
- So finally my

1st Choice: FRANKLIN INDIA BLUE CHIP

2nd Choice: ICICI Pru Focussed Blue Chip Retail

- This has better volatility ratios than the other three in our short list so could go with this!
- The other three funds from our short-list are also good. Nothing wrong with choosing them too.

Lets Choose a second fund!

- If you have not gotten bored or irritated thus far, thank you!
- Now that we have selected a 'large cap' fund let select a 'mid- and small-cap' fund to complement our portfolio.
- These funds are highly volatile. However even risk averse investors should have these funds as they can boost the net return of the portfolio.
- Since these are risky funds they should only constitute a small portion of the equity portfolio (~ 20-30% depending on risk appetite)



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Choose AMC dropdown and Go button

Fund Performance: Top 10 and Bottom 10
Open dropdown, 1 Year dropdown, All Equity dropdown, Go button

Category Compare: Quickly compare all funds in a fund category
Open End dropdown, Choose Objective dropdown, Go button

Choose Equity: Mid and small cap from the drop down list
The as before choose Long term performance

Open End dropdown menu showing various fund categories like Debt: FMP, Equity: Banking, Equity: Mid & Small Cap (highlighted), Equity: Multi Cap, etc.

Click the 7-year as before and this is what you get

Equity: Large Cap: Long-term Performance											
Fund Name	1-Y Return (%)	1-Y Rank	3-Y Return (%)	3-Y Rank	5-Y Return (%)	5-Y Rank	7-Y Return (%)	7-Y Rank	10-Y Return (%)	10-Y Rank	
Inst											
Sundaram Select Midcap Inst	38.38	40/58	10.21	22/52	--	--	--	--	--	--	
IDFC Premier Equity	40.63	37/58	16.23	4/52	9.52	3/42	21.98	1/26	--	--	
Reliance Equity Opportunities	50.52	12/58	16.00	6/52	8.28	7/42	17.61	2/26	--	--	
Sundaram Select Midcap Reg	37.70	43/58	9.21	27/52	4.16	11/42	17.17	3/26	32.55	1/8	
ICICI Prudential Discovery	46.57	20/58	13.50	13/52	10.38	2/42	15.65	4/26	--	--	
SBI Magnum Emerging Businesses	56.92	1/58	23.75	1/52	4.77	10/42	14.22	5/26	--	--	
Birla Sun Life Mid Cap	36.42	45/58	5.33	44/52	2.03	21/42	14.10	6/26	27.21	4/8	
Birla Sun Life Dividend Yield Plus	29.71	55/58	11.37	19/52	9.32	4/42	13.95	7/26	--	--	
Tata Dividend Yield	28.02	56/58	12.44	15/52	5.86	9/42	13.92	8/26	--	--	
SBI Magnum Global	39.52	39/58	12.25	16/52	1.38	26/42	13.54	9/26	30.69	2/8	
Sundaram S.M.I.L.E. Reg	44.93	26/58	3.45	48/52	1.58	24/42	13.26	10/26	--	--	
Sahara Mid-Cap Fund	35.10	46/58	7.93	34/52	2.20	20/42	11.80	11/26	--	--	
Canara Robeco Emerging Equities	50.55	11/58	15.70	7/52	2.54	17/42	11.32	12/26	--	--	

By now if you have followed what was done earlier I think the reasons for short-listing these four funds should be clear

Now click on the risk and volatility menu and note down the risk ratios for these funds (yes that again!) I have also include expense ratios from 'snapshot' menu!

Fund	Std Dev	Sharpe ratio	Beta	Alpha	R-Squared	Expense Ratio
IDFC Premier equity	17.06	0.66	0.71	10.17	0.66	1.85
Reliance Equity oppur	19.48	0.64	0.93	10.89	0.87	1.83
ICICI Pru Discov	17.24	0.52	0.78	7.74	0.77	1.90
SBI M Emer Bussn.	18.59	0.96	0.75	16.71	0.61	2.24
Maximum	27.80	0.96	0.68	16.71	0.61	-
Minimum	15.82	-0.14	1.23	-5.66	0.87	-

In Mid and small cap funds we are not looking for low risk (low beta) and reasonable returns (alpha) like we did with large cap funds. Here the goal is reasonable risk and good returns. So high Sharpe ratio, reasonable beta, high alpha and reasonable std dev. The reason is these funds are to give an extra 'kick' to the portfolio over and above the steady large cap returns. So some risk should be taken.

Despite the higher expense ratio, a risk taker would head to SBI Magnum Emerging Business. A risk averse person could settle with IDFC Premier Equity or I-Pru Discovery. Not bad choices at all. Reliance Equity oppur. is not a bad fund either!

Hmm ...

- Notice the difference in R-squared for a large-cap fund and a mid-small-cap fund.
- What about what Value Research has to say?
Homework for you!
- Are you still confused about what to choose?
- Remember we choose 4-5 funds from 81 large-cap funds and 4 funds from 58 mid- and small-cap funds.
- Choosing any of these 4-5 funds should be good enough!
- One needs to be calm, be clear about ones choice, monitor performance every now and then but not take any knee-jerk actions
- There are only general guidelines for choosing funds not a formula. As we follow the guidelines (see next slide) interesting choices (like ICICI Pru Focussed Blue Chip Retail) out of this framework may emerge. We could go with these if their numbers are compelling. The more you practice the better you become.

To Conclude ..

- We are done! Did it faster the second time around didn't we!
- Recap: Step 1: short-list looking at long term performance
- Step 2: finalize looking at the risk-volatility ratios
- Expense ratios can also be a considered especially for newer funds
- Remember there are no short cuts. Unless you want to pay a fee for financial advisory doing it yourself will take effort but at the same time quite fulfilling!