

‘Seekho Paiso ki Bhasha’: What makes balanced advantage funds unique? Market veteran Nilesh Shah explains

Summary:

Kotak Mutual Fund’s MD Nilesh Shah highlights that balanced advantage funds’ dynamic allocation to equities and debt makes them unique among hybrid schemes. These funds buy more equity in cheap markets and more debt in expensive ones, helping investors strike the balance between long-term growth and risk.

Article Body:

Balanced advantage funds are hybrid mutual funds that invest in a mix of equity and debt, with dynamically changing allocations in accordance with evolving market conditions. So, unlike in regular hybrid funds where the equity-to-debt mix remains constant regardless of market dynamics, in balanced advantage funds, the allocation to both asset classes is adjusted rapidly.

In this series, called ‘Seekho Paiso ki Bhasha’ (Learn the Language of Money), Kotak Mutual Fund MD Nilesh Shah simplifies complex market concepts in a candid way.

Explaining the distinctiveness of balanced advantage funds, the market veteran says: “A balanced advantage fund actively picks assets in a cheap market and offloads them in an expensive one.” “What would you say if you get a dish served in a 5-star hotel at ‘udupi’ prices?” he quips.

“That’s exactly what a balanced advantage fund is. The way private bankers advise the wealthy on where to allocate their funds across asset classes such as equity and debt, balanced advantage funds enable retail investors to ensure that their money is parked in an apt mix of equity and debt,” he elaborates.

Funds minimise equity allocation in expensive market: KMMF MD Nilesh Shah explains balanced advantage funds

Most fund managers rely on a combination of factors, quantitative or qualitative, digging deep into a host of aspects such as valuation and momentum to align the equity-debt mix with market conditions. “Everyone follows their own mix of qualitative and quantitative factors. This is how they ensure the lowest possible allocation to equities in an expensive market and the highest in a cheap market,” says the veteran fund manager.

“It is difficult to call the bottom and top of the market, but balanced advantage funds allow investors to ensure that their allocations are adjusted in cheap or expensive markets,” he explains.

Are balanced advantage funds better than other hybrid funds?

Balanced advantage funds’ flexibility when it comes to asset allocation makes them unique among hybrid funds, providing investors a strong avenue to balance long-term growth with stability, highlights the

Traditional hybrid funds work on a steady allocation basis, which means that their allocations to equity and debt securities don’t change in accordance with market conditions.

“Roughly, this allocation stays unchanged in the ratios of 70:30 (equity to debt) or 80:20... Balanced advantage funds, on the other hand, have a very wide range of allocation, spanning from as low as 10 per cent to as high as 90 per cent equity allocation. A standard hybrid fund allows a narrow range of equity-debt mix,” says Shah.

How should investors pick between a conventional hybrid fund and a balanced advantage fund?

“It is prudent for investors to understand their risk profile,” says Mr. Shah, adding: “For instance, an investor buying into equities during the pandemic is a risk-taker, one selling is highly conservative, and one continuing with the existing allocation is an average investor. Secondly, you’ll have to decide your gold allocation.”

“Defining a goal is very important. Navigating the market aimlessly will not lead to the desired destination. A portfolio should be designed by balancing risk profile with goal. At times, investors want professional fund managers to make these decisions for them. For this purpose, there are balanced advantage funds,” he says.

“Investments in balanced advantage funds bear fruit over long periods of time, say in 20-25 years,” concludes the fund manager.

The ‘Seekho Paiso ki Bhasha’ series is aimed at breaking down investment concepts into simple terms.

An investor education and awareness initiative by Kotak Mahindra Mutual Fund.

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