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'Seekho Paiso ki Bhasha' With Nilesh Shah: Are equity savings funds a balanced approach to equity investing?

Summary:

Kotak Mutual Fund's MD Nilesh Shah explains the benefits of equity savings funds, which invest in a mix of equities, debt and arbitrage opportunities. These funds offer risk management, returns, relative stability, and acceleration.

Article Body:

Equity savings funds are hybrid funds that invest in a mix of equities, debt and arbitrage opportunities in a dynamic manner, designed to strike the balance between growth (referred for Equities) and stability (referred for Debt). While the equity-linked part of the scheme taps growth in a rising market, the hedged portion protects returns in a falling market.

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

Watch here: https://youtu.be/BaAkIkY6pnM?si=abZy2SY7IRQnUjQ4

The market veteran highlights that equity savings funds offer four main benefits:

- Risk management
- Returns
- Stability
- Acceleration

"These funds combine returns with stability… What makes equity savings schemes unique is that debt and arbitrage provide stability while cash equity provides acceleration and growth," he explains.

For starters, equity savings schemes allocate investments in three categories:

- Equity

- Arbitrage
- Debt

Pure equity works favourably in a rising market, arbitrage offers market neutrality and debt protects the portfolio in a falling market, offering slight changes in the NAV in tandem with changes in benchmark interest rates, says Mr. Shah.

What makes equity savings funds unique? Mr. Nilesh Shah says…

"Debt and arbitrage provide stability while cash equity provides acceleration and growth," he adds.

Many a time, what happens is that investors don't really need money, but they end up liquidating their investments out of the sheer fear in a falling market. Investments work in the long run," elaborates Mr. Shah.

Investment is for the long term, only speculation happens in the short term: Nilesh Shah

Emphasising the need to stay committed to investments to achieve growth, the market veteran says that investments are investments only if they happen over the long term. "What happens in the short term is speculation, not investment," says Shah.

It is important for investors not to panic in falling markets while staying focused on their long-term goals.

Recalling an age-old market adage, he said: "'It's not timing the market but time in the market that makes money for you' encourages people to endure market volatility to stay committed to their investments."

How do equity savings funds protect investors against market risk?

Mr. Shah explains that what distinguishes equity savings schemes from equity schemes is the dynamic allocation to equities. "In equity savings schemes, equity allocation is linked to market valuation… In markets with expensive valuations, these funds have lower equity allocations, like 10 per cent, which goes up to 50 per cent in inexpensive markets," he says.

The market veteran also points out that equity allocations in equity savings funds has average at around 30 per cent over the past few years, adding that these funds automatically sell equity in a rising market and buy in a falling market.

Ultimately, it is the appropriate combination of a good fund house and a good fund manager goes a long way in making money for investors, he concludes.

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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