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‘Seekho Paiso ki Bhasha’: What makes largecap funds a smart choice for long term wealth creation? Market veteran Nilesh Shah explains

Summary:
Kotak Mutual Fund’s MD Nilesh Shah highlights that largecap mutual funds enable investors to park their money in some of the largest and most well-established businesses in a market. Typically, blue-chip companies are the top 50–100 in the country, each with a dependable track record and trustworthy governance, he explains.

Article Body:

Largecap mutual funds are equity mutual funds that invest in the blue-chip companies. Typically, these are the most well-established businesses in a market. These funds invest at least four-fifths of investors’ money in largecap stocks. Businesses ranked within the first 100 spots by market capitalisation are recognised as largecap stocks.

In this special 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.

What makes largecap funds a smart choice to build wealth over the long term?

Many fund managers bank on large cap funds for building wealth over long periods of time, citing advantages such as better stability and steady growth compared to mid-cap or small-cap schemes. These funds invest in well-known companies with robust financial foundations, offering resilience during market fluctuations.

Approaching such funds through the SIP route offers a smart and hassle-free way to create significant long-term wealth.

“Let's say you have to pick players for a sport. Naturally, you will pick known, well-established players instead of unknown or inexperienced ones. Blue-chip companies are like that… Generally, such companies are among the top 100 in the country or the world. They have a dependable track record and trustworthy governance,” says Mr. Shah.

“The first and foremost step is to pick old, well-established blue-chips—whether picking sportsmen or investing,” he adds.

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How do SIPs in largecap funds help in mitigating the risk associated with market timing?

“SIPs enable investors to put their money at regular intervals into the market. The market will always have its ups and downs, and nobody can predict when it will rise or fall,” explains Mr. Shah.

“By the law of averages, some of these investments will be in profit and others in loss,” he says.

Staying put for the long term is key: Nilesh Shah on largecap MFs

However, over the long run, the market is poised to go up, which is what allows you to exit with profit simply by dedicating enough time to your investment, adds the veteran fund manager.

Which key factors should young investors keep in mind before investing in largecap mutual funds?

Mr. Shah suggests investors avoid reading too much into short-term performance, such as for 6-12 months.

“If it’s the long-term performance that you’re tracking, that’s fine… The key aspects one should track closely are the expense ratio, the fund manager’s track record and investment process, and the fund’s portfolio,” says Mr. Shah.

“If you don’t have time to monitor these factors yourself, go to a professional. They will share all this information with you—be it an advisor or a mutual fund distributor,” he adds.

‘Boond boond se sagar bharta hai’: Nilesh Shah’s advice for young investors

Young investors should understand that savings directed into investments today are crucial in the long run, emphasizes Mr. Shah.

They should adopt the mindset of “income minus savings equals expenses” instead of “income minus expenses equals savings,” he says.

“Today, if young investors watch a matinee show instead of a late-night show, buy popcorn outside instead of inside the theatre, and above all, learn to invest these savings—that is important. *‘Boond boond se sagar bharta hai’* (drop by drop, the ocean is formed). It’s important to start SIPs, even slowly and with a small amount,” says the veteran fund manager.

Stick to your SIPs during testing times; if possible, do a top-up: Nilesh Shah

“Every SIP puts the investor through trial by fire,” says Shah, stressing the need to stay invested during challenging times. He also highlights that while the concept of SIPs is simple, putting them to maximum use requires the patience to stay invested through the ups and downs.

“During the pandemic, for instance, SIP returns dropped by more than half and, in some cases, turned negative over three-year periods… One should not stop their SIP during such times. In fact, brave investors should try to top up their SIPs,” says Mr. Shah.
“You do this, and your investment goals may be achieved,” concludes the fund manager.

The *‘Seekho Paiso ki Bhasha’* series aims to break down investment concepts into simple, relatable terms.