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Analysis

Investors play it safe, bet on index funds amid volatile market conditions

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MUMBAI: Uncertain market conditions and fairly valued stocks are compelling investors to adopt index-oriented investment strategies to remain invested in equities. Key index funds and exchange traded funds (ETFs) are witnessing a gradual rise in their asset bases as affluent fund investors take refuge in passive investment strategies to reduce their direct exposure to equities.

According to fund experts, the trend caught up among investors after the market slipped into trading range since October last year.

Markets have become very uncertain; volatility is so intense that investors are afraid to take direct exposure. Investors are realising the need for passive investment strategies when markets are not conducive to all-out equity investments,â€ said Lakshmi Iyer, head-products, Kotak Mutual Fund, adding, An index fund of ETF gives investors the chance to own a basket of blue-chip stocks, while not really relying on one sector or a diverse portfolio to generate returns.

Investing in indices is the safest and best bet when the market is closer to its fair value, according to market experts. An index-marked portfolio mirrors a particular stock index, both in terms of composition and individual stock weightages.

Investing in index levels is a passive investment strategy, as a fund's performance will, barring a minor tracking error, mimic the underlying index. Besides eliminating stock picking risks (as a result of poor fund management), an index-tracked investment strategy offers exposure to a diversified portfolio, far greater than several diversified equity funds.

Sanjiv Shah, executive director at Benchmark Asset Management, a fund house that specialises in passive funds, says he has seen good inflows into his funds recently. The steep fall in the market has made people see through many active funds managers and now are increasingly looking at ETFs and index funds for stability in portfolio, he told ET.

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Mr Shah explains that the recent Sebi diktat allowing investors to buy units without paying any commissions, has also helped passive funds.

Traditionally, such funds never paid any commissions to distributors, unlike actively-managed funds which have been generous to their distributors. With the regulator allowing no load funds, distributors do not have any extra incentive to push an actively-managed fund, says Mr Shah.

According to distributors, several fund houses are planning to launch ETFs with various investment mandates. Benchmark AMC, which recently-launched the Hang Seng ETF, has sought approvals for launching a money market ETF. Fund houses like Kotak and UTI also have plans to launch index-tracked funds over the next few months.

Creating alpha on a fund portfolio could be very difficult in current market conditions. The market has been locked in a narrow range between 4800 and 5200 for some time.
The confidence of investors is gradually coming down; this is the time when they will adopt passive strategies to play the market, said Maneesh Kumar, managing director, Burgeon Wealth Advisors.

According to Mr Kumar, index-tracked investment products like ETFs allow investors to have a continuous market pricing of their portfolios. They can also use ETFs to short sectors where they have a bearish view, Mr Kumar added.