mutual gains

Visit us at www.sharekhan.com December 11, 2006

Sharekhan's top equity fund picks

November has created another landmark for the markets, with the Sensex crossing yet another high of 14,000. The Nifty, the other major index, too is on a high and has comfortably vaulted over the 4,000 mark. Fuelled by sustained investments by the foreign institutional investors (FIIs) and the domestic mutual funds, the Sensex and the Nifty, have both posted gains of approximately 5.6% in the month of November 2006.

The recent Securities and Exchange Board of India (SEBI) directive in the IPO scam has helped to keep anti-market sentiments at bay and has reinforced the confidence of the retail investors. In that respect, the SEBI directive could not have arrived at a more opportune moment since the retail investors are just about beginning to return to the market after getting their fingers burnt in the May meltdown. That retail interest has been rekindled is evident from the 5% rise in the BSE Mid-cap index last month.

What is significant though is that most of the retail investors are still taking the mutual fund route and the net investments by domestic mutual funds into equities in 2006 have surpassed those in the last year. Till November end, Indian mutual funds had poured over $3 billion into the market compared with $2.9 billion for the whole of last year. What's more, these funds are sitting on a cash pile of about Rs8,500 crore and waiting for the right opportunity to enter the market. The FIIs too have been steadily increasing their exposure to Indian equities. The FIIs made a net investment of $2,036.90 million in November compared with $1,736.20 million in October. In the calendar year so far, they have pumped in $8.79 billion compared with $8.65 billion in the same period last year.

The long-term outlook for the Indian economy continues to remain bright. The gross domestic product (GDP) reported a brilliant growth of 9.2% for the second quarter of FY2007, surpassing market expectation of an 8.9% growth. For the first half of the current fiscal also, the GDP growth figure was equally impressive at 9.1% compared with 8.5% for H1FY2006. Thanks to the surging GDP, the earnings of individuals and corporates are also growing by leaps and bounds. This has resulted in robust tax collections and brought down India's fiscal deficit substantially. With the GDP growing at over 9% in H1FY2007, the government is likely to meet the 3.8% fiscal deficit target set for FY2007. The declining fiscal deficit shall not only reduce the government's borrowing needs but also ease the pressure on the interest rates. The same is also expected to improve India's credit rating, thereby making it easier for the domestic companies to borrow from overseas markets for their expansion plans, which are on in full swing.

Global cues, especially from the US market are likely to remain positive, as the US Federal Reserve (Fed) is unlikely to raise interest rates further with the economic indicators showing that the US economy has indeed slowed down. If anything, to prevent the US economy from going into a recession, the Fed might actually cut the interest rates next year. Other external factors such as the rising crude oil prices (which have risen from a low of $55.8 per barrel on November 17 back to the $62 per barrel levels) continue to remain a cause of concern, especially with the rising demand for crude oil with the onset of the winter season in the USA. Overall, we believe that the key drivers of the market--sustained economic and corporate growth, continued interest of foreign investors and a comfortable liquidity situation--are in place and will continue to propel the market upward.

We have identified the best equity-oriented schemes available in the market today based on the following parameters: the past performance as indicated by the returns, the Sharpe ratio and Fama (net selectivity).

The past performance is measured by the returns generated by the scheme. Sharpe indicates risk-adjusted returns, giving the returns earned in excess of the risk-free rate for each unit of the risk taken.

FAMA measures the returns generated through selectivity, ie the returns generated because of the fund manager's ability to pick the right stocks. A higher value of net selectivity is always preferred as it reflects the stock picking ability of the fund manager.

For our selection of funds, we have given 50% weightage to the past performance as indicated by the returns, 25% weightage to the Sharpe ratio of the fund and the remaining 25% to the FAMA of the fund.

All the returns stated below, for less than one year are absolute and for more than one year the returns are annualised.

We present below our recommendations in the equity-oriented mutual fund category.

Aggressive Funds

Mid-cap Category

Scheme Name	NAV	Returns as on November 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
Sundaram BNP Paribas Select Midcap	89.90	15.16	9.89	71.64	67.21	59.10
Reliance Growth	257.79	18.24	12.99	47.39	61.32	57.58
Birla Mid Cap Fund	62.99	18.09	15.49	42.03	48.98	48.10
Indices						
BSE Sensex	13696.31	16.82	26.97	55.84	48.22	39.38

Opportunities Category

Scheme Name	NAV	Returns as on November 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
Prudential ICICI Dynamic Plan	62.30	17.19	19.75	61.78	61.31	46.19
DSP ML Opportunities Fund	55.08	16.67	21.35	51.69	53.68	47.81
Indices						
BSE Sensex	13696.31	16.82	26.97	55.84	48.22	39.38

Equity Diversified/Conservative Funds

Scheme Name	NAV	Returns as on November 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
SBI Magnum Global Fund 94	43.68	27.35	20.30	66.40	76.89	74.65
SBI Magnum Multiplier Plus 93	52.00	17.25	18.53	50.12	64.78	55.83
HDFC Equity Fund	145.50	13.56	22.91	46.83	55.33	46.65
DSP ML Equity Fund	44.60	17.56	19.29	51.70	57.02	49.11
Birla SunLife Equity Fund	178.68	21.06	26.27	49.24	55.92	54.88
Indices						
BSE Sensex	13696.31	16.82	26.97	55.84	48.22	39.38

Thematic/Emerging Trend Funds

Scheme Name	NAV	Returns as on November 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
Prudential ICICI Infrastructure Fund	18.20	21.58	26.13	68.05	--	--
Tata Infrastructure Fund	23.95	23.74	22.01	68.39	--	--
DSP ML Tiger Fund	32.55	22.63	24.65	61.43	63.13	--
Sundaram BNP Paribas CAPEX Opportunities	17.03	20.48	15.99	62.05	--	--
SBI Magnum Sector Umbrella - Contra	37.48	17.82	19.48	55.52	70.52	70.65
Indices						
BSE Sensex	13696.31	16.82	26.97	55.84	48.22	39.38

Balanced Funds

Scheme Name	NAV	Returns as on November 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
DSP ML Balanced Fund	37.94	12.00	16.19	37.85	35.28	33.24
HDFC Prudence Fund	111.96	13.94	20.85	36.91	44.83	38.65
FT India Balanced Fund	32.29	12.85	17.50	37.57	33.75	31.00
SBI Magnum Balanced Fund	35.57	15.26	15.79	38.73	46.25	44.71
Tata Balanced Fund	48.86	13.83	13.61	39.24	36.79	32.41
Indices						
BSE Sensex	13696.31	16.82	26.97	55.84	48.22	39.38

Tax Planning Funds

Scheme Name	NAV	Returns as on November 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
SBI Magnum Tax Gain Scheme 93	54.70	20.72	25.17	48.73	79.81	73.68
HDFC Taxsaver	146.25	16.24	16.74	40.30	61.76	60.88
PRINCIPAL Tax Savings Fund	79.77	22.55	16.84	52.12	51.03	47.50
HDFC Long Term Advantage Fund	89.85	11.91	11.23	26.77	43.57	49.04
Prudential ICICI Taxplan	91.11	5.63	4.46	32.29	51.59	50.42
Indices						
BSE Sensex	13696.31	16.82	26.97	55.84	48.22	39.38

Every individual has a different investment requirement, which depends on his financial goals and risk-taking capacities. We at Sharekhan first understand the individual's investment objectives and risk-taking capacity, and then recommend a suitable portfolio. So, we suggest that you get in touch with our Mutual Fund Advisor before investing in the best funds.

Risk-Return analysis

The charts on the following pages give you a snapshot of how the mutual funds have performed on the risk-return parameters in the past. We have used the bubble analysis method to measure their performances on three parameters viz risk, return and fund size. The risk is measured by standard deviation, which measures the average deviation of the returns generated by a scheme from its mean returns. We have tried to explain the same with the help of a diagram, which is divided into four quadrants, with each quadrant containing funds of a particular risk-return profile. The size of the bubble indicates the size of the fund.

The funds in the **high-risk high returns** quadrant follow a very aggressive approach and deliver high absolute returns compared to the peers albeit at a higher risk.

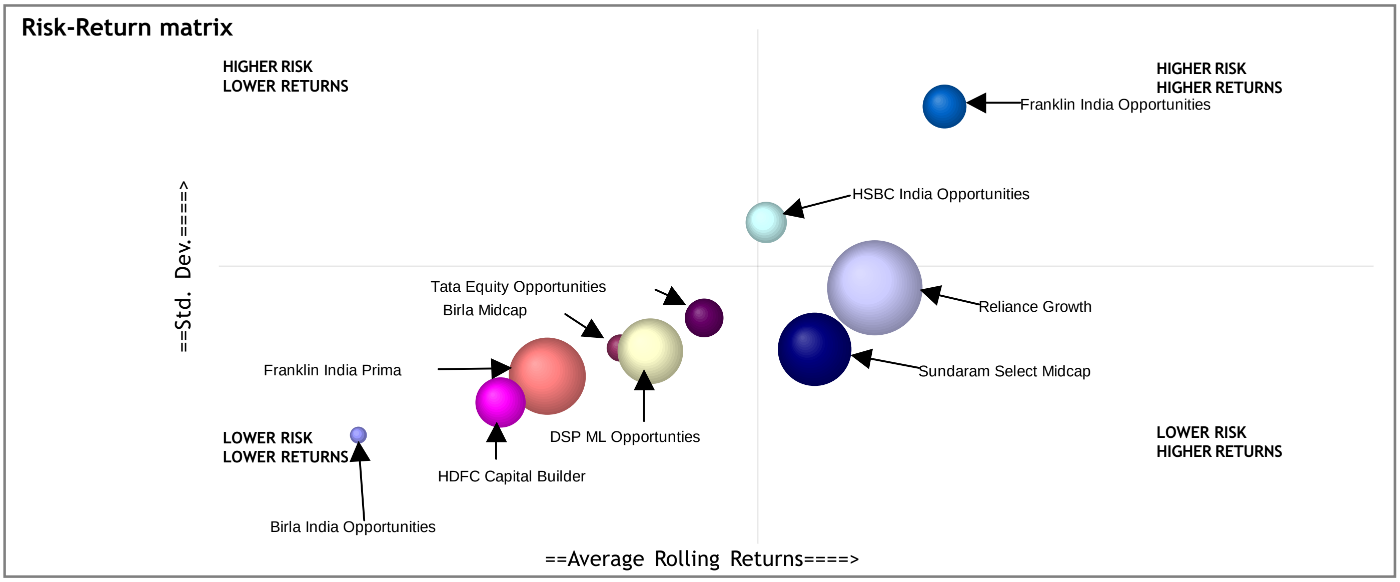
The funds in the **low-risk high returns** quadrant outperform the peer group on the risk-adjusted returns basis as they deliver higher returns compared to the peers without exposing the portfolio to very high risk.

The funds in the **low-risk low returns** quadrant are not very aggressive and provide lower absolute returns, taking lower risks.

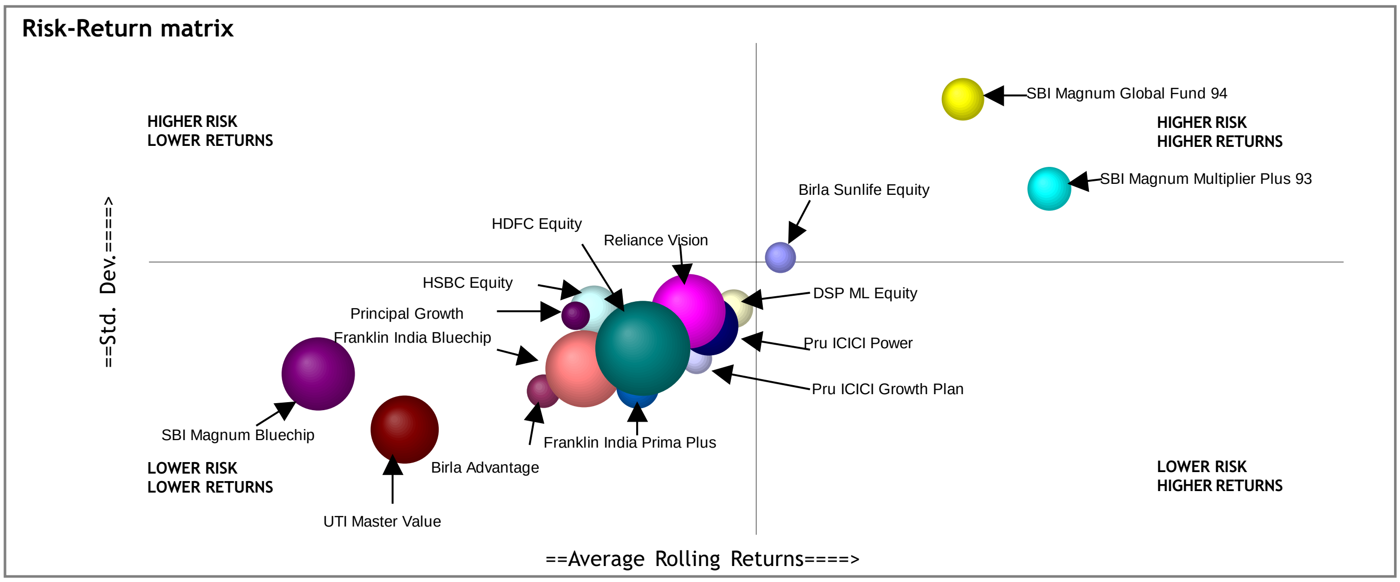
The funds in the **high-risk low returns** quadrant underperform the peers on the risk adjusted returns basis as they adopt a high-risk strategy but the returns fail to compensate the risk taken by the fund.

For aggressive, conservative and tax planning funds, risk is measured in terms of two years' volatility while returns are measured as two years' average rolling returns as on November, 2006. For thematic and balanced funds, risk is measured in terms of one year's volatility while returns are measured as one year's average rolling returns as on November 30, 2006.

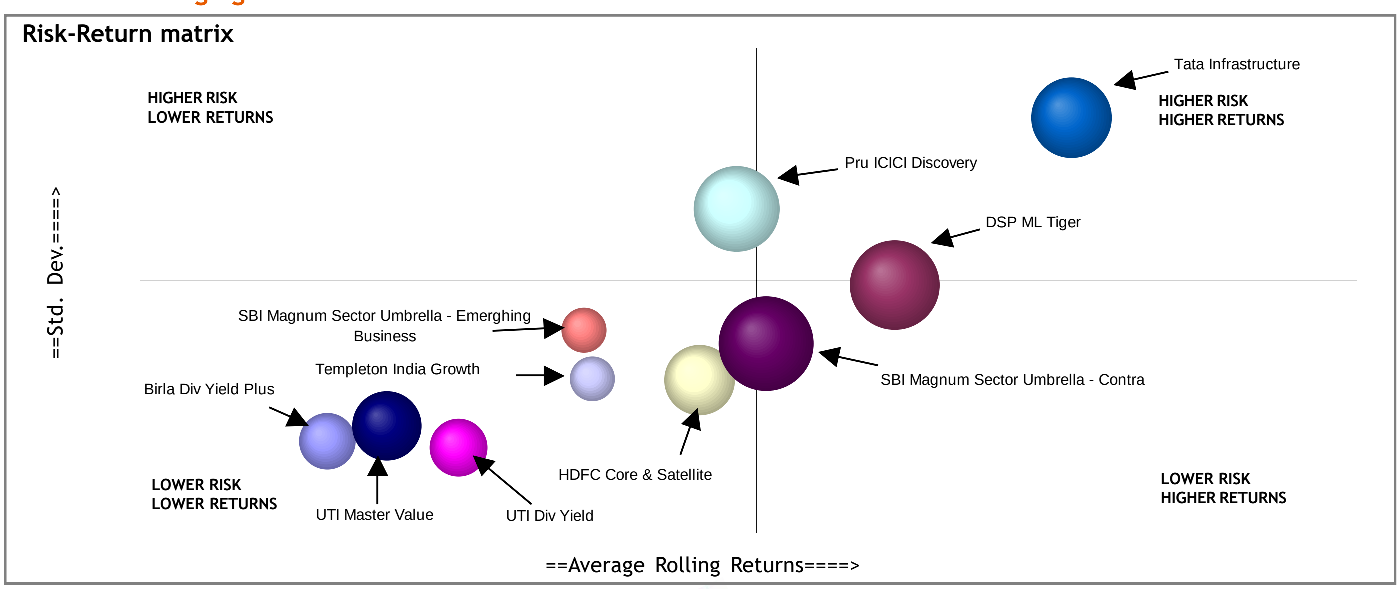
Aggressive Funds



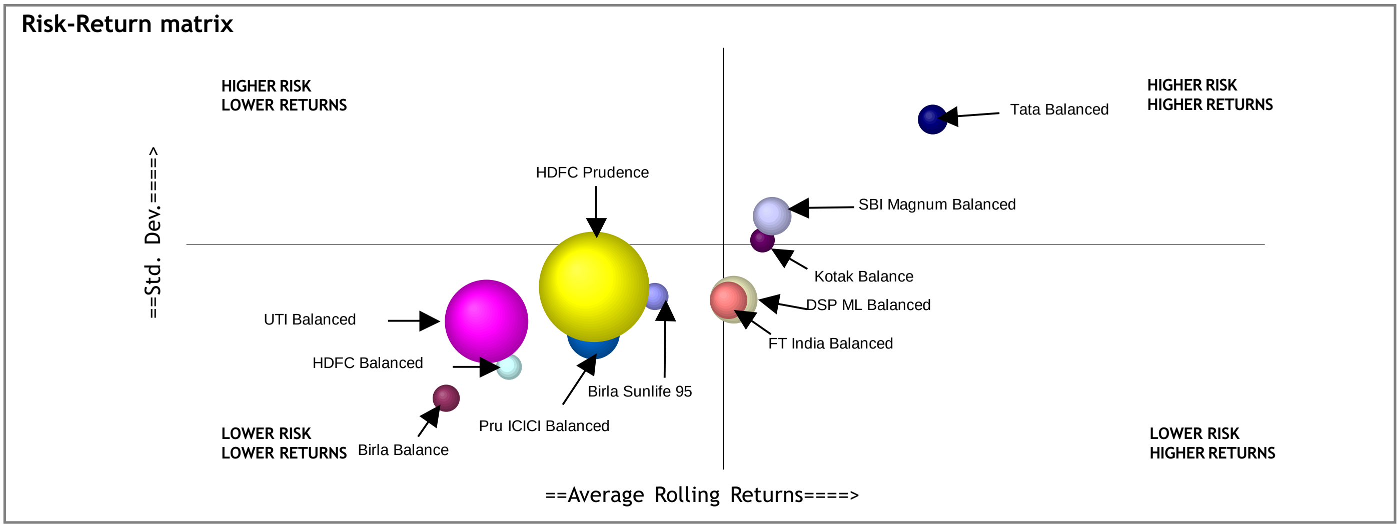
Equity Diversified/Conservative Funds



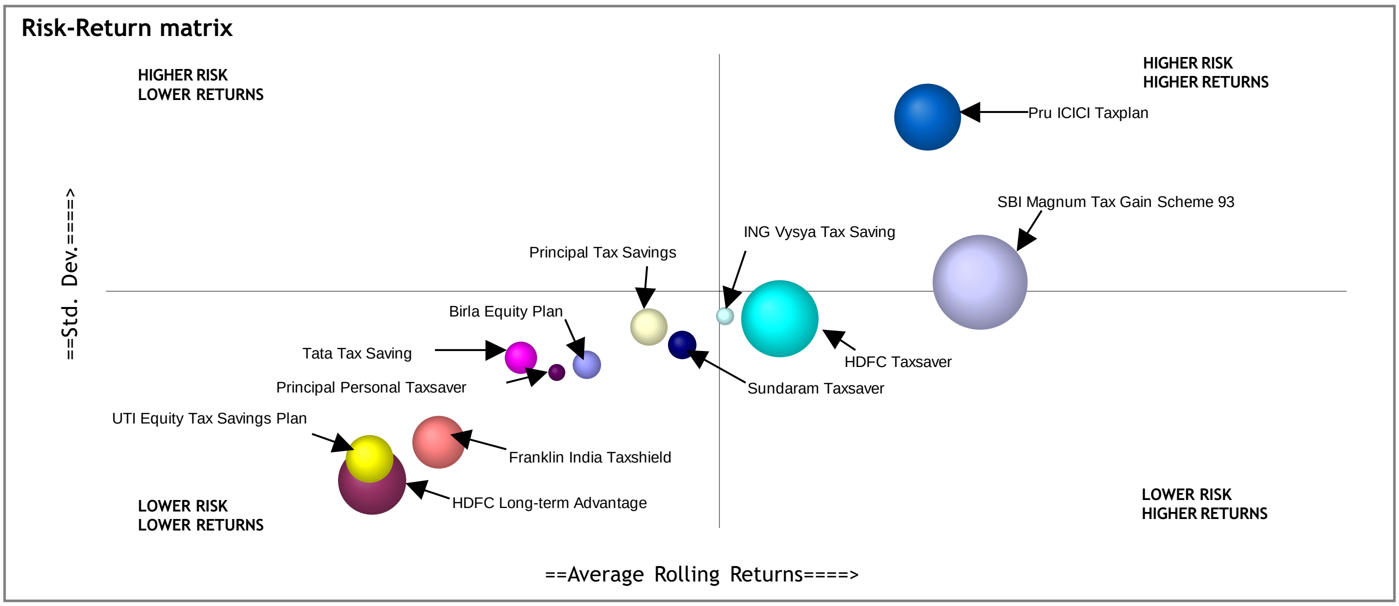
Thematic/Emerging Trend Funds



Balanced Funds



Tax Planning Funds



Disclaimer: mutual fund investments are subject to market risk. Please read the offer document carefully before investing. Past performance may or may not be sustained in the future.