mutual gains

Sharekhan's top equity fund picks

After falling steeply in the beginning of the month, the Sensex has regained much of its lost ground with the domestic demand-driven story continuing and the foreign institutional investor (FII) sentiment improving. Thus despite the heavy selling in the beginning of the month, FIIs were net buyers of Indian equities for September as well with purchases worth Rs6,231 crore compared with that of Rs4,774 crore in August. Mutual funds (MFs), too have contributed to the sharp run-up in the Sensex by remaining aggressive buyers in the market. The strong inflows from FIIs and mutual funds have enabled the Sensex to pierce the 12k mark.

In the last quarter, the earnings of the Sensex companies had grown by a good 22.8%. A look at the corporate advance tax collections, which have grown by 30% indicate that the second quarter earnings will be equally good, if not better. The economic indicators vindicate the strength of the Indian economy and the earnings potential for Indian companies going forward. For instance, in July industrial production saw the strongest growth in the last ten years, with the Index of Industrial Production growing by a strong 12.4%. The growth was led by the manufacturing sector, which grew by an impressive 13.3%. The underlying capital expenditure theme too remains strong, as is evident from the 19% rise in the Index of Capital Goods in the year till date. Most importantly, India's growth story is reinforced by the gross domestic product (GDP) numbers that were released recently. Driven by the twin engines of manufacturing and service sectors, India's GDP grew by a strong 8.9% in the first quarter of this fiscal. The growth was the highest for the first quarter since 2000-01. The economy thus seems poised to grow at the rate of 7.5-8.0% this year as well.

Other than Indian Inc's second quarter results, the market will be influenced by global factors as well. Crude oil has fallen from a high of $78.4 per barrel in mid-July to $60 per barrel levels currently. Meanwhile, the US Federal Reserve (Fed) has kept the Fed rate unchanged at 5.25% in its last meeting, and is expected to maintain the status quo in its next meeting as well, on account of the slowdown in the US economy. However, signals emerging from the US economy continue to be mixed. While there are clear indications that the housing market and the manufacturing sector are slowing down, retail sales and consumer confidence remain visibly buoyant.

Considering everything, we believe that our stock market should be able to hold the attention of the foreign and local investors alike going forward. In the medium term, ie in the next two to three months, the market might react to volatility in crude prices and the fluctuations in the other global markets. In the near term, we expect a good run in the market triggered by India Inc's second quarter results, which are expected to be of good quality. The slide in the energy prices, the pause in the Fed rate hikes and strong foreign fund inflows should also boost the market sentiment in the near term. The long-term outlook looks extremely bright with the economy charging ahead at an unimaginably fast pace (9.3% in Q1CY2006 and 8.9% in Q2CY2006).

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 September 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
Sundaram Select Midcap	82.88	11.89	10.73	60.63	71.48	66.89
Birla Mid Cap Fund	58.02	21.69	3.66	36.02	53.17	52.56
Reliance Growth	234.80	17.68	3.23	34.84	62.87	63.16
Indices						
BSE Sensex	12454.42	17.39	10.15	44.39	49.43	40.89

Opportunities Category

Scheme Name	NAV	Returns as on September 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
Prudential ICICI Dynamic Plan	55.82	17.82	5.18	45.41	64.15	50.60
Kotak Opportunities Fund	25.49	12.71	0.11	42.10	58.43	--
Indices						
BSE Sensex	12454.42	17.39	10.15	44.39	49.43	40.89

Equity Diversified/Conservative Funds

Scheme Name	NAV	Returns as on September 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
SBI Magnum Global Fund 94	36.35	17.56	3.92	41.35	73.96	74.72
SBI Magnum Multiplier Plus 93	46.26	16.47	0.78	42.87	70.05	61.40
HDFC Equity Fund	133.81	17.56	5.32	43.94	56.50	50.99
Birla SunLife Equity Fund	158.44	21.29	2.80	35.49	59.37	56.33
DSP ML Equity Fund	39.94	16.48	3.26	37.10	58.32	52.01
Indices						
BSE Sensex	12454.42	17.39	10.15	44.39	49.43	40.89

Thematic/Emerging Trend Funds

Scheme Name	NAV	Returns as on September 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
Prudential ICICI Infrastructure Fund	16.19	25.12	9.91	51.06	--	--
SBI Magnum Sector Umbrella - Contra	33.43	15.32	5.72	45.24	74.24	73.99
DSP ML Tiger Fund	28.26	19.29	4.09	45.44	58.52	--
Tata Infrastructure Fund	20.74	17.27	4.14	48.06	--	--
HDFC Core & Satellite Fund	23.68	13.85	0.17	37.94	52.58	--
Indices						
BSE Sensex	12454.42	17.39	10.15	44.39	49.43	40.89

Balanced Funds

Scheme Name	NAV	Returns as on Septembr 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
HDFC Prudence Fund	103.20	15.85	8.53	32.39	44.56	40.04
JM Balanced	21.08	11.65	6.04	36.29	35.92	28.89
DSP ML Balanced Fund	35.20	11.99	3.44	31.10	35.00	34.71
Kotak Balance	22.00	7.43	-0.90	30.48	43.22	38.93
SBI Magnum Balanced Fund	31.87	10.78	1.66	29.80	48.18	46.64
Indices						
BSE Sensex	12454.42	17.39	10.15	44.39	49.43	40.89

Tax Planning Funds

Scheme Name	NAV	Returns as on September 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
SBI Magnum Tax Gain Scheme 93	47.26	16.38	3.80	33.80	80.63	79.12
HDFC Taxsaver	131.68	14.31	1.85	32.69	63.49	62.51
Prudential ICICI Taxplan	90.19	23.35	4.63	30.60	64.36	57.53
Birla Equity Plan	52.87	21.09	3.34	37.66	54.63	51.10
ING Vysya Tax Saving Fund	23.39	20.50	-2.09	29.46	54.43	--
Indices						
BSE Sensex	12454.42	17.39	10.15	44.39	49.43	40.89

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.

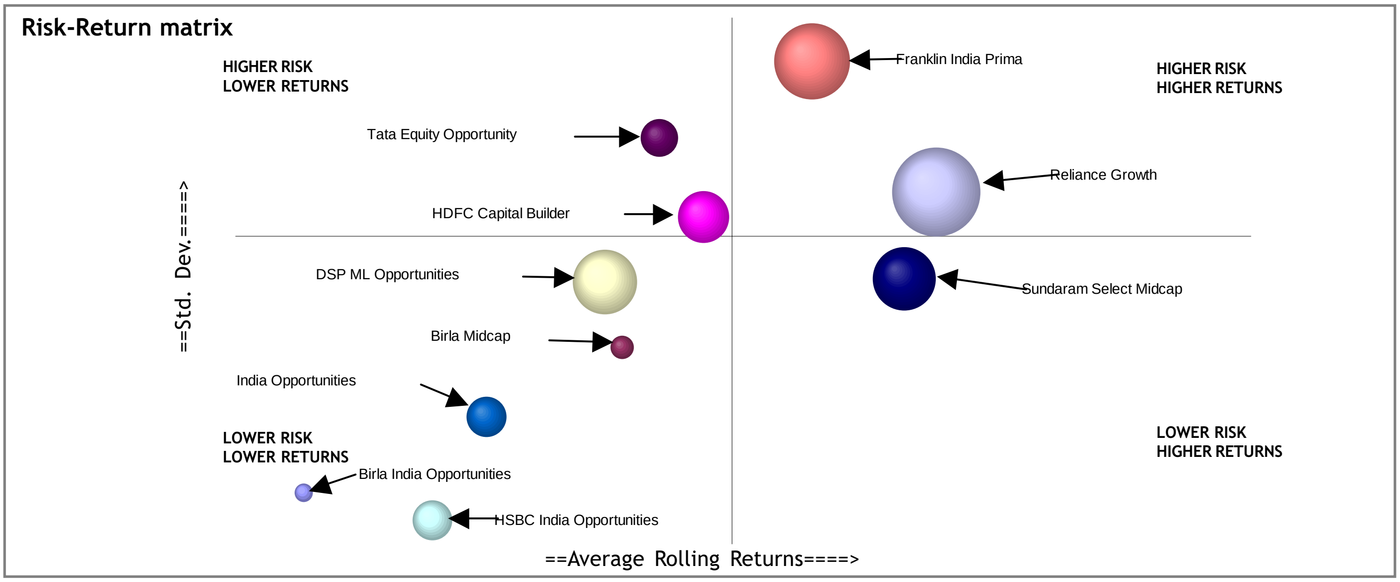
The funds in the **low-risk high returns** quadrant outperform the peer group on the risk-adjusted returns basis as they deliver higher returns compared to the peers without exposing the portfolio to very high risk.

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

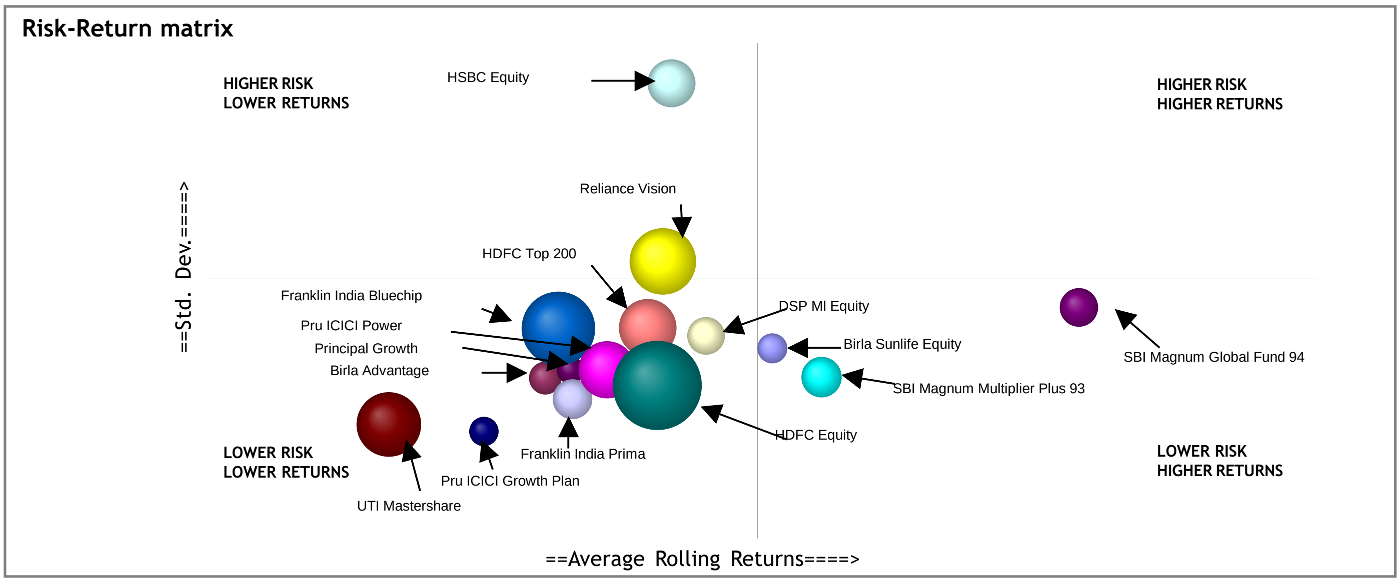
The funds in the **high-risk low returns** quadrant underperform the peers on the risk adjusted returns basis as they adopt a high-risk strategy but the returns fail to compensate the risk taken by the fund.

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 September 30, 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 September 30, 2006.

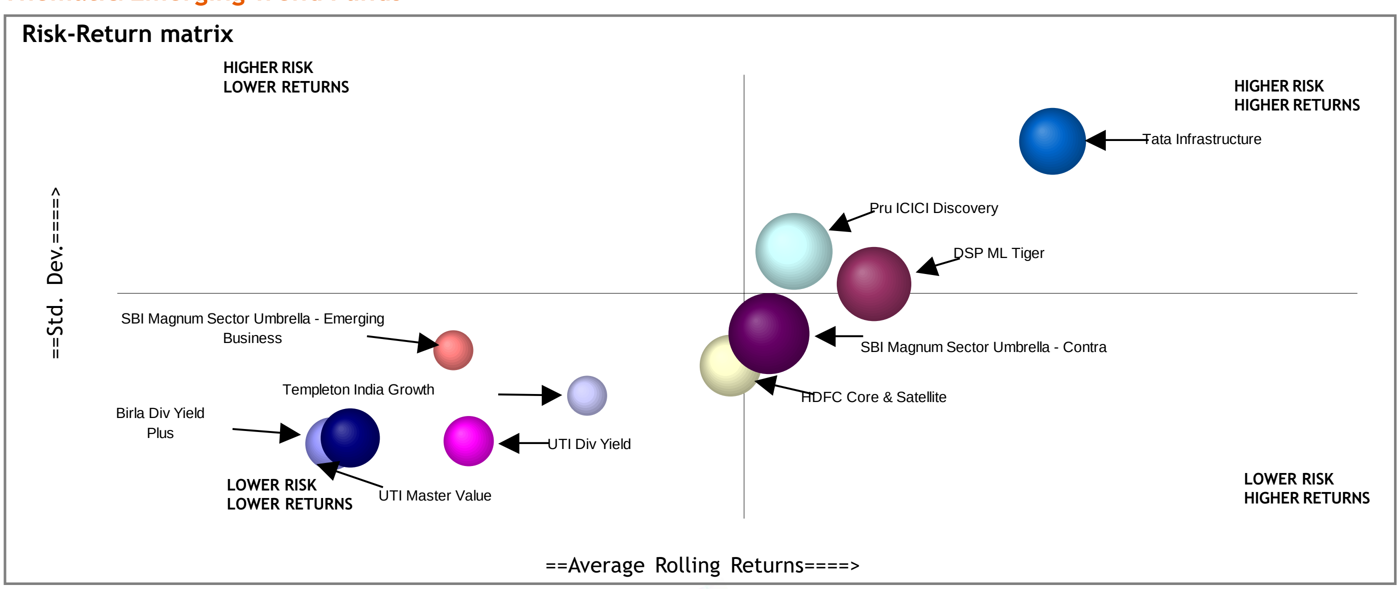
Aggressive Funds



Equity Diversified/Conservative Funds

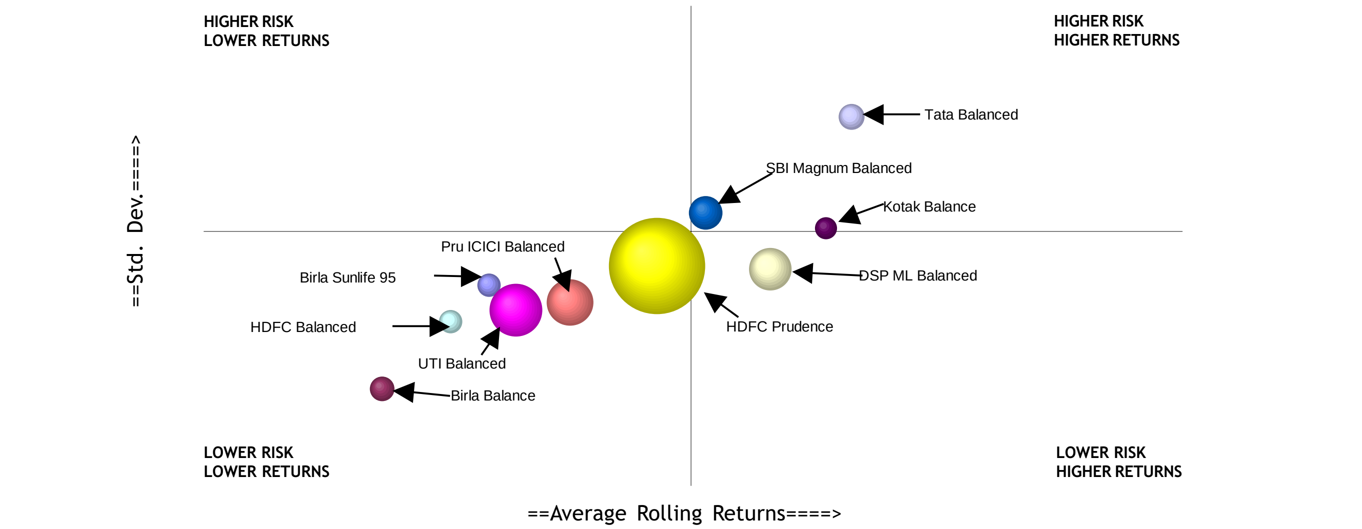


Thematic/Emerging Trend Funds



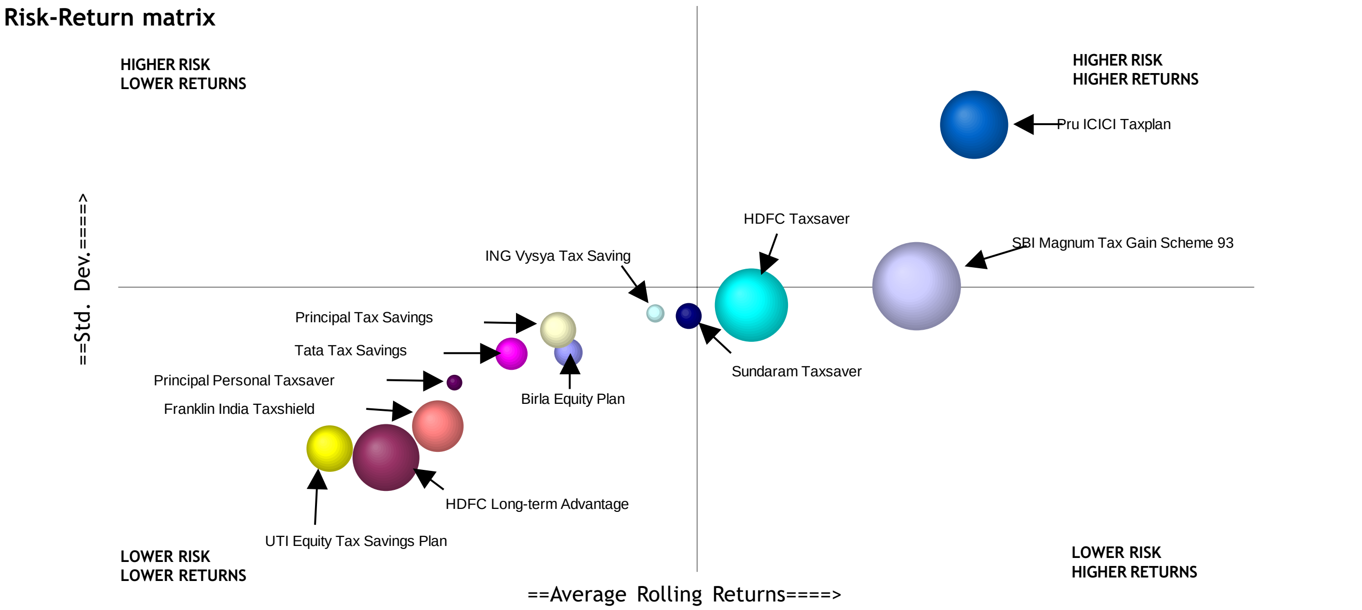
Balanced Funds

Risk-Return matrix



Tax Planning Funds

Risk-Return matrix



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.