mutual gains

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Sharekhan's top equity fund picks

Continued flow of negative news pertaining to global economy has kept the market depressed and volatile. The developments on the domestic front have only added to the prevailing weak sentiments. With the sub-prime crisis spiraling out of control and pushing the USA towards a recession, financial markets across the globe have seen massive sell-offs. Along with the negative developments on the global front, the picture on the home front hasn't been too rosy either, with the weak Index of Industrial Production (IIP) numbers pointing to a slowdown in the GDP growth and the inflation rate climbing to an 11-month high of 5.92%. Consequently, the Sensex and the Nifty have lost almost 30% from their record highs seen in January.

The weak global sentiment led to disappointing listing of the high profile IPO of Reliance Power and the failure of other big ticket IPOs of Emaar MGF and Wockhardt Hospitals. As if this were not enough, the higher than expected write-off by some of the leading companies such as ICICI Bank and Suzlon Energy along with huge losses incurred in the derivative segment by engineering giant L&T negatively surprised the markets. To top it all, the tinkering of the short-term capital gains tax and huge debt waivers announced in the Union Budget 2008 pushed the markets to below the lows seen in January 2008 on a closing basis.

Dragged down by the housing sector slump and the sub-prime lending crisis, the USA appears to be hurtling towards recession. The losses resulting from the collapse of the US sub-prime market are also mounting, resulting in the collapse of some large investment banks like Bear Stearns. Since India does not seem to have achieved decoupling from the US economy yet, it will not be able to escape unhurt from a possible hard landing of the US economy. But the damage is expected to be minimal considering that exports form only 25% of our GDP. Moreover, India's export basket is well diversified with exports to the USA constituting only 23% of the total exports. Still, it is heartening to see that efforts are on to revitalise the world's largest economy with the Fed effecting a 75-basis-point rate cut at its March 18 meeting and stepping up its efforts to bail out liquidity trapped firms like Bear Stearns.

Another fallout of the developments in the USA has been the drop in foreign fund inflows into the country. Foreign institutional investors (FIIs) have withdrawn $3.1 billion out of the Indian equity market in 2008. However, with the domestic mutual funds sitting on a cash pile of over Rs20,000 crore and the insurance companies collecting significant amount of funds in the equity linked saving schemes and unit linked saving schemes, the liquidity situation seems comfortable. Besides, we don't expect foreign fund inflows to stop altogether.

Now comes the question of the growth of the Indian economy remaining intact. After growing at 8.9% in Q2FY2008 the country's GDP expanded at a strong 8.4% in the third quarter of FY2008, showing that the growth momentum remains intact. The GDP growth for the first nine months of the fiscal also stood at a healthy 8.9%. While the Economic Survey has now projected a growth of 8.7% for the whole fiscal. The IIP growth in January was unusually low partly because of a high base and also because of a slowdown in capital goods and consumer durables. While the growth in consumer durables is likely to rebound given the excise and custom duty cuts effected in the budget, the slowdown in capital goods seems more of an aberration, given the large order books of the leading capital goods companies. Hence, we expect a better growth picture for the rest of the year.

On the whole, even though the market has taken heavy beating of late, not all is lost. Since we expect the liquidity situation to correct gradually and the economy to maintain its strong growth, we also expect the market to consolidate and resume its northward march in due course. In the near term though, we expect the market to take its cues from global factors, and stay volatile and range-bound.

At home, even though the budget has been pro-growth and hence not anti-market as such, a couple of proposals like the hike in the short-term capital gains tax have managed to dampen market sentiment. However, the impact of these proposals on the market is not expected to be significant or long lasting. Nonetheless, the depressed sentiments on account of these proposals might keep the market volatile in the immediate term. On the other hand, the announcement of the fourth quarter results of Indian companies towards mid April and then the advent of the monsoon in June could provide some stimulus. Another quarter of healthy earnings growth and a better than expected monsoon would surely revive market sentiment.

We have identified the best equity-oriented schemes available in the market today based on the following 3 parameters: the past performance as indicated by the one and two year returns, the Sharpe ratio and Fama (net selectivity).

The past performance is measured by the one and two year 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. The Sharpe ratio is also indicative of the consistency of the returns as it takes into account the volatility in the returns as measured by the standard deviation.

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.

We have selected the top 10 schemes upon ranking on each of the above 4 parameters and then calculated the mean value of each of the 4 parameters for the top 10 schemes. Thereafter, we have calculated the percentage underperformance or over performance of each scheme (relative performance) in each of the 4 parameters vis a vis their respective mean values.

For our final selection of schemes, we have generated a total score for each scheme giving 30% weightage each to the relative performance as indicated by the one and two year returns, 30% weightage to the relative performance as indicated by the Sharpe ratio and the remaining 10% to the relative performance as indicated by the FAMA of the scheme.

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

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Aggressive Funds

Mid-cap Category

Scheme Name	NAV	Returns as on Feb 29, 08(%)		
		3 Months	1 Year	2 Years
Standard Chartered Premier Equity	23.46	1.57	76.53	45.05
Birla Mid Cap	92.66	-6.61	50.45	35.31
Reliance Growth	380.05	-7.45	45.61	35.86
Sundaram BNP Paribas Select Midcap	117.58	-7.45	33.74	33.40
SBI Magnum Midcap	29.03	-13.91	35.54	30.36
Indices				
BSE Sensex	17578.72	-7.50	35.75	30.15

Opportunities category

Scheme Name	NAV	Returns as on Feb 29, 08(%)		
		3 Months	1 Year	2 Years
Kotak Opportunities	44.37	-3.95	60.04	38.16
Franklin India Opportunity	32.80	-6.61	37.07	32.22
ABN AMRO Opportunities	28.27	-8.17	43.53	31.27
Fidelity Equity	27.42	-7.04	35.55	30.93
HSBC India Opportunities	35.47	-9.44	33.35	31.73
Indices				
BSE Sensex	17578.72	-7.50	35.75	30.15

Equity diversified/conservative funds

Scheme Name	NAV	Returns as on Feb 29, 08(%)		
		3 Months	1 Year	2 Years
DWS Alpha Equity	73.15	-7.21	51.90	39.32
Sundaram BNP Paribas Select Focus	85.95	-11.02	51.39	37.40
Birla SunLife Frontline Equity	68.74	-5.73	43.75	36.41
Kotak 30	97.60	-5.04	51.58	34.86
HDFC Growth	67.83	-7.32	50.40	36.29
Principal Large Cap	24.13	-10.20	49.71	36.82
HSBC Equity	98.39	-6.25	47.63	33.45
HDFC Top 200	147.69	-4.71	42.87	30.06
DSP Merrill Lynch Top 100	77.40	-8.97	41.72	33.82
Birla SunLife Equity	246.07	-9.01	44.14	32.77
Indices				
BSE Sensex	17578.72	-7.50	35.75	30.15

Thematic/Emerging trend funds

Scheme Name	NAV	Returns as on Feb 29, 08(%)		
		3 Months	1 Year	2 Years
ICICI Prudential Infrastr	29.95	-5.67	71.38	50.66
DSP Merrill Lynch India Tiger	48.57	-8.43	54.30	40.85
JM Basic	31.44	-10.04	69.80	45.88
Tata Infrastructure	36.06	-11.47	63.21	43.88
Sundaram BNP Paribas CAPEX Opportunities	26.43	-12.40	64.18	41.39
Indices				
BSE Sensex	17578.72	-7.50	35.75	30.15

Balanced funds

Scheme Name	NAV	Returns as on Feb 29, 08(%)		
		3 Months	1 Year	2 Years
DSP Merrill Lynch Balanced	50.42	-2.90	36.13	26.21
Birla SunLife 95	225.57	-2.81	30.08	25.20
Tata Balanced	65.93	-7.94	36.84	27.57
SBI Magnum Balanced	45.18	-5.62	33.25	25.76
HDFC Prudence	141.42	-5.16	26.77	25.69
Indices				
Crisil Balanced Fund Index	3024.60	-3.64	28.92	21.60

Tax planning funds

Scheme Name	NAV	Returns as on Feb 29, 08(%)		
		3 Months	1 Year	2 Years
Principal Personal Taxsaver	172.57	-5.29	55.01	38.79
Sundaram BNP Paribas Taxsaver	38.10	-7.92	46.44	29.05
PRINCIPAL Tax Savings	106.01	-10.64	43.04	34.32
Fidelity Tax Advantage	16.62	-6.37	38.15	28.30
Indices				
BSE Sensex	17578.72	-7.50	35.75	30.15

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 its 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 its peers without exposing the portfolio to very high risk.

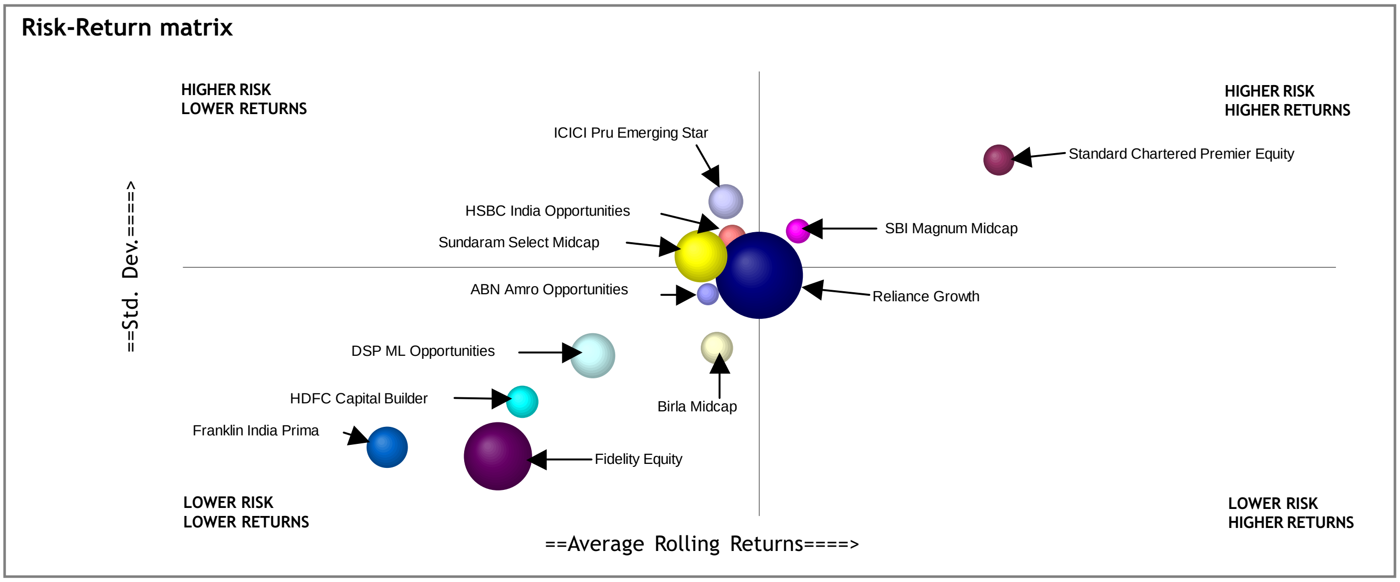
The funds in the **low-risk low returns** quadrant are not very aggressive and provide lower absolute returns, taking lower risks.

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.

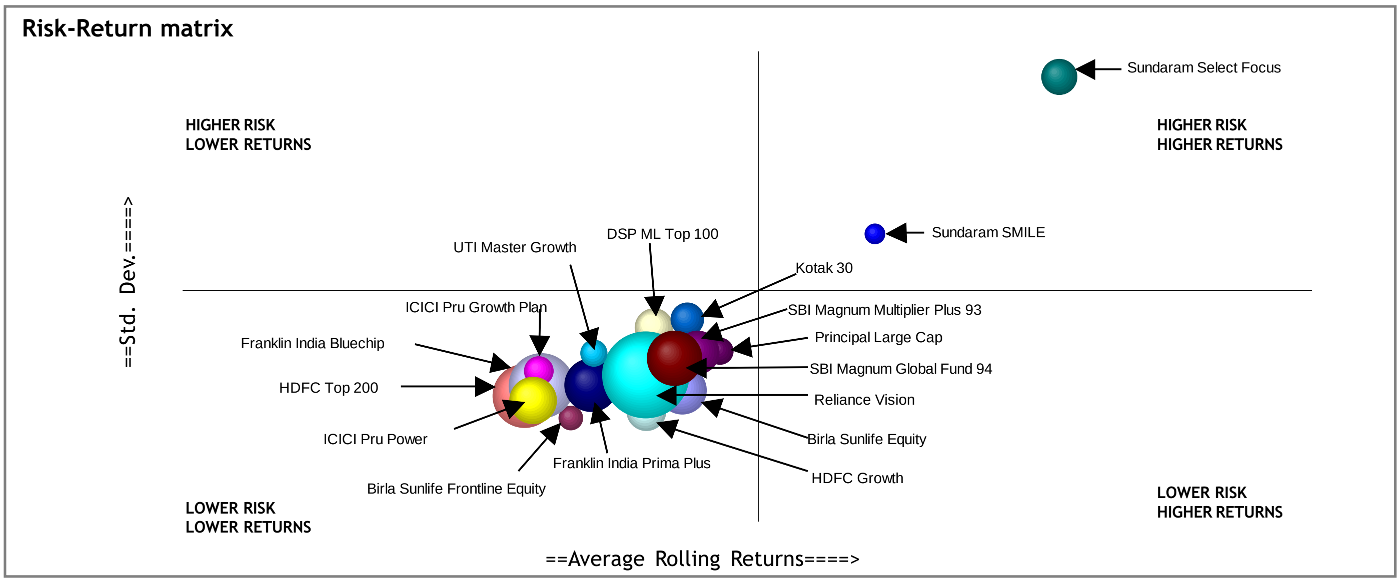
For aggressive, conservative and tax planning funds, risk is measured in terms of two years' volatility while returns are measured as two years' average rolling returns as on February 29, 2008. For thematic and balanced funds, risk is measured in terms of one year's volatility while returns are measured as one year's average rolling returns as on February 29, 2008.

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.

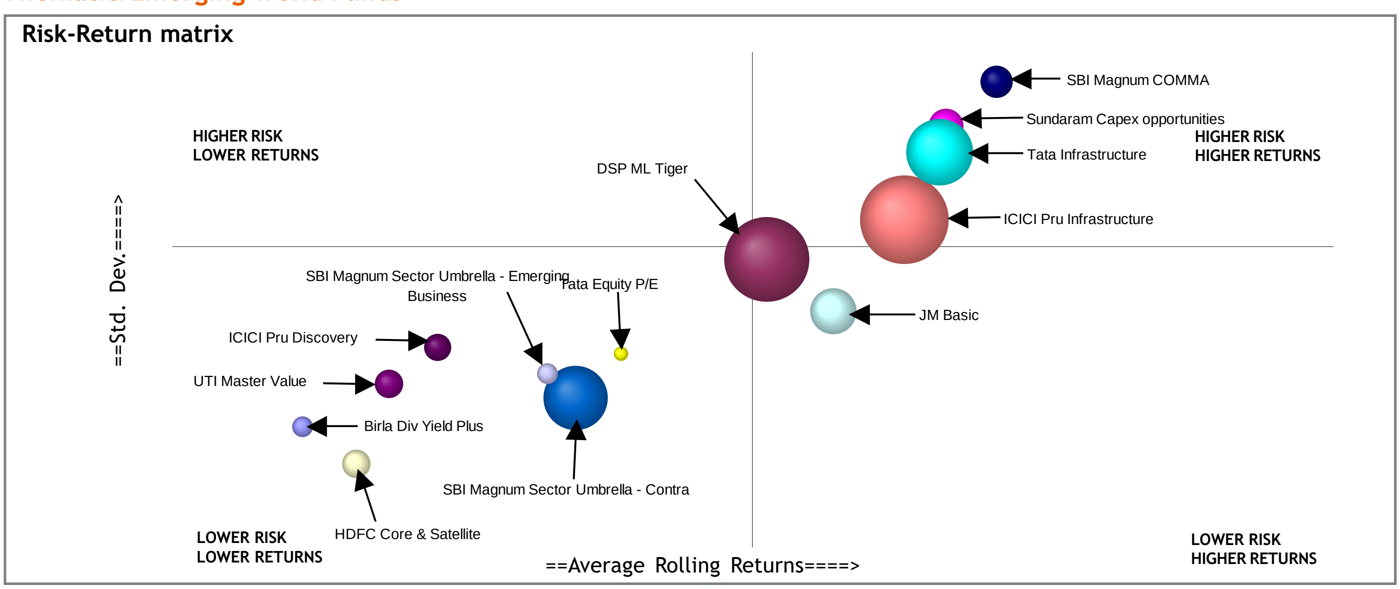
Aggressive Funds



Equity Diversified/Conservative Funds

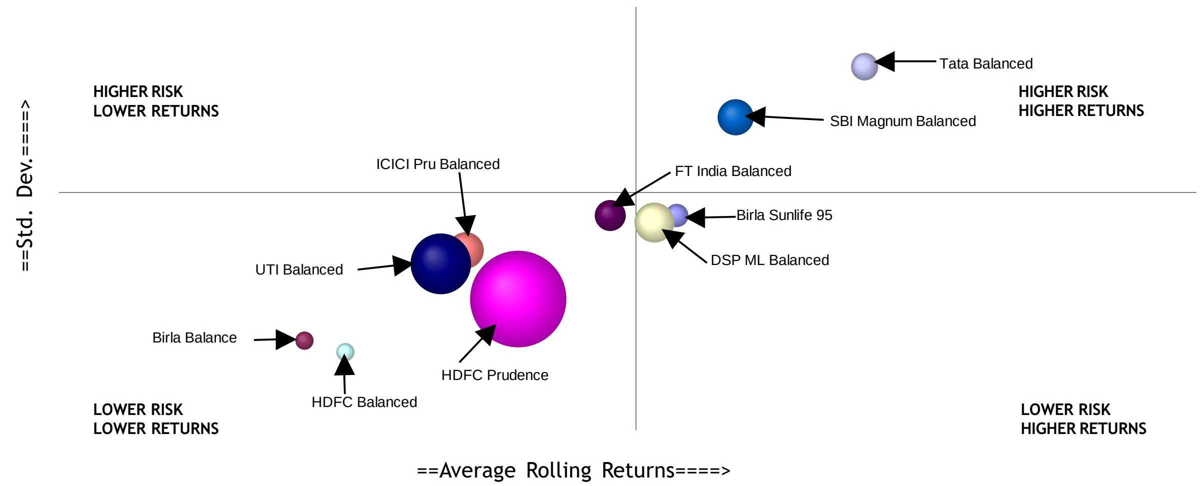


Thematic/Emerging Trend Funds



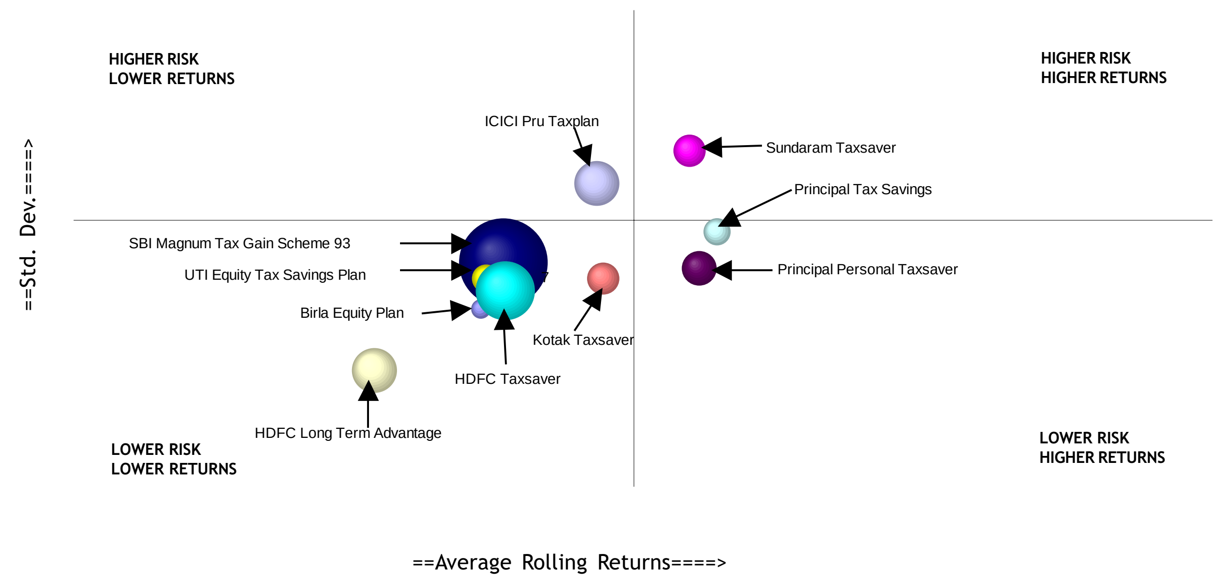
Balanced Funds

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.