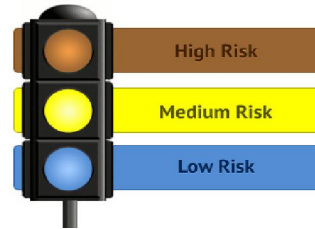


INVESTING
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Colourful



Colour Coding in Mutual Funds

Market regulator SEBI has issued a framework on 'product labelling' with colour coding for mutual funds, a move that would help investors assess the risk associated with the schemes. The guidelines would be effective from July 1, 2013, for all existing and forthcoming schemes.

Both the existing and new schemes will have to display the colour coding on the application form, as well as the offer document, next to the name of the scheme. All their advertisements will also carry this coding. The schemes will be classified into three colours, each denoting a different level of risk. **Blue will signify the lowest risk and the category will include debt funds, such as income, gilt, dynamic bond funds, as well as fixed maturity plans.** This category is meant for anyone who is looking to invest safely and is not comfortable with volatility and uncertainty in returns.

Yellow will stand for schemes that bear a moderate level of risk. This includes all hybrid products, such as monthly income plans (MIPs), balanced funds, as well as multi-asset funds, which invest in both equity and debt, even gold. This category is for those who seek high returns without taking on much risk.

The brown colour will imply that the fund carries a high degree of risk, and will include all diversified equity, index and sectoral funds. The colour is meant to serve as a caution to risk averse investors, while indicating the potential for earning higher returns.

The scheme documents will also carry a 'label', or a basic description of the scheme, alongside the colour coding. This will be a short text outlining the scheme objective (to create wealth or provide regular income), its nature, as well as the instruments it will invest in (equity or debt). Mutual funds will also carry a disclaimer: 'Investors should consult their financial advisers if they are not clear about the suitability of the product.'

Net Brokers View:

Within the brown category, supposed to symbolise the highest risk, both mid- and small-cap funds and index funds find a mention. As any expert will tell you, the risk in actively managed mid- and small-cap stocks is much more than that in passive index funds. Also, while the blue colour will include the lowest risk investments in the form of debt funds, the presence of gilt funds is slightly misleading.

Since risk profiles may differ within each category, you will need to understand the nuances of each scheme, distinguishing between large cap and mid-cap funds, liquid and gilt funds, etc. Use the colour code in tandem with the accompanying description to narrow down the search.