



Mid-Cap for Higher Returns

If you want to participate in India's growth story, allocate a portion of your equity portfolio to mid and small cap funds. Many of today's large-cap stocks in sectors such as technology, private banks, two-wheelers and telecom were mid and small caps in the 1990s. This story will inevitably be repeated in the coming decades and you wouldn't want to miss out on the ride.

The fact that mid cap funds outperform their large cap peers in rising markets was evident in the bull markets of 2007, 2009, 2010 and 2012. In a growing economic environment, mid cap funds significantly outperform large-cap funds. These stocks post a higher rate of earnings growth due to their low base. A re-rating of their PE (price-to-earnings ratio) multiples also takes place.

Since stocks with different market caps tend to outperform in different calendar years, an allocation to funds across market caps means you can ensure that a portion of your portfolio does well in all conditions. An exposure to sectors such as education, textiles and agro-chemicals, where the players tend to be smaller, may not be possible via large-cap funds. So, mid-cap funds are your only option.

Another advantage of investing in a mid-cap fund, instead of the stock directly is the guaranteed liquidity. In declining markets, exiting these stocks can prove difficult. Even if you find buyers, they will quote a low price. However, if you have invested through a mutual fund, you can exit smoothly on the day of your choosing. Notwithstanding the mayhem in the markets, the fund house will be duty-bound to redeem your units at the end-of-day net asset value (NAV).

Mid Cap Funds are added to give an extra boost to the portfolio. During bad times, they tend to fall much more than large cap funds. But, it's worth investing provided the investment tenor is minimum 5 years. An allocation to such kind of funds will depend upon the risk appetite and financial goals of the investor. The best way to invest in this category is through systematic investment plan (SIP) offered by mutual funds.

Top 5 Mid-Cap Funds:

1. IDFC Premier Equity Fund
2. ICICI Prudential Discovery Fund
3. SBI Emerging Business Fund
4. HDFC Mid Cap Opportunities Fund
5. IDFC Sterling Equity Fund