Dalal Street Voice: Choose to invest in hybrid products amid market volatility: Jaiprakash Toshniwal of LIC Mutual Fund Asset Management

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In an interview with Zeebiz's Kshitij Anand, Bolinjkar said that on an overall basis, mutual fund share in overall household savings is in lower single digit (approx 2%). Thus it is fair to assume that the flows to equity may continue in the near term. *Edited excerpts:*

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Q) What does the BJP win in 4 states mean for markets, economy and reforms?

A) We would not like to comment on any particular party winning/ losing an election. However, the re-election of existing government is generally perceived as a positive with respect to the continuation of Government policies and actions and minimal alteration in their governance continuation of Government policies and actions and minimal alteration in their governance strategies thereby translating into a positive impact on the economy.

This positivity certainly got reflected into the investor sentiments and in turn in markets.

Q) The war-like scenario must have wiped out a good 5-10% of the investor portfolio in a matter of weeks. What advice would you like to give to investors? Should one stay put, add on dips or cash out – what does the history suggest?

A) We are an advocate of long-term investments. While events like the current one do have an impact on equities in the short-term, in the long-term, equities tend to outperform the common investible asset class.

Hence, we would suggest our investors continue to remain invested and do not change the goal post because of these intermediate events.

Talking about the current tensions between Russia – and Ukraine - we are seeing the immediate impact on cost inflation which is different for different sectors.

Hence, one needs to take into consideration these changing trends and position the portfolio accordingly to cushion the impact.

This is where investment through mutual funds differentiates itself from direct investment in equity. Mutual funds have seasoned and professional Investment Managers with vast experience in managing assets through various investment cycles.

Q) If someone plans to put in Rs 10L after the recent double-digit fall seen in benchmark indices from 52-week highs. What is the right asset allocation strategy considering someone is in the age bracket of 30-45 years of age? Also, should one do lump sum or STP?

A) Age is one of the many variables to arrive at a proper asset allocation. Investor risk appetite, investment objective, personal goals, time horizon are other important factors to consider while arriving at asset allocation.

Having said that since market volatility is the essence of the equity market, one may choose to invest in hybrid products which gives the stability of debt and may give growth of equity.

Lump-sum or STP are ways to facilitate Investments and a matter of personal choice. However, one should avoid to time the market.

Q) With interest rates likely to head North – what is the right strategy for MF investors? Should they look at tweaking their asset allocation?

A) Rising interest rate impacts the cost of capital which in turn impacts the valuation models.

In past, we have observed that in the rising interest scenario, high-value stocks tend to underperform the broader market – thus, one may look to tweak portfolios with an objective to bring down the overall valuation multiple of their portfolios.

Q) Retail investors reaffirmed their faith in equities amid volatility (geopolitical towards later part of the month) as equity funds saw a net increase of more than Rs 19000 cr in Feb. What is your view and do you think this war-like scenario could result in a slowdown in the flows?

A) Retail inflows are also a function of investors having higher disposable income, acceptability of mutual funds among youngsters, and equities outperformance vs other asset class.

We believe these key drivers should continue to help MFs to attract a larger pie of investors' savings.

On an overall basis, mutual fund share in overall household savings is in lower single digit (approx 2%) Thus it is fair to assume that the flows to equity may continue in the near term.

Q) Crude above $100 – what is the kind of impact you foresee on markets, economy and India Inc. in upcoming quarters?

A) Higher crude oil prices result in higher cost inflation. This is negative for Economy as we are net importer of Oil. It is also negative for corporates as it adds up to the cost inflation. However, the same get cushioned by higher forex reserve and higher remittance which was not there in past.

Q) What is your take on the rupee? Which sectors could get impacted the most from recent volatility?

A) Rupee seems to have shown a relatively strong performance vs the other emerging economies currency. This is largely due to the strong forex reserve vs the past instances when the forex reserve was lower when the crude prices rallied.

Given the current interest spread differential with the US – We may see the rupee continue to remain stable. Any larger than expected inflows from FII into Indian equity markets will only make the rupee stronger.

Q) Are there any sectors that you think have run out of steam and investors should ideally look at booking profits or trimming their positions?

A) One should not write off any sector because of any current situation as all sectors tend to be following respective industry/business cycles.

One needs to determine where the sectors stand in that cycle and need to position accordingly.

Given this backdrop, we do see commodity prices on the higher side and there is a heightened risk of prices coming down which could impact the sectors.

Disclaimer: Mutual fund investments are subject to market risks, read all scheme-related documents carefully.

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