

# Rein in your exuberance as you step into 2018

Mid- and small-caps, balanced funds and IPOs were winning themes of 2017. Be watchful about all three in the coming year

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As 2017 draws to a close, investors need to review their personal finances. What worked in 2017 will not necessarily work in 2018, which is why it is futile to bet only on yesterday's winners. Investors need to position their personal finances in a manner that will enable them to gain from developments in the future.

**Book profits in the mid- and small-cap space:** Mid- and small-cap funds' strong performance streak continued in 2017 (category average return: 47.19 per cent year-to-date). As valuations of growth stocks shot up, investors turned to value picks. "Growth at reasonable price (GARP) approach, where investors look for a balance between growth and value, began to work in the latter half of the year," says S Krishna Kumar, chief investment officer-equity, Sundaram Mutual Fund. Many mid- and small-cap stocks belonging to cyclical sectors like metals, metal ancillaries, chemicals, engineering and construction, etc, began to look attractive.

While valuations of the mid- and small-cap indices have risen very high, fund managers have a universe of around a thousand stocks below the ₹25,000 crore market cap to choose from. Says Kumar: "Within this universe, fund managers can shift to stocks that offer good return potential at reasonable valuations." He adds that if earnings growth



On a hot streak

		Returns (%)			
		1 year	3 years	5 years	10 years
Mid- and small-cap funds	Max	83.80	32.19	37.69	16.73
	Min	35.73	5.47	7.31	7.77
	Average	52.70	19.80	25.81	12.40
Balanced funds	Max	50.67	16.05	19.02	14.20
	Min	8.21	6.06	7.72	-2.22
	Average	27.92	11.24	15.27	8.71

Source: Ace MF

revives in 2018, many economy-related stocks will perform.

Investors should ensure that their allocation to mid- and small-cap funds does not exceed 25-30 per cent of their equity portfolio. Book some profits in this space and shift the money to fixed income and gold.

**Temper expectations from balanced funds:** Balanced funds caught the fancy of investors in 2017 (category average return: 24.14 per cent YTD). Their assets under management (AUM) also saw a massive increase. "Returns from both equities and debt were good over the past year, which is why these funds performed," says Kaushik Basu, executive vice president and fund manager, UTI Asset Management Company.

Investors will, however, have to temper their return expectations for the future. "The equity market has

been climbing because of PE (price-to-earnings) rerating, and not because of earnings growth. We expect time consolidation in the markets. If earnings growth revives in 2018, equities could move up in 2019," says Basu.

During the last quarter of 2017, the 10-year G-Sec yield firmed up and returns from longer duration bonds turned negative. This has affected the returns from the debt portion of balanced funds.

During the year, balanced funds were hawked as products that can give regular income to investors through monthly dividends. However, these funds will only make dividend payouts so long as they are able to book gains. In case of a market downturn, payouts could stop.

**Tread cautiously in primary market:** In 2017 around ₹67,140.62 crore

was raised through initial public offers (IPOs), the highest ever. 2018 could be an equally strong year. "So long as the secondary market remains positive, companies will continue to come to the IPO market," says Pranav Haldea, managing director, Prime Database. Around 15 companies have received Sebi approval to raise ₹11,631 crore, another 10 have filed offer documents to raise ₹18,049 crore, while another 87 have announced their intention to do an IPO, according to Prime Database.

Retail investors should, however, consider investing in IPOs only if the theme is new and there are no listed peers. Less information is available about new offerings than about listed stocks. Promoters usually price IPOs richly, leaving very little on the table for investors. Valuations could get even richer in 2018. "Valuations keep moving higher as an IPO cycle matures," says Haldea.

**Lower premiums with fitness trackers and telematics:** High health care inflation and rising mediclaim premiums pose a threat to customers' finances. Many health insurance providers now allow customers to earn health and fitness

points and thereby reduce their premiums. Says Sandeep Patel, chief executive officer (CEO) and managing director, Cigna TTK Health Insurance: "Our customers can track their activity through our Get ProActiv app by integrating it with select wearable devices. They can also directly enter non track-able activities into the app. Healthy reward points are earned on the basis of quantum of physical activity, which can translate into lower premiums or increased benefits, up to 10 per cent of the premium."

In the motor insurance space, telematics is catching on. The telematics device fits into the car's OBD (on-board diagnostic) port and provides diagnostic data regarding the engine's health. All this data is transmitted to an app on the customer's mobile phone. Driving scores are generated by this data. Drivers can reduce fuel consumption by modifying their driving behaviour. Also, good driving behaviour is rewarded at the time of renewal. According to Gaurav Malhotra, vice president-actuarial, Bajaj Allianz General Insurance, "Once the Insurance and Regulatory Development Authority of India allows pay-as-you-go, we will be able to offer insurance solutions based on usage patterns, say, just for 1,000 kilometres or for a weekend. We will also be able to offer variable premium rates to drivers depending on their driving behaviour."

**Fintechs are willing, but borrow discreetly:** 2017 saw the proliferation of fintech companies ready to lend at the drop of a hat. You have peer-to-peer lending platforms, payday loan providers, and providers of customised personal loans. "Today, owing to technology, even small and flexible loans have become possible. Who would otherwise lend ₹50,000 for five days? It wouldn't be financially viable," says Satyam Kumar, CEO and co-founder, Loantap.in. If your documents are in place, these players can lend within 24-36 hours. Many players lend without credit history as well. But borrowers need to be cautious. Don't go for a loan just because it is easily available. If over 45 per cent of your income goes into paying EMIs, or over 25 per cent goes towards paying EMIs of non-mortgage loans and discretionary spending, it's a cause for concern. "Take personal loans only for important life events," says Kumar.