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Comparing Market Risk of Indian Balanced, Small and Mid cap and Large cap Funds

SUPARNA BISWAS *
SANTANU DUTTA **

Abstract

Balanced funds invest in a mixed portfolio of debt and equity, to hedge market risk. Small & mid cap funds invest purely in equity for long term capital appreciation. We compare the market risk and risk adjusted returns of 19 balanced, 40 small & mid cap and 40 large cap Indian funds for 10 financial years. Balanced funds are generally considered to be less risky than small & mid cap funds, which are perceived to be highly risky. But surprisingly, three small & mid cap funds and eleven large cap funds exhibited lower market risk than fifty percent of the balance funds, on daily or monthly basis, during period under study. Also, six small & mid cap funds exhibited lower market risk than fifty percent of the large cap funds on a day to day basis. Moreover, the success of a particular scheme of an asset management company does not ensure the success of the other schemes of the same company. We identify some funds where the market risk was well managed during the period under study.

JEL Code : G00, G32
Keywords : Equity, Risk, Market, Market Risk, Risk-Adjusted Return, India.

I. Introduction

AS FINANCIAL MARKETS become more sophisticated and complex, investors need financial intermediaries like banking institutions, insurance companies, mutual funds and housing finance companies etc. which provide professional expertise on various financial services. A mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debt instruments (such as debentures) and other securities. In India mutual funds are a popular investment avenue. In March 2015, Association of Mutual Funds in India (AMFI) data revealed that assets of the Indian mutual

* DST Womens Scientist-A and Post-Doctoral Fellow, Indian Statistical Institute, Applied Statistics Unit, Nelson Manickam Road, Rajaram Mehta Nagar, Aminjikarai, Chennai, Tamil Nadu 600030, INDIA
** Professor, Tezpur University, The Department of Mathematical Sciences, Tezpur, Assam 784028, INDIA

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While one scheme of a particular asset management company (AMC) may perform very well, but that does not ensure the success of other schemes offered by the same AMC during the same period. Eg. While the Aditya Birla Sun life MNC fund-Regular Plan-Growth is found to be one of the best managed small & mid cap funds, but the balanced fund Aditya Birla Sun Life 95 offered by Aditya Birla Sun Life does not seem to perform very well. No AMC can be claimed to be the best during the period under study.

UTI Opportunities Fund-Growth Option, Aditya Birla Sun Life Frontline Equity Fund-Growth, Aditya Birla Sun life MNC fund-Regular Plan-Growth, Reliance Small cap Fund-Growth, HDFC MID-CAP Opportunities Fund-Growth and Dividend and HDFC Balanced Fund-Growth are the top performing funds during the period under study.

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