



How To Analyse Mutual Fund Performance

Are you one of those people who like to check product reviews before making a purchase? Reviews can be incredibly helpful in selecting the right product. While mutual funds do not come with customer reviews, they can be analysed using various parameters. These metrics can not only help you choose new schemes but also assess the performance of your existing ones. Let's find out the many ways of analysing mutual fund performance.

Six ways to analyse a mutual fund's performance

1. Check the costs

Mutual funds charge a Total Expense Ratio (TER) annually as a percentage of the fund's daily net assets. The expense ratio covers costs like management fees, advertising costs, transaction costs, custodian fees, and allocation charges, among others.

According to prevailing Securities and Exchange Board of India (SEBI) regulations, mutual funds must disclose the TER of all their schemes daily on their own websites as well as on the Association of Mutual Funds in India (AMFI) website.

Costs like the expense ratio can lower your returns, which is why it is important to refer to these websites to compare the TERs of different schemes when analysing their performance.

2. Pit the fund against the benchmark

A benchmark is an index of securities that represents the market or a particular sector. Mutual fund schemes follow a benchmark index aiming to mimic or surpass it. When gauging a mutual fund's performance, you must check if the scheme has outperformed its benchmark in the long term. Mutual funds that consistently fail to match or outperform their benchmark may indicate underperformance.

3. Run a mutual fund portfolio analysis

A mutual fund's performance depends significantly on the securities it invests in. Mutual funds typically have diversified portfolios comprising various securities. Depending on the fund's theme and type, they may invest in a range of stocks, bonds, and others.

Conducting a thorough mutual fund portfolio analysis allows you to understand the fund's allocation across asset classes. It helps assess the fund's exposure to different sectors, companies, and market caps and provides you with an insight into its overall investment strategy and risk profile.

4. Check the portfolio turnover ratio

The portfolio turnover ratio indicates how frequently a fund adjusts its holdings by buying and selling securities. Higher turnover rates can lead to increased transaction costs, which ultimately affect returns. Comparing the portfolio turnover ratio across mutual fund schemes helps you assess potential costs and their impact on your future returns.

5. Assess the fund manager's performance

A thorough mutual fund analysis is incomplete without evaluating the fund manager's performance and track record. Mutual fund schemes are managed by professionals who make crucial decisions regarding asset allocation, entry, and exits. Examining the manager's experience and past professional record can help you understand their capability.

Managers with a successful track record are likely to create better opportunities for the mutual fund scheme to perform well. Understanding their strategy can be essential for assessing the potential of the fund's performance in the future.

6. Compare similar funds

Comparing the performance of two similar funds can help you understand their relative performance. For example, if you are considering a large-cap fund, comparing it with other large-cap funds can help determine which one is performing better. Similarly, when investing in sectoral funds, look for funds with similar allocations and compare their long-term performance to identify the stronger performer. Such comparisons can offer you a glimpse into a fund's historical performance as well as potential future outcomes.

Conclusion

Mutual funds function in a unique way, and so their performance cannot be evaluated on the basis of a single metric. You need to consider multiple aspects. It is important to conduct these evaluations regularly, as mutual fund performance can change over time due to market conditions or management decisions.

Consulting a financial advisor or using an online mutual fund tracker can simplify the process and help you make better investment decisions.

An investor education initiative by Edelweiss Mutual Fund

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For more info on KYC, RMF and procedure to lodge/redress any complaints, visit - <https://www.edelweissmf.com/kyc-norms>

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.