



Value funds – Everything you need to know

Mutual fund managers may employ various styles and strategies depending on the type of fund. For instance, index funds follow a benchmark and aim to mimic its returns. Debt funds may invest in short-term securities, making them suitable for short-term goals. Among these, value investing stands out as a time-tested approach. Value mutual funds are rooted in the principles of value investing and guided by a distinct philosophy. This article aims to unravel the principles behind value funds and shed light on how fund managers leverage value-based strategies to optimise the performance of mutual fund portfolios.

What is a value fund?

A value fund is a type of open-ended equity fund that adheres to a value investment strategy. To understand value funds, you first need to understand value stocks. Certain companies may not see their stock prices accurately reflect their true intrinsic worth. A company's intrinsic value is determined through a comprehensive analysis of its business model, market position, financials, and management, among other factors. Despite being intrinsically valuable and possessing significant growth potential, these companies might be undervalued in the market.

Value funds strategically select stocks from such companies based on the belief that the market has not yet fully recognised their true potential. If a company's market value is lower than its intrinsic value, it is considered to have value. The market is expected to eventually acknowledge and rectify the undervaluation, which will ultimately lead to an increase in the stock's value.

Fund managers of value funds actively seek out opportunities in stocks that are currently deemed undervalued. When you invest in value funds, you stand to benefit from this anticipated appreciation in value.

Who should invest in value mutual funds?

Here are the types of investors who may find value funds suitable:

- Value investing requires patience as the market may take time to recognise the true worth of undervalued stocks. Investors willing to hold onto investments for an extended period are well-suited for value mutual funds.
- It is essential to have a long investment horizon for value funds. The strategy of identifying undervalued stocks and waiting for their potential to be realised requires time, typically years. So, if you start a **Systematic Investment Plan (SIP)** today, it may be advised to continue with it for some years to amplify the chances of earning better returns.
- Value funds may appeal to more aggressive investors who are willing to take risks on undervalued stocks for the potential of higher returns.

Factors to consider before investing in value mutual funds

Here are some key elements to evaluate before investing in value funds:

- **Past performance:** Analysing the historical performance of a value fund is crucial. You must assess the fund's track record to understand how the fund manager navigates different market conditions.
- **Investment horizon:** Value investing is inherently a long-term strategy. It is essential to consider your financial goals and investment horizon before opting for value mutual funds.
- **Risk assessment:** Understanding the risks associated with value funds is essential. Since value funds often invest against prevailing market trends and focus on stocks that may not be popular at the moment, there is an inherent risk. You should be aware of the potential for short-term fluctuations and be mentally prepared to hold onto your investments during periods of market turbulence.
- **Exposure to well-established companies:** Value investing involves investing in stocks from well-established and fundamentally sound companies. These companies typically have a track record of financial resilience, stability, and consistent performance. This helps to lower the risk associated with these funds to some degree.

To sum it up

Value funds are a distinctive investment avenue when it comes to mutual funds. They follow a unique strategy where fund managers strategically invest in undervalued stocks. While these stocks may increase in value in the future, they can also be highly speculative. As an investor, it is important to consider their suitability and factor in aspects such as patience, a long investment horizon, and a tolerance for risk before investing.