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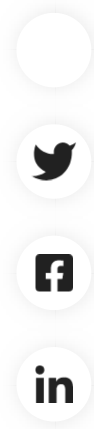
Sensex at 70K. Is it time to stop your SIPs? Perhaps

Rahul Goel | 5 min read | 11 Dec 2023, 01:47 PM IST



SIPs are an excellent investment avenue for individuals keen on building up a sizable corpus over the longer term.

SUMMARY
Even as the Sensex and the NSE Nifty 50 are scaling new heights, the exciting story in the market continues to be elsewhere.

The Sensex just hit 70,000.

The NSE Nifty 50 hit the 21,000.

Even as these are optically important benchmarks, the exciting story in the market continues to be elsewhere.

Yes, in midcaps and small caps. Those indices are just off the charts.

And stocks in that segment, well, what can one say. They have taken off.

Just take a look at this year-to-date chart to fully understand the scope of outperformance.

(Contramoney)

Not surprisingly, a rising market attracts investors. And there's a flood of them.

If I take mutual fund flows as an example,**I have shown how these segments**, and other "racy" segments account for a large chunk of the flows. Here are the updated numbers for the quarter ended September 2023:

Growth/Equity Schemes	Net Inflows July - September 2023 (Rs Cr)	% of Total
Small Cap Fund	**11,115**	**26.5%**
Sectoral/Thematic Funds	**9,382**	**22.4%**
Multi Cap Fund	8,157	19.4%
Mid Cap Fund	**6,137**	**14.6%**
Large & Mid Cap Fund	**4,774**	**11.4%**
Value Fund/Contra Fund	3,359	8.0%
Flexi Cap Fund	2,614	6.2%
Dividend Yield Fund	1,013	2.4%
ELSS	-760	-1.8%
Focused Fund	-1,489	-3.5%
Large Cap Fund	-2,340	-5.6%
Total	**41,962**	**100.0%**

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Just under 75% of the monies is flowing into funds (marked in bold), which I would call are largely operating in the racy segments of the markets.

Now, in case some of you are wondering whether this trend has changed in recent months. Well, here's the data for November:

Growth/Equity Schemes	Net Inflows November 2023(Rs Cr)	% of Total
Small Cap Fund	**3,699**	**23.8%**
Mid Cap Fund	**2,666**	**17.2%**
Sectoral/Thematic Funds	**1,965**	**12.6%**
Large & Mid Cap Fund	**1,847**	**11.9%**
Multi Cap Fund	1,713	11.0%
Flexi Cap Fund	1,668	10.7%
Value Fund/Contra Fund	1,252	8.1%
Large Cap Fund	307	2.0%
Dividend Yield Fund	173	1.1%
Focused Fund	143	0.9%
ELSS	104	0.7%
	15,536	**100.0%**

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Well, it has. From a total of 75%, now only about 65% of the monies is going to the racy segments.

This is good news. But is this enough to suggest that you should continue the path you have chosen when it comes to your mutual fund portfolio?

To my mind, in most cases, the answer is NO.

You see, where I am coming from is this:

Far too many investors are overexposed to the small, mid, and other racy segments of the market. And while this has worked to your advantage so

far, it has created a situation where more than a fair chunk of your stock market investments are classified as very/extremely risky. Your allocation has gone for a toss.

Now, if you have the appetite for large drawdowns, temporary and permanent, well, you could perhaps stick to your allocation. But the thing is that most investors do not have the temperament to deal with such situations. What usually happens is you buy high and sell low.

Other than the temperament, there's one other aspect of cycles that's unique to small caps perhaps. And that's when money flows in, its usually a case of too much money chasing too few stocks (small companies, hence). On the flip side, when the money moves out, the fall is very sharp because there is no liquidity for exit! What's worse is that many of these stocks do not go on to ever make a comeback. The losses in such instances are almost total.

Here's Devina Mehra, Founder & CMD, First Global on investing in small caps:

In 2008-09, the smallcap index fell by 78%. So, if it had to regain the losses, only to come back to breakeven, it needed to grow 5x. In 2018-19, it fell by 65%, so it needed to triple to come back to breakeven. That's one part of it.

Another interesting point is that the small cap index churns about 15% to 20% every year. Which means that every 5 to 6 years you virtually have a new index. So, the 2008 high which was crossed in 2016 was theoretical. You see, one needs to keep in mind that the stocks comprising the index were a whole different set of stocks in 2016 comparedto2008.

One more thing to drive home the point, hopefully. Take a look at this year-to-date chart. It compares the Dow Jones, a large cap index, to the popular US small cap index, Russell 2000.

(Contramoney)

As it is clearly visible, the small caps are a more volatile ride...higher highs and lower lows compared to the Dow Jones. Net net however, in the end, they did not deliver the return advantage.

Now, I hasten to add that I am not making a case either way on what small caps should do vis-à-vis the large cap index. That's for another time. What I am saying here, however, is that in a very heady market, which has already seen small caps surge to levels which may not be wholly justified by valuations, you may not really come out at the other end with the "extra" gains. It may be much wiser to balance your excessive allocation in favour of the ignored, but potentially lucrative segments of the market i.e. segments that seem attractive today from the perspective of future long term returns.

Having said this, here are my top five ideas for you to consider:

First, revisit your asset allocation. To the extent you are "overweight" in the racy segments of the market, rebalance. Try and do it in a tax efficient way. This would mean stopping a lot of the recently started SIPs I would assume.

Remember, you still have some allocation to this segment (small caps etc). So if the rally continues, you get to ride that! Just that on a small portion of your portfolio.

Second, to the extent you are underweight in overall equities, consider increasing your allocation to growth / equity funds over time. Why? Well, the long-term opportunity in India remans exciting. It's just that you want to play it in a smart way, as against a reckless way.

Which funds should you opt for? Well, I believe you select the fund manager, and leave the rest to him. So, for me Flexicap works best. And there too **maybe just one or two funds**. You will need to see what works best for you.

On this note, how do you filter out a fund? Here's one simple filter. If your fund, which claims to be value oriented, following principles laid down by greats like Warren Buffett, went out and invested in a recent racy IPO, then, well, you know something is amiss. (Read: **Mama, what on earth are these mutual funds doing?**). Try and develop more such filters for yourself. You will over time make better choices.

Third, keep some cash handy in case the markets pull back. They always do occasionally. Thay may be a good time to top up your allocations.

Fourth, investing in long term debt is not very popular for most investors. However, there just may be an opportunity here worth reviewing. **I wrote in detail about this here.**

Fifth, and finally, you need to be sure your overall asset allocation today is in sync with your plans, and, also in keeping with the times. In the long term, your overall asset allocation will play a huge role in wealth creation as compared to any individual investing decision. You get this right, and you are on your way to a happy, wealthy life!

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You should always consult your personal investment advisor/wealth manager before making any decisions.