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DEMOCRATIZING WEALTH CREATION

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Chemical Sector

Special Report

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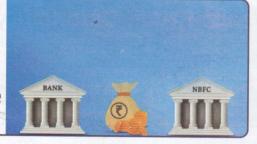
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Weighing Mutual Fund Options
For Senior Citizens

Cover Story

Your Biggest Asset is You



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Cash Piles Up: Higher Cash Holdings and MF Investors

he Indian equity market witnessed an unprecedented cash holding of ₹1.86 lakh crore at the end of August 2024, which accounts for around 5.2 per cent of the industry's equity AUM. This significant cash reserve raises critical questions about the market's direction and the implications for unit holders in these funds. There's a common belief that elevated cash levels held by institutions or celebrated investors like Warren Buffett signal an impending market decline.

However, recent data suggests otherwise. Just two months ago, mutual funds were holding around ₹1.5 lakh crore in cash, yet the market continued to surge, reaching new record highs. Interestingly, high cash holdings do not necessarily translate to poor performance. A closer look at fund houses with significant cash reserves, such as Quant Mutual Fund which held 19.09 per cent of its equity AUM in cash at the end of August—reveals a different story.

Despite its high cash position, Quant MF has outperformed many of its domestic peers, highlighting that there is no direct correlation between high cash levels and lower returns. This trend suggests that high cash holdings might not be a signal of doom but rather a strategic move by fund managers to remain flexible in volatile markets. For investors, this means that cash-rich funds could be well-positioned to seize opportunities during market corrections, rather than being fully invested at high valuations.

I suggest to you all that it is essential not to overreact to high cash holdings in mutual funds. Instead, focus on the overall strategy and performance of the fund. A fund manager holding cash may be positioning for future opportunities rather than predicting an imminent downturn. It's wise to stay invested, diversify, and trust the expertise of fund managers to navigate through market cycles effectively.

Shashikant Singh
Executive Editor

Contra Mutual Funds.

Considering the recent bull run in the Indian equity market and its impact on equity mutual funds - Are contra funds the best investment option in the current market scenario?

- Danish Ali

Editor Responds: Thank you for writing to us. Contra funds could be a compelling investment option in the current market scenario, but they are not suitable for every investor. These funds follow a contrarian investment strategy, which means they invest in sectors or stocks that are currently underperforming or undervalued, with the expectation that these investments will rebound over time. The premise is based on market cycles, where out-of-favour sectors often experience a recovery when market conditions change or when investor sentiment shifts.

In the current environment, markets are experiencing fluctuations due to factors like inflation, interest rate adjustments, and global economic uncertainty. Some sectors, such as technology and consumer discretionary, are leading the market, while others, like energy or traditional industries, may be undervalued. If you believe that these neglected sectors will recover in the future, contra funds might offer a unique opportunity to invest at lower prices.

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