EDELWEISS MUTUAL FUND

SIPping into the Mid-cap Pool

The general perception is that 'large is better'. We all want a larger house, a bigger car, or even a bigger piece of cake. Afterall, who wouldn't want more of something good. There is always some comfort in buying something from the bigger brands since you derive comfort from the fact that is well-known. Think of it this way, if you had Rs. 100 to spare, would you use it to buy a large scoop of your favourite ice-ream or would you spend the entire amount experimenting with an unknown flavour. Most likely you would opt for the former, i.e., purchase a large scoop of your favourite ice-cream that is well-known to you. Now, the way you perceive the value of a thing through the lens of size and popularity extends to the way you pick investments for your portfolio as well.

In general, most people are wary of the stock markets, perceiving equity investments to be high-risk in nature. Even if you are someone who understands the long-term benefits of equities, it is highly likely that you invest a large portion of your equity corpus in large-cap mutual funds. But, did you know that there lies immense opportunity behind large-cap mutual funds. And, this opportunity is in the form of mid-cap mutual funds. Let's take this step by step to understand why mid-cap mutual funds can be a compelling investment option for you.

Know what you buy

First, what are mid-cap stocks?

These are stocks of upcoming companies that have been operating for a few years but have not demonstrated their capability to witness high growth or assume a market leadership position. From the purpose of investments, they are defined as stocks belonging to mid-cap companies which are ranked from 101 to 250 in terms of market capitalization.

Why invest in mid-cap stocks?

Generally, the good mid-cap companies are considered as undiscovered gems. They are not very well-known, are usually at the beginning of their growth cycle, and are yet to demonstrate their strength. As a result, investor interest in such companies may not be high, thereby giving you an opportunity to invest in a high-growth company at compelling valuations. Sounds simple, doesn't it?

Taking the better route

Well, it is not quite as simple as that. Considering that these companies are still at the beginning of their growth cycle and are smaller in size, relative to large-cap companies, the risks inherent in them are also much higher. Thus, it can become challenging for you, as an individual investor, to identify quality mid-cap stocks. It is due to this hurdle that many investors get stuck with bad quality mid-cap stocks and end up having a terrible investing experience. The good thing is that there is a solution to this problem and the answer lies in mid-cap mutual funds.

These funds are generally managed by expert professionals who are trained to invest in strong mid-cap businesses that can promise good earnings growth opportunities. Further, many mid-cap mutual funds apply additional filters in terms of management quality, quality of business, profitability, etc. Thus, by going the mutual fund route, you can mitigate some of the risks associated with investing in mid-caps. The great news is that this risk can be further mitigated if you opt to invest in mid-cap mutual funds via the Systematic Investment Plan (SIP) route. An SIP will allow you to invest a fixed amount of money in a mid-cap mutual fund of your choice at time intervals that are most convenient to you. SIPs can be particularly beneficial while investing in mid-cap funds because mid-caps are generally more volatile than large-cap stocks. Due to this volatility, you might be tempted to make sub-optimal investment decisions and exit your mid-cap investment prematurely. However, if you continue investing via an SIP, you end up buying mid-cap stocks at both their peaks and troughs which will help you reduce the average cost of your investment and ensure that you do not over react in volatile market conditions.

While we all tend to focus on size and name, the truth of the matter is that neither of the two should be important factors in investment decision making. If you are a long-term investor with a very high risk appetite, then you can consider investing in a mid-cap mutual fund via the SIP route.