



MIDCAP / SMALLCAP FUND



What are small-cap mutual funds?

Mutual funds that invest in equity and its related securities of companies with smaller market capitalization are termed as small-cap mutual funds.

The word 'cap' is the short form of 'capitalization'.

The companies where these funds invest in are ranked 250 and below in the market.

The market capitalization of these firms is below Rs.500 crore.

Small-cap firms have a high growth potential due to their aggressiveness to expand but at the same time, they are also vulnerable and volatile.

Since the underlying securities in small-cap funds are the small-cap firms, they have higher volatility and are riskier than the mid-cap and large funds.

Hence, is ideal for investors who have a high-risk appetite and prefer investing in small-cap stocks.

Who should invest in small-cap mutual funds?

Small-cap mutual funds are ideal for investors who:

1. Have a high risk-taking capacity.
2. Prefer to invest in small-cap companies due to their high growth potential.
3. Wish to invest for a long term horizon, say, at least, for 7 to 10 years.
4. Desire attractive returns on their investment.

Benefits of investing in small-cap mutual funds

Over a long term investment horizon, small-cap mutual funds have been known to deliver high returns since their underlying small-cap stocks have high growth potential. The fund manager of the small-cap funds allocates around 65% to 90% of the investments in such stocks to generate capital gains.

Things to keep in mind before investing in small-cap mutual funds

Risk - Small-cap funds suffer a lot when the market is not performing and hence, it is recommended that you invest in them only if your tolerance towards risk is high.

Cost - Since fund houses will charge you a fee known as an 'expense ratio' to manage your funds, you should shortlist a fund that has a lower expense ratio. A lower expense ratio translates to better returns over a long investment horizon.

Returns - As stated earlier, small-cap mutual funds can fetch desirable returns when invested over an investment horizon ranging between 7 years and 10 years.

Investment horizon - For a small-cap fund to yield optimal returns, you should invest in it for at least 7 to 10 years. This is because small-cap funds tend to be more vulnerable to market fluctuations which can be balanced out only when the money remains invested for a longer duration.

Financial goals - Small-cap mutual funds are appropriate for you if you have long-term goals to meet such as saving up for retirement, children's education, taking an exotic vacation, etc., due to their ability to generate optimal capital gains.

Best performing Small-Cap Funds

Name of the Scheme	NAV	1-Year Return (%)	3-Years Return (%)
HDFC Small Cap Fund - Direct - Growth	44.5470	-1.02	17.99
L&T Emerging Businesses - Direct - Growth	25.1340	-9.91	17.92
L&T Emerging Businesses Fund - Growth	24.3010	-10.68	17.01
HDFC Small Cap Fund - Regular - Growth	41.8270	-2.48	16.46
Reliance Small Cap Fund - Direct - Growth	41.7170	-8.57	14.91

**This is a representative list based on key metrics. It does not serve as a recommendation of funds nor does it claim to be the only correct way to rank funds.*

What are mid-cap mutual funds?

In general, market capitalization distinguishes companies into 3 segments—large-cap, mid-cap, and small-cap.

Mid-cap is the term used to refer to companies whose market capitalization is between Rs.500 to Rs.10,000 crore.

Mid-cap companies cover approximately 80% to 90% of all the companies listed on the BSE.

According to the Securities and Exchange Board of India (SEBI), stocks that rank from 101 to 250 based on their market capitalization are defined as mid-cap stocks.

Mid-cap funds are those that invest in stocks and securities of mid-cap companies.

In terms of potential investors, mid-cap funds are best suited for individuals who have a high-risk appetite and are looking for long-term investments.

When compared to large-cap funds, mid-cap funds are generally at a higher risk for being at the forefront of volatile market conditions.

The primary objective of mid-cap funds is to gain long-term capital appreciation utilizing investments made in equity instruments of a mid-cap company.

The risk of investment in a mid-cap company is predominantly higher than large-cap and small-cap companies.

Benefits of investing in mid-cap mutual funds

Mid-cap companies are not as extensively researched as large-cap and small-cap companies.

However, the potential for building wealth is extremely high and can happen in a very short time frame.

Growth from mid-cap companies come with very heavy risks and requires constant monitoring to achieve high returns.

Since the investors' portfolio is diversified across all sectors it is easy to manage the risks involved.

In the long-run, equity instruments have a higher potential to withstand inflation and create long-term wealth.

Financial goals are easier to achieve when compared to other growth plans.

Things to keep in mind before investing in mid-cap equity funds

Reviewing performance

It is essential to conduct a thorough evaluation of a fund before choosing to invest. Evaluating the performance of the fund on the market cycles can give investors a fair picture of the fund performance. One of the best ways to spot a fund with good potential is to study the consistency of its performance.

Long-term investment

To truly reap the benefits of a mid-cap equity fund investment, investors should be willing to make a somewhat long-term commitment towards their investment. Ideally, investors should be willing to allow the funds to grow for a minimum of 7 to 10 years. This is due to the volatile nature of equity investments and it would be more beneficial to the investors to invest in the funds long-term.

Choosing a fund manager

Mid-cap equity investments come with extremely high risks and the lack of research into their performance makes it that much more difficult to gauge the potential for growth. Therefore, investors should consider hiring an experienced fund manager to monitor their investment.

Cost

With most investments that are managed by Asset Management Companies (AMC), a certain fee is charged to manage the fund. Additionally, investments made through a broker come with a brokerage fee. Evaluating AMCs and taking into account the expense ratio of the fund should also be a determining factor for investment.

Age

Mid-cap equity funds are probably best suited for investors who are still young and can take advantage of the high risks that come with an investment of this type. For older individuals, investing predominantly in debt instruments might prove to be more lucrative.

Who Should Invest in Mid-Cap Mutual Funds?

Investors looking at options to accumulate wealth faster by willing to take some risk can invest in mid-cap funds. Mid-cap companies are capable of providing higher returns while being volatile on the stock index.

Investors who are ready to face volatility of these stocks in expectations of excellent returns may invest in these funds.

Advantages of Mid-Cap Mutual Funds

Mid-cap funds have generally outperformed large-cap funds when the markets are favourable. The very nature of the mid-cap funds makes the trend to continue for quite some time.

The mid-cap funds are relatively underfollowed in stock markets as compared to large-cap funds. Mid-cap funds provide investors with an excellent opportunity for faster growth of their capital by investing in these funds.

Things an Investor Should Consider

Though mid-cap funds perform very well in bull runs, their value may go down when the market sentiment is dropping. Also, in the case of high-quality stocks, mid-cap funds are not appropriate since they have a higher risk factor involved. Mid-cap stocks can be affected by the liquidity constraints due to their smaller capital base, i.e. the number of shares offered by the company.

Since the underlying shares are characterized by lower market capitalization and limited liquidity, these funds tend to follow cycles of bullish and bearish. This is based on the mirroring of the stock indices in general.

Top 5 Best Mid-Cap Funds

The following table shows the best mid-cap funds. The funds are ranked purely based on the returns offered over the last three years. Investors may use other factors such as expense ratio, exit load, returns offered over different time horizons such as one year, five years, and ten years to rank funds as per their requirements.

Fund Name	Returns
Mirae Asset Emerging Blue-chip Fund	15.41%
Axis Midcap Fund	17.42%
SBI Focused Equity Fund	16.31%
DSP Midcap Fund	10.53%
L&T Midcap Fund	9.61%

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