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Index Funds have been a red hot equity passive Mutual Fund strategy in the last 10 years!

A thread explaining why index funds should be a part of ur equity MF portfolio!

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Let's go

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Passive vs Active Mutual Fund Strategy

Active Strategy:-

Active investing, as its name implies, takes a hands-on approach and requires that someone act in the role of a portfolio manager.

The goal of active money management is to beat the stock market's average return

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Passive Strategy:-

Passive investing entails a non-active role on part of the investor.

When you invest in a diversified portfolio with low costs and a long-term horizon, it tends to deliver returns comparable to the market average.

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What are Index Funds?

Index Fund invests in stocks that imitate a stock market index like the Nifty, Sensex.

These are passively managed funds which means that the fund manager invests in the same securities as present in the underlying index in the same proportion.

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The relentless rise of Index funds:-

The assets under management (AUM) of passive products will grow eight times from the current levels of ₹3 trillion to ₹25 trillion by 2025

Passive assets will grow to constitute 37% of the overall assets in the MF industry by 2025

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ETFs or index funds: Which should you choose?

Both ETFs & index funds are passive products that track an underlying index.

ETFs track a particular index, such as the Sensex or the Nifty, and trade on a stock exchange, just like stocks
Liquidity can be a problem in ETFs

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Index Funds track a particular index, such as the Sensex or the Nifty 50, however, they are like mutual funds and are bought and sold back to a Mutual fund company.

Costs are higher in index funds than in ETFs

However small retail investors should stick to index funds!

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The underperformance of Active funds:-

Significant underperformance of actively managed over the last 10 years as can be clearly seen below!

Nearly 67% of Large-cap funds underperformed the index over a 10-year horizon

This gives additional impetus to index funds

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Report 1a: Percentage of Funds Outperformed by the Index (Based on Absolute Return)

FUND CATEGORY	COMPARISON INDEX	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	10-YEAR (%)
Indian Equity Large-Cap	S&P BSE 100	48.39	83.08	80.43	67.67
Indian ELSS	S&P BSE 200	59.52	88.37	76.92	52.78
Indian Equity Mid-/Small-Cap	S&P BSE 400 MidSmallCap Index	39.58	40.00	53.33	43.53
Indian Government Bond	S&P BSE India Government Bond Index	44.00	80.49	79.25	85.71
Indian Composite Bond	S&P BSE India Bond Index	82.31	93.57	97.22	100.00

Source: S&P Dow Jones Indices LLC, Morningstar, and Association of Mutual Funds in India. Data as of June 30, 2020. Returns are shown in INR. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 1b: Percentage of Funds Outperformed by the Index (Based on Risk-Adjusted Return)

FUND CATEGORY	COMPARISON INDEX	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	10-YEAR (%)
Indian Equity Large-Cap	S&P BSE 100	45.16	80.00	76.09	67.67
Indian ELSS	S&P BSE 200	59.52	88.37	76.92	50.00
Indian Equity Mid-/Small-Cap	S&P BSE 400 MidSmallCap Index	39.58	44.44	46.67	43.53
Indian Government Bond	S&P BSE India Government Bond Index	92.00	87.80	92.45	93.88
Indian Composite Bond	S&P BSE India Bond Index	73.47	66.43	65.28	73.75

Source: S&P Dow Jones Indices LLC, Morningstar, and Association of Mutual Funds in India. Data as of June 30, 2020. Returns are shown in INR. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Index funds makes sure you dont underperform the markets!

Therefore following an Active+Passive Mutual fund strategy is a must

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Some Index Funds Available to invest:-

1. Nifty 50 Index Fund
2. Nifty Next 50 Index Fund
3. Nifty 100 Index Fund
4. Sensex Index Fund

A list■

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Index Funds:			
Sr. No.	Index	Issuer	Type
1	Nifty 50	Aditya Birla Sun Life Mutual Fund	Equity
2	Nifty 50	DSP Mutual Fund	Equity
3	Nifty 50	Franklin Templeton Mutual Fund	Equity
4	Nifty 50	HDFC Mutual Fund	Equity
5	Nifty 50	ICICI Prudential Mutual Fund	Equity
6	Nifty 50	IDBI Mutual Fund	Equity
7	Nifty 50	IDFC Mutual Fund	Equity
8	Nifty 50	L&T Mutual Fund	Equity
9	Nifty 50	LIC Mutual Fund	Equity
10	Nifty 50	Motilal Oswal Mutual Fund	Equity
11	Nifty 50	Nippon India Mutual Fund	Equity
12	Nifty 50	SBI Mutual Fund	Equity
13	Nifty 50	Tata Mutual Fund	Equity
14	Nifty 50	Taurus Mutual Fund	Equity
15	Nifty 50	UTI Mutual Fund	Equity
16	Nifty 50 Equal Weight	DSP Mutual Fund	Equity
17	Nifty Next 50	DSP Mutual Fund	Equity
18	Nifty Next 50	ICICI Prudential Mutual Fund	Equity
19	Nifty Next 50	IDBI Mutual Fund	Equity
20	Nifty Next 50	Kotak Mahindra Mutual Fund	Equity
21	Nifty Next 50	L&T Mutual Fund	Equity
21	Nifty Next 50	Motilal Oswal Mutual Fund	Equity
23	Nifty Next 50	UTI Mutual Fund	Equity
24	Nifty 50 Value 20	Nippon India Mutual Fund	Equity
25	Nifty Smallcap 50	Aditya Birla Sun Life Mutual Fund	Equity
26	Nifty 100	Axis Mutual Fund	Equity
27	Nifty100 Equal Weight	Principal Mutual Fund	Equity
28	Nifty100 Equal Weight	Sundaram Mutual Fund	Equity
29	Nifty Midcap 150	Aditya Birla Sun Life Mutual Fund	Equity
30	Nifty Midcap 150	Motilal Oswal Mutual Fund	Equity
31	Nifty Midcap 150	Nippon India Mutual Fund	Equity
32	Nifty 200 Momentum 30	UTI Mutual Fund	Equity
33	Nifty Smallcap 250	Motilal Oswal Mutual Fund	Equity
34	Nifty Smallcap 250	Nippon India Mutual Fund	Equity
35	Nifty 500	Motilal Oswal Mutual Fund	Equity
36	Nifty Bank	Motilal Oswal Mutual Fund	Equity
37	Nifty PSU Bond Plus SDL Apr 2026 50:50 Index	Edelweiss Mutual Fund	Debt

Advantage of Index funds:-

1. Cost

Most active funds charge anywhere b/w 0.8% to 1.2% of AUM on the Direct Plans

Index funds are available for as low as 0.06% to 0.30% of AUM

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2. Underperformane wrt benchmark

There is no guarantee if the Active fund will outperform even after paying higher fees

Index funds make sure u get market returns and lower the probability of underperformance wrt index

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3. No bias investing

Index funds follow an automated,regulation-based investment method.

This eliminates human discretion/bias while taking investment decisions.

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4. Broad market exposure

These funds invest in a proportion similar to that of an index ensures that the portfolio is diversified across all sectors.

Thus, an investor can seize the probable returns on the larger segment of the market through a single index fund.

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Things to keep in mind while buying index funds:-

Tracking error(TE):-

TE is the difference between the scheme's return and the benchmark index's return.

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While index funds try and replicate an underlying as close as possible, there is likely to be a gap due on account of factors such as expenditure incurred by the fund, cash balance, or portfolio deviation.

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No room for Alpha:

By investing in an index fund, the investor is signing up for returns that will be in line with that of the index which the fund is tracking.

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Conclusion:-

- Index funds are a great low-cost equity passive Mutual strategy
- Your equity Mutual Fund portfolio must have both active+Passive funds
- With index funds the chances of underperforming the benchmark are very less

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