Twitter Thread by Raj Shamani



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Mutual fund returns shown by investment platforms and newspapers mislead you.

Why should you think twice?

[A thread] ■

“XXX mutual fund has delivered astounding returns of 80% in the last one year.”

You may have read thousands of such headlines and claims online.

They tell you only half the story.

Mostly, investment platforms and newspapers report trailing returns.

To calculate trailing returns, you have to pick a mutual fund’s NAV from two specific dates.

And calculate how much the NAV has increased during the period.

Example:

NAV of ‘ABC’ fund on 1st Oct 18 = INR 100
NAV of ‘ABC’ fund on 30th Sept 21 = INR 175

3-year CAGR = 20.51%

But there’s a problem with trailing returns.

You have to calculate it point to point.

If you change the dates, the returns may fluctuate.

In the previous example, you will get 20.51% returns only if you enter on 1st Oct 18 and exit the fund on 30th Sep 21.

Trailing returns depend heavily on specific dates.

Instead, you should calculate rolling returns.

Here you calculate returns over a fixed period based on different start dates.

Then average all those returns to find out the rolling returns.

Let’s assume that you have to calculate 3-year rolling returns for a fund from 2010 to 2020.

Returns are rolled every month.

You’ll have to calculate trailing returns as follows:

1st Jan 2007 to 1st Jan 2010
1st Feb 2007 to 1st Feb 2010
1st March 2007 to 1st March 2010 and so on...till 1st Jan 2017 to 1st Jan 2020.

After calculating trailing returns for all the periods, you can then calculate:

• MAX,
• MIN
• Average rolling returns.

It shows a clear picture of a fund’s performance.

You don’t have to calculate rolling returns manually.

Many research websites do this job for you.

You can find out every fund’s rolling returns with Google search.

Recap: Don’t trust trailing returns publicised by investment platforms.

Always check rolling returns to evaluate a mutual fund’s performance before investing.

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