Mutual Fund Investing - Time to Add Indian Funds

What we required to be able to present you with the added risk of a fund dedicated to a single country was a reasonably large and diversified capital market that offered a portfolio manager the opportunity to diversify the portfolio even in just a single country. While the Japanese and Chinese economies grew and new industries blossomed, we thought that test was met. We now believe that the Indian economy and capital markets also meet our test. With this matter, then, we're adding three India funds to the list: Matthews India, WisdomTree India Earnings (ETF) and PowerShares India (ETF). We may add 1 or 2 other funds to the list over the following few issues.

Why India?... Frequently in the past once we spoke about Asia and its rapid growth we cited the twin dynamos powering that growth, China and India. Coupling both served its purpose, but we now believe both are dealing with separate identities. As we have been listening and reading over the span of days gone by four or five months, we have come to the final outcome there are differences in the paths that China and India will be taking over the months ahead. Both will undoubtedly be growing rapidly (or intend to) but one is concerned about too-rapid growth (China) while the other is aiming at even faster growth in the future (India).

To sort things out, and to obtain a better feel for the Indian economy and the capital market, we spoke to Sharat Shroff, the portfolio manager of the Matthews India Fund. The very first point that Shroff made is that "a few of the days ahead for India (speaking of growth) may be better than what's been seen within the last two to three years." For a few historical perspective, Shroff remarked that India's growth rate picked up after the federal government adopted a policy of checking the economy in early 90's. Since that time, as more reforms were gradually introduced, growth has acquired further. By 1995, India's growth hit the high single-digits range and remained there (on average). Such growth is currently taken whilst the benchmark.

Shroff emphasized that what makes India's growth different from other emerging countries is that in large part it comes from domestic demand, not from exports or commodities. There's no large-scale overhaul that India needs to undergo, he remarked. What Shroff is driving at is that in the post-recession world China's trade surpluses and the U.S. deficit must shrink since they will be unsustainable. India faces no such issues.

The next point advanced by Shroff is that the private sector accounts for roughly 80% of India's growth. The significance of that's that in India we're discussing businesses that are oriented toward profits and return on capital. This isn't always the case elsewhere in Asia. Because of the conditions, India offers the investor to be able to purchase top quality companies with solid business models.

As for Matthews India, Shroff stated that the fund does certainly not spend money on the large cap, world-renowned companies (the Indian blue chips). As Shroff use it, in the event that you compare our portfolio with the benchmark, you'll observe that two-thirds of our portfolio is comprised of small- and mid-cap stocks. We play the role of a little more forward-looking. What the fund is trying to find are those (smaller) companies that are "participating in the country's growth and have the potential to become one of many larger companies two, three or perhaps five years from now."

The Indian market...We asked Mr. Shroff, what index one should watch to keep an eye on the Indian market. He answered that the Sensex is the traditional index followed. But recently, the professional community pays more focus on the S&P CNX Nifty Index.

In terms of valuations, the Indian market, says Shroff, is selling at a price-earnings ratio around 15-16 times and at about 3 times book value. That is slightly above historical average valuations. Also Shroff pointed out that the Indian market has traditionally been expensive in comparison to its emerging market peers. The premium has ranged from as little as 15% to as high as 45%. Right now he puts the premium at the lower end of the range.

There is some justification for the premium, he added. The return on equity for Indian firms is in the 18-20% range, which, as he use it, "is very robust." Another reason refers back once again to the inner sourced elements of India's growth so that you get less volatility than you do from the "commodity producer."

That's not saying that the Indian market is not volatile. "Even although economy may be dancing to its own tune," Shroff warned, "when foreigners were taking out money from all emerging markets in 2008, the Indian market went by way of a very severe correction. (In fact) within the last three or four years the Indian market has shown some correlation with the S&P 500." (We see that recently to have been true of emerging markets as a whole.)

Shroff considered the issue of volatility significantly more than once. He was preaching to the converted. We are restricting our advice concerning the Indian funds to Venturesome investors only. Here is the same policy that individuals have already been following regarding the pure China funds. The policy isn't written in stone, but the planet economy would need to be functioning closer to normalcy before we'd consider any relaxation.

After the interview with Shroff, we were even more convinced that the single-country India funds belong inside our fund list. Not only is India growing rapidly, but we expect to see the emergence of more investment -- worthy companies as opportunities arise.

About the Author

Taking into consideration the potential, you can appreciate why Asia and the emerging markets, generally speaking regarding **china fonds**, have grown to be the biggest market of the investment world's attention.