

Dividend yield funds beat indices

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Coimbatore: While markets remain on a roller-coaster ride bringing frequent changes in the top performers' list in the past two years, mutual funds (MFs) that invest in high dividend yielding stocks have stood their ground giving steady returns to investors.

Several dividend yield MFs, which invest in stocks with high earnings potential, have navigated the rough market conditions better emerging ahead of most peers from other categories during the bull and bear phases of the market, analysis shows.

Five dividend yield funds feature in the top 20 list for the period between September 15, 2008 and May 31, 2010 during which the markets tumbled following the collapse of Lehman Brothers and made a smart rebound in March 2009. These funds have posted average returns of above 30% during the

Gala Returns

In the long ...

Rank	Fund	Return % (Sept 15, 2008- May 31, 2010)
4	Birla Sun Life Dividend Yield Plus	39.7
11	ING Dividend	33.2
14	UTI Dividend	31.0
15	Fortis Dividend	30.6
18	Tata Dividend Yield	30.2

... and the short

Rank	Fund	Return % (Jan 01, 2010- May 31, 2010)
7	Tata Dividend Yield	9.5
11	Birla Sun Life Dividend Yield Plus	9.0
14	ING Dividend Yield	8.7

Source: Value Research

period, which is much higher than most category averages. About 130 of the 250-odd diversified equity MFs gave only sin-

gle digit returns for the period. Dividend yield funds have done well even in the short run. Three funds have made it to

the top 15 in 2010 providing 8.7% to 9.5% (till May 31) returns while the diversified equity MF category barely moved offering a measly 0.4% return.

“Consistent dividend paying companies generate a lot of cash and have a favourable debt-equity ratio,” says a senior fund manager with Tata MF. “In the last two years people have started to appreciate companies with lower leverage,” he says. Dividend yield funds have a good exposure to financial and pharma stocks that have come through the bumpy market much stronger.

“There is a discipline in investing. Dividend yielding companies have been able to withstand market pressures much better,” says Ajay Argal, co-head, equities, Birla Sun Life MF. However, on the flip side high dividend yielding companies may not always necessarily be the best ones in the business. Investments in companies with high payouts in the short term would clear-

ly spell trouble. “They can be classic value traps. There are seedy companies which give dividends just lure investors,” points out an industry official. “Also in a strong bull market, dividend yield MFs tend to underperform the market.”

Dividend yield MFs were among those that declined the least in the market mayhem of 2008-09 falling 23.1% and 38.5% between September 15, 2008 and March 9, 2009, data with fund tracker Value Research shows. Sensex plunged 39.6% during the period

Their performance since January 2008 when sensex hit an all-time high of 21,000 points has also been good. Only 23 diversified equity funds have managed to post growth between January 8, 2008, when the markets were trading at historic highs, and now. Three dividend yield MFs have managed to stay in the positive terrain while the others restricted their losses to a large extent during the period.