

Offbeat moves work

RETURNS TRACKER

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In the frenetic run-up in the stock market from the lows of March 2009, all the eight contra funds have delivered triple-digit returns. **But only three beat indices such as CNX-500, BSE-500 and the BSE-100, against which most of them are benchmarked. Decrease in cash positions, increase in mid-cap stocks (less than Rs 7,500-crore market capitalisation) and timely switches across momentum and defensive sectors helped funds such as Religare Contra, Tata Contra and Kotak, among the top three in this category the last year.**

Contra, or contrarian, funds seek to invest in fundamentally good stocks that are undervalued because of temporary market sentiment, in the hope that when the undervaluation is corrected, they will deliver superior returns.

AIDED BY MID-CAPS

The best performing funds in this category invest 25-55 per cent of their portfolio in mid-cap stocks, which outperformed large-caps over the last year. In fact, many of these funds have increased exposure to such stocks over in the past the last one-year.

Most contra funds do not have a long

for three-four years. But, over a three-year period, these funds have delivered fairly reasonable returns, outperforming their broader market benchmarks.

JM Contra and L&T Contra are exceptions and have trailed these benchmarks across that time-frame. These funds have held defensives such as consumer non-durables in periods of market upswing but, during market volatility, were overweight on construction and capital goods stocks — both high beta sectors, as a result of which their NAVs were eroded severely.

STEADY RECORD

Only some contra funds (that were in existence then) have turned in an above-benchmark performance in bull markets such as the one in 2007. Magnum Contra and Tata Contra were the ones which delivered over 80 per cent returns in the bull run of 2007.

The rest, while delivering steady returns in absolute terms failed to beat the CNX-500 or the BSE-500. But in the bear market of 2008-09, six out of the eight contra funds did contain losses better than the benchmark and other diversified funds. Considering that most contrarian funds have a limited track record, investors in these funds should only view them as a diversification option with expectations of steady rather

Contra Funds Performance*

	(in %)		
Scheme Name	1 Year	2 Years	3 Years
Religare Contra	41.3	31.5	13.6
Tata Contra	36.3	20.8	10.9
Kotak Contra	34.5	22.3	10.4
SBI Magnum SFU - Contra	26.9	19.9	11.2
UTI-Contra	26.2	22.5	12.1
ING Contra	24.7	21.5	10.6
L&T Contra	16.9	5.2	(5.4)
JM Contra	16.3	(18.7)	N.A
BSE 500	27.3	15.1	7.6
S&P CNX 500 Equity	25.8	15.9	7.3
Nifty	21.9	13.5	7.6
Sensex	20.4	13.5	7.0

* Returns as of 29-06-2010
CAGR in case of 2-year and 3 year returns