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Trigger happy: Time your exit right

Use Option Offered By Fund Houses To Cash In On Rising Market: Experts

M Allirajan | TNN

With the markets rising at a fast clip, investors are wondering which is the right time to exit. The BSE sensex has swung both ways in the past 33 months — soaring past 21,000 points in January 2008 before falling to 8,160 points in March 2009, only to rebound to 20,000 now. Taking these wild swings into account, it's only natural to look for good exit strategies.

Unless the investor books profits at appropriate intervals, there is a real risk of missing the gains from market upswings. Many retail investors do not book their profits on time, especially



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when the markets are on a roll. The trigger option offered by several fund houses is an effective tool for such in-

vestors as it allows them to set targets for redemptions when the value is above the pre-determined levels.

“Many investors would have set targets either by way of market (levels) or invest-

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ment objectives. Triggers act as a proxy for people to take action,” says Kenneth Serrao, head (marketing and products), Edelweiss Mutual Fund. “They (triggers) allow you to take advantage of something when you are not prepared for it.”

“Triggers work well in

both range-bound and volatile markets. Passive investors often don't make much money in range-bound markets,” says Bhupinder Sethi, head (equities, offshore funds and advisory), Tata MF. With triggers, one can keep pocketing the gains regularly, say experts.

“If you regularly book profits, you would be able to invest even in a downturn,” says Sethi. Investors, who continue to sit on profits, would not have enough incremental money to put in during deep corrections, he says.

One can choose from a whole range of triggers—both standard and customised, — with some fund houses offering up to 15 trig-

ger options. Triggers based on market value, net asset value, index and date, stop-loss and capital gains and those that allow a certain amount to be transferred to debt funds are the most widely used triggers. Under the mandatory trigger option offered by fund houses, investments are shifted from equity to debt schemes once the fund achieves the pre-determined capital appreciation. However, if you exercise the trigger option for an equity MF investment that is less than a year old, it would attract a 15% capital gains tax. To overcome this problem the investor can choose the dividend trigger option where the gains are tax-free.