

[BS APPS](#) ▾[BS PRODUCTS](#) ▾[BS SPECIALS](#) ▾[SIGN IN](#)

# Business Standard

[PF](#)[#WeekendSpecial](#) [#OROP](#)[News](#)[PF](#) » [FEATURES](#) » INVESTMENTS

## Restrict exposure to sectoral ETFs

Investors can allocate higher share to broader benchmark ETFs that are cheaper than diversified funds

Priya Nair | Mumbai

March 11, 2015 Last Updated at 22:29 IST



Ad

### Get Loan Approved Today

Ready for \$1MM in Next 72 hours? Access our Network of 1300+ Lenders

[biz2credit.com/Business-Loans](http://biz2credit.com/Business-Loans)



Retail investors will soon have multiple options to invest in exchange-traded funds (ETF). With a number of fund houses gearing up to launch these products, there will be



## ALSO READ

Why are you investing?

Mohnish Pabrai demystifies stock market investing

How about investing in smaller cities?

Are you investing in equities for the first time? If yes, try out a balanced fund

Ads

**Download Free Audiobook**

Try Audible with a Free Audiobook. Listen on iPhone, Android or Tablet  
[www.audible.com](http://www.audible.com)

**Medicare Supplement Plans**

Medigap Options for (65 & older). Compare Plans & Prices for 2015.  
[www.medicaresupplemental.com](http://www.medicaresupplemental.com)

a lot of variety as well. The question for the investor is whether to join the [ETF](#) party.

Since ETFs follow the index with respect to portfolio composition and weights proportion of shares, they assure a certain amount of stability to one's investment portfolio. But they are passive funds and the returns could be lower when compared to actively-managed mutual funds. On the other hand, ETFs cheaper.

No wonder, then, that even fund houses recommend actively-managed funds. Nimesh Shah, managing director and CEO of ICICI Prudential AMC, says ETFs are meant for high net worth individuals or evolved investors who want to take exposure in specific sectors. "In India, most of the actively-traded mutual funds beat the index. As long as fund managers are able to generate alpha, it makes more sense for retail investors to invest in mutual funds, even though ETFs are cheaper," says Shah. Some of the ETFs waiting the market regulator's approval are SBI-ETF 10-year Gilt, ICICI Prudential Bank ETF, Reliance MSCL India Domestic ETF, R\*Shares CNX Mid-cap ETF and R\*Shares NV20 ETF.

ETFs can help investors who know when to enter or exit the market and don't want to depend on a fund manager. "These investors can invest smaller amounts of money directly through," says Raghvendra Nath, managing director, Ladderup Wealth Management.

For a retail investor, ETFs should form that part of your portfolio which you would otherwise invest directly in stocks, says Amit Kukreja, founder, WealthBeing Advisors. “Investing in ETFs is less risky than directly investing in stocks. Also, since the index has only blue-chip companies, exposure to ETF will also give you exposure to good quality stocks,” he says.

If your portfolio has large-cap, mid-cap and multi-cap funds, then you can include ETFs within the same break-up based on the ETF's composition. Also ensure that the exposure to ETFs does not exceed 10 per cent of your total equity portfolio, adds Kukreja.

An investor who has so far been investing only in large-cap funds can include large-cap ETFs in the portfolio, too. The share can be 50:50 for large-cap funds and ETFs. However, if you want to include mid-cap or small-cap stocks in your portfolio, then it is better to do so through mutual funds. In that case, allocate 50 per cent of your portfolio to large-cap ETFs, 30 per cent to mid-cap funds and 20 per cent to small-cap funds, advises Alam Tanwir Alam, founder and managing director, Fincart, a financial planning and advisory firm.

“In case of mid-cap and small-cap stocks, it is better to go through the mutual fund route since the fund manager will do the stock selection. But in case of large-cap stocks, you can take some exposure through ETFs also,” he explains.

According to Nath, [sectoral](#) ETFs are riskier and are meant only for those investors who can take a short-term call on the sector. For instance, he recommends investing only five-seven per cent of the fixed income portfolio in the SBI-ETF 10-year Gilt, which will be benchmarked to the 10-year gilt index. “Given that interest rates are likely to be benign over the next one-to-two years, investors can participate in government securities by investing in the ETF, rather than locking into a mutual fund. This will give them transparency in pricing and will not be dependent on a fund manager,” he explains.

[READ MORE ON](#)[ETF](#)[BENCHMARK](#)[SECTORAL](#)[PASSIVE INVESTING](#)[ACTIVE INVESTING](#)

#### PREVIOUS STORY



MFs' equity AUM shrinks in August; first dip since April last year

#### NEXT STORY



Cyber liability insurance must for entrepreneurs

## RECOMMENDED FOR YOU

Powered by Google



Govt's automotive plan sees fourfold growth by 2026



Cipla appoints Umang Vohra and Prabir Jha in its management team

[NEXT](#)

Ad

### 16% Annuity Return 2014


True Investor Returns with no Risk. Find out how with our Free Report.

[advisorworld.com/CompareAnnuities](http://advisorworld.com/CompareAnnuities)

- ZipSIP – Smarter, Quicker & Easier way to invest
- Dell Precision Laptops - Powerful Mobile Workstations
- Get Loan Quote at Lowest rates from 12 Banks
- How much life insurance do I need?
- Discover the most effortless shave you've ever experienced


Advertisements

- Choose Extraordinary homes from royale.Know more
- Looking to get Rich? Try SIPs for a change with ZipSIP
- Avail Loan Rates Starting as low as 11.99%
- Celebrating women entrepreneurship, Apply for the Digital Women Awards
- Secure your family's future with a click of button.
- Dell Vostro 3546 - Versatile Business Laptop
- Dell Vostro 3546 for Everyday Computing.
- Supply chain for long-term sustainable growth.
- Trading tip Buy BS Book



**FOR A LIMITED TIME**




*Qualified Wells Fargo customers  
get special interest rate discounts on  
select new loans and lines of credit*

**The Great Rate Event** 

[> Learn More](#)

7/1/15 - 9/30/15  
Subject to credit qualification.

## MOST POPULAR



Ad

## Gilbarco Gas Pump Savings

1.9% Financing, Easy EMV Upgrade. Low Rates, Full Support. Start Now!

[gilbarco.com/Accelerated-Savings](http://gilbarco.com/Accelerated-Savings)

Anil Agarwal, Adanis & Ambanis lose the most in Modi regime

---

Mumbai meat ban latest step in state-sponsored intolerance

---


Swiss govt discloses new name in India's black money probe

---



PM asks industry to take risk, invest; India Inc wants rate cut

---

PM asks industry to take risks, step up investment



1 Rule of a flat stomach :  
Cut down a bit  
of stomach fat  
every day by  
using this 1 weird  
old tip. ➡ Tip



### LATEST NEWS

**ALL NEWS**

**IN THIS SECTION**

Jayalalithaa lauds Modi's investor-friendly initiatives

Mercedes drops CLA price by Rs 2.1 lakh

Want GST to be implemented from April 2016: Jaitley

Jaitley tries to reassure investors, promises end to tax battles

RINL's sales volume, exports grow in August

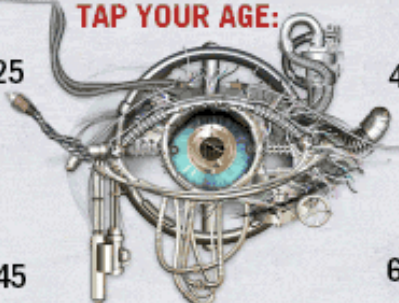
**OBAMA URGES HOMEOWNERS TO SWITCH TO A 15 YEAR FIXED**  
If you owe less than \$625,000 on your home, use Obama's Refi Program. You'll be shocked when you see how much you can save.

**TAP YOUR AGE:**

|       |       |
|-------|-------|
| 18-25 | 46-55 |
| 26-35 | 56-65 |
| 36-45 | 66-75 |


**Calculate New House Payment**

©2015 NMLB ID 167283; 3306 nmlbconsumeraccess.org LowerMyBills.com



**1 Rule of a flat stomach :**

Cut down a bit of stomach fat every day by using this 1 weird old tip. ➤ Tip







Track your portfolio to make investment decisions @  
[www.business-standard.com/portfolio](http://www.business-standard.com/portfolio)  
LOG IN NOW

**MONITOR YOUR NET WORTH.**

## MORE ON MARKETS:

### QUICK LINKS



STOCK MARKETS LIVE



STOCK MARKET NEWS



PORTFOLIO



DERIVATIVES



COMMODITIES



MUTUAL FUNDS

### BROWSE STOCK COMPANIES

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O  
| P | Q | R | S | T | U | V | W | X | Y | Z

1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9

### BROWSE MUTUAL FUNDS



## INDEX STOCKS

Axis Bank | BHEL | Bajaj Auto | Bharti Airtel | Cipla | Coal India | Dr Readdy Labs | Gail (india) | HDFC | HDFC Bank  
 | Hero Motocorp | Hind. Unilever | Hindalco inds. | ICICI Bank | Infosys | ITC | Larsen & Toubro | M & M | Maruti Suzuki  
 | NTPC | O N G C | Relaince inds. | Vedanta | St Bk of India | Sun Pharma. Inds. | Tata Motors | Tata Power Co. | Tata Steel  
 | TCS | Wipro

### FROM BS WEBSITE

Home  
 Companies  
 Markets  
 Opinion  
 Politics  
 Technology  
 Specials  
 Personal Finance  
 Latest News  
 Today's Paper  
 General News  
 General Videos  
 General Photo Gallery  
 Events  
 Authors

### ABOUT US

About Us  
 Code of Conduct  
 Terms & Conditions  
 Disclaimer

### SUPPORT & CONTACT

Partner with Us  
 Careers  
 Advertise with Us  
 Contact Us  
 Feedback  
 Browser Support  
 Sitemap

### SUBSCRIBE

E-Paper  
 BS Magazines  
 Portfolio Tracker

### BS PRODUCTS

Smart Investor  
 BS Hindi  
 BS Motoring  
 BS Books  
 B2B Connect  
 iPhone  
 iPad  
 android  
 wap



### CONNECT WITH BS

Facebook  
 Twitter  
 Google +  
 Youtube  
 RSS  
 Latest News