THE FINANCIAL CLARITY NEWSLETTER

Dear Reader,

Welcome to the sixth edition of The Financial Clarity Newsletter.

Each edition of this series has been about understanding money a little better — not through market noise or product recommendations, but through clarity and perspective. This one continues in the same spirit.

In this edition, I have attempted to decode **THE ART OF CREATING AN INVESTMENT PORTFOLIO** — with a specific focus on how mutual funds are assessed, compared, and aligned to an investor's unique context. The intent here is not to offer investment advice, but to help you appreciate the process behind portfolio decisions.

If you are a seasoned investor, you may find yourself nodding along — perhaps even framing sharper questions about your own choices. And if you are someone who manages investments on your own, or are just starting out, this edition will help you see the nuances that often go unnoticed when decisions are made purely on returns.

My hope is that this conversation gives you clarity — not just about funds or markets, but about how you relate to your money and what truly brings comfort and control to your financial journey.

Warm regards,
Krishnan Venkatachalam
Personal Finance Coach

The Art of Creating an Investment Portfolio through Mutual Funds

Most investors assume portfolio creation is about identifying the "right" products. In reality, it is a lot more layered than that. A portfolio, after all, is not built in isolation. It has to hold together across time, market phases, and personal changes. And while a sound portfolio may include multiple financial and non-financial assets, in this conversation, let us focus on one category that often forms the core — mutual funds.

For explaining how mutual funds are assessed while creating an investor's portfolio, let us look at two schemes from the same category — Balanced Advantage Funds (also known as Dynamic Asset Allocation Funds). Below I will walk you through the practical parameters an investor or a thoughtful DIYer should look at, and then show how those parameters separate Scheme A from Scheme B. (No names — just the facts and what they mean.)

The questions I hear most — answered simply

- **How do I read risk–reward numbers?**
  Standard deviation, beta, Sharpe — they are tools to understand how a fund earns returns. A fund that gives similar returns with lower volatility often offers a more comfortable ride for many investors. Do not treat returns in isolation; pair them with risk-adjusted metrics.

- **What about Total Expense Ratio (TER) and costs?**
  TER is the drag on returns. A lower TER helps, but it must be weighed against whether the manager's process genuinely adds value that justifies a higher cost.

Why study portfolio mix and turnover?

The holdings (sector tilt, concentration) reveal the fund's convictions. Turnover shows whether the manager trades frequently (higher turnover) or holds convictions for longer (lower turnover). Both have tax, cost, and behavioural consequences.

Rolling returns and cycles — why do they matter?

Point-to-point returns can hide the path. Rolling returns show performance across many entry points — they reveal consistency. A fund that is cyclical may look brilliant in a 2-year window but mediocre across rolling 3- or 5-year windows.

When two funds look similar, how do you pick?

Look for subtle differences: volatility profile, conviction in allocations, consistency across cycles, expense justification, and whether the manager's investment style resonates with the investor's tolerance and objectives.

Quick comparison

Scheme A vs Scheme B (same category, different character)

Note:

- The intent of this write-up is not to provide investment advice or express any preference for a particular scheme.
- This assessment is purely academic — meant to give readers context and clarity on how mutual fund schemes are evaluated.
- Scheme names have therefore been withheld.
- The data sets and parameters referenced here are drawn from the latest fact sheets published by the respective Asset Management Companies (AMCs), along with publicly available information from sources such as AMFI, Moneycontrol, etc as of the most recently published data.

Headline snapshot

📈 Scheme A — lower reported volatility metrics and lower portfolio turnover; historically a more “steady” profile.

📈 Scheme B — larger AUM and a comparatively higher volatility metric; a style that has delivered strong returns in some cycles but with higher measured volatility.

AUM & scale

Scheme A and Scheme B both manage large sums, but Scheme B shows significantly larger AUM making it systemically bigger. Scale matters for liquidity & product structure.

TER / cost

When we compare expenses, both schemes show a small difference in their Total Expense Ratio (TER) — the annual cost of managing your money.

As per the latest available factsheets (October 2025):

📈 Scheme A (Regular Plan): 1.44%

📈 Scheme B (Regular Plan): 1.34%

At first glance, it is tempting to assume that the lower TER automatically makes one fund “better.” But that is only part of the story. A slightly higher TER can still be justified if the fund manager’s active strategy consistently adds value. For example, by navigating market cycles better or generating higher risk-adjusted returns compared to the benchmark index. The key is to view TER in the context of performance across cycles, not in isolation. If a fund consistently beats its benchmark and peers after accounting for costs, the extra 0.10% or 0.20% in TER may actually represent strong, active management rather than inefficiency.

Risk-adjusted metrics

Scheme A shows lower volatility with a standard deviation of 5.49, while Scheme B's higher 8.79 indicates wider swings.

The Sharpe ratios — 1.26 for Scheme A and 1.35 for Scheme B — suggest both have managed risk well, but Scheme A offers a steadier ride, whereas Scheme B rewards higher risk with slightly better efficiency.

Portfolio mix & approach

Both are dynamic allocation (Balanced Advantage) funds, but the allocation tilt and how aggressively the manager shifts between equity and debt differs. One fund has been observed to maintain lower turnover and steadier sector exposures; the other shows larger swings in equity allocation at times (reflecting a more tactical posture). That changes how they perform in different market regimes.

Turnover & trading behaviour

Scheme A has a portfolio turnover of 27%, while Scheme B's is 126.73% (as of September 2025, Regular Plans).

This means Scheme A trades less, keeping costs and taxes lower, whereas Scheme B trades more actively — a style that suits investors comfortable with frequent portfolio changes.

Rolling returns & cycles

Over a 3-year period, Scheme A delivered 13.32%, while Scheme B returned 18.20%. Across 5 years, Scheme A stood at 13.63% and Scheme B at 22.38%.

But numbers alone do not tell the full story. During the March 2020 market fall, when the Nifty dropped -37%, Scheme A dropped -26.8% while Scheme B dropped -31.7%.

Scheme A's steadier process helped cushion volatility; Scheme B's aggressive stance rewarded rallies but felt sharper drawdowns. In short, rolling returns show consistency, drawdowns reveal resilience — together, they help you see which fund truly aligns with your comfort and relationship with money.

How this leads to different choices for different investors

Imagine two investors:

📈 Investor X values night-time peace. They prefer steadiness and will panic-sell if swings are sharp.

Scheme A (the steadier volatility profile, lower turnover) is likely a better fit even if its 3-year headline return is slightly lower. The risk-adjusted experience & psychological fit matter.

📈 Investor Y accepts higher swings for the chance of higher short-term returns and actively monitors their portfolio.

Scheme B may appeal more — especially if the investor understands the cycles that drive its outperformance and can stick through underperformance periods.

So, if Scheme B shows higher headline returns in a recent bull phase but Scheme A shows steadier rolling returns and lower volatility, choosing Scheme A is not "settling for less." It is choosing alignment — lower emotional and financial friction for that individual.

(Practical point: a mature investor reading this will likely nod and ask follow-up questions about allocation. A DIYer will see where their gaps are — e.g., ignoring volatility measures, ignoring turnover, or chasing recency.)

The rationale behind "Fund A, not Fund B" (without drama)

When funds look comparable, the professional judgment I apply is a synthesis of:

- 📈 What the investor absolutely needs (liquidity, time horizon, goal sensitivity).
- 📈 The fund's behaviour in different market conditions (rolling returns, drawdown behaviour).

- Cost vs value (TER vs demonstrated alpha net of cost).
- The manager's track record, team depth, and whether their style is consistent or opportunistic.
- Tax, turnover, and operational considerations (portfolio turnover information).

That judgement explains why, for some investors, a fund with slightly lower headline returns is the better choice — not because it is inherently "better," but because it better matches the investor's reality and objectives.

Final, practical takeaway (in one line)

When funds wear the same label, the fit between the fund's behaviour and your financial life matters far more than a single return number.

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