ARE YOU COMPARING WITH THE RIGHT BENCHMARK?

SEBI has mandated that Mutual Funds should compare their performance with a Total Return Index, and not a Price Return Index.

UNDERSTANDING TOTAL RETURN INDEX

A Price Return Index calculates the rise in value of its underlying Stocks. A Total Return Index, however, would take into account dividends and bonuses too.

Let's understand with an example. Let's say an index contains two Stocks – Stock A and Stock B.

A	Stock	B
₹100	Initial Value	₹50
₹150	Final Value	₹100
₹25	Dividend	₹10
50%	Price Return	100%
75%	Total Return	120%

Return reported by the Price Return Index: **75%**

Return reported by the Total Return Index: **97.5%**

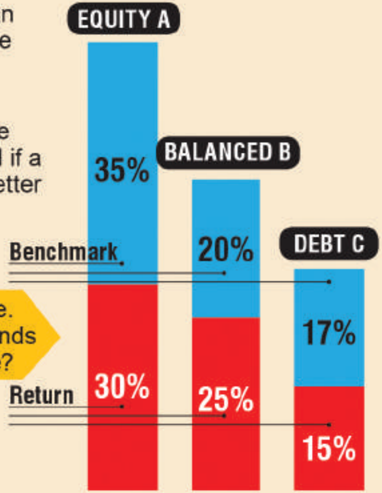
A Total Return Index's return data is, thus, higher than returns posted by Price Return Indices.

WHY THIS MATTERS TO YOU?

It is important for an investor to compare with the right benchmark.

Otherwise, it will be hard to understand if a Fund performed better or worse.

Here's an example. Which of three Funds would you choose?



Had you compared the Funds with each other, many would choose Fund A as it gave the highest returns. Only a benchmark comparison can tell you that Fund B's performance was better than the others.

With the new Total Return Indices as benchmarks, the difference between the returns posted by a MF Scheme and a Total Return Index could be narrower.

This will make it easier to find out which Funds are better performers.

*This content was created exclusively for UTI Swatantra. Visit http://www.utiswatantra.com for more information

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