

## THE WEEKEND READ

# A Mutual Fund Investor's Philosophy

## Four Market Principles

By Devjeet Chakraborty, *Founder & Principal MFD, DC Investments*

### Where Great Investing Begins

Benjamin Graham, the father of value investing, wrote in *The Intelligent Investor* that the investor's chief problem — and even his worst enemy — is likely to be himself. That insight, made in 1949, has never been more relevant than in the age of real-time NAV alerts, market news at midnight, and WhatsApp forwards predicting the next crash.

This piece is not a guide to picking the 'best' fund. It is something more durable — a framework for thinking about every mutual fund decision you will ever make. It rests on four principles drawn from the world's most enduring investment wisdom, adapted for the Indian mutual fund investor of today.

*"The stock market is filled with individuals who know the price of everything, but the value of nothing." — Philip Fisher*

### Principle 1: Know the Economics of the Fund

When Graham and his student Warren Buffett evaluated a company, the first question was always: what is the economic character of this business? What does it produce, how durable is its competitive moat, and what determines the stability of its earnings?

The mutual fund investor must ask an equivalent question — not about a company, but about the fund itself. Every fund has an economic character defined by its mandate, its category, and the quality of its underlying portfolio.

### The Three Questions Every Fund Investor Must Answer

#### 1. What does this fund actually own?

A flexi-cap fund and a small-cap fund may both be called 'equity funds,' but their economic character is entirely different. One diversifies across market capitalisation in response to opportunity; the other bets structurally on younger, faster-growing businesses with higher volatility. Peter Lynch, in *One Up on Wall Street*, argued that you should never own a stock you cannot explain in two minutes. Apply the same standard to your fund.

#### 2. Is this fund category suited to your time horizon?

John Bogle, in *The Little Book of Common Sense Investing*, demonstrated, using decades of data, that equity returns are driven almost entirely by time in the market — not by timing. A liquid fund held for 3 years and an equity fund held for 3 years are structurally different instruments. Matching the fund's economic character to your time horizon is not optional — it is the foundation.

#### 3. What do the fund's top holdings reveal?

Look beyond the star rating. Examine the portfolio. Are the top 10 holdings businesses with durable competitive advantages — pricing power, strong cash flows, and low debt? Or is concentration in cyclical sectors where earnings are more volatile than predictable? The economics of the underlying businesses determine the long-run trajectory of your investment.

*"In the short run, the market is a voting machine. In the long run, it is a weighing machine." — Benjamin Graham*

## Principle 2: Assess the Integrity and Competence of Fund Management

---

Every rupee you place in a mutual fund is entrusted to a fund manager and the AMC (Asset Management Company) that employs them. This is not a passive relationship. You are a shareholder in the scheme, and the fund manager acts as your steward of capital.

Graham was uncompromising on this point: *an honest and competent management exploits growth opportunities and returns capital when it is in the investor's best interest*. Incompetent or misaligned management can destroy even a fundamentally sound portfolio.

### What to Look For in Fund Management

**Consistency of mandate:** The best fund managers do not chase category performance. A fund that stays true to its stated investment style — value, growth, quality — across market cycles is managed by someone with conviction. Style drift is a warning sign.

**Long-term track record over multiple cycles:** A fund that outperformed during the 2020–2021 bull run deserves far less credit than one that protected capital during the 2008 and 2020 corrections and still delivered superior long-term returns. **Nassim Taleb**, in *Fooled by Randomness*, warns us that short-term outperformance is often luck masquerading as skill. Evaluate the manager over 7–10 years, minimum.

**AMC governance and philosophy:** The AMC matters as much as the fund manager. A well-governed AMC with a strong research team, low fund manager turnover, and a clear investment philosophy will consistently produce better outcomes than a larger AMC with high attrition and reactive decision-making.

**Expense ratio transparency:** A competent management does not extract value from investors through opaque structures. Every basis point of expense ratio compounds against you over time. The difference between a 0.5% and a 1.5% expense ratio over 20 years on ₹10 lakh can exceed ₹8–10 lakh in foregone wealth.

## Principle 3: Understand the Price You Pay — and When It Matters

---

Graham's most fundamental insight was that price determines return. The value of any investment is the present value of all future cash flows it will generate. The less you pay relative to that value, the greater your potential gain.

Mutual fund investors often believe NAV does not matter — that a ₹10 NAV fund is no 'cheaper' than a ₹1,000 NAV fund. This is largely true for ongoing SIP investors, and it is an important corrective to the NFO trap (chasing new funds at ₹10 NAV for the illusion of buying cheap). However, price does matter in two specific mutual fund contexts.

## When Price Matters in Mutual Funds

**1. Lump Sum Entry Point:** If you invest a large sum during peak market valuations — when the Nifty P/E exceeds 25–28x — you are paying a premium for future earnings. History shows that lump sum investments at market peaks take significantly longer to recover than those made at corrections. This is the mutual fund equivalent of overpaying for a good business.

**2. Sector and Thematic Fund Timing:** Sectoral and thematic funds carry embedded price risk related to the cycle of their underlying sectors. Entering an infrastructure fund after a 60% rally in infrastructure stocks is not the same as entering during the sector's accumulation phase. Unlike diversified equity funds, where the fund manager adjusts allocations, you bear the timing risk entirely.

The SIP structure is, in many ways, the mutual fund investor's most elegant answer to the price problem. By investing a fixed amount every month, you automatically buy more units when NAVs are lower and fewer when they are higher. This rupee-cost averaging is not a loophole — it is a disciplined mechanism for paying a rational average price over time (*we explained **Rupee Cost Averaging** in detail in our weekly newsletter*).

## Principle 4: Be Rational. Be Independent. Or Stay Away.

---

This is the most important principle, and the hardest to practise.

Graham's concept of **Mr. Market** is perhaps the most useful mental model ever constructed for investors. Every day, Mr. Market appears with an offer to buy or sell every unit of your mutual fund at the prevailing NAV. Some days, he sees only sunshine — NAVs soar, FOMO dominates WhatsApp groups, and everyone is a genius. Other days, Mr. Market sees only catastrophe — NAVs fall, television anchors speak of crashes, and investors panic-redeem their best-performing funds.

The critical insight is this: Mr. Market is there to serve you, not guide you. His daily quotations are useful data points, not commands. **Daniel Kahneman**, in *Thinking, Fast and Slow*, describes the same phenomenon through the lens of behavioural psychology — the human brain is wired to treat market volatility as a threat requiring immediate action. This instinct, optimal for physical survival, is catastrophic for long-term wealth creation.

## The Two Sins of the Mutual Fund Investor

**Panic Redemption:** AMFI data consistently shows that SIP stoppage rates spike during market corrections — the precise moment when continuing to invest is most advantageous. Redeeming equity funds after a 20–30% NAV fall is the equivalent of selling a well-run business because its stock price dropped.

**Performance Chasing:** The 'best-performing fund of the last 3 years' is one of the most reliably misleading data points in personal finance. Today's top-decile fund is statistically more likely to revert toward mean performance than to repeat its outperformance. Selecting a fund because it appeared on a 'Top 10 Funds' list is allowing Mr. Market's most enthusiastic days to make your decisions for you.

*In mutual funds, discipline is the alpha. Behaviour determines whether you capture the return the market offers — or surrender it to anxiety.*

## The Two Rational Reasons to Exit a Mutual Fund

Just as Graham argued that shares should be sold only for two reasons — **better value elsewhere** or **price exceeding value** — the mutual fund investor should exit only under two conditions:

- Your financial goal has been achieved, and it is time to move the corpus to a lower-risk instrument appropriate for the goal's time horizon.
- The fundamental character of the fund has materially changed

A falling NAV is not a reason to exit. A rising NAV is not a reason to celebrate prematurely. The operating results of the underlying businesses — earnings growth, profit margins, return on equity across the fund's portfolio — are the true measure of progress. The market may ignore this for months. It never ignores it forever.

## Closing Thought: Philosophy Before Product

---

The Indian mutual fund investor today has access to over 1,500 schemes across 40+ AMCs, representing every asset class, geography, and investment style imaginable. This is a profound privilege. It is also, without a guiding philosophy, a source of paralysis and poor decisions.

The four principles outlined here — understanding the economics of the fund, evaluating management integrity and competence, paying a rational price, and acting with independence and rationality — are not new. They were articulated in different forms by Graham, Bogle, Lynch, Buffett, and Kahneman across decades of thought. What is new is their application to the mutual fund investor navigating India's rapidly maturing capital markets.

Wealth Built on Purpose is not a slogan. It is a process. Every SIP instruction, every fund selection, every decision to stay invested through a correction is either aligned with a philosophy or driven by noise. The investor who builds a philosophy builds wealth. The investor who chases performance builds anxiety.

## Reading That Shapes How We Think

---

The ideas in this article did not originate with us. They were built over decades by some of the world's most rigorous investment thinkers. Reading the books below will give you a genuine window into the philosophy behind how we work for you — why we suggest what we suggest, why we stay calm when markets don't, and why we think in years rather than months.

***The Intelligent Investor* — Benjamin Graham, *One Up on Wall Street* — Peter Lynch, *Fooled by Randomness* — Nassim Nicholas Taleb, *The Psychology of Money* — Morgan Housel, *Thinking, Fast and Slow* — Daniel Kahneman**

We are shortly launching a dedicated **Suggested Reading** section in our upcoming website: [www.dcinvestments.in](http://www.dcinvestments.in), where each book gets its own weekend — a summary, our key takeaways, and what it means specifically for your equity, mutual fund and investment journey. Watch this space.

## About the Author

---

Devjeet Chakraborty is the Founder and Principal MFD of DC Investments (AMFI ARN: 119674). With 22+ years across ICICI Bank, HSBC, Kotak Securities, and Axis Bank, he has worked with retail investors, HNIs, and corporate clients across every market cycle India has seen in the last two decades — bull runs, crashes, and everything in between.

A former Ranji Trophy cricketer representing Bihar and a BCCI Level-A accredited coach, Devjeet carries into financial practice what sport demands above all else: discipline under pressure, the patience to let a strategy unfold, and the conviction to stay the course when it is most uncomfortable to do so.

His work in investor education is grounded in a simple belief — that informed investors make better decisions, and better decisions build lasting wealth.

## About DC Investments

---

DC Investments is a Mumbai-based mutual fund distribution firm built on a single governing principle: that every investor, regardless of portfolio size, deserves structured thinking, honest guidance, and a long-term partnership.

We work across the full spectrum of wealth management products, managing multi-crore portfolios across mutual funds, PMS, AIF, and insurance.

What distinguishes our practice is not product access; it is the philosophy behind every suggestion we make: grounded in fundamentals, free of market noise, and always aligned with your goals rather than our convenience.

*Wealth Built on Purpose.*

[devjeet@dcinvestments.in](mailto:devjeet@dcinvestments.in) | +91 9892252195 | [www.dcinvestments.in](http://www.dcinvestments.in) (coming soon)