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Cherry pick while buying mid-caps

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There are a few mid-cap scrips trading at attractive valuations with good fundamentals, but remember to do your homework before investing.

Are mid-cap stocks a good investment bet in the current scenario? Some analysts feel they are at attractive valuations, due to which retail holding in these stocks have seen a rise. During the quarter ended June, retail investors have increased their shareholding in several mid-cap companies, even though this segment is said to be unpredictable.

Alex Mathew, head of research, Geojit BNP Paribas Financial Services, says there are many scrips in the mid-cap space that look good at the moment. "Last week, when the Nifty fell below its 200 day moving average, the mid-cap space had taken quite a beating. This meant many scrips in this space are trading at very good valuations, that is, cheap."

He says this results season, many mid-cap companies have come up with good numbers. Some even better than the large caps.

According to data compiled by BS Research Bureau, shareholding of retail investors has increased in 63 per cent of the stocks on the BSE in the June quarter. The BSE Mid-cap index has 250 stocks and the retail holding in 92 of these has gone up. Companies such as Suzlon Energy, Ashok Leyland, HDIL, Voltas, Raymond and Shoppers Stop, among others, have seen an increase in the number of retail investors during the previous quarter.

Retail shareholding has increased in the BSE Mid-cap index, despite it being down more than three per cent. The Sensex, on the other hand, has been flat. "It is actually a good time to start accumulating quality mid-cap stocks, which are trading at attractive valuations. Mid-cap stocks normally have the potential to rise in a rising market. If at all a rally starts in the equity market, large caps will perform first followed by the mid-caps. But later on, the mid-caps have the potential to catch up and outperform," says Devang Mehta, vice-president, equity advisory and sales, Anand Rathi Financial Services.

However, not all mid-cap scrips are good investment options. One has to be very careful while selecting. Investing in mid-cap scrips is tricky, as the segment is volatile and not known to give consistent returns. Retail investors are generally asked to stay away from these. If you are investing in a mid-cap scrip, stay invested for at least one year. A shorter time frame in a volatile market might not get you the returns you expect. Plus, it will amount to timing the market, no easy task for the retail investor.

Experts suggest to taking stock-specific view, instead of a sector specific one. When value-picking stocks in the mid-cap segment, select those in safer sectors such as pharma, automobiles and fast moving consumer goods, which are not speculative in nature and have a long-standing track record .

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Liquidity of mid-cap stocks is another important factor to consider. Suresh Sadagopan, a certified financial planner, tells retail investors who want to put their money in mid-cap companies to take the mutual fund route. “Investors willing to take the risk of investing in mid-cap companies are those with a slightly higher risk appetite. One can look at mutual fund schemes in the space. Look for schemes where they invest at least 65 per cent of their corpus here,” he says. According to him, these investors can allocate up to 30 per cent of their equity portfolio to such schemes. However, for a more risk averse investor it is better to stick to diversified equity funds. It is best to have a mix of 60:40 ratio of large-cap and mid-cap stocks in your portfolio because if there is huge volatility in the market then mid-cap stocks will be hit.