Beyond the star rating:

Making sense of fund performance with Short Term Fall-Bounce Classification

Amogh Korde
Project Lead - Behavioural and Fund Analytics
Multi Act

India's mutual fund landscape has exploded in size and variety over the last decade. Investors can now choose from 20, 30, sometimes 40 competing schemes, each backed by its own fund house, fund manager, investment process and performance narrative.

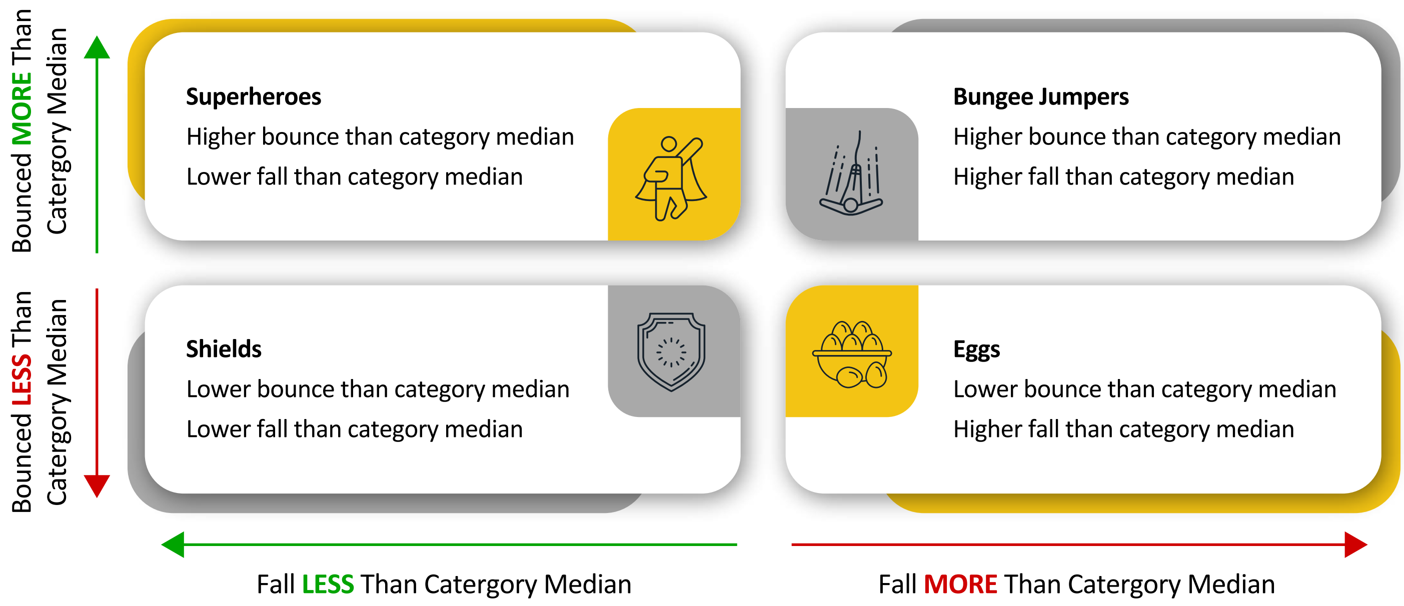
On paper, this is a good problem to have: more choice should mean better outcomes. In practice, it creates a genuine dilemma. How does an investor, or even an advisor, meaningfully tell one large-cap fund apart from another when most of them are managing the same universe of stocks against the same benchmarks?

The instinctive shortcut is to sort funds by trailing returns and pick from the top of the list. But trailing returns are a blunt instrument. They tell you what happened, not why, and say nothing about whether the outcome is likely to repeat. Take, for example, two funds, A and B, that have posted identical one-year returns. However, fund A has achieved this through patient, benchmark-hugging stock selection, while fund B has achieved it through a concentrated bet that happened to pay off. These are entirely different routes. Ranking on return alone treats them as equivalent, even though an investor's tolerance for the underlying journey may be very different.

This problem is magnified by market volatility. Markets rarely move in a straight line. When returns are calculated over a full year, that final volatile stretch can be buried inside an otherwise smooth-looking number. A fund that quietly outperformed during the long bounce phase but was hit hard in the sudden fall, or vice versa, can end up looking identical to a fund that behaved consistently throughout, simply because the twelve-month return nets everything out. Investors deciding where to allocate money need a lens that separates these two phases, not just a single blended figure.

Enter the Short-Term Fall-Bounce Classification

The Short-Term Fall-Bounce Classification (STFB) builds on Multi-Act's earlier Long-Term Fall-Bounce Classification, introduced in March 2022, which used five-year measures to group funds into the same four categories[1]. The short-term version compares each fund with its category median across two selected phases: a correction, or 'fall', and a recovery or rising-market period, or 'bounce'. The broad idea is related to upside- and downside-capture analysis, but STFB uses selected short-term periods and a category-median comparison rather than all rising and falling benchmark periods.



Fund Name	Category	Recent	Bounce	Fall	Overall
Mirae Asset Banking and Financial Services Fund-Reg(G)	Banking	Bungee Jumpers	22.6%	-11.1%	8.9%
UTI Banking and Financial Services Fund-Reg(G)	Banking	Shields	21.0%	-10.0%	8.9%
WOC Banking & Financial Services Fund-Reg(G)	Banking	Superheroes	20.5%	-9.7%	8.8%
		Start Date	28-Feb-25	30-Sep-24	30-Sep-24
		End Date	30-Jun-25	28-Feb-25	30-Jun-25

This two-dimensional comparison, fall versus category median and bounce versus category median, produces four intuitive buckets, each named to make the behaviour easy to comprehend:

Superheroes: Funds that fell less than the category median during the selected market correction and bounced back more than the median during market recovery. Within the period studied, this is the strongest relative combination: better downside performance paired with better upside participation. It does not necessarily mean that the fund protected capital in absolute terms or outperformed its benchmark.

Shields: Funds that fell less than the category median during the correction but also bounced less than the median during the recovery. These funds displayed relatively better downside resilience during the selected correction, but participated less in the bounce

Bungee Jumpers: Funds that fell more than the category median during the correction and also bounced more than the median during the recovery. They experienced a deeper fall but participated more strongly in the bounce. The stronger recovery should not automatically be taken to mean that the earlier loss was fully recovered. A fund that falls by 20%, for example, must subsequently gain 25% simply to return to its starting value.

Eggs: Funds that fell more than the category median and bounced back less than the median during recovery. This is the least desirable combination, indicating weaker resilience without any compensating strength in recovery. However, it should not be treated as a permanent label for the fund.

By plotting funds this way, an investor gets something a single trailing-return metric cannot convey, i.e. a clearer view of the path taken to generate that return. A Shield and a Bungee Jumper, for instance, may finish with similar full-period returns. The Shield may get there through a shallower fall and a more modest recovery, while the Bungee Jumper may arrive at a similar outcome after a deeper decline and sharper rebound. The ending numbers may be close, but the experience of holding the two funds would have been very different.

Why this matters for portfolio decisions

The value of the STFB framework lies in what it protects investors from: over-relying on a single blended number during a period that happened to contain both a long uptrend and a sharp shock. Sharp market corrections, of the kind driven by geopolitical or macroeconomic shocks, are becoming a recurring feature of markets rather than a rare exception. Funds that can demonstrate genuine downside resilience, without giving up meaningfully on the upside, are the ones more likely to help investors stay invested through future volatility, rather than exit at the worst possible time.

Used alongside other attribution tools including sector and stock-level return attribution, active bet analysis, portfolio turnover, and quartile rankings on quality, valuation, technical strength, and earnings momentum, the Fall-Bounce classification adds a behavioural dimension to fund selection. It shifts the conversation from "which fund made the most money last year" to "which fund's journey to that return is one I would be comfortable repeating,".

Source:

[1] Inspired by an RW Baird analysis of US stocks featured in https://finimize.com/, titled, “Superheroes, Parachutes, Eggs, And Balls” by Paul Allison, CFA. The original Baird note and individual analyst are not identified in the publicly available source.

Built by investors for investors

Disclaimer: We are an investment advisory outfit and not a tax advisor as such. Above mentioned views are based on our reading of proposed changes & regulations. Investors/Readers are advised to cross check the impact assessment mentioned above with their tax advisors before considering any investment decisions.

Statutory Details:

Multi-Act Trade and Investments Private Limited

(SEBI Registered Investment Advisor - Registration No. INA000008589)

Disclaimer:

This is an Internal Document and meant for only limited circulation. The information contained in this document is only for consumption by the client of Multi-Act Trade and Investments Private Limited and such material should not be redistributed.

The information is prepared on the basis of publicly available information, internally developed data and other sources believed to be reliable. MATI provides independent analytical research and advisory reports, including but not limited to Company Notes, based on its own expertise and understanding and such reports are not intended to be an offer or solicitation for the purchase or sale of any security or financial product. The reader is advised to exercise independent judgment and act upon the same based on its/his/her sole discretion, their own investigation and risk-reward preferences.

Any forward-looking statements made in relation to the content of the Company Notes are contingent on a number of risks, uncertainties and other factors that could cause actual results to differ materially from those indicated by the forward-looking statements.

No consideration by way of remuneration or compensation or in any other form whatsoever, is received or receivable by MATI or any of its associates or subsidiaries for any recommendation, distribution or execution services in respect of the products or securities mentioned in the Company Notes.

MATI, its associates or any of their respective directors, employees, affiliates, or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information and consequently are not liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way for decisions taken based on the said information.

The Client shall at all times keep such information / data and material provided by MATI strictly confidential and will not use, share or disclose such information to any third party.

It is stated that, as permitted by SEBI Regulations and the Employee Dealing Policy of Multi-Act Group, MATI and/or its associates, employees, affiliates and/or individuals, clients of MATI, thereof may have positions in securities referred to in the information provided by it and may make purchases or sale thereof while the information is in circulation.

The contents herein – information or views – do not amount to distribution, guidelines, an offer or solicitation of any offer to buy or sell any securities or financial instruments, directly or indirectly, in the United States of America (US), in Canada, in jurisdictions where such distribution or offer is not authorized and in FATF non-compliant jurisdiction and are particularly not for US persons (being persons resident in the US, corporations, partnerships or other entities created or organized in or under the laws of the US or any person falling within the definition of the term "US person" under Regulation S promulgated under the US Securities Act of 1933, as amended) and persons of Canada.

Standard warnings:

a. Investment in securities market is subject to market risks. Read all the related documents carefully before investing.
b. Registration granted by SEBI, membership of BASL and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

General Risk factors

a. Securities investments are subject to market risks and there is no assurance or guarantee that the objective of the investments will be achieved.
b. As with any investment in securities, value of the Client's investments can go up or down depending on the factors and forces affecting the capital market. MATI is neither responsible nor liable for any losses resulting from such factors.
c. The information on investments is subject to external risks such as war, natural calamities, and policy changes of local / international markets which affect stock markets.
d. MATI has obtained its SEBI registration as an Investment Advisor effective from December 12, 2017 (validity – perpetual).