Rolling Returns: A Panoramic View of Performance

DSP
MUTUAL FUND

Investors typically research historical results before investing. When considering an investment in mutual funds, the industry convention is to review average returns before making any decisions to determine the consistency of the fund's returns.

Websites and mutual fund factsheets commonly show **trailing returns.** Trailing returns, point-to-point returns, are a snapshot of the past. Trailing returns are annualized returns (CAGR) for a particular period of time, typically, 1-year, 3-year, 5-year, 10-year, 15-year, 20-year and/or since inception.

Trailing returns are dependent on the date of entry and exit.

Trailing returns measure returns during a specified period of time. If an investment or strategy had a good or bad year, that recent performance will impact the trailing return calculation for that period.

However, if the start date was shifted and an investor reviewed the same time period (ie. 1-year, 3-year, etc.) ... there could be a very different return outcome.

Analyzing Trailing Returns

Let's look at snapshots of trailing returns of the Sensex on two different dates just one year apart.

The difference among Sensex returns is quite vast. One year can make a massive difference in the assessment of Sensex performance (or any fund performance). If you start with a upward trending market in January 2008, the Sensex journey was optomistic and an investor could get carried away with high historic returns and over-allocate to equity. If we take a look at the returns just one-year later (starting January 1, 2009), the performance journey significantly changed and the true potential of equity is not represented. Point to point, snapshot returns can skew the return expectations of investors.

Sensex Trailing Returns: As of January 1, 2008							
Returns	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	15 Years
	45.6%	47.1%	45.0%	43.0%	26.3%	18.6%	14.9%

Sensex Trailing Returns: As of January 1, 2009							
Returns	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	15 Years
	-51.1%	-15.7%	1.8%	10.8%	17.3%	12.4%	7.3%

Source: DSP Internal **Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments.** These figures pertain to performance of the Sensex index and do not in any manner indicate the returns/performance of any scheme of DSP Mutual Fund. It is not possible to invest directly in a Sensex index. Investor may consider investing in Index Fund/ ETFs.

Trailing returns alone may not reflect the real investor experience. Investing is a journey and often a volatile journey. Evaluating recent trailing returns alone may not reflect the journey accurately as they may look good on a point-to-point basis, but may NOT show the full journey or risk profile of a fund or investment.

To sum up, trailing returns are dependent on the date of entry and exit. In our opionion, instead of assessing trailing returns alone, a more holistic measurement, of assessing both trailing returns and **rolling returns**, may prove to be benefical.

Rolling Returns

Rolling returns complement trailing returns and may provide a clearer, panaromic picture of a fund's performance.

Rolling returns calculate returns over a fixed time period based on different start dates and average all those returns over that period of time. For example, an average five-year rolling return will depict the journey an investor would have had over any five-year period, even if they began investing at various points in time. The investor can differentiate between strong preformance and weak performance for a selected time period.

- Since the calculation is done on a monthly basis, the second data point will be 1st Febuary 2010 to 31st January 2013. As so on ...
- The last data point in the calculation will be 1st January 2018 to 31st December 2019.

This results in 84 data points (12 X 7) of 3-year returns over the last 10 years which will all be averaged to generate the 3-year rolling return from 1st January 2010 to 31st December 2019. This data can be “sliced and diced” to analyse the risk and returns. Average, Min, Max, Median, % of negative returns, % returns lower than 7%, etc. Rolling Returns can be calculated for various time periods as well, 1-year, 5-year 7-year and 10-year, etc.

The above example is only for general purposes / informational to show how rolling returns can be calculated. It is not possible to invest directly in any index or Sensex. Investors may consider investing in Index Fund/ ETFs.

Though we mostly see the data in terms of trailing returns by fund houses and websites, rolling returns together with trailing returns are becoming more prominent. DSP Mutual Fund assesses rolling returns (as well as trailing returns) over longer-term periods (5-years, 10-years, etc.) as this data will allow investors to accurately assess long-term fund performance and an entire investment journey of a fund. Let’s take a look at a real world example from the DSP Mutual Fund website.

DSP Tax Saver Fund Rolling Returns as of June 30, 2020.

SIPs	1 Year	3 Years	5 Years	10 Years
Minimum	-58.9%	-6.1%	-0.7%	7.8%
Median	11.3%	13.5%	15.3%	13.8%
Maximum	120.7%	31.9%	24.6%	20.9%
% times -ve returns	26.0%	4.8%	0.2%	Never
% times returns > 7%	59.3%	82.9%	84.7%	Always

Source: DSP Internal. Regular plan, growth option. **Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.** Figures mentioned above do not indicate any assured returns/capital protection/ capital guaran/TT0 1al gua 22tabove mentioned scheme. FTT0 1or scheme performance in SEBI prescribed format, performance guaother schemes managed by 22tsame fund manager and other relevan/ disclaimers click here.

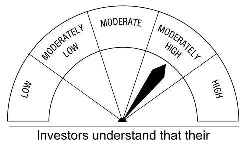
Rolling returns analysis /TT0 1ogether with a trailing return analysis can b done for many mutual Fund schemes and used /TT0 1o evaluate performanc TT0 1o determine which funds/schemes are more consistent, have delivere better returns and managed risk better. When comparing mutual funds with each other vena 22tbenchmark, comparing trailing returns alone may give a biased view guafund performance based only on a particular time period. A scheme's/fund's near term performance has heavy influence on 22tentire trailing return. A fund/scheme 2at may have done well a point- TT0 1o-point basis, may not have had a consistent journey. A sharp up or downward movement in recent performance can affect returns across all trailing periods and may generate an artificially healthy or weak return profile.

Rolling returns /TT0 1ogether with trailing returns can provides a cleare panaromic picture guaa fund/scheme's performance and 22toverall consistency ouaa fund/ scheme. A fund/ scheme with consistent rolling returns, over various periods may offer a more predictable pho/TT0 1ograph o future returns.

Advantages of Rolling Returns

- Not biased towards any period of time
- Not impacted by near term bull or bear markets
- Facilitates scenarios analiysis (worst case scenarios, best case scenarios, average, median ,etc)
- Consistent rolling returns over various periods can indicate predictable future returns
- Enables investors accurately assess asset management companies over both bull and bear markets and vis a vis competition
- Rolling returns can be calculated for both lump sum and SIP investments

Product Labeling

DSP Tax Saver Fund benefit	• Investment in equity and equity-related securities to form a diversified portfolio	 Investors understand that their principal will be at moderately high risk

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