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**Meta Title:** What are Value Mutual Funds: Strategy and Ways to Invest | Bajaj Finserv AMC

**Meta Description:** Learn the strategy behind value mutual funds, their key benefits, and how to invest. Discover how value investing can help you build long-term wealth by targeting undervalued stocks.

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# **What are value funds? Strategy, benefits and factors to consider before investing**

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Value investing, a strategy famously favoured by Warren Buffet, seeks to harness the potential of investments that appear to be trading for less than their intrinsic value. Those who follow a value investing strategy believe that market will sooner or later recognise the true worth of these stocks, resulting in long-term growth potential.

Value funds are a category of mutual funds that are based on this investment approach. These funds are managed by seasoned investment professionals who meticulously analyse the market to identify stocks that are trading for less than their fair value when compared to the company’s fundamentals, such as their financial health and performance.

This article details what value funds are and the potential benefits they offer to investors.

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## **What are value funds?**

The Securities and Exchange Board of India (SEBI) categorizes funds that adhere to the value investing philosophy as “value funds”.

Such funds aim to potentially tap into a portfolio of undervalued stocks. They are managed by professional fund managers who identify companies that they believe are being underappreciated by the market. The assumption is that these stocks have the potential to appreciate significantly in value over time when their true worth is eventually recognized.

## **What are the features of a value mutual fund?**

Here are some broad features of a value fund:

* **Intrinsic value focus:** Value funds seek out investments that are presently trading at a discount to their intrinsic value. This value is determined by conducting a thorough evaluation of fundamental aspects such as profitability, dividend potential, growth trajectory, and other important metrics.
* **Emphasis on fundamental analysis:** Fundamental analysis plays a pivotal role in the value investing approach. Fund managers examine financial statements and other indicators of the company’s health to evaluate its profitability, cash flow, debt levels, and other core financial indicators to ascertain whether a particular security seems undervalued.
* **Long-term horizon:** Value investing is a long-term strategy. Such funds typically adopt a buy-and-hold approach, waiting for market inefficiencies to potentially rectify themselves over time.
* **Diversification:** Like other mutual funds, value funds generally offer diversification benefits by holding a collection of various securities. This strategy effectively spreads risk across different asset classes, sectors, and individual companies.

## **How a value mutual fund works**

The core strategy of value funds is to identify and invest in stocks that the market has seemingly undervalued. Each Asset Management Company will have unique strategies, but some of the factors that fund managers may consider are as follows:

* **Financial statement analysis:** Fund managers may examine a company’s revenue, expenses, and profits over time to look for companies with stable or growing earnings that may be temporarily undervalued by the market. They also analyse the company’s balance sheets and cash flow statement to assess their assets, liabilities, dividend yields and ability to generate cash.
* **Valuation metrics:** Fund managersmaylook at valuation metrics such as [price-to-earnings (PE) ratio](https://www.bajajamc.com/knowledge-centre/eps-and-pe-ratios-differences-and-similarities) and price-to-book (P/B) Ratio. P/E ratio measures a company’s current share price relative to its earnings per share. It indicates how much investors are willing to pay for a stock’s value. A low P/E ratio may indicate that a company is presently undervalued. P/B ratio, on the other hand, compares the market value of a company’s stock with its book value. This is the net value of the company’s assets, minus its liabilities, as per its balance sheets. A low P/B ratio indicates that the stock is trading for less than the value of its net assets, which may mean it's undervalued.
* **Comparative analysis:** Fund managers compare the company’s valuation metrics to those of similar companies in the same industry. If the company is trading at a discount relative to its peers but has similar or better fundamentals, it might be undervalued.
* **Market sentiment**: Sometimes, negative market sentiment or short-term issues can cause a stock to be undervalued. Fund managers assess whether these issues are temporary and likely to reverse.
* **Economic indicators**: They consider broader economic conditions, such as interest rates, inflation, and economic growth, which can affect stock prices. A stock might be undervalued if it's negatively impacted by temporary economic factors.
* **Qualitative factors:** Fund managers may examine a company’s management quality, competitive advantages and future prospects when choosing where to invest.

## **Value fund: Ways to invest**

Investors interested in value funds have multiple avenues available to them, both online and offline. You can invest directly through the AMC managing the fund, or you can invest through distributors, aggregators, or the relevant Registrar and Transfer Agent or RTA.

If you are investing online through the AMC, the process will differ from company to company but will typically involve the following steps:

1. Visit the AMC’s website.

2. Look for their investor portal or log in page and create an account.

3. Complete your KYC (Know Your Customer) verification process.

4. Provide some basic details such as identity information, PAN details and bank account information.

5. Select the scheme and the investment amount. Initiate the transaction.

## **Benefits of investing in a value fund**

Some of the common reasons why investors prefer value funds:

1. **Ease of investment:** Identifying value stocks and investing in them directly through the stock market requires considerable knowledge and skill. In a [mutual fund](https://www.bajajamc.com/mutual-fund), the professional fund manager takes care of the stock selection process. All you need to do is identify a suitable scheme.
2. **Diversification:** Compared to investing in value stocks, value mutual funds offer diversification because they spread your investments across multiple securities, thereby mitigating risk.
3. **Long-term growth potential:** As these funds primarily focus on undervalued stocks, they offer significant long-term growth potential.
4. **Risk mitigation:** Value investing incorporates a "margin of safety" principle as they purchase undervalued securities. This can cushion the investment to some extent against downside risk as the security has been purchased at a lower price than what it may be worth.

## **Who should invest in value funds?**

A value fund may be suitable for the following investors:

**Long-term investors:** A long investment horizon is recommended for equity investments as markets can be very volatile in the short-term. With regard to value investing in particular, investors may need to be patient if the market takes time to recognise the stock’s value.

**Understanding of macroeconomic trends:** While expertise is not necessary, a strong grasp of broader economic developments allows investors to identify potential opportunities and make informed decisions regarding value funds.

**Willingness to take risk:** Value investing involves a risk, as it relies on identifying undervalued opportunities in the market. The potential for significant returns is high if these stocks recover, but such a resurgence is not guaranteed and depends on several factors, including market conditions and stock selection.

## **Conclusion**

Value mutual funds present a unique investment opportunity to investors seeking a strategic approach to stock selection. They focus on equities trading at a discount to their perceived true worth. However, a high risk appetite, patience and a long-term perspective are essential for unlocking the true potential of value funds.

## **FAQs**

**Where do value mutual funds invest?**

Value mutual funds primarily invest in the stocks of companies that are currently trading at prices below their estimated intrinsic value. These companies often exhibit strong fundamentals, such as consistent profitability, solid balance sheets, and future growth prospects, despite their current undervaluation.

**Who can invest in value funds?**

Value funds may be suitable for investors with a high risk appetite, a long investment horizon and patience in their investment approach.

**Are value funds suitable for short-term investment?**

Value funds may not be suitable for short investment horizons as they invest in equities and focus on undervalued stocks. These stocks might take time to potentially appreciate. Such a waiting period might not be feasible for investors with short-term financial goals.

**How do value funds differ from growth funds?**

Value funds invest in stocks that are believed to be undervalued, while growth funds look at companies that have high future growth potential, if they are already fairly valued.

**What are the risks of investing in Value Funds?**

Value funds are impacted by general fluctuations in the stock market. Another risk factor is the possibility that the fund manager's evaluation might diverge from the prevailing market trends. This can lead to a scenario where undervalued stocks remain undervalued for an extended period, affecting the fund's performance.