

Should an investor have sector based funds

Usually the financial advisors do not prefer the sectorial funds but it is important to have these funds in the portfolio. If a sectorial fund can be chosen right way, the portfolio can see extraordinary returns. But we have to admit, that they carry higher degree of risks but if an investor limit the exposure of these funds then it might not impose great danger.

But most of the investors do not make the money on sectorial funds. The reason is very simple. They choose the funds after the rally. They usually look at the past performance to invest in the fund. But we have to admit, that sectorial funds are not multicap funds. They usually run for few months to years depending upon the performance of the sector.

As an example, energy sector based funds had given stellar return of 105% in 2007. After looking at the returns, the investors started the investing in the funds. Next year, these funds have given a return of -53%. Most of the investors lose money in those investments. Even after the market rally, the funds did not able to produce the 2007 return.

Financial services and banking funds, had given good returns in 2009 and 2010. In 2011 they produced the negative returns and bounced back in 2012 and 2013.

Sector funds concentrate their investments in a particular sector like FMCG, Banking, Health care and Technology. These are sectors which an investor would find represented in a diversified equity fund.

By and large, buy-and-hold investors should steer clear of sector funds altogether, because not only are they betting on a single sector, but they are betting heavily on a few companies.

You can have the sector based funds if you are sure that this sector is going to perform. Else it can be suicidal to have sector based funds in your portfolio. An investor should have a proper information and knowledge about the performance of the sector before choosing it. But an investor should follow some precautions before choosing it to avoid high exposure.

Sector funds should not hold a major portion of your portfolio. It should hold a small portion of your portfolio. And they must not be your core holding. An investor should do proper research to have sector funds in their portfolio. Also an investor should not be afraid of volatility. The funds can really generate returns if the strategy is right.

This article is written by Soumya Sarkar. Soumya is a MBA from a reputed business school and worked with International banks like HSBC & Standard Chartered. He founded Wealth Redefine in 2013. He can be reached at soumya@wealthredefine.in