

Don't invest same kinds of mutual funds

Mutual funds are wonderful investment options for long term investments. When a retail investor invests, he finds too many options for his investments. Having more mutual funds in the kitty definitely help to diversify the investment risks. But if an investor chooses same kinds of funds then it will not be a great investment per se. An investor needs to understand that different mutual funds are having different risk-reward ratio.

If an investor invests in Bluechip then he should find the best ones. It will not be an ideal portfolio to invest all his money in bluechip mutual funds. Because all the blue-chip funds will generate same kinds of returns.

If we look at various bluechip funds, we can easily find that they have almost the same exposure to top 10 companies. The allocation might be slight different. We can see that the distribution of sector weights in these portfolios is within a limited range, barring a few exceptions. So if one sector does not perform then the entire funds will not perform because they almost having the same exposure.

So if an investor wants to create a balanced portfolio then he should consider the basic criteria of making a portfolio.

1. The investor should have a clear risk appropriate level
2. The asset allocation should be aligned with risk tolerance and investment objectives
3. The investor should look into the portfolio of the fund rather than name of the fund.
4. An investor should not be exposed to one kind of funds only. There must be different kinds of funds like midcap fund, multicap fund and large cap funds
5. An investor should invest in good performing funds than the worst performing funds
6. The funds should be selected based on three years performance and should be reviewed on half yearly basis.

Funds in your portfolio should go hand on hand. If one does not perform then other should perform and make up the non performance. It is important to understand the details if you manage your own portfolio. Else it is better to take the help from financial advisors rather than losing money by managing yourself.

Disclaimer: Mutual funds are subject to market risks. Please read all scheme related documents carefully before investing. This article is neither encouraging nor discouraging you to invest. Please consult your financial advisor before investing. Author takes no burden for any kind of investments, profits and losses. Past performance does not guarantee any future returns.

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