



A Matter Of Choice

Hemant Rustagi

Chief Executive Officer, Wiseinvest Pvt Ltd.

Mutual funds have emerged as an effective investment vehicle for investors with different risk profiles, time horizons and investment goals. However, to benefit from their true potential, it's important to select the right funds. Simply put, the focus should be on funds that suit your needs and have a consistent track record in terms of investment strategy and longer-term performance. Remember, an investment process well begun is half done. Here's how you should select your funds.

Begin the Process with Asset Allocation

Many investors make the mistake of choosing funds without working out their asset allocation. Asset allocation i.e. how much to invest in equity, debt or hybrid, is important because what you intend to achieve from your portfolio should reflect in this asset mix. Once you ascertain how much to invest in different asset classes based on your risk profile, time horizon and investment goals, the next step should be to select funds that can get you the best in terms of risk-adjusted returns from the chosen asset classes.

Invest in Diversified Funds

Once you decide how much to invest in different asset classes, start the process by investing in well-diversified funds. As we know, different segments of the stock market behave differently over different periods. That's why, in a rising market, you will find funds like small-cap, mid-cap, sector and | or thematic funds at the top of the chart. However, investing in these purely based on recent performance can backfire as you would end up taking more risks than you may be financially and psychologically capable of.

Some of the important categories that can help you build a diversified equity portfolio are flexi-cap, large-cap, mid-cap and multi-cap funds. Similarly, multi-asset funds can be a good option for those who may not be sure about how to decide asset allocation and | or how to rebalance it from time to time.

Avoid Aggressive Categories of Funds

While investing in equity and equity-oriented funds at the start of your investment process, try not to make your portfolio very aggressive by investing in focused, sector and thematic funds as these either take concentrated bets or have a narrow investment universe. If you choose a fund that has a proven track record, invariably the fund manager would have decent exposure to sectors or themes that are likely to do well going forward.

Put Past Performance in Perspective

Past performance plays an important role in your fund selection process. However, you must consider long-term performance rather than relying on recent performance. While considering long-term performance will help you make a good decision, it is equally important to follow time diversification i.e. remaining invested over different market cycles. It helps in mitigating the risks you might encounter while entering or exiting a particular investment or category at a bad time in the economic cycle. Remember, longer periods help smoothen these fluctuations.

Consistency

Consistency, both in terms of investment philosophy and strategy followed by the fund, is another key parameter while selecting funds. Imagine, if the portfolio of the funds you are invested in looks different every few quarters, it will be very difficult for you to decide whether to continue with it or not.

Size of the Fund

The size of the fund can be an important factor that needs consideration. For example, a fund with a very small or large corpus can be a disadvantage for certain types of funds. Avoid investing in too many funds because it results in over-diversification in the portfolio and that can be harmful for your portfolio. If selected well, a few funds can ensure a higher level of diversification and better performance.