Invest Anytime, But Invest Wisely

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If you are already an investor or looking to start investing in mutual funds, it's important for you to know that investing is an ongoing process, not a one-time activity. Therefore, even without having a lump sum to invest, you can initiate your investment process and continue it through your defined time horizon. Mutual funds allow you to do that effectively as you can begin investing with a modest sum. Besides, you get the best in terms of variety, liquidity, flexibility, tax efficiency and professional fund management. Investing through SIP can not only help you reduce the impact of volatility but also create wealth overtime, if you get your asset allocation right.

Time diversification i.e. remaining invested over different market cycles is particularly important, especially when you invest in a volatile asset class like equity. It helps in mitigating the risk that you may encounter while entering or exiting a particular fund at a bad time in the economic cycle. Longer time periods smooth those fluctuations. Fund selection is very important as the stock picking ability of the fund managers as well as the investment strategy followed by them is usually the major differentiator between the different funds. Hence, the focus should be on the quality of the portfolio.

It is also important to consider longer term performance of funds rather than relying on the short term one. It is equally important to analyse the performance of these funds in the right manner i.e. to compare it with the fund's benchmark and its peer group. Another important aspect in the decision-making process is your time horizon. Time horizon is the expected number of years you will be investing for to achieve an investment objective. If you intend to invest for the long term, you would generally have the capacity to invest in equity and equity-related funds as you can wait out the inevitable ups and downs of the markets.

On the other hand, if you want to invest to achieve a short-term goal, you are likely to have less appetite for the risk taking. Investing in equity and equity-related funds requires patience

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and perseverance as the stock market has the tendency to turn volatile from time to time. Therefore, it's necessary to invest in a disciplined manner to avoid committing too much money at a particular market level and in a particular market scenario. Moreover, continuing this process over a longer period allows you to benefit from the power of compounding.

Make sure you have an appropriate exposure to different market capitalisations to maintain a balance between risk and reward. The market capitalisation of a company signifies its market value, which is equal to the total number of shares outstanding multiplied by the current stock price. It has a role to play in the kind of returns the stock might deliver and the riskiness or volatility that you may have to encounter from the stock. For example, large companies are usually more stable during the turbulent periods and the mid-cap and small-cap companies are more vulnerable.

As regards the allocation to each segment, there cannot be a standard combination applicable to all kinds of investors. Each one of us has a different risk profile, time horizon and investment objectives. Therefore, the allocation to these segments would depend upon the fact whether you are an existing investor or a first-time investor. While for an existing investor, the allocation that already exists has to be considered, for a new investor the right way to begin is to consider well-diversified funds that invest predominantly in large-cap stocks and have a small presence in mid-cap and small-cap stocks.

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