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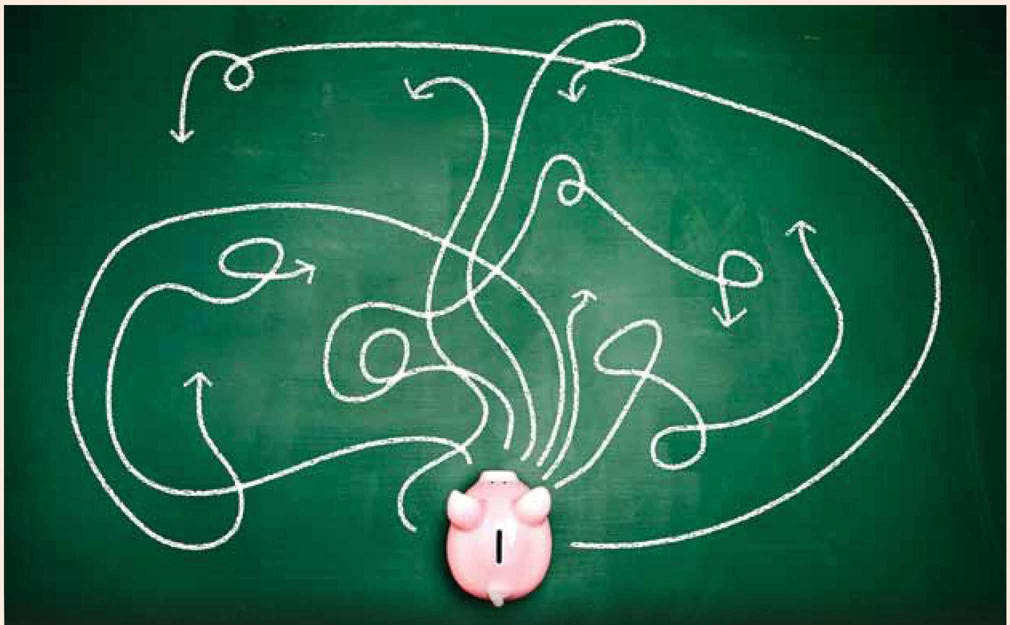

# Avoid these mistakes when investing in MFs

No proper planning, random investing, panicking when the market is down and trying to time the market may lead to losses than gains

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Many investors either lose their money or are unable to earn high returns, despite having put their hard-earned savings into some of the top performing mutual funds (MFs) in India. Shallow knowledge and indiscriminate investment in financial instruments linked to market movements have caused many people to lose out on the high returns. Some of the common mistakes that many people make while investing in mutual funds include:

**Aimless investments**

The frenzy around MFs and prospective returns earned from them have caused many people to invest in them randomly. The tendency to buy MF units as and when surplus money flows in adds to the misery. Investment in MFs necessitates proper planning. MF investments must be in sync with long-term, short-term or medium-term goals in mind. Rajeev Srivastava, head, retail broking, Reliance Securities, says, "It's very important for investors to have a financial goal before investing in financial asset class and instruments, including MFs. However, if investors are investing in MFs without any financial goal and just to make returns in the long run, those putting money in equities or equities oriented MFs won't be disappointed as average long-term return of the Nifty 50 index is around 15% per annum, which is far above the bank fixed deposit rate of 7-8%."

**Random investments**

Not everyone can be an expert on financial instruments and market securities. However, proper research is important to make an informed decision about these products. C S Sudheer, founder & CEO, IndianMoney.com, says, "Check the track record of performance of the mutual fund over the last five years. Analyse the portfolio of the fund and where it invests. Check if the mutual fund's objectives align with your financial goals. Assess the fund's management style and performance. Check the exit load and expense ratio as it has a bearing on your investment." In short, people must assess and choose to invest in MFs that are in sync with their risk-return profile.

**Indecisive approach**

A vacillating mindset can have long-term repercussions. This stands true for investors too who experience stress as the market assumes a bearish trend. Market fluctuations are common. Many investors panic and change their MF investments based on what the market analysts say. Abhimanyu Sofat, head of research, IIFL Securities, says, "As investment in equity MFs should be done from a minimum three-year perspective. A fall in the market actually lowers the cost of acquisition for an SIP investor, which will help the client to take benefits from the fluctuations."

**Timing the market**

Timing the market is a farce that many investors foolishly pursue. There is no perfect time to invest as the market's ups and downs are inherent to its movement. Investments in MFs must be done with the sole intent to create wealth in the long run. More than the time of investment, it is the time spent in the market that matters. Gautam Duggad, head of research - institutional equities, Motilal Oswal Financial Services, says, "Years of evidence has proven that for the retail investor it is counter-productive to time the investments in MFs. Systemic investment via SIPs and sticking to one's asset allocation has yielded consistent returns for investors."

**SMART MONEY**

- Investors putting money in equities or equity-oriented MFs for the long run won't be disappointed as the average long-term return of the Nifty 50 index is around 15% per annum, above than bank FD rate of 7-8%
- **Continuing investment in MFs with a bleak future will only bring down your average portfolio returns. Reviewing portfolio performance is also important**

**Choosing dividends**

Many people opt for MFs that allow dividends to be credited regularly into their savings accounts. Inclination towards dividend schemes is more, as many investors misconstrue dividend earnings to be exempt from tax. Nitin Shakdher, founder & CEO, Green Capital says, "Once the dividend is paid out, it reduces the net asset value. Essentially, it is a withdrawal rather than a dividend. A huge disadvantage is the dividend withheld tax that the MF pays out, hence the investor gets a lower dividend payout."

**All eggs in one basket**

Diversification is the key if one is looking to earn from market movements. It is advisable to allocate a major part of your investments in equity-oriented funds when the market adopts a bullish trend. A bearish trend necessitates investors to save their investments and earnings by insisting on a greater debt allocation. However, instead of swaying to what the market analysts have to say, stick to the allocation ratio between debt and equity depending on your imminent needs and long-term financial goals.

**More is better**

It may sound good for savings but not for MFs. Investing in too many MFs simultaneously may result in an unmanageable portfolio. A large portfolio can be difficult to monitor. Moreover, every MF scheme invests in a large number of securities, thus spelling necessary diversification. Kishor Kumar Kejriwal, growth hacker, The Money Club says, "That depends on the size of someone's portfolio. But it's not recommended by wealth managers to have more than 4-5 funds. One should have a mixture of equity, debt and tax savings funds, based on his risk-taking capabilities and needs."

**Funds' performance**

Reviewing portfolio performance is important as market movements may be different from what you expect. Continuing to invest in MFs with a bleak future will only bring down your average portfolio returns. Rajat Sharma CEO, Sana Securities, says, "Before looking at your portfolio, look at your goals. While there can not be a standard answer for all investors, it is important to stay the course with your SIPs. Look at the accumulated equity lump sum and rebalance it, based on the overall market valuations at least once a year."

**Food for thought**

It is important to have an adequate understanding of the various financial instruments before putting your money into it.

Mere investment is not enough. It is important to invest in a way that every penny you invest will spell returns manifold. That can only happen when you pay attention to your investments.