Year-end special: Reviewing your mutual fund portfolio? Remember these points

BY SHIVANI BAZAZ, ET ONLINE | DEC 31, 2018, 11.29 AM IST

As 2018 comes to an end, many mutual fund investors are in introspective mood. According to some mutual fund advisors, many of their clients tend to look at the performances of their mutual fund schemes, finalise financial decisions, and rebalance their mutual fund portfolios.

"This is generally a time for investors to look back at how their investments have fared during the year. These holidays generally see mutual fund investors pondering over how they can rebalance, switch from some schemes, invest in other schemes…," says Vishal Dhawan, Founder, Plan Ahead Wealth Advisors, in Mumbai.

Most mutual fund advisors ask their clients to review their mutual fund portfolios at least once or twice a year. They ask investors to focus on the long-term performance of their mutual fund schemes and learn to ignore short-term failings.

"We generally ask investors to review their investments periodically. This is the time when investors should look at their schemes for their performances. See if the schemes have underperformed for a long time and decide whether or not they have to quit and switch to a better scheme," says Babu Krishnamoorthy, Chief Sherpa, FinSherpa Investment Services in Chennai.

Sure, reviewing your mutual fund portfolio annually, and taking appropriate decisions based on your review is a great strategy. But what are the points you should keep in mind?

One, do not look at the numbers in isolation. You should always look at the performance of the scheme against its benchmark and its category average. For example, a scheme gave merely 3 per cent returns is not a valid argument to dump it. You should look at the performance of the scheme against its benchmark and peers. Only then you would know whether the scheme performed well or badly.

"Since this year has been bad for the equity markets, investors cannot make a decision on quitting a scheme just because they are giving negative returns. If your goals are long term, continue investing in schemes which are beating the benchmark," suggests Ankur Maheshwari, CEO, Equirus Wealth, in Mumbai.

Two, be careful about overdiversification. According to mutual fund advisors, many investors invest in many schemes for diversification. Over a period, investors would find it difficult to keep track of their investments, say advisors. Also, too many schemes would result in overlapping of their portfolios, add advisors. The way out: try to week out schemes that are not necessary.

"Having 10-15 schemes in a portfolio will confuse and not help. Cut down on the number of schemes and invest the money according to your asset allocation. The review process should make the further reviews easier for you," says Vishal Dhawan.

A useful tip: keep your goals, investment horizon, and risk profile in mind while weeding out unnecessary schemes from your portfolio.

Three, don't ignore asset allocation. If you are following an asset allocation plan to achieve your goals, you should stick to it. It is extremely important to rebalance your portfolio periodically. For example, many investors would find that their allocation to equity has fallen because of the depressed stock market. It is important to rebalance the portfolio to achieve the goals.

"Your equity allocation would have come down; you have to invest more in equity to rebalance your portfolio. No matter how difficult it might seem at this point, investors should do it in a disciplined way," suggests Babu Krishnamoorthy. "In 2017, when equities were doing great, investors wanted to invest more in small and midcaps, but it was the time to cut the allocation," adds Krishnamoorthy.

Lastly, do not base your future investment plans based on the current market conditions, say mutual fund advisors. Many new investors are haunted by second thoughts about their investments in equity mutual fund schemes. Do not ignore equity schemes because of their poor performance last year. If you have long-term financial goals, you cannot ignore these schemes. Just remind yourself that you need to invest in equity schemes to earn beat inflation and earn better tax-adjusted returns. These are very important to achieve your long-term financial goals.