CHAPTER 3

BUILDING A DIVERSIFIED MUTUAL FUND PORTFOLIO FROM SCRATCH

MR. CHETAN KHANNA & DR. ASHISH KAUSHAL

ASSOCIATE PROFESSOR, DEPARTMENT OF COMMERCE

LUCKNOW PUBLIC COLLEGE OF PROFESSIONAL STUDIES

KEYWORDS:

Nutritional Insufficiency, Entrepreneur, Purchasing Stocks, Portfolio.

ABSTRACT:

Putting money in a mutual fund for a particular purpose cannot be done suddenly. It demands a controlled and guided approach that help in achieving financial goals, numerous of which may be our ‘needs’ and few would be our ‘wants’. The present chapter explains how to build a diversified mutual fund portfolio from scratch. Trade and commerce enable us to build wealth by investing our money with folks who are also building wealth. By purchasing stocks in various companies, we may become investors in the businesses of entrepreneurs. The shareholders gain when entrepreneurs and management operate their companies effectively and successfully. Mutual funds are an excellent strategy to accumulate money in this aspect. But how can we determine which stocks to buy and when to acquire them? This is when seeking expert assistance comes into play.

They also use a huge corpus to investigate more opportunities at the same time.

3.1 INTRODUCTION:

We all require proteins, vitamins, carbohydrates, and so on, much like a balanced diet. Eating only one kind causes nutritional insufficiency. Similarly, with a diversified mutual fund portfolio, you are exposed to several aspects of the economy while still being safeguarded from any potential downside. On the occasion of this book issue, we will go deeply into understanding the performance of the mutual fund industry as a whole, as well as identify top wealth-creating mutual funds across all asset classes, including equity, debt and hybrid. Furthermore, this narrative might be used as a practical guidance for purchasing mutual funds.

3.1.1 UNDERSTANDING MUTUAL FUNDS

Simply explained, a mutual fund is a group of investors that pool their funds. This pooled amount is disposed to a fund manager to supervise and grow in a methodical manner. This pooled money is subsequently invested by the fund manager in securities, such as, stocks, bonds/ debentures, money market instruments or a combination of all of these, based on the type of mutual fund. The entire pooled amount is divided into units. When one purchases a mutual fund for a certain amount, they are assigned units of mutual funds equivalent to the amount divided by the price of one unit. The Net Asset Value (NAV) is the price of a unit. As the price of the real financial assets (stocks or bonds or both) rises over time, so the NAV of the mutual fund unit. Investors make money when they sell units at a higher NAV.

3.1.2 CLASSIFICATION OF MUTUAL FUNDS IN INDIA

One of the primary circular issued by the “Securities and Exchange Board of India's (SEBI)” on mutual funds is that various mutual fund schemes must be noticeably

ISBN : 978-81962971-4-5

differentiated in terms of investment policy and asset apportionment. The schemes are assembled roughly into the subsequent classes:

- Growth-Oriented (Equity Schemes)
- Income-Oriented (Debt Schemes)
- Hybrid Schemes (Equity and Debt)
- Solution-Oriented Schemes
- Other Schemes.

Furthermore, the above subsequent classes have been further subdivided.

- **REASONS TO CAPITALIZE MONEY IN MUTUAL FUNDS:** Capitalizing in a mutual fund has several advantages. Some of the most notable are listed below.
- **HEALTHIER LONG-TERM RETURNS:** None other asset class has given superior long-term returns than equities. Equity is the finest asset class for accumulating wealth. If one wants to capitalize for the long term, equity stocks are best choice. And what healthier way to capitalize in stocks than through a proficient fund manager?
- **FITS ALL MONETARY NEEDS:** The attractiveness of mutual funds is that at present there is a mutual fund for every monetary need and economic goal. Eyeing to save for retirement, purchasing a house in 15 years, going on a trip in six months, or paying for your kid's education? All of them are covered by mutual funds.
- **HIGHLY LIQUID:** Another essential feature of mutual funds is their strong liquidity. One may sell his/ her units whenever they want and receive their money back. Liquidity is critical. Think about the real estate market. What if

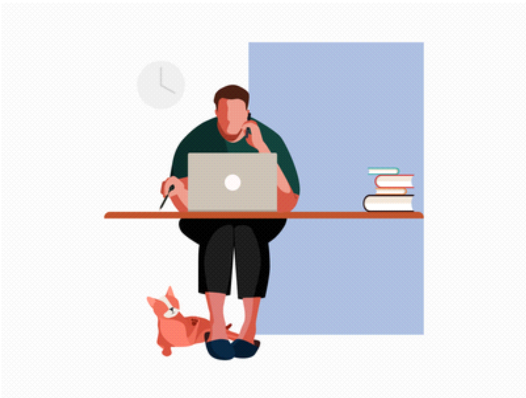
ISBN : 978-81962971-4-5

one is unable to sell his/ her property investment when they want funds? Mutual funds are not in this category.

- **MATCHLESS COMFORT AND SIMPLICITY:** Spending in mutual funds is really straightforward. It's also 100 per cent paperless if one do it using an online platform. Most of us lack the necessary competence to contribute in the capital markets. Mutual funds offer a solution by harnessing the knowledge of a fund manager. One is not required to aggressively manage his/ her money.

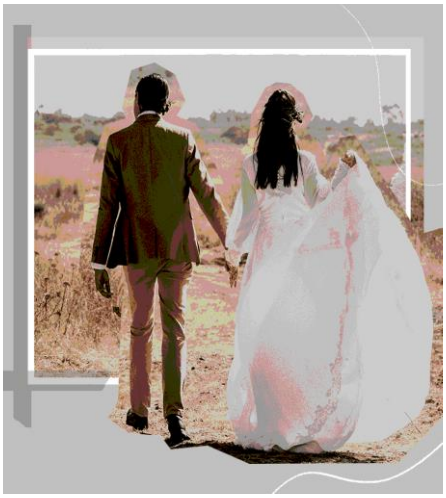
- **SETTING TARGETS WITH MUTUAL FUNDS**

Mutual funds can benefit you no matter what stage of life you are in or what your investing goals are.



WORKING INDIVIDUAL - When you begin working, you may set foot on an investment path to build financial discipline. You are accountable for controlling your spending as a working individual. And if you lack discipline in controlling your expenditures, you are more likely to spend your money on items you don't need. As a result, it is strongly advised that you begin planning for life's milestones as quickly as you begin making money.

ISBN : 978-81962971-4-5



MARRIED INDIVIDUAL - Moving from single to married life means taking on more financial responsibility. People then start to plan for the extra expenditures that could occur alongside. For example, a new home, automobile and additional holidays become visible in the horizon. Mutual funds can assist in setting different targets for each of 'big ticket' purchases.

NEW PARENT - The next financially debilitating landmark is planning a child. Beginning with hospital costs to diapers to school fees, one will need a lot of money to get through this long period. As a result, it is advised to begin investing and capitalizing at least 3 to 5 years before hand. Yet again, good mutual fund investment can help to get through the early parental expenditures.

ISBN : 978-81962971-4-5

**PLANNING FOR CHILDREN** – To be a parent is difficult. One must face the expenses of his/ her child's schooling and marriage in short run when they are in their twenties.

This is another costly effort. One should start planning for these two critical mileposts as soon as they become a parent. Hence preferable to plan for these two financially demanding landmarks at least 15-20 years in advance.

**PLANNING FOR RETIRED LIFE** : Living a retired life means it’s a time to relax. But first, one must place himself/ herself in a financial situation that allows relaxing. The key step is to avoid being a financial load on children and to support them in your later years. Mutual funds are the best choice for meeting his/ her retirement objectives.

ISBN : 978-81962971-4-5

**POST-RETIREMENT** - When one retire, his/ her investments do not come to an end. If he/ she retire with a corpus amount, one should arrange his/ her post-retirement life accordingly.

Keeping this corpus amount in savings account would only ensure that it does not last as long as you do! Yet again, mutual funds can support in generating a consistent income during post-retirement years.

3.2 THE EVOLUTION OF MUTUAL FUNDS IN INDIA

The popularity of "Mutual funds'" has increased recently because of the superior returns they have given. However, it is fascinating to learn how it all began. The current section takes you on a fascinating tour through the world of mutual funds in India.

Mutual funds are becoming increasingly popular among regular investors. This was not the situation even a decade ago. However, demonetization and the pandemic might be viewed as catalysts for increased interest among retail investors. However, it would be intriguing to learn how it all began and how the mutual fund industry evolved through time. In this article, we will walk you through the mutual funds' journey in India. Mutual funds have a long history, dating back to 1963. The first mutual fund institution was the Unit Trust of India (UTI).It is a collaborative effort of the "Reserve Bank of India (RBI)" and the "Government of India." The goal of 'Unit Trust of India' was to let small, inexperienced savers to invest in larger

ISBN : 978-81962971-4-5

companies' shares and other financial instruments. UTI had a monopoly in the nation at the time. For many years, the 1964 Unit Scheme was the first mutual fund product accessible. The history and evolution of mutual funds in India can be allocated into five separate stages, which we will cover in the following paragraphs.

3.2.1 PHASE OF INCEPTION (1964-1987)

The establishment of the UTI signified the beginning of the first phase. Despite the fact that it was a partnership between the ‘Reserve Bank of India’ and the ‘Government of India’, the latter was quickly separated from the routine activities of the ‘Unit Trust of India’. The firm was the sole operator in the Indian mutual fund industry at the time. The ‘Unit Linked Insurance Plan’ also known as ULIP was introduced by UTI in 1971. From that year till 1986, UTI launched various plans and was instrumental in popularizing the notion of ‘mutual funds in India’.

‘Unit Trust of India’ was established not only with the intention to familiarize the concept of ‘Mutual Funds in India’, but also to establish a corpus for nation-building. As a result, the government encompassed many Income- Tax reductions in the UTI schemes to invite small Indian savers. Unsurprisingly, UTT's investable capital grew from rupees 7,600 crore from the year 1984 to rupees 76,700 crore in the year 1988. Undoubtedly, the moment arrived for the ‘Indian Mutual Fund Industry’ to grow.

3.2.2 ENTRY OF PUBLIC SECTOR (1987-1993)

The mutual fund industry had established its own atmosphere by the end of 1988. Since 1987, various nationalized banks had been advising to establish their personal ‘Mutual Fund’ houses. In the year 1987, ‘State Bank of India’ became the first Non-UTI Asset Management Fund. Later on more AMCs were swiftly established by institutions such as ‘LIC’, ‘Canara Bank’, ‘General Insurance Corporation’, ‘Indian Bank’ and ‘Punjab National Bank’.This liberalisation of the ‘Mutual Fund Industry’ had the anticipated consequences. In the year 1993, the total corpus of all Asset Management Companies reached a magnificent 44,000 crore. According to experts, the second phase not only extended the sector's base but also encouraged individuals to participate a greater proportion of their resources in mutual funds. The ‘Mutual Fund Industry’ in the country (India) was clearly positioned for further growth.

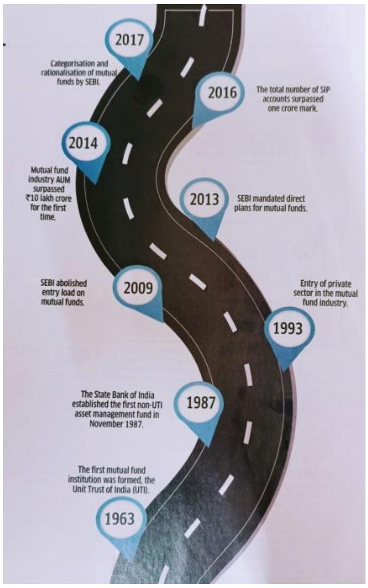


FIGURE 3.1 ‘GROWTH OF ‘MUTUAL FUND INDUSTRY’

3.2.3 PRIVATE SECTOR MUTUAL FUND HOUSES (1993-2003)

The Indian government recognised the need for economic liberalisation between 1991 and 2003. Financial sector changes were urgently required. India required private sector cooperation to rebuild the economy. For this purpose, the government also released up the mutual fund sector to private companies.

Foreign companies embraced the initiative and poured into the capital market in large amounts. During this time, eleven private companies formed asset management funds in conjunction with overseas' businesses.

Following are the prominent Private Sector Asset Management Companies:

- **ICICI Prudential AMC:** ICICI Prudential is collaboration among ICICI Bank Ltd. and Prudential PLC of the United Kingdom. As of September

ISBN : 978-81962971-4-5

2022, it manages an average corpus of 4.85 lakh crore and has a portfolio of beyond 120 plans.

- **HDFC Mutual Fund:** This Company founded in the year 1990s manages over 70 distinct types of funds.

- **Kotak Mahindra Mutual Fund:** As of September 2022, this AMC's average asset base was more than 2.76 lakh crore. A collaborative venture between ‘Kotak Financial Services’ and the ‘Mahindra Group’.

3.2.4 ASSOCIATION OF MUTUAL FUNDS OF INDIA-AMFI, SECURITIES AND EXCHANGE BOARD OF INDIA-SEBI & GROWTH

The ‘Mutual Fund Industry’ stretched more in the year 1990s, Asset Management Companies (AMC) and the government decided it was time for some guidelines and oversight. Depositors needed to be safeguarded, and a level playing field needed to be established. A few years before, the Indian industry had suffered greatly as a result of bank frauds and there was a genuine risk that depositors might lose their money once more. As a result, the government legislated the “Securities and Exchange Board of India (SEBI) Regulation Act” in 1996 which established a set of unbiased and clear standards for all players.

The Indian government stated in 1999 that all mutual fund profits shall be tax-free. The decision was made to stimulate future expansion in the mutual fund sector. In the meantime, the mutual fund industry recognized the value of self-regulation. As a result, the “Association of Mutual Funds in India” (AMFI) was formed. Among many investor education is one of the organization’s primary objectives.

3.2.5 PHASE OF CONSOLIDATION (FEBRUARY 2003 - APRIL 2014)

Following the reversal of the unique ‘UTI Act of 1963’, the ‘Unit Trust of India’ was separated into two independent organizations in February 2003.

ISBN : 978-81962971-4-5

- The ‘UTI Mutual Fund’ (which is subject to SEBI regulations for mutual funds), and
- The ‘Specified Undertaking of the Unit Trust’ occurrence of several mergers of India (SUUTI)

The above two were the two independent companies. Following the dissolution of the erstwhile UTI and the among various private sector firms, the mutual fund industry entered a phase of consolidation.

Following the worldwide financial recession of 2009, capital markets throughout the world were bearish, and the Indian stock exchange too. The majority of depositors who parked their money during the market's upper experienced significant losses. This seriously undermined investors' trust in mutual fund products.

Over the next two years, the ‘Indian mutual Fund’ sector tried to pull itself from these setbacks and reinvent. With SEBI removing the entry load and the long-term effects of the global economic crisis, the situation became much more difficult. This picture is supported by the slow growth in the aggregate AUM of the Indian mutual fund industry.

3.2.6 BUILDING A DIVERSIFIED MUTUAL FUND PORTFOLIO

The markets have been heading southwards with Nifty 50 plummeting over 8 percent in the past 4 months. Moreover, even developed nations are facing the pain due to inflation and thereby aggressive hiking of policy rates. Also, experts believe that United States and the Euro Zone are on the verge of recession. If recession does happen, then more pain is attached. In such a scenario, most investors might be starting at red portfolio given the fact that equity and debt funds are delivering negative real rate of returns. Therefore, it is crucial to have a well-diversified portfolio of mutual funds. A well-diversified portfolio helps in reducing risk and increasing returns. The portfolio should be according to our “needs” and “wants”.

ISBN : 978-81962971-4-5

However, in order to make a better portfolio, various aspects have to be taken into consideration, such as, the risk appetite of the investor. A young investor looking for growth-oriented schemes or capital appreciation in future.

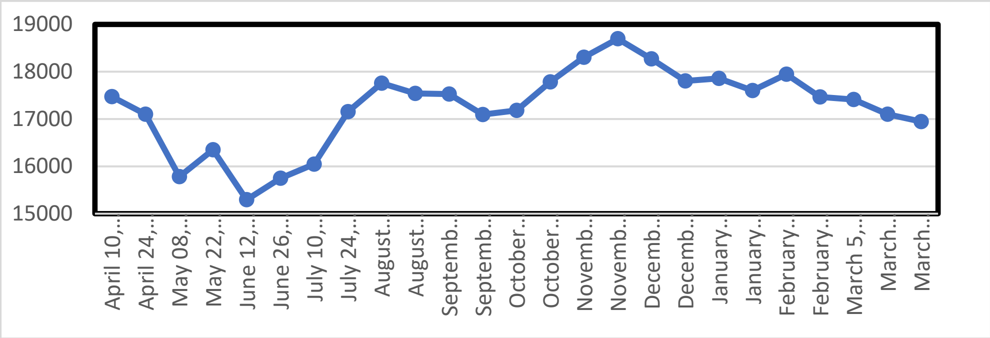


FIGURE -3.2 NIFTY GRAPH-1: NIFTY 50 MOVEMENT PERIOD: FROM APRIL 2022 TO MARCH 2023

Whereas an investor, of age group 50 years to 60 years, thinks of investing money in income-oriented schemes. Because growth-oriented schemes invest majorly in equities and income-oriented schemes in debt funds.

After understanding the risk appetite of the investors, it is also necessary to keep in mind that there should be proper diversification of risk in the portfolio. Because if the funds in the portfolio are not selected properly, then investors can suffer huge losses at the times of recession. It would be better to include funds of dissimilar sectors in the portfolio in such a way that overall risk of the portfolio remains minimum or less.

Therefore, Asset allocation should be done only after having a better analysis of risk appetite of the investor and diversification of portfolio.

There are basically two different ways of creating a mutual fund portfolio based on your situation. If you are someone who wishes to achieve his or her financial goals such as “child's education, marriage, retirement, buying a house or a car, or going on a vacation,” etc. then here the portfolio strategy should be more conservative to moderate. However, if all these things are taken care of and you are now looking to

ISBN : 978-81962971-4-5

create wealth, then a more aggressive portfolio is desired. Therefore, based on which category you belong to, choose a strategy accordingly. The portfolio strategy that we are touting about is about creating a core and satellite portfolio.

3.3 CORE AND SATELLITE PORTFOLIO STRATEGY

While doing asset allocation the portfolio can be constructed in two ways:

- **Core portfolio and,**
- **Satellite portfolio**

Where, the core portfolio is based on a conservative approach and allocates the corpus mostly in large cap or gilt funds only the satellite portfolio is of aggressive nature and tries to take advantage of the volatility of the market. Such portfolios mostly invest in small cap or mid cap companies.

Now investors also have the option that instead of investing the entire money at once, they can make monthly investments through “Systematic Invest Plan (SIP)”. SIP investment has become a very popular and better option to invest in mutual funds nowadays because it does not put much burden on the pocket of investors and gradually a large amount gets invested in mutual funds.

3.3.1 GUIDELINES FOR BUILDING A CORE PORTFOLIO

- **IDENTIFY FINANCIAL Goals** - A core portfolio concentrates more on your financial goals and hence it is important to identify them. You can use the 'smart' technique to identify and define your financial goals. It stands for specific measurable achievable relevant with time horizon.

- **DIVIDE BETWEEN NEEDS AND WANTS -** Furthermore, it is crucial to divide it between needs and wants. Doing so would help you set priorities and design the portfolio accordingly. A financial goal that is a need such as child's education, marriage, retirement, etc. would have a more conservative

ISBN : 978-81962971-4-5

portfolio approach. And a financial goal that is a want such as upgrading a car, going on a vacation, buying a

new property, etc. would have a moderate portfolio approach.

- **ASSESS YOUR RISK PROFILE** - Assessing your risk profile will help you in deciding your asset allocation. It will also help in selecting mutual funds that will suit your risk tolerance level. There are various tools available online as well as on the mutual fund companies websites that would help you assess your risk profile.

- **PORTFOLIO BASED ON RISK PROFILE-**The graphs below indicate that if you move from a conservative to aggressive risk profile, the portion of equity increases and that of debt decreases. Doing so would help you to take risk that is aligned with your temperament.This would ideally be the part of your core portfolio and this would purely be a strategic asset allocation. Over a period of time your allocation tends to change due to fluctuations in the market. Strategic asset allocation periodically helps restore your original asset allocation. It is to be noted that the above portfolios are meant for long-term financial objectives. The shorter the objectives, the lower will be the equity allocation. If the investment horizon is three years or below, then it is recommended to have your money parked in safer assets.
- **BUILDING A SATELLITE PORTFOLIO**

As opposed to the core portfolio's strategic asset allocation, the satellite portfolio adopts tactical asset allocation. This kind of portfolio is meant purely for wealth creation. It is wise not to allocate any other financial goals with this portfolio. As it adopts tactical asset allocation, there is no constant and consistent asset allocation. The asset allocation of your satellite portfolio would change with change in valuations. When it comes to a satellite portfolio, you mostly would be investing in a mix of mid- cap, small- cap,

ISBN : 978-81962971-4-5

sectoral and thematic funds. One can also include factor investing products such as momentum, quality, value and low volatility funds.

TABLE 3.1 DIFFERENCE BETWEEN CORE AND SATELLITE PORTFOLIOS

CORE PORTFOLIO	SATELLITE PORTFOLIO
Passive in nature	Active in nature
Conservative to moderate risk type	Aggressive risk type
Large- cap funds, mid- cap funds, balanced advantage or short- term debt funds make part of this portfolio.	Mid- cap funds, small- cap funds, thematic and sectoral funds, aggressive hybrid funds, credit risk funds and dynamic bond funds make a part of this portfolio.
Dedicated towards financial goals that are needs and wants.	Dedicated towards wealth creation.
Volatility and risk are low	Volatility and risk are high
Returns are relatively lower than satellite portfolio.	Returns likely to be relatively higher than core portfolio.

3.3.2 PORTFOLIO IN NUMBERS

People are always on the back of hot funds in the market, and whenever there is a new fund offer (NFO), they will rush to buy at the lower net asset value (NAV). Most often, the portfolios of these investors contain 10-15 different mutual fund schemes. This occurs due to indecisiveness to keep returns in line with expectations, investors must understand the premise of diversification. It is achieved by including funds from a variety of mutual fund categories in the portfolio, which aids in the development of the portfolio's core components. The fundamental idea behind diversification is to avoid putting all your eggs into one basket.

ISBN : 978-81962971-4-5

You might be aware of the fact that various securities respond to market conditions in various ways. If the equity component increases, the debt component may decrease, or vice versa. Diversification is a tool that can be used at any time to enable shock absorption to maintain the overall return of the portfolio. The stability of large-caps can be seen as a situation where a plunge in mid-caps may be shielded. It is ideal to have 5-8 mutual fund schemes spread across different debt and equity categories in your portfolio. Keep in mind that too much diversification causes lack of control, just like it does in most things in life. It is ideal to keep things simple.

It is to be believed that investment in mutual funds is futile if there is lack of a proper plan and process in place. Hence, having a mutual fund portfolio is important as it helps you to have discipline while investing. And nothing beats the core and satellite portfolio strategy in this aspect. Building your mutual fund portfolio by segregating between core and satellite portfolio helps you to avoid taking any unnecessary risks until you have covered all your important financial objectives. Moreover, such segregation also aids in lowering the impact of fall in the returns of a satellite portfolio on your financial goals.

While building a core portfolio, there are some things that you need to keep in mind, one of which is the re-balancing of your portfolio periodically. As a core portfolio adopts strategic asset allocation, over the period your allocation might be tilted more towards equity which will take the risk profile of the portfolio beyond your tolerance level. A satellite portfolio is usually used to generate those additional returns on every rupee invested. This ideally helps in capturing the best days of the market. However, while doing so, risk is also on the higher end. Therefore, having a sophisticated tool to help you in asset allocation decision is important.

3.3.3 ELEMENTS THAT CAN DISTURB YOUR PORTFOLIO

For becoming a fortunate investor, one must exhibit patience, perseverance and commitment through your defined time horizon. That's because you will have to face

ISBN : 978-81962971-4-5

a number of challenges from the time you start investing and when you achieve your investment goal. The level of investment success you can achieve will depend upon consistency in your investment process and decision-making during these challenging times. Here are some of the factors that can derail your investment portfolio, if not tackled well.

- **LACK OF DIVERSIFICATION AND / OR OVER-DIVERSIFICATION -** While diversification is the key to curb volatility in the portfolio, lack of diversification and or over- diversification in the portfolio can expose you to higher risk. While a concentrated portfolio has the potential to generate higher returns, the losses could be higher too. Therefore, if it's a conscious decision to either build a concentrated portfolio or invest in a focused fund, short-term losses should be ignored. Similarly, over- diversification in the portfolio allows non-performing investment options to remain in the portfolio and that can make a dent in your portfolio return. Therefore, it is important to avoid over-diversification and monitor the progress of the portfolio regularly to weed out non- performers from the portfolio.
- **TOO MUCH AGGRESSION IN PORTFOLIO SELECTION -** Investing in aggressive categories like sector and thematic funds can result in much higher volatility in the portfolio. While it is true that aggressive funds have the potential to deliver higher returns during certain market phases, there is no guarantee that it will happen. In fact, if the timing is not right, the volatility can be detrimental to your investment process.
- **RELYING ON SHORT- TERM PERFORMANCE –** Relying on short-term performance for fund selection can either make your portfolio very aggressive or very conservative based on what’s working out at that point of time. While higher allocation to equity based on short term performance in a rising market can take you beyond your risk-taking capacity, a conservative

ISBN : 978-81962971-4-5

portfolio can bring your real rate of return down. The right way to build a portfolio is to follow asset allocation and invest in funds that have long-term consistent performance track record.

- **THINKING THAT BOOKING LOSS IS A BAD THING -** If it is proved that there are non-performing funds in the portfolio after giving them sufficient time to perform, don't hesitate to make changes. Remember, booking losses is not a bad thing as long as it allows you to reinvest in better performing funds.
- **DISREGARDING YOUR TIME COMMITMENT -** Remaining committed to your time horizon can help you manage losses. Over time, equity portfolio can deliver positive real rate of return. Therefore, once a time horizon is decided, stay committed to it to benefit from the true potential of equities and enhance the chances of achieving your long-term goals.
- **IGNORING OPPORTUNITY LOSSES -** Opportunity loss is the value or potential gains that you miss out by choosing a specific type of asset class, investment option or strategy. Remember, frequent instances of opportunity losses can make a significant impact on what you get to accumulate over time. Therefore, monitor your portfolio regularly and be aware of opportunities that can help you improve your portfolio returns. Of course, making frequent changes can become counter-productive.
- **STRATEGY TO INVEST CONSERVATIVELY TO AVOID LOSSES CAN BACKFIRE** - There can be a temptation to invest in less risky investments like bonds, FDs, small saving schemes to avoid losses in the portfolio. However, ignoring the risk of inflation and staying away from market-linked products can result in a heavy loss in terms of negative real return. Therefore, including equity and equity- related funds should be a priority for long-term investments.

ISBN : 978-81962971-4-5

3.3.4 GUIDELINES FOR TARGETING MAXIMUM GAINS

- **INVEST VIA SIP-**The best way to invest in mutual funds is through a systematic monthly investment plan (SIP). Over time, every little sum invested through SIP each month would add up to a sizable aggregate. For example, Rs 5,000 invested per month through a SIP in an equities fund can earn you 25 lakh in 15 years with an annualised return of 12 per cent.

- **INVEST AS PER RISK TOLERANCE -** Those with a high tolerance for risk should focus more on equity funds, those with a moderate risk tolerance should invest in hybrid funds (which combine equity and debt) and those with a low tolerance for risk should concentrate more on debt-related funds. For instance, Quant Small Cap Fund gave an annulised returns of 52.1 per cent in the past three years. This does not imply that you will always receive such returns. However, investing according to your risk tolerance would enable you to earn high returns.

- **SPREAD FUND CATEGORIES** – Always try invest in a variety of funds since they perform differently over time and in various economic environments. Therefore, investing in different types of funds would assist you to receive the best profits. For instance, if you check the Nippon India Small Cap Fund, the focus of the fund is on potential growth companies. This fund outperformed others, providing 12.17 per cent gains in the previous year and annualised returns of 19.48 per cent over the previous five years. Midcap funds won't always offer these returns but investing in such mid-cap funds will enable you to earn the highest return over time.

- **INVEST IN SECTORS ANTICIPATED TO OUTPERFORM -** High-risk investors are those who are prepared to bear more risk and usually try to take advantage and invest with high-risk funds like small cap and sector funds. Such individuals can think about investing in funds in industries that

ISBN : 978-81962971-4-5

are anticipated to do better in the near term. For example, even if the infrastructure sector has peaked, it is still predicted to perform better over the next three to five years. The best option would be to think about infrastructure funds or banking funds which would indirectly stimulate the infrastructure sector through finance for the short-term to medium-term of three to five years.

- **RESEARCH YOUR INVESTMENTS -** Investors frequently put their money in the wrong funds or have a misunderstanding about the fundamental idea that mutual funds must be held for the long term. Never invest just because a mutual fund scheme has generated 100 per cent returns in a single year. You should be aware that if there is a market crash, such a fund could deplete your capital. Based on your financial objective, invest in mutual funds. For instance, you want to set aside ₹30 lakhs for your child's international studies in the next 15 years. You can easily accomplish this aim if you can invest 6,000 each month for 15 years in a well-diversified mutual fund portfolio generating annulised returns of 12 per cent. Consequently, you should base every investment you make on a specific objective.

- **INVEST IN LUMP SUM DURING MARKET CORRECTIONS -** It's a stated fact that regardless of the market situation, SIPs are the best investment options for long-term financial goals. Occasionally, however, equity markets offer very attractive investment opportunities that you can seize by strategically making a lump sum investment. If you have the cash, we believe that a price correction of 20 per cent or more offers good opportunities for lump sum investments. You can put your lump sum cash in a liquid fund and then invest from the liquid fund to an equity fund through a systematic transfer plan (STP) over a period of three to six months if you are concerned that the market may fall even further.

3.4 CONCLUSION

The likelihood of developing a corpus in the short term is virtually zero. Investments that appear to be less hazardous, highly gratifying and offer excellent returns will not last. How long should you invest the money should be the first question you ask.

You must ask this question to yourself and be prepared to answer it honestly. What kind of negative effects are possible between those two?

This question must be answered with the premise that you will continue to invest for the ensuing 10 years. However, the question of whether you can survive market volatility, say if the market falls by 40 per cent, still exists.

Looking at your investments every day is one mistake that plenty of individuals do. This results in undue anxiety and a propensity to believe market rumours.

Mutual funds are a simple investment option as well. In your twenties and thirties, you won't need money for complicated things.

Mutual funds are a great option for young investors to invest in because they are simple to purchase, and they will benefit from the power of compounding in twenty-thirty years.

You can choose from Equity, Debt, Hybrid Funds, and FOF mutual funds and start investing based on your goal and time horizon.

At last, without a doubt, investments in mutual funds can multiply an investor's wealth. However, investors must also make sure that their portfolio is well-balanced with the appropriate quantity of investments.

When creating a portfolio, the adage 'not too much and not too little' should be followed. Most experts also agree on the fact that including more than 6-8 mutual funds in a portfolio crosses the line into over- diversification.

ISBN : 978-81962971-4-5

3.5 REFERENCES:

- Chander, R. (2002). Performance appraisal of mutual funds in India. New Delhi: Excel Books.
- Carhart, M. M. (1997). On persistence in mutual fund performance. Journal of Finance 52(1).80-82.
- Jayadev, M. (1996). Mutual fund performance: An analysis of monthly returns. Finance India.10(1). 05-15.
- Gupta, O.P., &S. Sehgal. (2001). Investment performance of mutual funds: The Indian experience. InU. Shashikant and S. Arumugam (Eds.),Indian Capital Markets: Trends and Dimensions, Tata McGraw-Hill., pp 35-55.
- Sharpe, W.F. (1966). Mutual fund performance. Journal of Business 39(1)
- Thomas, S. 1998. Performance evaluation of Indian funds. In Tushar Waghmare(Ed.) The Future of Fund Management in India, Tata McGraw Hills
- https://www.bseindia.com/mf/
- https://www.morningstar.in/
- https://www.valueresearchonline.com/
- https://www.moneycontrol.com/mutual-funds/
- https://www.amfiindia.com/
- https://www.sebi.gov.in/
- https://www.rbi.org.in/
- https://www.finmin.nic.in/

ISBN : 978-81962971-4-5

- https://dea.gov.in/
- https://www.nseindia.com/
- https://www.bseindia.com/

ISBN : 978-81962971-4-5