An advertisement for the Mutual Funds Sahi Hai campaign (Photographer: Dhiraj Singh/Bloomberg)

Common Mistakes Mutual Fund Investors Make

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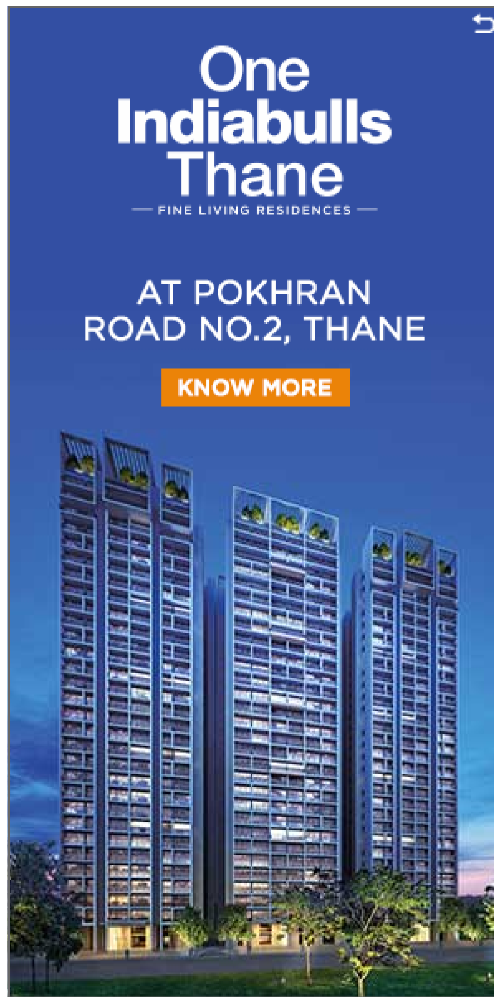

Investing wisdom suggests put your money into mutual funds and let the fund manager do the rest. Is it that simple? Actually no. Investors need to avoid some common mistakes to get the best possible returns.

In the year's first episode of *The Mutual Fund Show*, three mutual fund advisors – Harsh Roongta, Tarun Birani and Shalini Dhawan – list out what the investors shouldn't definitely do. Here's the list...

1. Dividend Isn't Always Good

Many investors go for the dividend option while investing for the long term. That's the biggest mistake in

and cannot be guaranteed. Unscrupulous elements promise this and gullible investors end up losing in the long run. It’s in an investor's best interest to stay away from anyone who promises sustained returns through dividends via the balanced fund route, the advisers said.

2. Don’t Diversify Too Much

Mutual funds are designed to diversify the risk. Having many funds in a portfolio would kill the returns in the long term.

3. Invest Based On Goals

Keep the goal in mind while investing. “If you don’t know where you want to go, will any road take you anywhere?” said independent investment advisor Harsh Roongta. He compared goal-based investing to running a marathon, not a sprint. It is important to complete the marathon and not how you run the first 100 metres, he said.

People invest based on herd mentality, but lose focus and deviate midway during the journey, said Birani, (describe what he does). That can defeat the purpose of starting the journey, he said.

4. Don’t Forget Asset Allocation

Undermining the importance of asset allocation is the single biggest mistake that investors commit, said Shalini Dhawan, director and co-founder of Plan Ahead Wealth Advisors. It’s important to keep valuations in mind. One must sell an overvalued asset and shift to a fairly/undervalued asset, she said. The three important stages of investing are planning, execution and then reviewing the investment periodically. And these hold true for mutual funds as well.

5. Don’t Chase Short-Term Or Past Returns

An eye on the past may not be the best way to choose the future, especially in investing. For what was true in the past will not necessarily be so in the future. Choosing a winner is more important than looking at last year’s winner, Roongta said.

6. Not Knowing The Portfolio Isn’t An Option

An investor must know the sector or the stock or cash levels of a fund if investing directly without the help of an accredited fund adviser.

7. Read The Offer Document

A plenty of information is available in the offer document such as management and expense ratio, which gives insights into the fund.

Often, investors look for low-NAV funds like finding cheaper stocks thinking that they would perform better than the ones priced higher apiece.

Watch the full discussion here.

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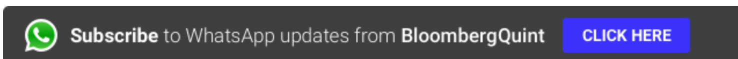

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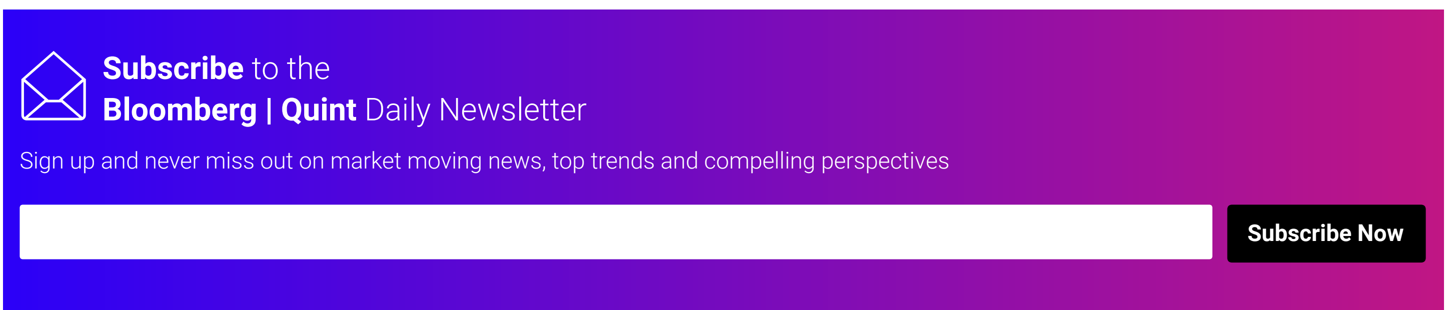

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