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Mutual funds not an asset class themselves, but can access equity, debt and gold

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Kayezad E. Adajania

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Many investors consider mutual funds as an asset class. Photo: iStock

In April-May 2017, *Mint* had **surveyed 19 financial advisers** to know some of the biggest **mistakes investors make**. For the past few weeks, we have been talking to more advisers about **these mistakes**. This week, we speak to Vishal Dhawan, founder and CEO of Mumbai-based Plan Ahead Wealth Advisors, to get to know his experiences.

Over allocation

It's bad that investors buy too many funds over a period of time, instead of having a desirable portfolio of about 6-10 **mutual fund** schemes.

What's worse is that depending on which type of stocks do well in the markets at a given point, many investors accumulate the same type of funds in the hope to maximise their gains.

"I have noticed multiple mid-cap and small-cap funds in portfolios when mid-caps are doing well. Multiple government securities funds can also be seen in some portfolios when interest rates are headed downwards," said Dhawan. He advised a more robust asset allocation strategy.

Asset class clarity

We may talk about **MFs** as an investment avenue but in reality, it is just a pass-through vehicle. Through an MF, you are investing in equities or debt as what you actually buy are equity and debt scrips of listed and unlisted companies.

Many investors consider MFs as an asset class. They want to invest in equity, debt, fixed deposits (FD) and MFs at the same time, Dhawan said. In reality, MFs can supplement equity, debt as well as FDs. "Investors should know that multiple asset classes can be accessed through an MF, from equity to debt to gold, and MFs are not an asset class in themselves," he said.

Loads and taxation

Keeping an eye on exit loads and tax when selling MFs is important, said Dhawan, especially given the re-categorisation exercise that MFs are undergoing (read here: **bit.ly/2HILziu).**

You may want to sell your scheme if it has changed too much, but it may be best to wait out till the exit load period is over and taxation gets more favourable.

Too many FDs

Many investors have a bulk of FDs, which give low returns and are tax-inefficient instruments that may not even beat inflation, said Dhawan, but are saddled with loans at the same time. “If you have high debt to pay off, like credit card loans, liquidate your FDs,” he said.

Company benefits

Although it’s prudent to have your own health insurance, you should know what your company offers. Some companies also give accident cover. Keep a tab on your Provident Fund as well. “In case of hospitalisation, it makes sense to first use your company policy and then your own,” said Dhawan.

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