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Bleeding mutual funds: Should you go back to good old fixed deposits?

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Are you worried about the losses on your investments in mutual fund schemes? You are not alone. There are many investors who dumped their good old fixed deposits offering low single-digit returns and for equity mutual fund schemes offering double digit returns. But the markets took a U turn and investors are now worried for their money. â€œWhen investors chase returns, they rarely take money home. To avoid such a situation you should invest after taking into your financial goals and your risk profile,â€ says Suresh Sadagopan, founder of Ladder7 Financial Advisory.

Risk-reward

Most of the time, investors ignore the risks involved in investments while chasing the returns. Multi-cap funds as a category delivered 36% returns in CY2017, outperformed by mid-cap funds with 43.1% returns. If you have invested looking at such numbers in the past, then you are in for a rude shock. Multi-cap funds as a category lost 8.4% in past one month, whereas mid cap funds lost 11.3% returns over same period of time. No wonder, some investors are contemplating embracing their old friend â€“ bank fixed deposit.

â€œBank fixed deposits are an ideal choice when you want to protect your capital, invest for short term or to generate regular income,â€ explains Suresh Sadagopan. Stocks however should be looked at when you want to grow your money over long period of time and you have the ability to stomach risk in the interim, he adds. You should understand how they work for you. Mere return numbers do not make sense.

Asset allocation of an investor must be ascertained while carrying out any investments. â€œYou should be allocating your money across asset classes after taking into account your financial goals. Also you should be diversified within each of the asset class,â€ says Vishal Dhawan, founder and chief financial planner of Plan Ahead Wealth Managers. When stock markets fall, the most worried lot are those, who have bet all their money on stocks. Investors who opt to invest across asset classes are less hit. Not all asset classes go down at the same time. That makes diversified portfolios stand out in difficult times.

That may sound good to read. But you have already bitten the bullet. What should you do now when you are staring at some losses?

Avoid panic reaction

â€œDo not panic. Consult an advisor if you do not understand the world of investments,â€ says Suresh Sadagopan. â€œIf you want to do it yourself, ascertain your risk profile and your financial goals before you take any corrective action,â€ he adds.

You should know how much money you need in next one or two years. It should be in safe bank fixed deposits. These are the expenses, you just cannot avoid, no matter where the markets do go. If you have to pay the school fees of your daughter next year, you canâ€™t tell the school authorities that the index has fallen 20%. You better keep the money safe. Do not dabble in stock markets with that money. If you have invested money that you want in next one or two years, just do not think much, please cut your losses and get back into safer avenues. No stock and no equity fund is safe in short term - the prices can slide further.

Money that you have for longer period of time, you can consider investing in stocks or equity funds, depending on your risk profile and your understanding of the financial markets. â€œIf you have invested in equity funds and you can afford to keep the money invested for at least five more years you should continue with your investments,â€ says Vishal Dhawan.

Revisit your investment strategy

When you have decided to invest in mutual funds, you must have carved out a strategy for yourself. Please do revisit it. Many of the first time investors have opted for systematic investment plans (SIP) and systematic transfer plan (STP) to invest in equity funds. The idea is to benefit from a possible fall in stock markets. The time has to come for the strategy to deliver, if you have a fairly long investment time frame, let your SIP and STP run. This way you can benefit from lower prices. â€œStocks are cyclical in nature. Systematic investments help you to benefit from the volatility by letting you accumulate more units in bad times. Do not lose the opportunity,â€ says Vishal Dhawan.

Consider rebalancing portfolio

The real stress is faced by the investors who have loaded up with mid-cap and small-cap funds. The cuts are deep and the portfolio values have shown relentless fall. â€œThere is a possibility that the fall may continue for some more time. Be prepared for that. You must increase your time horizon further - a decade or so to get paid for the risks you have taken,â€ says Vishal Dhawan. â€œIf you canâ€™t withstand the volatility, then you may consider shifting your investments to multi-cap funds or large-cap funds,â€ advises Vishal Dhawan.

If you are thinking of investing more money in equity funds, do spend some time to learn more about how they work and the risk reward involved. An informed move will not disappoint you.