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When is the right time to rebalance your mutual fund portfolio?

BY SHIVANI BAZAZ, ET ONLINE | MAR 22, 2019, 09.49 AM IST

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When was the last time you took a look at your mutual fund portfolio? According to some mutual fund advisors, you would be surprised to find that your [portfolio](#) is skewed to equity mutual fund schemes. This is because many mutual fund investors have investments in sector schemes like infrastructure, banking, IT, and so on, that have done really well in the recent past, they add. That is why these mutual fund advisors are busy reminding their clients these days about the importance of rebalancing their mutual fund portfolios.

Sector schemes like infrastructure [mutual funds](#) have gained around 15 per cent in the last month. Similarly, the banking sector schemes have offered an average return of around 12.37 per cent in the last one month. Mutual fund advisors believe that the rally in these sector schemes might have made them overweight in a lot of portfolios. Hence, it is time to cut the exposure in order to reduce risk. "There are expectations of the markets going further up. In such a scenario, many mutual fund investors forget to stick to their asset allocation. This might lead to over exposure to risk," says Vishal Dhawan, Founder, Plan Ahead Financial Advisors.



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Some investors argue that their portfolios haven't recovered yet from the sharp decline in small and mid cap schemes last year. However, mutual fund advisors believe that even such investors should take a close look at their portfolio to ensure their original asset

allocation plan. “We saw a correction in the market, so the equity portion would have gone down in many cases. Such investors might not need to re-balance at this point. However, if you had exposure to certain sectors like IT, you might need to cut the exposure before it becomes risky,” says Vishal Dhawan.

Moreover, mutual fund advisors believe that new investors, who came into the mutual funds fold after demonetisation, don't have a clear concept of re-balancing their portfolios. "The new DIY investors that we saw coming to the mutual fund fold in the last couple of years are generally clueless about sticking to their asset allocation. In these cases it becomes very important to **rebalance** the portfolios now," says Prakash Lohana, Managing Director, Ascent Financial Solutions.

Generally, investors re-balance their portfolios once a year or half-yearly. However, this might not be the best solution. “If you just keep to a time line then you might find that the damage has been done in the past 4-5 months. You should rebalance or at least take a look at your portfolio after every fall and every rally,” says Prakash Lohana.

Mutual fund advisors also say that investors should not shuffle their portfolio on every hit or a small rally. So, how do you know when you need to make the changes? “You have to keep a maximum and minimum allocation when you make your asset allocation plan. If you are going for a 50-50 equity, debt portfolio, keep a maximum allocation of 55% and minimum of 45% to equities,” says Lohana. This way you will have save your portfolio from a lot of churning.

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