

Which mutual funds should you buy in a market correction?

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If you have understood the market dynamics and waiting for a correction to invest at lower levels, well, here's an opportunity. The benchmark indices of the Indian stock market—Sensex and Nifty—have fallen by about 5% each in the past one week.

Investors, before making fresh investments, need to make sure that their asset allocation strategy is in place based on the risk profile.

"Current macroeconomic and market dynamics present an opportunity to revisit tactical allocations," said Abhilash Joseph - Business Head – Finity.

Making a point that markets still look over-valued despite correction, said Vishal Dhawan, board member, Association of Registered Investment Advisors (ARIA), that it may be prudent to look at dynamic asset allocation/balanced advantage funds, which can protect the downside when the markets correct.

To overcome the human biases that step in during market corrections, Shaji Kumar Devakar, executive director, IIFL Wealth, suggests Quant Funds. "With their non-discretionary, rule-based approach, quant funds can prove to be an ideal solution to enhance stock selection, and optimally manage portfolio risk," Devakar added.

Active or Passive?

Since the correction is across the market-cap, investors may consider investing in broad-based index fund. Experts' opinions differ on this.

"In a market like ours which is an alpha seekers delight, I would bet on a portfolio of concentrated high-quality stocks focused on quality," said Vikaas M. Sachdeva, CEO, Emkay Investment Managers.

On the other hand, Vishal Dhawan said, "Index funds are a good option to look at across both the Nifty 50 and the Nifty 500, as well as global indices like the S&P 500 and the MSCI World index."

He added, "Since markets are still at a premium, one may wish to add to index funds gradually through a SIP (systematic investment plan), or STP strategy so that one can continue to buy as premium valuations start to normalise."

Balancing both the views, a combination of alpha and beta strategy was suggested by Vaibhav Porwal, co-founder, dezerv, to create a stable portfolio. "Our recommendation is to use index funds for the large-cap part of the allocation and actively managed schemes for multi-cap/mid-cap and small-cap allocations," Vaibhav Porwal added.

Mint Takeaway: Broad-based index funds offer a low-cost avenue to invest in the market and take advantage of a market-wide correction. However, any fresh investment should be made keeping your risk tolerance and time horizon in mind.
