Successful outcomes from investments, especially equity mutual funds, require investors to stay invested.

BY KAVYA BALAJI

K Raman, 45, an IT professional from Bengaluru, started investing in the stockmarket in 1998, when his son was just a year old. He went the systematic investment plan (SIP) route to invest in mutual funds (MFs). However, he lost confidence when the markets tanked in 2001-02 and exited his investments, only to hit the stockmarket again in 2007. Meanwhile, the stockmarket had grown by over 50 per cent every year, for five years. Raman regrets exiting his SIPs as the corpus for his son’s education fell short of target. Says I.V. Subramaniam, director, Quantum Asset Management: “Frequent entry and exits will not only raise the cost of managing one’s portfolio and the risk of not meeting the financial goals planned for, but it will also not allow the investments to compound.”

When you are saving for your children, you must continue with your investments because equities fetch high returns only over the long term. Says Srikanth Meenakshi, founder, FundsIndia.com: “Rather than looking at continuous growth in equity investments, parents should ensure the average year-on-year growth is enough to achieve the target amount.” So, even if the markets are down for a year or two and the average growth of your portfolio slows, you must ensure that it does not slump. It is also important to understand investments thoroughly. Says Subramaniam: “If parents can take extra initiative to understand the nature of the product, it can help them minimise the risks and help gain better returns from their investments.” If you understand the nature of equity MFs, you wouldn’t exit prematurely or lose the opportunity to grow your corpus. And, SIPs are the best possible way to invest in them. Says Pratibha Karunoo, chief research solutions architect, ValueNotes: “The staggered nature of investing ensures that over the long-term, stockmarket volatility would have little impact on the average cost of funds.”

That is exactly what Nishant Gehlot, 30, a banker, is doing. He has started investing through SIPs for his 2-year-old daughter, Delisha. Says Gehlot: “By investing through SIPs I needn’t track my investments on a daily basis and would enjoy market returns.” However, it is important to review the performance of the funds in your portfolio to see that they are doing well and whether they would help meet your goal. Let us now find out how you should start creating an MF portfolio for your child’s future. It is prudent to start investing initially in about 3-4 large-cap diversified equity funds and, as the years progress, look at other funds to enhance growth. Says Raghavendra Nath, managing director, Ladderup Wealth Management: “Investors should choose reputed fund houses that would last through those 15-20 years to meet your desired goal.” Reputed fund houses would include those with a strong promoter backing and a

WHAT TO DO

- Continue investing through systematic investment plans till you reach the goal
- Discontinuation of SIPs should be based on the performance of the scheme and not the market
- Review your portfolio at least once in two years for equity funds and once a year for debt funds
- Review portfolio even when life changing events occur
- Exit thematic funds after achieving profits and reinvest in safer avenues
- Rebalance portfolio when your strategic asset allocation goes out of hand

Father

NISHANT GEHLOT 30
Banker

Mother

KAVITA 29
Homemaker

Child

DELISHA 2
MUMBAI

Their story: The Gehlots think mutual funds are the best way to invest in the market

What they did: They now invest in mutual funds through systematic investment plans

“By investing through systematic investment plans I needn’t track my investments on a daily basis and would enjoy market returns.”
sound performance record. Once you have chosen your funds and understand them well, you could move on to adding more funds to your portfolio. These could include mid-cap equity funds, tax saver funds, balanced funds and gold exchange traded funds (ETF), among others. But, before choosing the funds with higher risks, ensure that they match your risk profile.

Says Subramaniam: “The parents need to understand the suitability of the product, i.e., whether it meets their risk and return profile.” This would ensure you stay with the investment all through. You could even look at closed-end funds. Says Kurnool: “Given the long-term nature of the goal, MF investments need not be liquid, so closed-end funds could be considered.” But be sure to review the fund manager’s performance and whether the diversification of the stocks is significant. High-risk investors could look at thematic funds which invest in a particular sector.

Warns Nath: “You must know that thematic funds perform only for a certain period.” So, it is essential that when such funds are on a good run, you exit them and invest the proceeds in safer avenues. If you are risk averse, you could consider index funds. Says Kurnool: “For Index funds, the size of the corpus has a large impact on how well they track the market index that they are trying to replicate.” So, choose funds with a good corpus. However, whatever your risk appetite, it is essential to invest a part of your MF portfolio in debt funds. This serves two purposes—one of enhancing liquidity and, second, to give stability to your portfolio. Says Lakshmilyer, head, fixed income and products, Kotak Mutual Fund: “Regularity of investment growth implies reduced risk on investments. Debt mutual funds ensure that.” Those who are willing to take on a little more risk could look at long duration and hybrid funds. Even though it is healthy to invest in different funds, ensure that you invest in not more than 10. This, in turn, would help you easily keep track of the performance of your funds and any changes in the fund’s management or investment strategy. Fewer funds would also mean minimal work for you while reviewing and rebalancing your portfolio.

While equity investments should be reviewed once a year, debt investments could be reviewed once in six months. Says Meenakshi: “Review is necessary when a fund manager exits a fund or if there is a significant market upheaval.” Your review might result in two actions—buying more funds or selling existing funds. Before selling a fund check whether it is consistently underperforming for over two years or more and whether the fund manager has exited or if there are changes in the scheme or in asset allocation.

Also, note that an underperformance or overperformance of an asset class would change your asset allocation and result in the need to rebalance your portfolio. Asset allocation is of two types—strategic and tactical. Says Subramaniam: “Strategic allocation is long-term oriented and requires less frequent changes, while tactical allocation has a near-term outlook.” Tactical allocation could be considered when the near-term outlook of an asset class is weak, while that of another is bright. For example, you could reduce exposure to equities and increase exposure to gold through exchange-traded funds. This should, however, only be to enhance your returns and to ensure that your strategic allocation remains intact when you have made your profits. Says Meenakshi: “Disciplined and unemotional approach would be key to a successful rebalancing exercise.” Also, don’t forget that portfolio reviews and rebalancing is necessary when life-changing events happen. Says Subramaniam: “Review investments when there is a birth or death in the family and also when you receive an inheritance.” Windfalls, such as an inheritance, could be invested in avenues that give higher returns with lower risks, such as hybrid funds, index funds and large-cap funds. You could also invest in debt funds initially and use the systematic transfer plan (STP) to invest in other funds. Says Anju Malik, 27, a government employee: “Since my husband runs a business, there are no regular monthly cash flows. So, we prefer investing through the STP route.” The family also makes investments through the SIP route. Their two-year-old son, Anmol has appeared in commercials and contributes to the family’s income and investments. Anju wants to ensure a bright future for her son. You could also do the same for your little one by making the right investment decisions.

MISTAKES TO AVOID

Don’t follow the herd. Buying a fund just because X, Y or Z is raving about it wouldn’t be wise.

Don’t sell when the chips are down. Selling at every market downturn would hinder the power of compounding growth for your investments.

Don’t hold on to consistent underperformers. Holding on to underperforming funds just because they are from great fund houses wouldn’t do you any good.

Don’t buy on euphoria. Buying whenever the market hits a high would increase your cost of acquisition from maturity.

USING WINDFALLS

Invest the money in debt funds.

Take the STP route to transfer money to funds with higher risks such as hybrid, index and so on.

Link your investments to your child’s future goals.

Father ANURAG MALIK 28
Entrepreneur

Mother ANU 27
Public sector

Child ANMOL 2
MUMBAI

Their story: Being an entrepreneur, Malik does not receive monthly cashflows for SIPs.

What they do: They invest in mutual funds through systematic transfer plans.

“Since my husband is an entrepreneur, there are no regular cash flows. So, investing through the systematic transfer plan rather than the systematic investment plan makes more sense to us.”

Father SURESH MANI 58
Entrepreneur

Mother ANU 27
Public sector

Child ANMOL 2
MUMBAI

Their story: Being a public sector employee, Anu’s monthly cashflows are sufficient.

What they do: They invest in mutual funds through systematic investment plans.

“Since my husband is a public sector employee, we are linked directly to our investment decisions.”

Father SURESH KUMAR 58
Entrepreneur

Mother ANU 27
Public sector

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Their story: Being an entrepreneur, Suresh Kumar has been linked to his investment decisions.

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