

Four investing mistakes to avoid in this festive season

By Vishal Dhawan, ET Contributors: Oct 27, 2022, 11:03 AM IST



It is that time of the year, when besides being exposed to multiple advertisements extorting you to spend more through sales and discounts, there are also strong recommendations on investing in gold and specific stocks for the Samvat year ahead. Analysis of the past data indicates that there is no clear evidence that investing during this time of the year delivers returns that are better or worse than any other time of the year, and thus your investment strategy, whether in stocks or mutual funds or gold, needs to be done keeping this in mind.

It is definitely an excellent idea if you can control your expenses and divert those monies into investments. It enhances your savings ratio. The money can be used to support financial goals that you may have in the future. In case you are one of those who gets a performance bonus or incentive at Diwali, this is also a great time for you to ensure that you invest most of it and spend only a portion of it on luxuries that may make your family happy.

However, there are some mistakes that we have commonly seen happen during this period over our approximately twenty years of advising client families that we would like you to be careful about:

Do not follow the flavor of the season

Often, investors are looking for the best mutual fund or one multibagger stock idea that will move their finances into a different spiral. They wish to put a disproportionate amount of money on this specific idea. We have found that this strategy is a mirage and has a very low probability of success, and thus investors are better off following a disciplined approach by allocating their monies into multiple options, and using both index and flexicap funds to better manage their risk. Do not try to chase sectoral or thematic funds.

Stick to your asset allocation

Just like you are warned by health professionals to not go overboard with sweets and fried foods during Diwali, ensure that your monies are allocated across multiple asset classes, including equity (both domestic and international), debt and gold. If one has performed significantly better than the other, rebalance to get back to the agreed mix. Mutual funds can give you access to multiple asset classes.

Cost matters

Just like you are seeking deals when you shop, ensure that at least a part of your portfolio is allocated to passive funds like index funds or ETFs across both domestic and international equities as well as on the fixed income side, as they give you access to financial market returns at a significantly lower cost.

Ensure that you save regularly

While it is great to be disciplined with your investments this Diwali, continue to invest in a disciplined manner well past Diwali as well. If you have a regular salaried income, check whether you can enhance your SIPs as your salary may have gone up over a period of time, whilst your SIP may not have. If you have irregular income, use Systematic Transfer Plans (STPs) instead, where you can invest whenever you get a lumpsum and still get the benefit of rupee cost averaging.

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