The Mutual Fund Show: Your Checklist for Staying Invested in Small-Cap Funds

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As inflows continue into small-cap mutual funds amid a rally in their underlying stocks, investors must consider strategies if they intend to remain invested in such schemes.

Kshitiz Mahajan, managing partner and chief executive officer at Complete Circle Wealth Solutions LLP, suggested taking a long-term view. “People who don’t require funds for (the) next seven years or beyond can remain invested in these funds,” he said on The Mutual Fund Show, as he picked three popular schemes that investors can opt for.

Quant Small Cap Fund, Nippon India Small Cap Fund and HDFC Small Cap Fund cumulatively collected Rs 17,000 crore from investors in 2023.

Newer investors, he said, should opt for six months of weekly systematic transfer plans while investing in small-cap funds. “If you want your funds in less than one or two years, then book profit off the table or park funds in balanced advantage funds or funds which are larger-cap oriented”.

Mahajan also urged investors not to invest lump sum amounts in these three funds at the current levels even as they look “lucrative according to their past performance”.

Vishal Dhawan, founder and chief executive officer at Plan Ahead Wealth Advisors Pvt., too, urged investors to take a long-term view. While investing in small-cap funds, “have a horizon of at least 10 years,” he said.

Time To Limit Exposure

Dhawan said historically whenever a small-cap fund performs well, it either experiences a price correction.

Investors in the past haven’t made money from small-cap funds for around five to seven years, he said. “Investors chasing the past data can find they're in for a long period of either flat returns or negative returns.”

Along with having a horizon of 10 years while investing in small-cap funds, Dhawan said investors should limit their overall exposure to such funds to not more than 10% of their overall portfolio.

Further, he said investors should seek out investing styles that are suitable for them.

“If there’s a fund you want to engage with which is active and churns portfolios aggressively, then choose the fund of that type,” Dhawan said. “But be aware that each of these styles have their advantages and limitations.”