Election results: How mutual fund investors should tweak their investment strategy

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As Nifty 50 fell by 6% on Tuesday after the election results were declared, ET Mutual Funds asked mutual fund advisors whether the mutual fund investors should modify their current investment strategy based on their risk profile. We classified mutual fund investors into three risk profiles: conservative, moderate and aggressive.

In the last two terms of Modi as PM, the mutual funds have offered superior returns. In the last five years, around 74% of small cap funds have outperformed their respective benchmarks. During the same period, there were around 14 value funds out of which nine funds managed to beat their respective benchmarks.

In the last 10 years, equity mutual funds gave up to 960% absolute returns with small cap funds leading the return chart.

Conservative investors

"The conservative investors should not try to change their asset allocation mix of 30:70 due to election results. With the Modi government coming for the third time, the investor is underweight equity against their agreed mix, they should consider adding exposure to equity gradually through SIPs /STPs with a clear tilt towards larger caps," said Vishal Dhawan, CEO, Plan Ahead Wealth Advisors, a wealth management firm in Mumbai.

Moderate investors

"A long-term investor with an appetite for moderate degree of risk can maintain an equity-oriented portfolio with 60%-75% deployed in equities. The portfolio can be expected to be sector agnostic with an even mix of high-quality large, mid and small cap allocations. A good quality flex cap or Multicap fund could work for investors with limited ability to proactively allocate and manage the portfolio," suggests Sagar Shinde, VP Research, Fisdom.

Aggressive investors

"Current investment strategy need not be altered if it is aligned with one's goals, risk profile and time horizon. An aggressive investor should continue to invest more in flexi-cap and multi-cap funds, with a small exposure to sector funds, where risk could be higher and there could be a need to time the markets, both during the entry and during the exit," said Rajesh Minocha, a Certified Financial Planner (CFP), Founder of Financial Radiance.

"There are opportunities in the mid and small-cap sectors, which offer significant growth potential. Carefully selecting the right companies and adopting a flex cap strategy based on the businesses in the portfolio can help maintain a balanced investment approach," said Vinnaayak Mehta, Founder of The Infinity Group, a wealth management firm.

Vinnaayak further added," New investors, especially those who entered the market after COVID-19, might not have experienced market corrections before. Since market movements are cyclical, errors during corrections can lead to substantial losses for inexperienced investors. Therefore, thorough research and effective risk management are crucial before making any investment decisions. Rushed or speculative investments could result in serious financial repercussions."

You need to include other factors while choosing a scheme to invest in. One should always consider their risk appetite, investment horizon, and goals before choosing mutual funds.