# Mutual funds for beginners: What strategy should students adopt to start investing?

**By Surbhi Khanna, Published on: May 22, 2025.**

A Reddit user on the mutual fund community shared his keen interest in financial markets and is looking to begin their investment journey in MF investments, with a medium risk appetite and an investment horizon of 5 to 10 years.

At just 18 years old, the investment goal for this Reddit user is wealth accumulation. The user also mentioned that he saves about Rs 1,000 from his expenses which he plans on using for **SIP** and has a lump sum amount of Rs 5,000 saved up from his internship (all these are his savings apart from the money he invested on himself for upskilling).

Experts mentions that as a student beginning their investment journey, the first and most important step is to define your financial goals which can be both short-term, such as buying your favourite sneakers or saving for a vacation, and long-term, like building a corpus for higher education or achieving early financial independence.

While recommending best mutual fund categories an expert adds that as students generally have a higher risk tolerance compared to older investors, their investment strategy should also be driven by their investment time horizon and this makes it an ideal time to start investing, learn from the markets, and develop good financial habits.

"It's sensible to start with simple, easy-to-understand investments like broad-based index funds. For those seeking a balance between risk and return, Flexi Cap funds can be a good option. However, if you're willing to take on higher risk for potentially higher returns, you can also explore Focused Funds that invest in a limited number of high-conviction stocks," recommended Vishal Dhawan, CEO, Plan Ahead Wealth Advisors, a wealth management firm in Mumbai.

In addition to this the expert also recommends students to have a small allocation in small and midcap funds as they have a longer tenure for investment and these funds tend to be more volatile in the short term, but over the long run, they have the potential to deliver higher returns and this will allow them to experience how different funds behave.

However, it is critical to have at least a 10-year investment horizon if you plan to use equity funds and invest in a staggered manner. Hybrid funds like balanced advantage funds and multi-asset funds can be considered if you have only a 5-year investment horizon, and for diversification, including some exposure to global or international funds can reduce dependency on domestic markets and introduce you to different economies and currencies. "Debt funds help stabilise returns and cushion the impact during volatile periods in the equity markets and can be used for shorter investment horizons," Dhawan stated.

The common mistake that students make while investing is chasing past returns, panicking during the market downfall then withdrawing the investments and making investment decisions based on peer recommendations, influencers, or social media trends.

In response to this, the expert advises that just because a fund has performed well in the last year doesn't mean it will continue to deliver similar results and emotional reactions during market downturns can also be damaging, as exiting during lows typically results in losses.

"Additionally, investing only in equity without considering debt or international exposures can leave your portfolio vulnerable. Many young investors unknowingly invest in regular plans through platforms that have higher expense ratios," Dhawan adds.

The user who has Rs 1,000 for SIP and has a lumpsum amount of Rs 5,000 can be effectively invested in a combination of an index fund and a flexi cap fund, and with limited capital diversification across too many funds or asset classes is not possible, the expert mentions.

He advises students to build the habit of consistent investing and benefit from compounding and as the income grows over time, and the monthly SIP amount increases, diversification can gradually be introduced which can include adding international funds, debt funds or multi- asset funds.

It is also advisable for beginners to stay away from sectoral or thematic funds as these funds focus on specific industries/sectors or investment themes and tend to be highly volatile and cyclical in nature and investing in them requires a good understanding of market cycles, sector-specific fundamentals, valuations, and earnings potential, which comes with experience and research.

“Moreover, sectoral, and thematic funds are often aggressively marketed during bull markets, when a particular sector is doing exceptionally well. This leads to investors investing at the peak of a cycle and exiting during downturns, locking in losses due to panic or poor timing. For students just starting out, it's best to avoid niche or momentum-driven strategies and instead focus on building consistent investing habits with simpler, diversified options,” Dhawan said.