

Sensex @82,300: Should mutual fund investors alter their investment strategy?

By Surbhi Khanna, Published on: May 19, 2025.



With the benchmark index - **Sensex**, reaching the 82,300 mark on Friday, market experts note that though this is a remarkable milestone, the mutual fund investors should stay invested, stick to the asset allocation, and a large cap tilted portfolio will be a good approach.

“We recommend investors remain invested, data suggests timing of markets is not possible, stick to your asset allocation, and considering how expensive mid-caps and small caps are, we recommend a large cap tilted portfolio, recommended Vishal Dhawan, CEO, Plan Ahead Wealth Advisors, a wealth management firm in Mumbai.

Dhawan explains that often, investors relate the price of an index or stock to conclude whether the instrument is overvalued or undervalued but in reality, the P/E ratio signifies if the index is trading at under/over /fair valuations.

Also, currently Nifty 50 1-year forward PE ratio suggests a PE of 22x compared to a historical long-term average of 19.5x which suggests that the index is slightly above its historical average but is not at alarming levels where one should be worried.

The benchmark index is still 4% down from its all-time high level of 85,978.25 recorded on September 27, 2024. Sensex on Friday touched a mark of 82,514 and dropped marginally by 0.22% to close at 82,330 mark.

Another market expert mentions that while the Sensex crossing 80,000 is a remarkable milestone, mutual fund investors should view this through a long-term lens and the goal of investing is wealth creation over time, not reacting to short-term highs.

“If an investor has immediate fund requirements in the next 3–6 months, it may make sense to book partial profits. But for most investors, it’s best to stay invested, maintain discipline, and avoid making hasty decisions based on market levels. Remember, building wealth requires patience, and rushing to book gains could mean missing out on future upside,” recommended Shruti Jain, Chief Strategy Officer, Arihant Capital Markets.

As the BSE Sensex scales up, many existing mutual fund investors look for better investment options and are willing to start new investments, but are confused whether to postpone their fresh investments or move further to do the investments in this market scenario.

Additionally there are many first-time investors who are willing to allocate in the categories which offer high returns, have low or high risk, and offer tax benefits.

Dhawan recommends that we are currently in a volatile environment, it's better to deploy to funds where the fund manager can have flexibility and flexi cap, value, and focused – are a few categories one can consider.

To help the new investors, he adds that, “If you are a new investor, the past performance of mutual funds might result in having unrealised returns, including continuation of such returns. If you are a new investor, it would be prudent to start with Hybrid Instruments. One can consider Balanced advantage or Multi-Asset allocation funds – these will give the fund manager flexibility to invest across asset classes as pockets of markets are still in an expensive zone and this would be a good start for a new investor.”

There is no universal solution as the right approach varies from investor to investor, Jain advocates. “There is no one-size-fits-all answer—it depends on individual goals and risk tolerance,” she said.

While recommending fresh investments at record highs, Jain said that investors may consider a diversified approach, leaning toward large-cap, flexi-cap, and hybrid funds and as mid- and small-cap funds have underperformed recently, and contrarian sectors or infrastructure-themed funds could be worth exploring selectively. “Investing through Systematic Investment Plans (SIPs) at this stage can also help mitigate timing risk and provide rupee cost averaging benefits,” she added.

BSE Sensex in the last one month has gained 6.86% whereas in three months it gained 8.41%. In the current calendar year so far, the index has gone up by 5.36% and in the last one year, it gained in double-digits. It surged 11.76% in the past one year.

As the correct approach in this current market scenario, Dhawan recommends that one should continue investment with a long-term investor of at least 7-10 years and for lumpsum investment, one can consider large-cap tilted funds or index funds, or for factor-focused, one can consider quality or low volatility focused funds. He adds that, “Do note that a 5-year SIP effectively translates to an average holding period of only 2.5 years because the 1st SIP has completed 60months, whereas the last SIP has completed only a few days.”

Jain firmly says that in the current market scenario SIPs should absolutely continue, regardless of market levels as the idea behind SIPs is to navigate market volatility and maintain discipline and over the long term, SIPs offer the benefits of timing diversification and portfolio rebalancing.

“For lump sum investments, it would be prudent to stagger the allocation—either through Systematic Transfer Plans(STPs) or by parking funds in short-term debt funds initially and deploying gradually. Evaluate fund performance and align with your goals before making large lump sum bets,” the Chief Strategy Officer at Arihant Capital Markets recommended.

The important thing to consider while making the investment decision is can hybrid mutual funds offer a safer route at current index levels or should mutual fund investors consider increasing exposure to debt or gold funds at market peaks?

Hybrid funds are mutual funds that invest in a mix of different asset classes, primarily equity and debt, but also include gold and real estate in some cases. It's also an easy option for those who want to invest in multiple asset classes for diversification whereas gold is considered a hedge against inflation and with global economic conditions remaining uncertain, gold is expected to retain its appeal as a hedge against market instability.

The experts consider hybrid mutual funds and debt funds as a good option for investment in the elevated market levels, while recommend to limit the exposure in gold.

Jain asserted that hybrid mutual funds (balanced or dynamic asset allocation funds) can offer a more balanced and safer route at elevated market levels, and additionally, debt and gold funds can offer stability and diversification—especially useful at market peaks. However she cautions that with interest rates stabilising and geopolitical tensions easing, these categories can play a defensive role and it's important to note that even gold has rallied, so exposure should be based on asset allocation plans and not purely short-term sentiment.

“Yes, hybrid funds are a good option to consider and are a safe route as well – the fund automatically rebalances across asset classes depending on market valuations. One can consider the Balanced Advantage category along with the multi asset category. Investors should go through the detailed fact sheets of the fund to understand the asset allocation model before investing,” Dhawan recommended.

“Debt does look like a good option, with liquidity back to surplus, lower GDP growth compared to the initial print, and the possibility of additional rate cuts – one can look to add duration into the portfolio. Investors can consider constant maturity funds with an exposure of 25% on the overall fixed income portfolio”

He added that Gold has surged higher in recent times, and it's very common for investors to chase previous returns, and based on current prices, gold does look overvalued. “As a result, it would be prudent to limit exposure to 5% -10% of the portfolio and invest via an SIP route rather than a lump sum option. As an alternative, one can consider Silver Funds –Silver looks relatively undervalued compared to gold, but does come with additional volatility, which can be mitigated with a combined gold and silver instrument with a long-term investment horizon,” Dhawan adds.

One should always choose a scheme based on risk appetite, investment horizon, and goals.