

# Nifty slips into consolidation: What is the right strategy for mutual fund investors now?

By Surbhi Khanna, Published on: August 04, 2025.



With the benchmark index - Nifty50 entering a consolidation phase after witnessing a rally in the first half of the year and making mutual fund investors wondering whether to go for SIP, lumpsum or wait, market experts recommends that this is a good time to continue or even increase the SIPs, especially if your income has grown as SIPs work best during volatile or sideways markets, helping you accumulate more units at lower NAVs.

“If you have surplus funds, avoid deploying them all at once in equities, especially amid ongoing global uncertainties. A better approach is to stagger lump-sum investments using Systematic Transfer Plans (STPs) from a liquid or low-duration debt fund into equity funds over 6-12 months,” Vishal Dhawan, CEO of Plan Ahead Wealth Advisors, a wealth management firm in Mumbai, shared with ETMutualFunds.

Another expert in addition to this mentioned that SIPs are the perfect route to take market exposure without worrying about the risk of market timing.

“SIPs are the perfect route to take market exposure without worrying about the risk of market timing. Investors should continue with their SIPs as trying to time the market more often than not results in poor portfolio outcomes,” Kaustubh Belapurkar, Director - Manager Research, Morningstar Investment Research India told ETMutualFunds.

In the first half of the current calendar year, Nifty50 went up by 7.47%. In July 2025, the index corrected 3% and closed at a level of 24,768 on July 31 against a close of 25,541 on July 1. On July 28, the benchmark closed at a level of 24,680.

As Nifty went down by 3% in July, Dhawan recommends that for investors using the SIP route, such market dips are actually advantageous, as they allow accumulation of more units at lower NAVs through rupee cost averaging and minor corrections like this should not be a reason to pause or alter SIPs as equity mutual fund investments are designed for long-term wealth creation.

During this consolidation phase, portfolio allocation should always be guided by the investor's risk appetite and financial goals is what Dhawan believes and also recommends that for an investor with a moderate risk profile, a well-balanced allocation could be a combination of equity mutual funds (large-cap, flexi-cap, and international funds), hybrid funds, including categories like balanced advantage, some debt funds for capital preservation and stability, and a small exposure in commodities such as gold and silver, which offer a hedge during a market crisis.

Market experts always recommend that investors should always invest according to their risk appetite, investment horizon, and financial goals as no two investors have the same goals, investment horizon, and risk tolerance capacity.

Echoing a similar opinion, Belapurkar recommends that investors need to continue following a disciplined asset allocation approach and each investor's asset allocation is unique, which is driven by their risk return objectives and investment time horizon so if their current portfolio allocation is misaligned from their strategic asset allocation, it would be a good time to realign their portfolios.

There are various options available among equity and equity-oriented funds which provide stability to investors during the volatile market. Mostly, large-cap mutual funds and flexi-cap funds are considered more suitable by market experts during this phase whereas on the hybrid side, balanced advantage, multi asset allocation, and dynamic asset allocation funds are considered suitable.

According to Belapurkar, investors should continue to invest in a judicious mix of funds investing across the capitalization curve, with a core holding in large and flexi caps funds and he has also observed that many investors are significantly overallocated to small and mid-cap funds due to the rally in these stocks since covid, therefore it would be prudent to prune exposure in these segments to strategic asset allocation levels depending on their individual risk tolerance and investment time horizon.

On the other hand, Dhawan lists hybrid fund categories as well where investors can consider investing during this volatile or consolidation period. He shares categories where investors should make investments and where they should reduce allocation.

Firstly, during periods of market consolidation, investors can consider hybrid fund categories such as balanced advantage funds or multi-asset funds, which dynamically manage equity, debt, and sometimes commodities like gold for lumpsums, Dhawan recommended.

The next he lists banking and financial services funds as a suitable option for investment as the sector currently appears attractive and has underperformed in the recent rally due to concerns around credit-deposit growth divergence, softening net interest margins, and asset quality pressures.

“These headwinds may ease soon, with the RBI’s supportive liquidity stance and strong macroeconomic conditions offering a positive outlook. With banking sector valuations below historical averages, it may be a good time for investors to consider banking and financial services funds for a balance of stability and growth,” Dhawan recommended.

While cautioning investors on sectoral, mid cap, and small cap funds, Dhawan said that sectoral funds carry concentrated risks and are best suited only for seasoned investors and we do not recommend allocating more than 5-10% of one’s total mutual fund portfolio to any single sectoral fund and lastly investors should exercise caution with small-cap and mid-cap mutual funds as these segments have witnessed a sharp rally over the past few quarters, leading many portfolios to become overweight relative to their original asset allocation and reducing exposure in these two categories is recommended.

In July, among the diversified equity categories, flexi cap funds lost 1.94% and the multi cap funds lost 1.76%.

Going forward, the expert from Plan Ahead Wealth Advisors believes that valuations across Indian equities remain elevated compared to historical averages, especially in the midcap and smallcap segments, which have seen sharp rallies in recent quarters and given this backdrop, large-cap stocks and defensive sectors may offer more favourable risk-adjusted returns, particularly if market volatility increases.

Global risks, including geopolitical tensions and the trajectory of US Federal Reserve policy, alongside domestic events such as state elections, may lead to intermittent corrections—potentially creating entry points for long-term investors and with inflation showing signs of stability, short-to-medium duration debt funds are better positioned to benefit from the current rate cycle, offering a balanced combination of yield and lower interest rate sensitivity.

One should always consider risk appetite, investment horizon, and goals before making any investment decisions.