

Diversification over gold? Mutual fund investors picking multi-asset fund over gold ETFs

By Surbhi Khanna, Published on: November 13, 2025,



Mutual fund investors appear to be favouring diversification over traditional safe-haven assets like gold, as the monthly data released by Association of Mutual Funds in India (AMFI) shows that inflows into multi-asset allocation funds surged 7% in October, while gold ETF inflows declined by an equal 7% in the same period.

Market experts say that the shift may reflect tactical reallocation with gold up strongly and equities at elevated valuations and thus profit booking and dynamic asset-mixes are what investors are preferring.

“The 7% swing reflects an investor sentiment evolving rather than a structural rejection of gold in our view. This signals a modest rotation: not a wholesale exit from gold, but instead a tilt toward funds offering broader diversification,” Vishal Dhawan, Founder & CEO, Plan Ahead Wealth Advisors shared with ETMutualFunds.

Dhawan shares that for long-term investors, this reinforces the importance of asset-allocation discipline rather than asset-timing regardless of flows - diversification and risk management hold utmost importance.

Another expert believes that awareness from MFDs, advisors and media might have led to this shift in investor preference.

“Multi asset funds offer various asset classes including gold in a single fund and are managed by a professional fund manager making it more convenient as compared to gold ETFs. Moreover, most of the multi asset funds are taxed as an equity fund, making them more tax efficient,” Pallav Agarwal, Certified Financial Planner, Bhava Services LLP told ETMutualFunds.

According to the data released by AMFI, multi asset allocation funds received a total inflow of Rs 5,344 crore in October registering a growth of 7% from an inflow of Rs 4,982 crore in September. On the other hand, the inflows in gold ETFs declined by 7% to Rs 7,743 crore in October after witnessing the highest-ever monthly inflow of Rs 8,363 crore in September.

Post seeing this drop in inflows of gold ETFs, does this signal profit booking after recent price gains?

Agarwal attributed the decline in gold ETF inflows to the festive season, noting that investors likely turned to buying physical gold for auspicious occasions rather than booking profits. He added that in his 18 years as a mutual fund distributor, he has rarely seen clients redeem or book profits from gold funds — only once, to be precise.

Whereas Dhawan attributes the drop in gold ETF inflows to profit booking given the strong performance delivered by the asset class in the past three years. “Mounting debt, high valuations, and geopolitical risk still persist in the economy, which are supportive of gold. Hence, profit booking could be one of the reasons for this drop in gold prices,” he added.

What are multi-asset allocation funds?

Multi-asset allocation funds are hybrid funds that need to invest a minimum of 10% in at least 3 asset classes. These funds typically have a combination of equity, debt, and gold. Some schemes also add international equities, InvITs and REITs.

The equity allocation in the case of multi-asset funds could vary between 0-70%. Aggressive multi-asset funds could typically have 50-65% equity while the conservative ones could have between 35-

50%. In the case of multi-asset funds, some schemes that allocate more than 65% to equity enjoy equity taxation.

But with gold and silver rallying and offering good returns, many investors are willing to invest separately in equity, debt, and gold funds against multi-asset allocation funds.

As per the data by Value Research, in the long run say three years, multi asset allocation funds have offered an average return of 16.73% whereas gold based funds/ETFs have offered an average return of 31.84% and silver based funds gave an average return of 33.37% in the last three years.

So with a long term perspective, should investors consider replacing part of their gold exposure with the multi asset allocation funds and what allocation to have?

Dhawan explains that gold typically acts as a hedge (inflation, currency, systemic risk), and replacing gold entirely would remove a diversification anchor whereas multi-asset funds, by contrast, offer integrated diversification (equity and debt and gold/commodities) and may suit investors who want one fund to manage tactical shifts across asset classes.

“For conservative investors, gold and multi-asset funds allocation can co-exist, and for investors with higher risk tolerance, they can reduce gold allocation and increase multi-asset allocation for higher exposure to higher yielding assets over long periods of time like equities,” Dhawan recommends.

On the other hand, Agarwal recommends that long-term investors should make multi-asset funds as a part of their core portfolio because of tax efficiency, diversification and professional management and the allocation may be between 25-50% depending on the risk profile of the investor.

The assets under management of multi asset allocation funds stands at Rs 1.51 lakh crore as on October 31 whereas that of gold ETFs stands at Rs 1.02 lakh crore in the same period.

In the current calendar year so far, multi asset allocation funds have received a total inflow of Rs 34,315 crore compared to a total inflow of Rs 27,572 crore in gold ETFs in the same period.

According to a report by ET Markets, Gold prices opened higher at Rs 1,24,270 per 10 grams on the Multi Commodity Exchange (MCX) for the 5th December contract, rising Rs 357 or 0.29% in early trade. The metal continues to trade within a volatile range as global cues remain mixed — with optimism over possible Fed rate easing and a weaker dollar index providing support, even as recent profit-booking and a rebound in equities capped gains.

So in the current market scenario, is it better to stay diversified through multi asset allocation funds or take a defensive approach with gold?

Agarwal says that in the current market scenario, when Gold has shown such a strong rally in the last 1 year, he don't think that investing in gold directly is a defensive strategy and it is better to take exposure in gold through multi asset funds where the fund manager can dynamically change allocation in various asset classes as per the valuations.

Dhawan says that gold has had a strong run, remains in demand, but the marginal incremental return is less certain and equity valuations in India are elevated; some segments (mid/small cap) are also seeing moderation in inflows.

“Inflation has cooled off, but adverse taxation does hinder higher allocation to the debt market. Multi-asset funds allow flexibility across asset classes — useful in the current uncertain period if invested in, with a 5-7 year investment horizon,” Dhawan concluded.

One should always invest based on their risk appetite, investment horizon, and goals.