

Diwali 2025: Mutual fund categories that can brighten your portfolio

By Surbhi Khanna, Published on: October 17, 2025.



Many investors see Diwali as an auspicious time to begin their investment journey, but often end up delaying the first step due to confusion about which mutual fund schemes to pick. To help address this confusion, ETMutualFunds aims to guide new or existing investors this festive season. If you're planning to start investing, the first step is to understand your risk profile and choose funds that match it. If you are an existing investor and are aware of your risk profile, here is a help for you.

There are three types of investors based on the risk profiles - conservative, moderate, and an aggressive investor. ETMutualFunds reached out to a market expert to seek help and know which categories should investors focus on now.

The expert recommends that a conservative investor should focus on debt oriented funds or market neutral options, a moderate investor can take major allocation in hybrid funds and small allocation in commodity based funds and lastly, an aggressive investor can opt for flexi cap or multi cap, international funds and a minimal allocation in thematic and commodity based funds.

“Conservative investors should focus on debt-oriented funds or market-neutral options like Arbitrage Funds, aiming for stability rather than high returns and their portfolio could work best with about 60% in debt and 20–25% in equity, keeping volatility low. Short term debt funds can be used for debt exposures, and equity exposure can be taken through a combination of index and flexi cap exposures, built gradually,” Vishal Dhawan, Founder & CEO, Plan Ahead Wealth Advisors shared with ETMutualFunds.

Moderate investors are recommended to look at balanced advantage, Aggressive Hybrid, or Multi-Asset Funds, which offer a balanced mix of 40–60% equity exposure along with small allocations to gold or commodities for diversification as these funds help capture growth while protecting partially against market corrections and these could be supplemented by index and flexicap exposures, to a smaller extent, built gradually.

“Aggressive investors can opt for Flexi Cap/multi cap, index, international funds and a smaller percentage of thematic equity Funds, with 80–100% equity exposure and minimal debt. A small 5–10% allocation to commodity funds can add diversification and equity risks. Whatever the occasion, Diwali or otherwise, valuations and risk appetite should guide decisions, ensuring that portfolios stay balanced, goal-oriented, and resilient,” the expert recommended.

Both the precious metals - gold and silver - have witnessed recent rallies. According to a report by ETMarkets, precious metals opened on a strong note on Thursday, October 16, with both gold and silver futures hitting new lifetime highs. “Gold hit a new all-time high of Rs 1,28,395 per 10 grams. The yellow metal was last trading at Rs 1,27,900, up Rs 690 or 0.54% from the previous close, supported by consistent investor demand for safe-haven assets.”

“Silver too rallied in tandem, with December 2025 futures surging to a record high of Rs 1,64,150 per kg. Prices were last seen at Rs 1,63,756, up Rs 1,550 or 0.96%, as the metal gained on renewed buying interest and broader strength in bullion,” the report said.

Multi asset allocation funds invest 10% each in different asset classes which include gold and silver as well. Post witnessing the recent rally in gold and silver, Should one consider increasing allocation to gold, silver or multi-asset funds given current market conditions?

Dhawan responds that given the current market environment, it may be wise to moderately increase allocation to gold, silver, and multi-asset funds, but in a calibrated way, if the existing exposure to gold and silver is less than 5-10% of the portfolio.

“Most major asset classes are trading at elevated valuations including gold and silver. Trailing returns of multi asset funds or precious metals are higher than historical averages, equities are hovering close to record highs with valuations above long-term averages, and debt markets have probably priced in much of the rate-cut optimism, compressing yields, the analysis by the expert.

“Precious metals like gold and silver have also surged, supported by central-bank purchases, geopolitical uncertainty, and expectations of policy easing. In such a scenario, fresh allocations should focus on risk diversification rather than return chasing. Multi-asset funds can dynamically shift between equities, debt, and commodities, offering a balanced cushion if markets correct,” the expert said.

Amid the ongoing geo-political tensions and when most of the asset classes are trading at elevated levels, most of the investors are confused whether to start a new SIP, top up the existing one or go for lumpsum investment investments now. To these investors, Dhawan recommends prioritizing discipline and staggered entry rather than lump-sum investments as SIP remains the best route for fresh allocations whereas lumpsum investment should be used selectively preferably when markets correct or if valuations normalize in specific sectors.

“If investors have large cash surpluses, deploying them in liquid or short-duration funds and then gradually transferring to equities through Systematic Transfer Plans (STPs) can balance timing risk. In short, continue SIPs, top up selectively wherever you find valuation comfort, and staggering lumpsum exposure should ensure participation in growth while staying resilient amidst overvalued markets,” Dhawan recommends.

Many mutual fund investors are not sure about their risk tolerance or goals. They make investments while assuming wrong risk appetite and unclear goals which in turn lead to wrong investment decisions.

A word of caution: don't assume you have a very high risk appetite. Based on your financial situation and your mental make up, you will be comfortable with certain kinds of investments. It is extremely important to choose schemes you are comfortable with because only then you will continue with them during a bad market phase.

Many online platforms do provide you the test to confirm your risk profile if you are not aware about the same.

If you are not sure about your risk profile and still want to invest in mutual funds or want to start your investment journey, Dhawan recommends to begin with balanced or diversified options that automatically manage risk on their behalf and balanced advantage funds (BAFs) or dynamic asset allocation funds are ideal choices they dynamically shift between equity and debt based on market valuations and volatility, reducing the need for active decisions.

“Such funds offer exposure to growth during market upswings while cushioning downside risks when markets correct. Additionally, Multi-Asset Funds provide diversification across equity, debt, and gold, spreading risk across asset classes. For short-term goals or lower comfort with volatility, short-duration debt funds can be safer starting points.”

“Once investors gain clarity on their financial goals and risk appetite, they can move toward more tailored allocations. Until then, dynamic and balanced funds act as an entry point for those still discovering their true risk profile,” Dhawan recommends.

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