

How Many Funds to Have in a Portfolio

Wealth managers believe investors should diversify their mutual fund portfolios across various asset classes like equity, fixed income and gold, in such a way that they can reach their financial goals. This would mean adding more than one scheme to their portfolio.



WHY DO INVESTORS DIVERSIFY MUTUAL FUND PORTFOLIOS?

Investors have various life goals and objectives, which need to be reached over different pe-

riods. To reach these goals one would require different asset classes like equity, fixed income and gold or a combination of them. Hence portfolios need to be diversified across asset classes and different schemes.

WHY DO INVESTORS HAVE MORE THAN ONE SCHEME IN THEIR PORTFOLIOS?

Every scheme has a different utility in an investor's portfolio.

For example, to meet your emergency needs you would invest in a liquid, ultra-short-term fund or arbitrage fund; to pay for children's education one year down the line or plan for a holiday that is 1-2 years away, you could invest in an equity savings fund. If you intend to tuck away money safely for say five years down the line, you may use a target maturity fund, while a gold fund would be used as a hedge against inflation.

On the equity side, one could invest in a small-cap fund to generate alpha and meet goals that are 10 years away, while to save tax under Section 80 C of the Income Tax Act, there are ELSS funds. To allocate to large-cap stocks, one could use a passive index fund.

Investors confident about a particular broad theme and confident of timing the market will invest in a technology fund or a thematic fund like a business cycle fund, while those looking for international exposure to geographically diversified portfolios will buy a US-based or Nasdaq fund. All these lead to investors owning more than 1-3 schemes in their mutual fund portfolios.



Invesco Mutual Fund

An investor education and awareness initiative

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

WHAT IS THE OPTIMUM NUMBER OF SCHEMES FOR A PORTFOLIO?

Financial planners say it is difficult to put a cap on the number of schemes in an investor's portfolio, as investors increasingly use mutual funds to meet both long-term and short-term goals. However, they feel investors should restrict themselves to 10 schemes, as a higher number is difficult to monitor and manage.

One way to have a lower number of schemes in portfolios is to check on overlaps with a similar scheme. For example, if an investor has a large-cap scheme in the portfolio, s/he should look at how high the overlap is before adding a flexicap fund or another large-cap fund or an index fund. A high overlap indicates that there is no benefit of diversification and will not lead to any extra returns to the portfolio.

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