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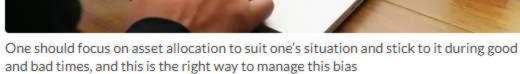
Invest in mutual funds but steer clear of 'Herd Mentality'!

Business

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'Herd mentality' impacts not only the investors, who do not have the educational background or interest, but even many educated people who get impacted from the one-way wave.















By HT Brand Studio

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The biggest deterrent in creating wealth is herd mentality. If a few colleagues at the office discuss about investing in one particular mutual fund scheme, and the potential returns that it can generate, a potential investor without a second thought, likes to invest in the same scheme. Similarly, if a

educational background or interest, but even many educated people who get impacted from the one-way wave.

This 'Herd mentality' impacts not only the investors, who do not have the

Herding is sensible rule of thumb behaviour in everyday life. But this bias can prove costly to investors. One should focus on asset allocation to suit one's situation and stick to it during good and bad times, and this is the right way to manage this bias, say financial experts.

"The only way of not getting carried away is to understand the 'Why' 'What' and 'When' of Investing. Why: For what purpose you are investing. What: the product you are investing is in line with your objective and risk appetite. For When: What is the time after which you require this corpus?" explains financial expert Nishant Kohli.

This 'Why' 'What' and 'When' will give investors clarity on making their investment decisions.

Even after investing in a good scheme, investors tend to make many common mistakes.

Mudra Portfolio Managers Founder, Director and Business Head-Wealth, Nishant Kohli, says there are three mistakes that can impact the overall financial health of the investor:

- Goal Identification and Goal-based Investments: Most people just invest because they have surplus money. They don't have any objective from investments and thus they keep on making common mistakes like choosing wrong products, trading frequently, investment skewed towards one investment style, following herd mentality, withdrawing from corpus at regular intervals. Investing without objectives is like playing football without a goal post. Deciding on the objective gives direction to one's investments.
- Periodic Review is not there: There are 5 steps for creating wealth. The first one is 'Investing' and the other Four are 'Review'.

Usually investors do not do a periodic review of their investments and objectives. The only time they will look at their portfolio is when there is a greed or fear in the market. Periodic review ensures that you are checking whether your investments are on track to your objectives, to ensure that you are not too much or too less invested in your assets class. It will help you identify if any changes are required.

 Don't count your eggs daily. Wealth creation is a marathon and not a sprint. So it's very important to ensure that you are not looking at your returns on a daily basis, it'll be like uprooting a plant daily to see how far the roots have reached, and it'll not create anything. Give it time and let it grow. Investors tend to over diversify when investing in mutual funds. "If investors add more funds, they do not add any value. Three to five equity funds are more than enough to take care of portfolio diversification. Over allocation to equity in a bull market and under allocation to equity in a bear market are the most common mistakes of investors. The rational thing to do is the reverse of this," says investment expert at FinIntellect Satheesh Kannan.

If investors have knowledge, skill set, they can weigh the pros and cons judiciously and take a logical approach. However, if not then investors should definitely take the advice of financial managers.

"The role of an manager is not or should not be limited to scheme selection, financial manager plays a crucial role as on the one hand he/she helps you identify the objectives for investments, on the other, they also ensure that you are doing periodic reviews and are not deviating from your course," says Kohli.

Thus, stop giving attention to rumours and consult your financial managers to make the right choice. Investing in mutual funds scheme and staying invested for long-term help investors achieve their financial goals.

Key takeaways

- 1) Have clear objectives and consult your financial managers instead of paying attention to noise.
- 2) Don't make impulsive decision to redeem investments.

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3) Do periodic review of your funds. Make sure that the funds are giving you the required returns. If not, interact with managers and switch or shift investments accordingly.

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