Twitter Thread by Radhika Gupta

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Ten MF mistakes I recommend you avoid...

1. Too much love

A fund does well. You fall in love with the fund house. You have a large mid and small cap scheme from them. They all tank together! Diversify. And remember being good at one thing doesn’t make you good at the other.

2. One for all

Applying the same metrics to judge different asset classes. What matters to equity funds doesn’t matter to debt funds. Arb funds are fully hedged - the individual stocks don’t matter, they do in equities. Understand what matters for each asset class.

3. Perils of passive

Assuming all passive funds are good because they are cheap. There are terrible passive funds out there too. They track bad indices. Or they track good ones but have a lot of tracking error. Passive requires its own set of research.

4. Apples and kiwis ■ ■

We have categories in MF but sadly all funds in a category are not comparable. Just because a website compares them doesn’t mean you should look beneath. BAF categories have funds that are static, dynamic bond funds have rolldowns. Just an example.

5. Discretion on discrete returns

Everyone publishes 1y/3y/5y returns but they mean little. They matter only if you invested on this day 1/3/5 years ago. And one good month can make the entire 1/3/5 series look good. Rolling returns indicate the average investor experience.

6. The monster of 1y return

The single most badly used statistic in MF. And the single most published. It indicates nothing about the future returns of a fund. In debt, in fact, it indicates the opposite. Ignore it.

7. Global gyaan

What works for the globe should work for India. Different market, different rules. For instance ETFs have huge structural benefits in the US but in India index funds are a better structure because we don’t have a great market making infra.

8. What do I hold anyway?

Read fund manager commentary. Read market views. Read twitter blogs. But don’t open your portfolio. The single most important thing to check, is what do you hold. And it’s disclosed monthly. See it.

9. Copy thy neighbour

Buy because someone is buying, sell because a WhatsApp group says so. Personal finance is personal. 100 - age doesn’t work. Two 26 year olds may have diff liabilities, family backgrounds, professions. How can their portfolio be the same.

10. Switching costs

Lots of talk about MF fees. Do you know how much you pay in switching costs between taxes and exit loads? Every churn costs us more than we estimate, so think hard about it before you hit redeem or switch.

Last thing: there is something called too much advice (including mine!). We say AdviceZarooriHai but take good and limited advice.

Finally: Our new website solutions pages have a lot more info on the above to help you make better decisions on rolling returns, portfolios, risks etc. Do use them, not just to invest but to learn. Happy investing! Stay safe.