Stay Alert! 7 pitfalls to avoid while investing in Mutual Funds

Mutual Funds may be beneficial, but risks can come in disguise.

HERE ARE 7 PITFALLS YOU SHOULD WATCH OUT FOR.

1 TAKING WRONG CALLS

One of the biggest mistakes is a wrong judgement call. Ensure your MFs meet your investment strategy and financial goals. Otherwise, the money won't work for you.

2 FOLLOWING THE HERD

Your friend or relative recommended an MF and you promptly invested without any research? What if it does not meet your brief? Avoid following blind recommendations. Only you know your true requirements.

3 NOT GETTING THE RIGHT ADVICE

Unfortunately, you may come across people who mis-sell investment products. You can avoid this pitfall by:
a) Opting for the right financial advisor,
b) Asking enough questions to determine if the recommendation is right.

4 INVESTING IN A SINGLE FUND

Yes, MFs are inherently diversified, but that does not mean you invest in a single Fund. You should always diversify further by investing in a mix of Equity, Debt and Balanced Funds.

5 HALTING INVESTMENTS WHEN MARKETS FALL

Panic is an investor's worst enemy. If you did your due research and trust your analysis, then don't stop investing or sell in a panic. There will always be rough times. Consider these as opportunities.

6 DIVIDENDS OVER GROWTH

Unless you really need a secondary source of income, it's best to reinvest your dividends. Buy additional MF units using this money. This is the way you compound your returns in the long term.

7 NOT LETTING GO OF UNDERPERFORMERS

Patience is good, but don't be too patient with the losers. Get rid of the underperformers. Your financial advisor can help you with this task if you are sure whether to wait or sell.

"This article was exclusively written for UTI Swatantra"