# The Art of Reviewing Mutual Funds

Once Nifty hit the 10,000 mark, it was cheered equally by both domestic and global investors. However, within a couple of weeks, the scenario seems to have changed with the markets turning volatile, with a negative bias. Considering the volatile nature of equity markets, it is not surprising to see such a move. Therefore, it becomes important to invest through financial instruments such as Mutual Funds wherein an informed fund manager can take the required call to tap into the opportunities presented by the market.

However, by selecting a Mutual Fund as per your financial goals, with the help of a financial advisor, is just the beginning of the long road to wealth creation. Often it is seen that one's investing decisions are highly influenced by recent short term outperformance of a particular fund. However, this is no guarantee that the fund will perform the same way in the days ahead. And hence over long term we may have funds which may not be the best for one's goals. This is where reviewing portfolio periodically becomes important; under the watchful eyes of a financial advisor as reviewing is an art which an experienced financial advisor would have mastered over the years.

Over the last decade, diversified equity funds have created enormous wealth for investors. However, most investors look at this category and refrain from making fresh investments because of the higher NAV. A big mistake that most of the investors commit while analyzing a fund is that they treat higher NAV Mutual Funds as an expensive fund as against the fund with lower NAV. In reality, the NAV is not a representative of the valuation of that fund and that higher NAV maybe just because the fund has been in existence for a long time.

Instead of reviewing the fund for its short term (six months or one year) performance, investors should instead analyze longer term performance like 3-5 year horizon. Further, the recent outperformance of the fund may be due to varied reasons like general market uptrend, holding a couple of volatile stocks in the portfolio etc. An outperformance over the longer time horizon shows the consistency of the returns for the investors.

Further, while comparing the fund, the returns should be compared with that of that particular fund's benchmark index. There may be times when the fund maybe underperforming for a brief span, but that is no signal to liquidate the holdings. It is important to check how the fund has behaved in a complete market cycle, before coming to any actionable decision. For example, when it comes to value funds which follow the principle of value investing, such funds tend to underperform in a bull markets while outperform in a sideways or bear market. So, comparing the performance of these funds to benchmark indices like Sensex or Nifty will not be a fair comparison.

When one looks at the performance of a fund over an entire market cycle, one gets the opportunity to gauge the fund manager's ability to generate returns in various market types. Also, remember churning of portfolio regularly may not necessarily help one gain superior returns. In fact, it may attract short term taxation if the investment period is below one or three years in certain cases. Therefore, when it comes to goal based investing, it is better to stay invested and ignore short term blips to meet one's goals.

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