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'Book profit to rebalance your MF portfolio, cut small, mid-cap tilt'

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The rise of the sensex to Mount 35k is being driven largely by domestic institutional investors, especially equity mutual funds (MFs). Mid-cap and small-cap stocks have played a bigger role in the relentless rise of the markets than their large-cap peers. Here is a lowdown on what equity MF investors should do even as they are all set to test new waters...

Reduce exposure to small, mid-cap funds: The BSE mid-cap and small-cap indices have surged 42% and 54.5% respectively in the last

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one year. Since the valuations of mid- and small-cap stocks are already quite high, investors would do well to reduce exposure to these MFs, say advisers.

"Investors should reduce their tilt towards mid-cap and small-cap stocks," says Suresh Sadagopan, founder, Ladder7 Financial Advisories. Rupesh Nagda, founder of wealth management firm Family First Capital Advisors, says, "We are not investing our incremental money flows into mid-caps and small-caps."

MARKING MILESTONE: Celebrations outside BSE building in Mumbai

Continue equity SIPs: Advisers say investors should continue their existing SIPs (systematic investment plans) as they are for the long term. Anil Rego, founder of wealth management firm Right Horizons, says, "There would be volatility in the short term. One needs to be a disciplined investor." Nagda says, "Irrespective of market situations, investors should remain committed to SIPs."

Exit to rebalance portfolio: With the surge in capital markets, an original asset allocation plan — for instance, to have 50% invested in equity — would have seen a change. The share of equity would have gone up to over 60% in a plan that envisaged only 50% allocation. This needs to be corrected by rebalancing the portfolio, say advisers.

Sadagopan says, "Investors should rebalance their portfolio." Nagda says, "Equity MF investors can book profits in their schemes to bring the asset allocation back to the originally envisaged plan as people have gone overboard on equities in the last one and a half years." Other advisers say, "Investors can have higher exposure to large-cap and diversified equity funds."

Do systematic transfers out of equity: Given the sharp rally in the markets, investors should consider STPs (systematic transfer plans) out of equity. Advisers suggest, "If you are over-exposed to equities, you can do a systematic transfer to debt or hybrid funds." According to wealth managers, "STP is a good tool to bring asset allocation back to the originally planned levels."

No lump sum investments: The cardinal principle for surging markets holds true even now. Don't make lump sum investments in equities, say advisers.