Your guide to what to do when mutual funds are going down

You must have all heard the saying that what goes up must go down. Afterall, no one can really fight gravity. We accept this phenomenon without question. However, when it comes to your investment portfolio, you are definitely not that generous or practical. Every time you look at your portfolio of mutual funds and see it in the red, you will definitely question why mutual funds are going down. Further, some of you may even wonder what you can do about it. Just like everything in life, lets approach this in a systematic manner. The first thing that we need to address is why mutual funds are going down.

Understanding your mutual funds better

Mutual funds are simply investment vehicles that pool investor money and then invest it across multiple asset classes like equity, debt, and commodities and as per different investment strategies. So, as an investor, when you invest in mutual funds, you have the option of investing in equity funds that can offer growth potential, debt funds that can provide downside protection, and even hybrid funds that can offer both. As a result, mutual funds offer you an excellent opportunity for portfolio diversification. Now, the thing is that like any other investment vehicle, there is an element of risk and uncertainty involved in mutual funds as well. This means that when you are creating an investment portfolio with mutual funds, you must consider things like your own risk profile, your return requirements, and also the time period for which you want to stay invested. However, since mutual funds invest in multiple different asset classes and investment types, they will obviously move up or down in terms of value since the prices of investments do not stay the same. Often, when the economic and investment landscape witnesses uncertainty, that value of your investments and your portfolio can go down. At such times, you would inevitably wonder why your mutual funds are down.

Managing your mutual fund portfolio in down markets

The reasons why mutual funds are going down can primarily be attributed to economic uncertainty in the near term and weakening macroeconomic indicators. However, more than knowing why mutual funds are going down, it is important for you to understand what you need to do when mutual funds are going down. Below are a few simple do's and don'ts that you can follow to navigate the down markets.

- **Keep calm:** This is the first and most important step. As human beings, we can't always be rational. Often emotions drive your investment decisions and tend to have a large influence on you, especially when you are losing money. Thus, when you see the value of your investment portfolio falling, you must stay calm, take a step back, and evaluate the situation logically before taking any investment decisions.

- **Continue with your Systematic Investment Plans (SIPs):** As you might already know, SIPs are a great way of investing in mutual funds. They enable you to invest a fixed amount of money in mutual fund schemes of your choice and as per time intervals that suit you best. One of the biggest advantages of SIPs is rupee cost averaging which ensures that over a longer period of time, the average cost of acquiring an investment reduces. However, this only works if you continue your SIPs through upcycles as well as down cycles.

- **Don't exit your mutual fund investments in haste:** When you see the value of your mutual fund investment falling, your first instinct would be to exit the investment and cut your losses. However, it might not be the best decision. Thus, it is important for you to evaluate the performance of that particular investment, compare it to the performance of similar funds, and assess whether the fund continues to remain true to mandate. If you are satisfied then it is best to stay invested.

- **Stick to your asset allocation strategy:** Last but not the least, you must stick to your asset allocation strategy. Your asset allocation takes into consideration your risk profile, return requirements, and investment time period and accordingly suggests the exposure you should have to different investments like equity mutual funds, debt mutual funds, commodities, etc. When confused about what to do, take help from your asset allocation strategy.

Overall, always remember that just because your mutual funds are going down, you don't need to panic and react immediately. Instead, stay calm and follow the above steps to make the best investment decisions.