investmentSDirect

"When stocks are attractive, you buy them. Sure, they can go lower.
I've bought stocks at $12 that went to $2, but then they later went to $30.
You just don't know when you can find the bottom." - Peter Lynch

8 Reasons to Relook at Your Mutual Funds Now… ..

1. Portfolio Rebalancing
Over time, trends in financial markets might cause asset allocations to diverge from desired settings.
In other words, some mutual funds can grow to a large proportion of the portfolio while others shrink to a smaller proportion, exposing you to a different level of risk.

To avoid this outcome, the portfolio can be rebalanced periodically by selling units in funds that have relatively large weights and transferring the proceeds to funds that have relatively small weights.

Under this rule, the time to sell equity mutual funds is when they have enjoyed good gains over an extended bull market and the percentage allocated to them has drifted up too high.

2. Mutual Fund Changes or Mismanagement
Mutual funds might change in a number of ways that can be at odds with your original reasons for buying.
For example, a star portfolio manager could jump ship and be replaced by someone lacking the same capabilities.
Or there may be style drift, which arises when a manager gradually alters his or her investing approach over time.

Other signals to move on include an upward trend in annual fund management expense ratios or a fund that has grown large relative to the market.
(If the fund has grown large compared to the market, managers could have difficulty differentiating their portfolios from the market in order to earn above-market returns.)

3. Investor Growth
As you gain experience and acquire more wealth, you may outgrow mutual funds.
With greater wealth comes the ability to buy enough individual stocks to achieve adequate diversification.
And with greater knowledge comes the confidence to do it yourself, whether it is actively picking stocks or buying and holding market indexes through exchange-traded funds (ETFs).

4. Life Cycle Changes
Although stocks historically have been the best investments to own over the long run, their volatility makes them unreliable vehicles in the short term.
When retirement, children's post-secondary educations, or some other funding requirements approach, a good idea is to shift out of stock-market funds into assets that have more certain

returns, such as bonds or liquid funds, term deposits, whose maturities coincide with the time that the funds will be needed.

5. Mistakes
Sometimes, investors' due diligence is incomplete and they end up owning funds they otherwise would have not purchased.
For example, the investor might discover that the fund is too volatile for their tastes.

Portfolio errors might also have been committed by the investor.
A common mistake is over-diversifying with too many funds, which can be difficult to keep tabs on and can tend to average out to market performance (less fund fees).

Another common misstep is to confuse owning a large number of funds with diversification. A large number of funds will not smooth out fluctuations if they tend to move in the same direction.
What's needed is a collection of funds, of which some can be expected to be up when others are down.

6. Valuation
Shift out of mutual funds to rebalance your fixed portfolio allocations by using a flexible or opportunistic approach.
A common valuation yardstick is the price-earnings ratio (P/E ratio) and other statistical measures pertaining to MF.

7. Something Better Comes Along
Investing legend Sir John Templeton advised selling whenever something better came along. In the mutual fund realm, some funds can come onto the market with innovations that are better at doing what your fund is doing. Or, over time, it may become apparent other portfolio managers are performing better against the same benchmarks.

8. Tax Reduction
Understanding taxation implications – both income tax and capital gains tax – is now more than important.
They can give key insights as to when to sell or rebalance classes of mutual funds. Tax implications also hold key to many a decisions in reallocation between your equity & debt schemes

Conclusion
Although these eight reasons should compel you to consider getting rid of your relatively disadvantaged mutual funds and reallocate the money into better performers – so as to help the entire portfolio emerge into green at a much early phase than the markets.