

Mutual Funds: Buy & Hold And Rebalancing

Investors generally invest in mutual funds as a long-term 'buy and hold' strategy to realize the rewards. The benefits of long-term investment cannot be argued but one needs to align the investments with proper objectives or goals. An investment objective can be linked to retirement planning, children's education planning and large item purchase planning among others. These plans need careful portfolio construction with the help of available mutual funds in a variety of asset classes to properly diversify risk and maximize investment yield. The trading methodologies like cost-averaging are used to further enhance the yield on the investment.

Similarly every investment must be rebalanced or altered in line with the alteration in the investment objectives of an investor. The changes in the life of a person or a family can bring about the change in the investment objectives. This change can possibly change the choice of asset class and/or the time horizon of the investment. This can also possibly change the risk adjusted required rate of return from the investments. Hence, a need for portfolio rebalancing is imminent.

The investors invested in a pool of mutual funds should also visit their financial consultants or financial planners to discuss their portfolio at least once every quarter to find out the viability and health of their portfolio. The investment portfolio needs to be in line with their current investment objectives.

Portfolio rebalancing strategy is not similar in various investment accounts with varying investment objectives. An example can be the comparison between the investment management of an educational plan with a home purchase saving plan. The education plan can be an age-based plan with a varying investment strategy between the ages of 1 to 18. This investment plan will also reduce the investment risk over the life of the plan decreasing the risk towards the maturity of the plan. The home purchase saving plan can be a moderate-growth plan with a constant strategy over a fixed period of time without changing the underlying asset classes to achieve the investment objective of the investor. Both plans will need portfolio rebalancing given the change in the underlying investments and their viability vis-à-vis the interest rate scenario and adjustment against inflation. The rebalancing of the portfolio can ensure proper risk-adjusted return required to achieve the objectives of the investor.

Mutual funds are a long-term investment tool designed to benefit investors while managing their long-term risk. Mutual funds are designed to provide investors with professional management, diversification, liquidity and simplicity. These benefits can be coupled with various trading strategies to optimize the investment yield. These benefits can only be realized with timely rebalancing through a professional investment manager.