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KYRON FINSERV'S

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Chasing Trends or Building Wealth? The Truth About Sectoral and Thematic Funds

The Four Most Dangerous Words in Investing: "This Time It's Different"

Sir John Templeton's timeless wisdom reminds us to be cautious about market trends that appear invincible.

As sectoral and thematic funds gain momentum, many investors believe past risks no longer apply. But is this enthusiasm warranted, or are investors falling for a market fad?

Let's break it down.

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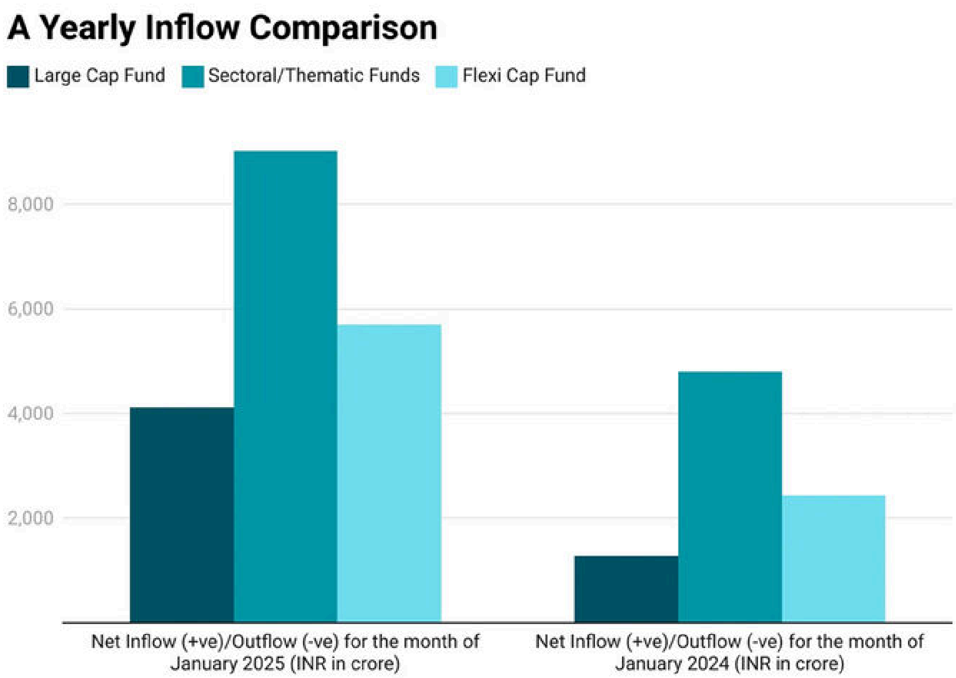
The Surge in Sectoral & Thematic Funds



Sectoral and thematic funds have grown significantly in popularity.

- Record Inflows: The segment attracted ₹9,016.60 crore in January 2025, up from ₹4,804.69 crore in January 2024.
- Outpacing Traditional Funds: Compared to large-cap funds (₹4,122.95 crore) and flexi-cap funds (₹5,697.58 crore), sectoral and thematic funds led the equity category.
- This surge is driven by new fund launches and aggressive marketing, making these funds the highest-grossing category in the equity space.
- While these funds often outperform during sectoral upcycles, the key question remains: Are they a long-term investment strategy or just another market trend?

Why the Craze?

Several factors are fueling the growing interest in sectoral and thematic funds:

- **Aggressive Fund Launches and Marketing:** Fund houses promote strong past returns and favourable growth prospects.
- **Performance Chasing:** Investors looking for high returns gravitate toward funds that capitalize on current trends.
- **Fear of Missing Out (FOMO):** Seeing certain sectors outperform, investors rush to participate in the rally.

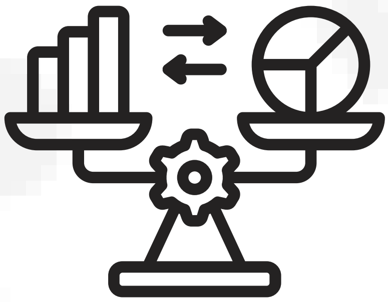
However, the same factors that make these funds appealing also increase the risk of misjudgment. Entering at the peak of a market cycle can lead to poor results when the sector cools down.

Sectoral and Thematic Funds vs. Diversified Funds

Factor	Sectoral/Thematic Funds	Diversified Funds
Investment Focus	Specific industries/themes (e.g., banking, technology, ESG)	Spread across multiple sectors
Risk & Volatility	Higher due to sector concentration	Lower due to diversification
Market Timing	Critical for strong returns	Less dependent on timing

Where Do These Funds Fit in a Portfolio?

To manage risk effectively, sectoral and thematic funds should be a part of the satellite portfolio rather than the core portfolio.



- **Core Portfolio (70-85%):** Diversified equity funds, index funds, and balanced funds for long-term stability.
- **Satellite Portfolio (10-15%):** Sectoral and thematic funds to capitalize on specific market trends.
- A well-balanced portfolio ensures exposure to high-growth opportunities without excessive risk.

What Should Investors Do?

- **Prioritize Asset Allocation** – Build a strong core portfolio before investing in sectoral or thematic funds.
- **Limit Exposure** – Keep allocation to these funds at 10-15% of the total portfolio.
- **Invest in What You Know** – Choose funds in sectors where you have expertise.
- **Avoid Chasing Trends** – Focus on long-term sectoral fundamentals rather than short-term hype.
- **Have an Exit Strategy** – Sectoral cycles are volatile, so planning when to exit is essential.

Final Thoughts: Are These Funds Right for You?

Sectoral and thematic funds can enhance returns, but they come with higher risk. It is better to approach them strategically, with discipline and awareness of market trends.

The key takeaway: These funds are not for everyone. Success depends on careful selection, disciplined allocation, and a well-defined investment approach.

If used wisely, they can add value to a portfolio without jeopardizing overall stability.

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