

MID-CAP GROWTH

Is a Mid-Cap Fund Right for You? 5 Things to Consider

Caps in the stock market refer to the overall, total value of a publicly traded company's outstanding shares. It is an essential metric often used to categorise stocks. The primary categories include large-cap, mid-cap, and small-cap. Mid-cap stocks fall in the middle. Now, you may think if it makes sense to invest in them. Well, in investing, there is rarely a simple yes or no answer. It ultimately comes down to what you want from your investments and your goals, risk appetite, and investment horizon. And to figure that out, you first need to understand what mid-cap funds are.

What are mid-cap funds?

A mid-cap mutual fund is a type of mutual fund that invests at least 65% of its total assets in stocks of mid-cap companies. These companies are those ranked 101st to 250th in terms of market capitalisation. They are typically mid-sized businesses. So, they are not as established or stable as large-cap companies, but they are more developed and potentially less volatile than small-cap firms.

This offers them a middle ground - a balanced mix of growth potential and relative stability. So, in a way, mid-cap investment can offer the best of both worlds. They help keep your risk relatively lower while maintaining the potential to build wealth.

Essential points to consider before investing in a mid-cap fund

Here are some important things you should keep in mind before investing in a mid-cap mutual fund:

1. Mid-cap funds are more suitable for long-term goals

Mid-cap funds belong to the equity category, which makes them more appropriate for long-term goals. These may not be ideal for near-term needs, as market volatility can impact mid-cap mutual funds returns in the short run. A long investment horizon is essential to ride out the ups and downs and benefit from the fund's full potential.

2. Mid-cap companies are more vulnerable during economic downturns

Mid-cap companies are still growing. This makes them more susceptible to market slowdowns, economic uncertainty, and volatility. Unlike large-cap companies, they may not have the same foundation to withstand turbulent conditions. If you

are uncomfortable with fluctuations, investing in mid-cap funds may not offer a smooth experience.

3. Mid-cap funds carry a moderate risk-return profile

Sitting between large-cap and small-cap funds, mid-cap funds offer a balance of risk and return. They may not be relatively moderate as large-cap funds, but they are generally less risky than small-cap funds. Similarly, while they have the potential to grow more than large-cap funds, their growth potential might not match that of small-cap funds, but generally risk of the scheme is found high

Are mid-cap investment funds right for you?

A mid-cap fund can be the right choice for you if:

- You are seeking a balance of growth and stability: Mid-cap companies are positioned between the comparatively aggressive small-cap firms and the relatively moderate large-cap businesses. If you are looking for investments that have growth potential but are not extremely volatile, mid-cap funds may strike the right balance.
- You want to diversify beyond large-cap and small-cap funds: Many investors focus only on large or small-cap funds and end up overlooking the mid-cap segment. Including mid-cap funds in your mutual fund portfolio can enhance diversification and reduce risk.
- You have a long-term investment horizon: Mid-cap funds tend to perform better when held over the long term. If you are willing to stay the course, these funds may help you meet long-term financial goals.

Conclusion

While mid-cap funds are often seen as having a moderate risk profile compared to large-cap and small-cap funds, it is essential to remember that they still belong to the equity category. Therefore, they are inherently high-risk. So, before investing, you must assess your risk appetite and ensure you are comfortable with potential market volatility.

Additionally, it is important to research thoroughly and choose a mid-cap mutual fund that provides exposure to a well-diversified portfolio of mid-sized companies.

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.