

Reasons Why Mutual Funds Are Popular

Investing enables us to do more with what we have. It's a way to secure our financial future and enjoy the maximum returns on our money. Strategic investments can bring quick appreciation, sound yields, and steady capital gains with optimal risk management.

Mutual Funds are one of the most popular investment options for a reason. A mutual fund is an investment vehicle that pools money from several investors to purchase a variety of investments and invests it in stocks, bonds, short-term money market instruments, and other securities.

It's attractive to seasoned investors or those just starting out due to its ability to diversify portfolios, and manage risk factors through tactical allocation.

It allows small investors who may not have access to professional advisors gain access to diverse portfolio opportunities without paying excessive trading costs which would be incurred if making individual transactions.

Funds are selected on quantitative parameters such as volatility, risk-management returns, and rolling returns coupled with a qualitative analysis of fund performance and investment styles through regular due diligence processes.

Mutual Fund products of all leading Asset Management companies are made available to valued customers through all major CBS branches across the country with the help of our AMFI Certified Marketing Officers.

So what is a Mutual Fund basically?

A [mutual fund](#) is a financial tool that pools money from different investors. The pooled money is then invested in securities like stocks of listed companies, government bonds, corporate bonds, and in the money market.

As an investor, you don't directly own the company's stores that mutual funds purchase. However, you share the profit or loss equally with the other investors of the pool. This is how the word "mutual" comes with a mutual fund.

You get the advantage of the expertise of the fund manager and regulatory safety of the Securities Exchange and Board of India (SEBI) in India. The professional fund manager ensures a maximum return to investors.

Types of mutual funds

Mutual funds come in different varieties, designed to meet different investor aims and objectives. Mutual funds can be classified based on types which are

- Organisation Structure – Open-ended, Close-ended, Interval mutual
- Management of Portfolio – Actively or Passively mutual
- Investment Objective – Growth, Income, Liquidity mutual
- Underlying Portfolio – Equity, Debt, Hybrid, Money market instruments, Multi-Asset mutual
- Thematic / solution oriented – Tax saving, Retirement advantages, Child welfare, Arbitrage
- Exchange Traded Mutual Funds
- Overseas mutual funds

- Fund of funds mutual

How do mutual funds work?

By pooling money together from different investors. That money then gets used to purchase various stocks, bonds and other securities. Because mutual funds invest in a collection of companies, they provide instant diversification (thus lower risk) to investors. Mutual fund investors share in the fund's profits and losses both.

You have probably heard of index funds and ETFs, which are two types of passive investment of mutual funds. There are also, however, actively managed mutual funds. These mutual funds are run by fund managers who select your investments and buy/sell securities based on the fund's goals.

Structure of Mutual Funds in India

The structure of mutual funds in India has three important entities and these three entities are involved in setting up and managing a mutual fund, according to SEBI (Securities and Exchange Board of India) regulations in the country.

A sponsor – This is a person or an organization that develops the fund. The fund sponsor is responsible for approaching SEBI and getting complete approvals for setting up a mutual fund.

Trust and trustees – Once the sponsor gets the approval from SEBI, a Public Trust is formed by the fund sponsor as per The Indian Trust Act of 1882 and registered with the Securities and Exchange Board of India. A trust hence formed appoints trustees to manage that trust.

These trustees are responsible for ultimately managing an Asset Management Company (AMC) as per the Companies Act of 1956. These trustees are a significant part of a mutual fund

set-up as they are the ones answerable to the investors.

Asset Management Company – the AMC manages a mutual fund in its entirety. They are responsible for hiring an experienced fund manager with the right skills and a great understanding of the financial markets to manage the fund. They are also responsible for introducing various schemes that match the different financial requirements of the investors.

Advantages of Mutual Funds

1) Advanced portfolio management

When you buy a mutual fund, you pay a simple management fee as part of your expense ratio, which is used to hire a professional portfolio manager who can buy and sell stocks, bonds, etc. So basically it's a small amount to pay for professional help in managing an investment portfolio.

2) Dividend reinvestment

As dividends and other interest income sources are declared for the fund, they can be used to purchase extra shares in the mutual fund, which helps your investment grow.

3) Risk reduction

Diversification can reduce portfolio risk, as most mutual funds will invest in anywhere from 50 to 200 various securities depending on the focus. Various stock index mutual funds are owned by 1,000 or more individual stock positions.

4) Fair pricing

Mutual funds are easy to buy and simple to understand basically. They typically have low minimum investments and are traded only once daily at the closing net asset value (NAV).

Disadvantages of Mutual Funds

1) High expense ratios and sales charges

If you're not paying attention to mutual fund expense ratios and sales charges, they can get worse sometimes. Be very cautious when investing in funds with expense ratios that can sometimes go higher than 1.50%, as they are considered to be on the higher cost end.

2) Tax inefficiency

Investors do not have options when it comes to capital gains payouts in mutual funds. Due to the turnover, redemptions, gains, and losses in security holdings throughout the year, investors receive distributions from the fund that are uncontrollable tax events.

3) Poor trade execution

If you place your mutual fund trade anytime before the cut-off time for same-day NAV, you'll get the same closing price NAV for your buy or sell on the mutual fund.

Here are some reasons why mutual funds are popular

1) Built-in diversification

Diversification may be the biggest benefit of mutual funds. Investing in mutual funds means you can buy one fund and obtain instant access to hundreds of individual stocks or bonds available in the market.

2) Professional management

Many investors don't have the resources, knowledge or time to buy individual stocks. This is where professional management plays an important role. Investing in individual securities, such as stocks, takes resources and a considerable amount of time.

By contrast, mutual fund managers and analysts are dedicating their professional lives to researching and analyzing current and potential holdings for their mutual funds.

3) A wide range of funds to choose from

The mutual fund comes in many types. There are stock funds, bond funds, sector funds, target-date mutual funds, money market mutual funds, balanced funds and so on.

Mutual funds let you invest in the market whether you believe in active portfolio management or you prefer to buy a segment of the market with no interference from a manager. The availability of different types of mutual funds lets you build a diversified portfolio at a low cost.

4) Easy to buy and sell

Many mutual fund companies let investors invest as little as \$50 per month directly into a mutual fund and money can be taken now from a bank account and invested in the mutual fund again.

5) Offer automatic reinvestment

An investor can easily and automatically have capital gains and dividends reinvested into their mutual fund without a sales load or paying any extra fees. Unless you are looking for income you have to choose the option to reinvest dividends and capital gains.

6) Mutual funds offer transparency

Mutual fund holdings are publicly available which ensures that investors are getting all the data. Investors can also see the underlying securities such as (stocks, bonds, cash, or a combination of those) that the mutual fund portfolio holds.

All of the information you need to know, some you don't need for investing, will be found in the mutual fund policies, which can easily be found on the mutual fund company's website.

7) Have audited track records

A mutual fund company must maintain performance track data for each mutual fund and have them audited for accuracy, which ensures that investors can trust the mutual fund's stated returns. Mutual fund companies also provide a prospectus for each fund, as well as semi-annual or annual reports.

How to buy mutual funds?

To begin with, let us first have a look at the very important part of your first mutual fund purchase process- completing KYC or eKYC.

How to buy mutual funds online?

To invest in mutual funds online, the following steps are:-

1. Visit the official website of the fund house in whichever scheme you are interested in and click on the "Register New User" button.
2. You will be redirected to a new page where you will be asked to fill out the registration form.
3. You will have to enter your details such as name,

address, bank account details, PAN, Aadhar number, etc.

4. After entering the details, you will have to complete the eKYC process, if you have not completed it in the beginning.
5. Once the eKYC is completed, it can take a few days for the fund house to create a new account.
6. You will get an email with your login details from your fund house once your account is created.
7. Login to your account, and you can find details of all the different schemes offered by the fund house to you.
8. Select the scheme of your choice and enter the investment price before completing the online payment.

How to buy mutual funds offline?

1. If you want to go through the offline method,
2. You will have to visit the nearest branch office of the fund house or any bank can help you start investing in mutual funds offline.
3. You can fill out an investment form and fill in the details like your name, address, PAN, Aadhar number, etc.
4. Along with your details, you have to select the scheme you want to invest in.
5. The payment can be made through cheque or demand draft option.
6. It can take 4-5 working days for the fund house to allot the fund units to your name.
7. Alternatively, the investment form, along with the

cheque or demand draft, can also be submitted at any of the POS (Point of Sale) of registrars.

8. The investment process through banks is also the same.

4 steps to selling a mutual fund

1. Contact your financial advisor, the mutual fund company that sold you the fund, or someone in their company. If you bought directly from the mutual fund company, contact them directly or visit the nearest branch from whom you have purchased it.

2. Ask about any fees or charges you may pay to sell your mutual fund units or shares. You have to Find out how much before you decide to sell. You may have to pay a sales charge if you bought a mutual fund with a deferred sales charge.

The size of the sales charge depends on how long you have held the fund, and the company you're dealing with. If you're buying a fund with a deferred sales charge, ask if you can sell a certain number of units or shares (often 15%) for free each year.

3. Decide how many units or shares you want to sell. The price of most mutual funds is calculated at the end of each working day. You may have to sign a form stating that you want to sell your units or shares.

4. Give instructions on what to do with the money: You can have the advisor or company send you a cheque, deposit the money in your bank account or use it to buy other mutual funds or investments.

If you want to move your money to another fund at the same mutual fund company, you can usually do simple exchange things. This may save you some time and money.

Advantages of mutual fund SIPs

1) Simplicity of choice

With SIP, you can begin by investing small amounts as small as Rs 500 each month and watch it grow.

2) Rupee Cost Averaging

The different feature of SIP is the Rupee Cost Averaging, where you buy more units when the market is low and buy less when the market is high. This is because of the inherent feature of SIP, where you will buy more at every market situation, reducing your investment cost and higher gains.

3) Flexibility

SIP offers you great flexibility. Long-term commitments like investing in instruments like Public Provident Fund or Unit Linked Insurance Plans can be avoided with SIP.

4) Higher returns:

As compared to traditional fixed deposits or recurring deposits, SIP offers double the returns. This can help you beat the inflated costs.

5) Power of compounding

SIP manages on the principle of receiving compound interest on your investments. Basically, a small amount invested for a long time fetches better returns than a one-time investment.

6) Acts as an emergency fund

Being an open-ended fund without any tend, you can withdraw your SIP Investment as a contingent fund.

Advantages of mutual fund STPs

1) Reduces risk:

Many use the systematic transfer plan to shift from risk to less risky situations. Many investors use the plan to transfer the mutual fund's units from equity to debt mutual funds.

2) Brings Portfolio balance:

Systematic Transfer Plans bring the balance between equity and debt funds so that there is an optimal return and risk.

3) Stable & High Returns:

If you're looking to earn stable returns, then STP is a unique choice. You can still make interest from the source mutual fund until you transfer the amount. However, you can still earn high returns when you shift to a good asset during a market fluctuation period.

4) Rupee Cost Averaging:

This technique lets you invest in securities which have a low price and sell them when the market value changes. In short, the Rupee Cost Average offers capital gains on individual securities.

Advantages of mutual fund SWPs

1) Flexibility:

In an SWP plan, the investor can set the amount, frequency and date according to your requirement. Also, the investor can stop the SWP at any point in time / or can add further investments or even withdraw costs over and above the fixed SWP withdrawals.

2) Regular Income:

SWP in mutual funds facilitates investors by offering a regular income from their investments. Therefore, this becomes highly convenient, simple and useful for those who required regular cash flow to meet regular expenses.

3) No TDS:

For resident individual investors, there is no TDS on the SWP prices.

What are some myths surrounding mutual fund investment?

- Myth1: Mutual Funds are for experts.
- Myth2: Mutual Fund investments are only for the long-term period.
- Myth3: Investing in mutual funds is the same as investing in the stock market / Mutual Fund is an equity product.
- Myth4: Mutual funds have the capability to deliver high returns based on the risk of the funds. But mutual funds do not guarantee returns.

Why Would Someone Choose a Mutual Fund Over a Stock?

Whether stocks or mutual funds are better for your portfolio depends on your goals, objectives and risk tolerance. For many investors, using mutual funds is useful if they are looking for a long-term retirement portfolio, where diversification and less risk might be more important.

For those hoping to capture the value and potential growth, individual stocks provide a way to boost returns, as long as

they can emotionally handle the ups and downs. For beginners who have a small price to invest Starting with index mutual funds and making regular contributions can be an effective way to build their portfolio.

Later, after becoming more experienced, consider branching out into individual stocks. Carefully consider your goals and use investments to build a strategy designed to help you get there. If investing in the stock market feels too risky for you, consider these low-risk investments for your portfolio.

Summary

Mutual funds provide Indian investors with a reliable, time-tested method of growing investments at a rate faster than traditional investment methods. They have the potential to give you higher returns, capital growth, and income generation, provide a hedge against inflation, and enable funds generation to meet various long- and short-term needs.

Disclaimer: The data and information provided here are meant to be used for reference only, and not as professional advice.

FAQ's on Mutual Funds:

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