DhananjayLICI

WHAT IS MUTUAL FUND?

A mutual fund is a pool of money from numerous investors who wish to save or make money just like you. Investing in a mutual fund can be a lot easier than buying and selling individual stocks and bonds on your own. Investors can sell their shares when they want.

Professional Management

Each fund's investments are chosen and monitored by qualified professionals who use this money to create a portfolio. That portfolio could consist of stocks, bonds, money market instruments or a combination of those.

Fund Ownership

As an investor, you own shares of the mutual fund, not the individual securities. Mutual funds permit you to invest small amounts of money, however much you would like, but even so, you can benefit from being involved in a large pool of cash invested by other people. All shareholders share in the fund' s gains and losses on an equal basis, proportionately to the amount they've invested.

Mutual Funds are Diversified

By investing in mutual funds, you could diversify your portfolio across a large number of securities so as to minimize risk. By spreading your money over numerous securities, which is what a mutual fund does, you need not worry about the fluctuation of the individual securities in the fund's portfolio.

Mutual Fund Objectives

There are many different types of mutual funds, each with its own set of goals. The investment objective is the goal that the fund manager sets for the mutual fund when deciding which stocks and bonds should be in the fund's portfolio.

Types of mutual funds by structure

Close ended fund/scheme: A close ended fund or scheme has a predetermined maturity period (eg. 5-7 years). The fund is open for subscription during the launch of the scheme for a specified period of time. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units on the stock exchanges where they are listed. In order to provide an exit route to the investors, some close ended funds give an option of selling back the units to the mutual fund through periodic repurchase at NAV related prices or they are listed in the secondary market.

Open ended fund/scheme: The most common type of mutual fund available for investment is an open-ended mutual fund. Investors can choose to invest or transact in these schemes as per their convenience. In an open-ended mutual fund, there is no limit to the number of investors, shares, or overall size of the fund, unless the fund manager decides to close the fund to new investors in order to keep it manageable. The value or share price of an open-ended mutual fund is determined at the market close every day and is called the Net Asset Value (NAV).

Interval schemes: Interval schemes combine the features of open-ended and close-ended schemes. The units may be traded on the stock exchange or may be open for sale or redemption during predetermined intervals at NAV related prices. FMPs or Fixed maturity plans are examples of these types of schemes.

Types of mutual funds by nature

Equity mutual funds:

These funds invest a maximum part of their corpus into equity holdings. The structure of the fund may vary for different schemes and the fund manager's outlook on different stocks.

The Equity funds are sub-classified depending upon their investment objective, as follows:

- ***Diversified equity funds***
- ***Mid-cap funds***
- ***Small cap funds***
- ***Sector specific funds***
- ***Tax savings funds (ELSS)***

Equity investments rank high on the risk-return grid and hence, are ideal for a longer time frame.

Debt mutual funds:

These funds invest in debt instruments to ensure low risk and provide a stable income to the investors. Government authorities, private companies, banks and financial institutions are some of the major issuers of debt papers.

Debt funds can be further classified as:

- ***Gilt funds***
- ***Income funds***
- ***MIPs***
- ***Short term plans***
- ***Liquid funds***

Balanced funds:

They invest in both equities and fixed income securities which are in line with pre-defined investment objectives of the scheme. The equity portion provides growth while debt provides stability in returns. This way, investors get to taste the best of both worlds.

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