MUTUAL FUND

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Essentially, the money pooled in by a large number of people (or investors) is what makes up a Mutual Fund

Benefits:

* Professional fund management
* Spending risk
* Transparency
* Choice
* Regulations

NAV:

* Cumulative market value of assets of the fund not of its liabilities
* Net value of assets/number of units
* Buying and selling is done on NAV related prices
* NAV should be published on daily basis
* On close ended scheme – weekly basis

Types of Risks Associated with Mutual Funds

1. Market risks: When the value of investments declines due to unavoidable factors that affect the market. These factors can be factors such as financial crisis, economic stagnation, government reforms or scams caused by the government that inadvertently affect the funds or hamper a sector thereby giving negative returns.
2. Interest rate risks: It is the risk associated with interest rate fluctuations which are linked to mutual funds having large exposure to fixed income securities. They can be either government bonds or corporate bonds. When interest rates rise, the value of fixed income securities/bonds drop. And when interest rates decline, bonds will appreciate.
3. Credit risk: When you lend money to your friend and after sometime he/she fails to pay you back that amount, it is called as credit risk. When you invest in a bond fund the money is ultimately invested in some securities which are rated. When the issuer of the bond fails to pay back the required payment it is called as credit risk. Always ensure that when investing in a fund, it should be invested in higher grade investment securities because there are chances that the company can default in terms of paying interest or principal or both
4. Liquidity risk: Liquidity refers to the readiness to sell an asset. When you’re not able to sell and raise money from your investments without loss is called as liquidity risk.    
     
   Types of mutual funds

* Equity funds
* Debt funds
* Hybrid funds

Equity funds

These invest predominantly in equities i.e. shares of companies

The primary objective is **wealth creation** or **capital appreciation**.

They have the potential to generate higher return and are best for long term investments.

Debt funds

A debt fund is a Mutual Fund scheme that invests in fixed income instruments, such as Corporate and Government Bonds, corporate debt securities, and money market instruments etc. that offer capital appreciation.

Debt funds are also referred to as Fixed Income Funds or Bond Funds.

A few major advantages of investing in debt funds are low cost structure, relatively stable returns, relatively high liquidity and reasonable safety.

Hybrid funds

Combination of equity and debt funds

1. On the basis of objectives
2. On the basis of flexibility

1.

* Equity funds

Funds invested in equity share

Objectives of capital appreciation

1. Diversified

Risk averse investors

1. Sector specific

Primarily in equity shares

Investors who are bullish

1. Index based

CNX Nifty

Money is invested only in stocks, which represent the index

Give return equivalent to market returns

* Tax saving funds

Tax benefits

* Debt/income funds

Bonds, debentures

Medium long-term investors

* Liquid funds

Highly liquid money

Day

Alternative for savings

Corporate, institutional investors

* Gift funds

Central and state funds

Secured return and safety of principal amount

Medium long-term investors

* Balanced funds

Equity and debt

Study return

Medium to long term investors

2.

* Open ended

No fixed date of redemption

Open for subscription and redemption

Prices are linked to daily net asset value

* Close ended

During IPO

Fixed date of redemption

Discount

Open only once

Units are tradable

Investment plans

* Growth and dividend plans

Returns are reinvested and very few income distributions are made

Income is distributed time to time

* Dividend reinvestment plan

Carry another option for reinvestment

Increase the number of units

Rights

* Receive unit certificates confirming your title within 6 weeks
* Receive info about investment policies, objectives, financial position and general affairs
* Receive dividend within 30 days of its declaration
* Receive redemption or repurchase within 10 days
* Unit holders should be informed
* 75 % of unit holders can terminate the AMC of the fund
* 75 % of unit holders can pass a resolution
* An investor can complaint to SEBI

Fund offer document

* Provides info about a particular scheme
* Guidelines and must disclose details about

Investment objectives

Risk factors

Summary of expenses

Constitution of fund

Guidelines on how to invest

Organisation and capital structure

Tax provisions related to transaction

Financial information

FUND MANAGEMENT

* Active
* Fund manager decides which company to invest based on research
* Fund buys and sells securities actively from time to time

Basic investment styles

* Growth investing style

Obtain capital appreciation

A growth manager looks for companies that are expected to give above average earnings growth, the stock prices will be even higher

* Value investment style

Looks for companies that are believed to be undervalued

* Passive
* Fund manager is a decision maker
* Mutual funds that offer index funds whose objectives is to equal the return by selecting market index
* The prefer to invest in a portfolio of stocks that reflect a market index such as nifty index
* No attempt is made to try and beat the index.
* Research has shown that most fund managers are unable to constantly beat the market index year after year.
* Also, it is not possible to identify which fund will beat the market index. Therefore, there is an element of going wrong in selecting a fund to invest in.

Exchange traded fund

* It trades like stock
* It isn’t mutual fund, it is just like another company
* ETF prices charges throughout the day
* When ETF replicate indexes, there is no guarantee that they will do exactly
* ETF trade like stocks, you can short sell them, buy them on margin and purchase as little one as share
* Expense ratio is low
* Broker is given same commission

SIPS, SWPS, STPS:

Systematic Investment Plan:

* Monthly instalments
* Offer a host of other facilities:
* Booking profits on fund investment
* Shifting money from one hand to another
* Reinvesting dividends

Systematic Withdrawal Plan

* Equal instalments at periodic intervals
* Reduce impact of timing
* Choose quantum and periodicity

Systematic Transfer Plan

* Periodic transfer from one hand to another
* Specify the instalment and periodicity of transfer
* It helps to rebalance your portfolio
* Invest lumpsum in liquid or floating rate fund

Conclusion

Mutual Funds are investment vehicles that pool in the money of many investors and professionally manage the funds so collected. They then share out the returns with the investors. The investors can also buy and sell mutual fund units from the fund or on the stock exchanges. Mutual funds offer various types of investment objectives like growth, income and mixed. They open for offer through a new fund offer. The scheme may be open or close ended. There are various types of funds/schemes based on the objective like debt funds, sector funds, growth funds, etc. ETF is a mutual fund traded on a stock exchange.