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Active Vs Passive Index

Active funds

Active funds / actively managed funds are traditional MF's where fund manager is ACTIVE to DECIDE the PORTFOLIO means they conduct research and decide what to buy and what to sell.

Eg:- If you invest 10 Lacs in Axis bluechip fund today, fund manager will invest in to infosys if he thinks that stock will increase in next few months. if they think wipro stock will go down they sell that stock.

Passive funds

Passive funds / Passively managed funds investments / portfolio is NOT decided by the fund manger based on research rather they are decided by one of the UNDERLYING portfolio like NIFTY 50 / BSE SENSEX / DOW JONES / S&P 500 etc.. These index etc is already decided by stock Exchange like NSE, These MF's are following those indices.

Eg :- In BSE Sensex, top 30 companies in india (based on market capitalisation) are included by Bombay stock Exchange (BSE), those stocks are like reliance, TCS, Infosys, HDFC bank etc. they will change the list of those stocks if another co is bigger than these stock on market cap (or free float market cap, free float market cap is market cap x shares that are tradeable in the market like shares owned by public, not promoters). if index is changed these passive funds portfolio is also changes else NO

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In recent times, more money of investors is invested in to passive funds, reasons are

1. The expense ratio of these funds is less. management fee is charged less in these funds since the fund house like axis bank is not spending more money for research staff cost etc so they charge less. Normal/Active MF, they charge around 2% mgt fee, in these funds they charge around 0.1 to 0.5%

2. Very few active funds are generating better returns than these passive funds which (means other active funds are giving lower returns) which means these passive funds are more successfull to give returns than active funds

These passive funds are able to provide consistent return mainly due to
A) They are investing in top co's/quality co's so those kind of co's generally keep growing.
B) index will be changed to remove non-performing co's, add performing or growing co's.
Eg :- in 2020, due to covide, most of the Health care sector co's stranted growing, share values and market cap is increased which means those stocks are now added in index, non performing co's like Yes bank etc. are removed.

Examples for these passive funds are
1. Index funds
2. Exchange traded funds (ETF)

Difference

Index fund	ETF
May not be traded in stock Exchange (open ended funds)	Traded in Exchange like stock
subscriptions, redemption will happen based on NAV and with out trading A/C also they can be baught and sold	must have demat & trading account to buy and sell
today change in the market will reflect in tomorrows NAV	Real time change in the price based on change in the underlying index

International fund

1) These funds invest into international stocks
If Motilal oswal launches an international stock they will collect the money in india, they will invest in international stocks like apple, google, JP morgan, goldman Sc etc.

2) These funds will give an option to hold international stocks in the portfolio so that investors can have top quality stocks with them, some times these stocks will appreciate at a very high speed due to quality in that business.

3) One of the risk/advantage on this fund is foreign currency Exchange rates risk.
Eg:- if you have invested Rs. 1 Lac, at the time of investment, 1\$ = ₹75, if that currency Exchange rate changes to 1\$ = ₹80, you will get more rupees,

more profits. Same way, if the exchange rate changes from ₹ 75 to ₹ 70, you will get less rupees on sale so your profit will go down or you will makes loss.

Commodity fund

These funds will invest into Commodities like gold. which means if the fund of the commodity increase the NAV of the fund will increase.

Generally, the Commodity market prices will have different risk. different timings when Compared to equity prices/ Equity markets, when equity markets are falling due to Covid. the Commodities like gold will go up. so these commodity funds will can gave risk ~~diversification~~ diversification to the investors.