

# Mutual Funds Explained in One Page

*Everything You Need to Know to Get Started*

## What Is a Mutual Fund?

A mutual fund pools money from many investors and invests it in stocks, bonds, or other securities. Think of it as hiring a professional chef (fund manager) who creates a balanced meal (portfolio) using ingredients (stocks/bonds) that you couldn't efficiently buy or cook yourself. You own a portion of this collective investment based on your contribution.

## Why Use Mutual Funds?

### Expert Management

Professionals research and manage investments full-time

### Instant Diversification

Your ₹5,000 buys into 50+ companies

### Easy Access

Start with as little as ₹500/month

## Types You Should Know

### Equity Funds

**Invest in:** Stocks

**Risk:** High

**Suitable for:** 5+ years

**Potential:** 12-15% annually

### Debt Funds

**Invest in:** Bonds, fixed income

**Risk:** Low-Medium

**Suitable for:** 1-3 years

**Potential:** 6-8% annually

### Hybrid Funds

**Invest in:** Mix of stocks & bonds

**Risk:** Medium

**Suitable for:** 3-5 years

**Potential:** 10-12% annually

### Liquid Funds

**Invest in:** Ultra-short bonds

**Risk:** Very Low

**Suitable for:** Emergency fund

**Potential:** 5-6% annually

## Understanding NAV (Net Asset Value)

**NAV** is simply the price per unit of a mutual fund, calculated daily. **Important myth to break:** A fund with NAV of ₹50 is NOT cheaper than one with NAV of ₹500. What matters is the percentage return, not the NAV number itself. Don't wait for NAV to "fall" before investing—that's like waiting for a thermometer reading to drop before checking if you have a fever!

## Three Critical Choices

### 1. Direct vs Regular

**Choose Direct** — saves 0.5-1% annually. Over 20 years, that's ₹10-15 lakh extra!

### 2. Growth vs IDCW

**Choose Growth** — better compounding and tax efficiency

### 3. Lump Sum vs SIP

**Choose SIP** — ₹5,000/month removes timing stress

**The Golden Rule:** Your returns depend 80% on your behavior (staying invested, not panic-selling) and only 20% on fund selection. Time in the market beats timing the market!

## Common Mistakes to Avoid

- **Chasing last year's winners** — Past performance doesn't guarantee future returns
- **Panicking during market falls** — Corrections are normal; stay invested for long-term
- **Owning too many funds** — 4-6 well-chosen funds are enough; more creates confusion
- **Ignoring costs** — A 1% higher expense ratio costs you 20-25% over 20 years
- **Checking portfolio daily** — Review quarterly, not daily. Reduces stress and bad decisions

## Getting Started: Simple 3-Step Process

**Step 1: Complete KYC (one-time online process using Aadhaar)**

**Step 2: Choose 2-3 funds based on your goal timeline (equity for 5+ years, debt for 1-3 years)**

**Step 3: Start SIP of ₹2,000-5,000/month in direct plans and stay invested**

## How to Invest

You can invest through: **(1)** AMC websites directly (HDFC MF, ICICI Prudential, SBI MF, etc.), **(2)** Investment platforms (Groww, Zerodha Coin, Paytm Money), or **(3)** Your bank's app. All are safe and SEBI-regulated.

**Quick Tax Guide:** Equity funds held for 12+ months: 12.5% tax on gains above ₹1.25 lakh/year. Debt funds: taxed at your income tax rate. Growth option is more tax-efficient than IDCW (dividend) option.

## The Bottom Line

Mutual funds are the simplest way for regular people to build wealth over time. Start early, invest regularly through SIPs, choose low-cost direct plans, stay invested through market ups and downs, and review annually. A disciplined approach with just ₹5,000/month for 20 years at 12% returns can create over ₹50 lakh corpus!

**Remember:** Mutual Fund investments are subject to market risks. Read all scheme-related documents carefully before investing.

This is an educational summary. Consult a financial advisor for personalized advice.

