**Mutual Fund:**

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* Mutual fund is like fixed deposit where we deposit our money and it will give us return.
* There are three types of mutual funds, they are **debt fund, equity fund & balanced fund**.
* **Debt fund is similar to Bank**. When we invest our money in debt fund, fund house will use our money to give **loans to private companies or Indian government or State government**.
* **Debt fund** - **Risk is low**. **Return is around 8%.** If you withdraw money within 3 years, you need to pay tax based on your income tax slab (like 10% or 20% or 30%). If you withdraw after 3 years, you need to pay **20% tax with indexation**.
  + **Indexation:** 20% tax with indexation means you will be discounting inflation while paying tax. So you will be paying less tax after discounting inflation (less than 15%)

**Inflation:** Inflation is most important factor when comes to finance. It means decrease in purchasing power of money. To give you an example, before 10 years Rs.10 is a big amount. But now??? In 10 years from now Rs.10 will be nothing. Thats the inflation, every year value of money will get reduced. Government regularly release [inflation details](http://www.mospi.gov.in/).

* There are many types of debt funds like gilt, income, short term, liquid, ultra short term.
  + **Gilt fund** - your money will be **loaned to government**. Risk is very low since borrower is Government.
  + **Income fund**- you will receive monthly income. Suitable for retired people.
  + **Liquid fund**- you can withdraw your money anytime without any charges. It is like savings account.
  + **Short term or Ultra short term** - if you like to invest only for some months.
* **Equity fund**. As the name says, your money will get invested in **Share market**.
* Equity fund is riskier than debt fund. But it gives good return like**12% to 25%.**If you withdraw withing an year you need to pay short term capital gain tax of 15%. If you withdraw after 1 year and if your return is more than 1 lakh, you need to pay capital gain tax of 10%.
* It is recommended to hold equity mutual funds at least **3 years to see decent return**.
* Equity mutual funds comes in many types like large cap, mid cap, small cap, sector.
  + **Large cap or Bluechip fund** - your money will get invested in big companies. **Risk is low and return is around 10% - 13%**.
  + **Mid cap fund** - your money will get invested in medium size companies. **Return is more than 13%. Medium risk.**
  + **Small cap fund** - your money will get invested in small companies. **Very risky but good return, more than 20%.**
  + **Sector fund -** your money will get invested in companies in specific sector. For example, Equity Infra fund means, your money will get invested in Infrastructure companies. Return varies based on sector, but it will be more than 15%.
  + **Index fund** - Return is around 10%. Medium risk.
    - **What is index fund?** There are many indices in India like Nifty, Sensex, Bank nifty, etc., Each index comprise of many companies with different weightage. For example, Nifty comprise of top 50 companies in NSE. If you invest your money in Nifty index fund, it is like investing in top 50 companies in NSE.
  + **ELSS**- It is **tax saving mutual fund**. You can save tax under Section 80C. It is getting popular now. Lock in period is 3 years. **Return is around 12%.**
  + **Arbitrage fund** - It is very very low risk equity fund. Arbitrage fund won’t get affected by markets up and down. Return is 8%. Taxing is same as equity mutual funds.
* **Balanced or Hybrid fund**. It is mix of Equity and Debt fund. (65% equity and 35% debt). Low risk. **Return around 12%. Taxation is similar to equity fund.**
* First, choose fund type based on your risk potential (like debt or equity or balanced).
  + If you are retired person or if you don’t want to take any risks then choose Debt funds.
  + If you like to take only small amount of risk, choose balanced fund.
  + If you earn average income, then choose balanced fund or large cap or both.
  + If you fall under huge income category, then mix large cap, mid cap and small cap.
* To choose fund, visit [Funds - Value Research Online](https://www.valueresearchonline.com/funds/). Here are the list of things to note while choosing fund…
  + See the fund’s performance from inception. See yearly, 3 year, 5 year and overall return.
  + See the **expense ratio**. Expense ratio is the amount you are going to pay as commission. Less than 1% is better.
  + See **exit load**. This is amount you need to pay when you withdraw.
  + Value research online gives star rating for all funds. Choose funds with atleast**4 Stars**.
* **IMPORTANT NOTE**: All funds comes in two plans Regular & Direct plan. Regular means you invest via**Broker or Agent.** Direct means you invest directly. Broker or Agents charge commission. Their commission will be around 1% per year. **IT IS LOT OF MONEY**. So never go with Broker or Agents.
* If you are new to mutual fund, you need to **register KYC** first. It is one time process and it is centralized. Once you get registered, you can invest in any mutual funds just by giving your PAN number. To register KYC, first select fund house (example, SBI Mutual fund or HDFC mutual fund). Find their office in your city and go and register KYC. You can also register e-KYC online, but it has some limitations. So i suggest you to visit office and do it in person.
  + Once KYC is done, you can invest in any mutual funds. If you do KYC in SBI mutual fund, you can also invest in HDFC or ICICI mutual funds. KYC is centralized.
* Once KYC is done, visit mutual fund company website (like SBI mutual fund site or LT mutual fund site). Register there. Start investing. You can either invest as Lump sum. Or as SIP. **SIP** means you can invest small amount monthly. Money will be automatically deducted from your account.

**FAQ:**

**When should i invest?**

If you are planning to invest via SIP you can start anytime. But if you are planning to invest as Lump sum then you should invest only when the market is down. To figure out when the market is down, search Google for “nifty chart”. You will see a chart. Select 5 years’ timeframe. Use your logic to figure out whether the market is down or up.



In above chart, **Yellow** - Good time to invest. **Red** - Not good time.

**Note:** It is impossible to predict the future movement of market. You will invest lump sum thinking that market is down, after investing it may go down further and you will see loss in your capital. But don’t worry, in long term market will turn up.

**Is there any service which helps me to invest in Mutual funds easily?**

Yes, you can try Zerodha Coins. It is paid service which costs Rs.600 per year. But the money you pay is actually worth what they are offering. You can invest in any funds easily and also you can track your investments (daily profit or loss). The good thing about Zerodha coins is, you will be investing in direct plan, not regular plan.

**I heard mutual fund is risky.**

Every investment is risky, whether it is real estate, gold or FD.

* **Gold**. What if someone stole or you lose is somewhere? Think how many times you heard from your friends or relatives (or happened to you) that they lost Jewels?
* **FD**. FD return is very low. If you are a tax payer and if you invest in FD, then you are LOSING MONEY because of tax and inflation. You will be losing 1% or more per year if you invest in FD. And also, what happens if bank goes bankrupt? FD is insured for Rs.1 lakh. If you have 10 lakhs in FD and bank goes bankrupt, you receive Rs.1 lakh.
* **Real estate**. Many factors affect real estate like current government, policies, economy, water issue, etc., and there is liquidity problem. You can’t buy or sell real estate fast.

Like these mutual funds also carry risk. If you plan properly you can reduce the risk by investing GILT fund or Arbitrage fund. Remember, mutual fund house invest your money in companies like ICICI bank, TCS, ITC, Tata motors, etc., it is very unlikely that these companies shut down their business.

**Is it true that debt fund carry Zero Risk?**

No. As i said earlier Risk is everywhere. When compared with equity, debt fund carry low risk. Still there is some risk. Companies default their loan (remember Kingfisher?). Companies goes bankrupt.

**What funds are you investing?**

I am investing in…

* Aditya Birla SL Balanced '95 Direct-G *(Balanced fund)*
* IDFC Focused Equity Direct-G *(Large and mid-cap)*
* L&T Emerging Businesses Direct-G *(Small cap)*

**What should i choose? Growth or Dividend or Dividend reinvestment?**

* **Growth**- To unleash the power of compound interest choose Growth. It will give you massive return in long term. **(Recommended)**
* **Dividend**- If you want regular income from your investment, then choose Dividend. This option is **recommended for retired people**.
* **Dividend reinvestment** - Companies release dividend regularly. If you choose this option then fund house will buy new units of the fund with dividend money.

**If I choose dividend fund, do I need to pay income tax for dividend income?**

No, there is no income tax for dividend income.

**What is the minimum age required to invest in mutual fund?**

There is no minimum age. You can start at any age. If you are below 18, you need to provide birth certificate.

**What is the minimum amount needed to invest in mutual fund?**

You can start with as low as Rs.500.

**I am already investing via Regular plan. How to switch to direct plan?**

Visit fund company website. Register yourself and login. There will be option to Switch. While switching select direct plan. Simple.

**How do I know whether I am investing in Regular plan or Direct plan?**

Login to your account or check your statement. See the fund name. If the name ends with Direct, it is direct plan. Or if it ends with regular it is regular plan.

**What should i do after investing?**

It takes at least 3 years to see decent return from equity mutual funds. Bookmark the website value research online. It is popular site about mutual funds. They give star rating for all mutual funds. Good fund should have at least 4 stars. Every once in a while check number of stars for your fund. If it goes below 3 stars, i suggest you to switch fund.

**I am investing in equity mutual fund. I got negative returns. Now i have less money than what i invest. What should i do?**

Market fluctuates. It is normal. As i said earlier, you need to wait at least 3 years to see decent return from equity mutual funds.

**How to withdraw money?**

Login to your account. Choose redeem option. Money will be withdrawn to your bank account.

**How to terminate mutual fund?**

First redeem your money. Then you need to send post (physical, no email) to mutual fund Company asking them to terminate. But it is not necessary. Just withdraw money and done with that.

**What happens if I fail to pay monthly instalment for SIP because of no funds in my savings account?**

Nothing will happen. Don't worry.

**How to switch funds?**

* Case 1: Switch funds from same fund house. For example, **LT Fund A** to **LT Fund B**. Login to fund house website. Choose switch option. It is simple.
* Case 2: Switch funds of different fund house. For example, **LT Fund A** to **SBI Fund A.**There is no direct option for this. First you need to withdraw money from fund A and invest freshly in Fund B.

**How to track my mutual funds investments?**

Open account in Value research online website. Go to portfolio. Create new portfolio. Specify details about your investments like fund name, amount, date, NAV, etc., Daily by 9.15 PM this website will get updated with latest NAV. You can see your daily profit or loss there. I have a habit of checking my profit/loss daily. It will be fun.

What are open ended and close ended mutual funds?

When comes to mutual funds always go with open ended funds. Open ended fund gives better return than close ended. And also you can enter and exit open ended funds anytime.