MUTUAL FUNDS

An investor can directly go to stock market and invest money in equities either online or through a broker. In that case, the investor should have thorough knowledge with the movement of the market, past history of the scrip, present financial status of the company and many other facts plus changes in the environment. In short, only a person fully devoted to equity market research can be a professional investor.

Mutual Fund:-

A retail customer always prefers to invest in Mutual Funds wherein his investment will be completely diversified into various sectors by a professional fund manager. The customer need not take any additional time in watching the ups and downs in the market.

A mutual fund is a pool of money from numerous investors who wish to save or make money. Investing in a mutual fund can be a lot easier than buying and selling individual stocks and bonds on your own. Mutual funds always invest in a diversified portfolio of securities like equity shares, Government Securities, Bonds etc and distribute their profits.

Advantages:-

- Choice of Dividend/Growth Options.
- Professional Investment Management.
- Diversification of portfolio.
- Variety of Investment plans according to the Financial Status of the Investor.
- Flexibility & Convenience in Investment.
- Low Cost of Investment.
- Tax Benefits.

Mutual Funds are of 2 types:

1. **Open Ended Funds**

An open-ended fund is the one that is available for subscription all through the year and is not listed on the stock exchanges. The majority of mutual funds are open-ended funds. Investors have the flexibility to buy or sell any part of their investments at any time at a price linked to the fund's NAV (Net Asset Value).Redemption is possible for all open ended mutual fund schemes with an exit load of 1% (for equity funds) if redeemed before 1 year and no exit load if redeemed after 1 year.

2. **Close Ended Funds**

A close ended fund has a fixed number of shares outstanding and operates for a fixed duration (generally ranging from 3 to 15 years).The fund would be open for subscription only during a specific period like New Fund Offer (NFO).Close Ended Funds are generally listed on the stock exchange. So it is traded just like other stocks on an exchange. Usually the redemption is also specified which means that they terminate on specific dates when the investor can redeem their units.

Tax Benefits:

Investments in ELSS (Equity Linked Savings Scheme) upto Rs 1 lakh are eligible for tax exemption as per Sec 80C of Income Tax Act. These funds come with a lock in period of 36 months. Dividends from equity funds are tax free. Long term capital gains are free from capital gain tax.

SIP-SYSTEMATIC INVESTMENT PLANNING (SIP)

In investments, the best ideas are often the simplest and systemmatic. Investing regularly in small amounts can often lead to better results than investing in a lump sum. The best example for this is SIP- SYSTEMATIC INVESTMENT PLANNING.

SIP is step by step to investing. SIP works on the principle of regular investments. It is like recurring deposit where you put in a small amount every month. It allows you to invest in a MF by making smaller periodic investments (monthly or quarterly) in place of a heavy one-time investment i.e. SIP allows you to pay a minimum of 12 periodic investments of Rs 500/- each in place of a one-time investment of Rs 6000 in an MF. Thus, you can invest in any MF without altering your other financial liabilities.

Investing through the SIP route minimizes the effect of investing in the volatile markets. NRI's can also invest in Mutual Funds.

Advantages:-

- It is very easy to do SIP once you sign up for an SIP application form with a good scheme.
- It makes you disciplined as it's automated.
- By investing regularly, one can enter the market at different levels and enjoy the average cost.

1. Smaller Investment Amounts

In SIP, customer can start his investment with a minimum amount of Rs 500/- per month. A few hundreds set aside every month will not affect our monthly disposable income. It will easy for us to part with a few hundreds every month/quarter, rather than setting aside a lump sum amount as our investment in one shot.

2. Rupee cost averaging

This is especially true for investments in equities. When you invest the same amount in a fund at regular intervals over time, you buy more units when the price is lower. Thus, you would reduce your average cost per share (or per unit) over time. This strategy is called 'rupee cost averaging'. With a sensible and long-term investment approach, rupee cost averaging can smoothen out the market's ups and downs and reduce the risks of investing in volatile markets.

People who invest through SIPs capture the lows as well as the highs of the market. In an SIP, your average cost of investing comes down since you will go through all phases of the market, bull or bear.

3. Convenience
This is a very convenient way of investing. You have to just submit cheques along with the filled up enrolment form and the auto debit mandate form. Later on subsequent months, on the requested dates the amount will be debited from the customer's account and the corresponding units will be credited to his folio.

While making small investments through SIP may not seem appealing at first, it enables investors to get into the habit of saving. And over the years, it can really add up and give you handsome returns.

When to Invest in Mutual Fund?

Having understood the prudence of investing in Mutual funds, now the question is **when to invest in a Fund.** In a bearish market, Net Asset Value (NAV) of a fund will be low and we can get more units of a fund. On the contrary, in a bullish market, the NAV will be increasing and the investor will get only less number of units. i.e **Buy more units in a bearish market and sell more units in a bullish market.**

Customers can have the monthly payments to your selected SIP schemes in mutual funds by giving the direct debit option in the mandate form (attached along with the mutual fund application forms.)