

GENERAL FAQs

What is a Mutual Fund?

The following are some of the more popular definitions of a Mutual Fund

A Mutual Fund is an investment tool that allows small investors access to a well-diversified portfolio of equities, bonds and other securities. Each shareholder participates in the gain or loss of the fund. Units are issued and can be redeemed as needed. The fund's Net Asset Value (NAV) is determined each day.

Mutual Funds are financial intermediaries. They are companies set up to receive your money, and then having received it, make investments with the money Via an AMC. It is an ideal tool for people who want to invest but don't want to be bothered with deciphering the numbers and deciding whether the stock is a good buy or not. A mutual fund manager proceeds to buy a number of stocks from various markets and industries. Depending on the amount you invest, you own part of the overall fund.

The beauty of mutual funds is that anyone with an invest able surplus of a few hundred rupees can invest and reap returns as high as those provided by the equity markets or have a steady and comparatively secure investment as offered by debt instruments.

What are the benefits of investing in a Mutual Fund?

There are several benefits from investing in a Mutual Fund.

- **Small investments** : Mutual funds help you to reap the benefit of returns by a portfolio spread across a wide spectrum of companies with small investments. Such a spread would not have been possible without their assistance.
- **Professional Fund Management** : Professionals having considerable expertise, experience and resources manage the pool of money collected by a mutual fund. They thoroughly analyses the markets and economy to pick good investment opportunities.
- **Spreading Risk** : An investor with a limited amount of fund might be able to invest in only one or two stocks / bonds, thus increasing his or her risk. However, a mutual fund will spread its risk by investing a number of sound stocks or bonds. A fund normally invests in companies across a wide range of industries, so the risk is diversified at the same time taking advantage of the position it holds. Also in cases of liquidity crisis where stocks are sold at a distress, mutual funds have the advantage of the redemption option at the NAVs.
- **Transparency and interactivity** : Mutual Funds regularly provide investors with information on the value of their investments. Mutual Funds also provide complete portfolio disclosure of the investments made by various schemes and also the proportion invested in each asset type. Mutual Funds clearly layout their investment strategy to the investor.
- **Liquidity** : Closed ended funds have their units listed at the stock exchange, thus they can be bought and sold at their market value. Over and above this the units can be directly redeemed to the Mutual Fund as and when they announce the repurchase.
- **Choice** : The large amount of Mutual Funds offer the investor a wide variety to choose from. An investor can pick up a scheme depending upon his risk / return profile.
- **Regulations** : All the mutual funds are registered with SEBI and they function within the provisions of strict regulation designed to protect the interests of the investor.

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A Mutual Fund is not an alternative investment option to stocks and bond; rather it pools the money of several investors and invests this in stocks, bonds, money market instruments and other types of securities.

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as

shares, debentures and other securities. The income earned through these investments and the capital appreciation realised are shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. The flow chart below describes broadly the working of a mutual fund :

How do I track the performance of the Fund?

The NAVs are published in financial newspapers and also available on the AMFI website on a daily basis.