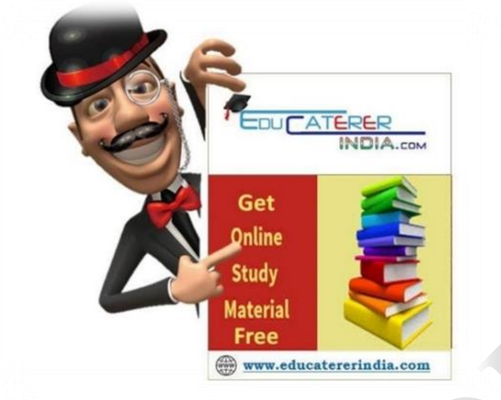
Mutual Funds- Important Facts Revealed



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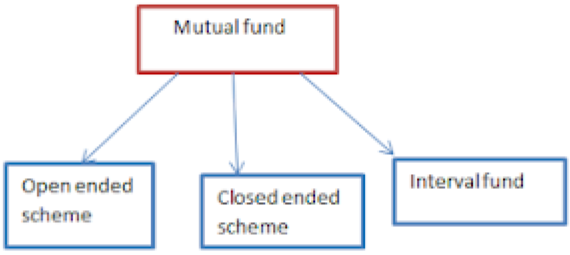
Important facts about Mutual Funds

- A mutual fund is the trust that pools the savings of a number of investors who share a common financial goal.
- The money that are collected from investors then invested by the fund manager in different types of securities. These could range from shares to debentures upon the scheme's stated objective.
- Mutual fund is one of the most cost efficient financial products.
- By investing in mutual fund, one can gain the service of professional fund managers, who would otherwise be costly for an individual investor.
- Without investing a large amount of money one can enjoy the service of trading through mutual fund.

- Since many investors are investing in one scheme so the market risk (if any) get divided among the investors. Hence ultimately the risk is comparatively lower than other investment plans.
- The trading of units in mutual fund done through the stock market. And the price of commodity is not stable all the time. So the market value of the commodity is fluctuated and thus the risk mostly called the market risk also fluctuated with respect to the price of the traded commodity.

Types of mutual fund

mutual funds are mainly of three types. These are listed below with the help of a diagram.



- **Open ended scheme:** under this scheme investors are free to buy or sell units at any point of time. This means that there is no maturity period. So the money available to you at any point of time.
- **Close ended scheme:** unlike an open ended scheme, there is a stipulated time period. Hence the money available to you only at the maturity date.
- **Interval fund :** This type of scheme is the combination of open ended scheme and closed ended scheme. Here the investors are allowed to trade at a pre -defined date.

Advantages of mutual fund

- Professional management
- Diversification
- Convenient administration
- Low cost
- Liquidity
- Transparency
- Flexibility
- Choice of scheme

- Well regulated
- Tax benefit

How is money made through a mutual fund?

- Capital Appreciation: as the value of securities in the fund increase, the fund's unit price will also increase. There would be a capital appreciation when you sell your available units at a price higher than the price at which you bought.
- Coupon / dividend income : fund will earn interest/coupon from the bonds it holds on.

How to invest in mutual fund?

- **Step1 ->** identify your investment needs.
- **Step2->** choose the right mutual fund.
- **Step3->** select the ideal mix of scheme.
- **Step4->** investors pool their money.
- **Step5->** fund manager invest the pooled money in securities.
- **Step6->** income and dividend gets generated.
- **Step7->** income is distributed among the shareholders.

Tax benefit from mutual fund

- Under sec 80c up to a limit of 100000 in a financial year is eligible for deduction in a savings scheme.
- Dividend from mutual fund scheme is tax free in the hands of investor.
- Indexation benefit under long term capital gain in debt scheme.