UpWealth

A Beginner's Guide to Mutual Funds

For Mutual Funds in India

Mutual Funds

Mutual funds are one of the most popular and well known investment option in India. Understanding how mutual funds work is the first step in your investment journey.

This beginner's guide to mutual fund investing is designed to help you understand what they are, how they work, and things you should know before start investing.

Here's everything a first time mutual fund investor in India needs to know.

INTRODUCTION TO MUTUAL FUNDS

What is a Mutual Fund?

What if you could invest your money & have someone else professionally manage it for you? Yes it's possible through Mutual Funds.

A Mutual Fund is a collective investment instrument that pools money from several investors and invests in various market securities like stocks, bonds, money market instruments, gold and other similar assets. This fund is then managed by a professional fund manager.

VARIOUS TYPES OF MUTUAL FUNDS

Equity Funds

Debt Funds

Money Market Funds

Hybrid Funds

EQUITY FUNDS

Funds that invest only in stocks and other equity instruments i.e. shares of companies

DEBT FUNDS

Funds that invest only in fixed income instruments like Government Securities or Bonds

MONEY MARKET FUNDS

Funds that invest in short-term money market instruments like Treasury Bills, Commercial Paper

HYBRID FUNDS

Funds that divide investments between equity and debt to create a fine balance

WHY SHOULD YOU INVEST IN MUTUAL FUNDS?

ADVANTAGES OF MUTUAL FUNDS

DIVERSIFICATION OF RISK

The thumb rule of investing has always been asset diversification. Mutual funds facilitate diversification of investment by mixing different types of stocks within a single portfolio.

EXPERT FUND MANAGEMENT

Mutual fund accounts are managed by qualified professionals. These professionals invest only after careful analysis of the performance and prospects of different companies.

TAX-EFFICIENT

One of the most popular investment options to help efficient tax planning is a tax saving mutual fund known as Equity Linked Savings Scheme (ELSS)

SAFETY AND TRANSPARENCY

The performance of mutual funds are monitored by various rating agencies. Every mutual fund investment is regulated by SEBI, hence you can be assured about the safety of your investment.

HIGH LIQUIDITY

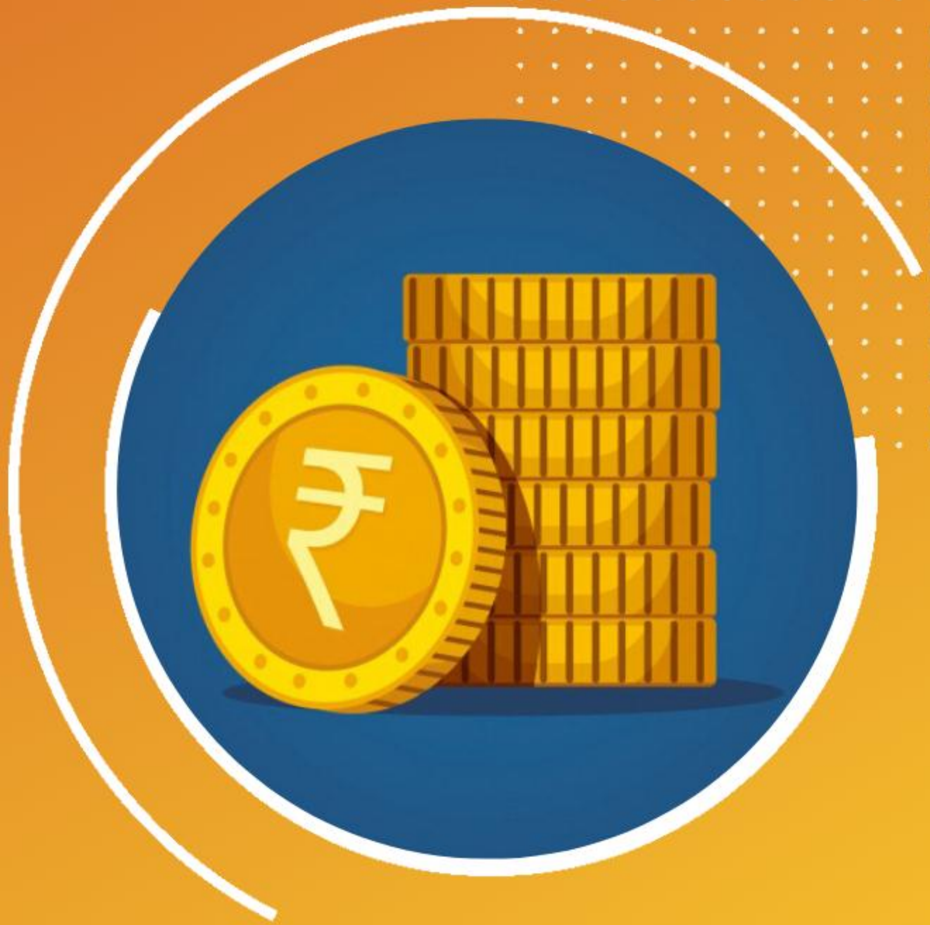
In simple terms, liquidity is the accessibility to your investment. Mutual funds offer a combination of liquidity and profitability packed under same scheme.

FLEXIBILITY TO DO SIP

SIP is a disciplined approach to investing in mutual funds wherein you commit to invest a fixed amount on a periodical basis.

ADVANTAGES OF MUTUAL FUNDS

BEST WAYS TO INVEST IN MUTUAL FUNDS



Systematic Investment Plan (SIP)

Fixed amount in a Mutual Fund scheme at regular intervals.

Lump-sum Investments

Entire amount in a Mutual Fund scheme at one go.

Systematic Investment Plan (SIP)

1 Systematic Investment Plan (SIP) is an investment route wherein one can invest a fixed amount in a Mutual Fund scheme at regular intervals– say once a month or once a quarter, instead of making a lump-sum investment.

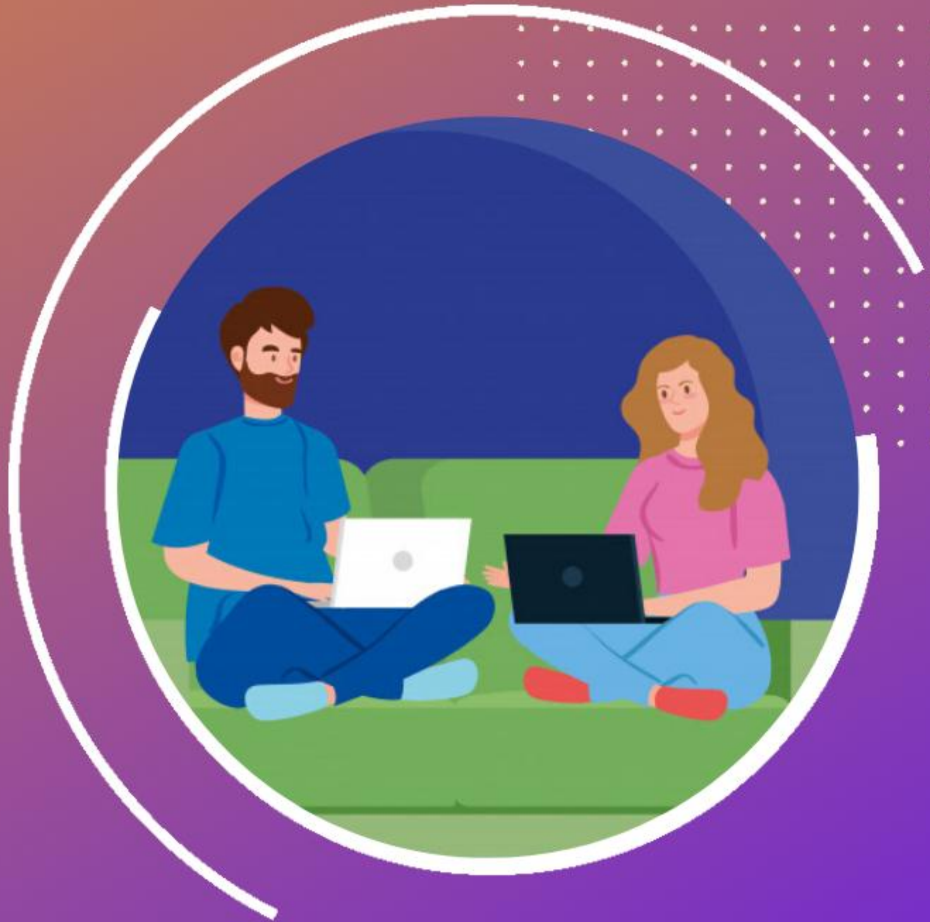
2 The installment amount could be as little as INR 500 a month and is similar to a recurring deposit. It’s convenient as you can give your bank standing instructions to debit the amount every month.

Lump-sum Investments

1 In lump-sum investment, you make a single payment to purchase units of mutual funds. If you have a substantial disposable amount in hand and have a higher risk tolerance, then you may opt for making a lump sum investment.

2 It is a one-time investment you make, like say - Rs. 1,00,000. Lump sum investment in mutual funds can also be done through a Systematic Transfer Plan (STP).

THINGS TO CONSIDER AS A FIRST-TIME INVESTOR



ARE YOU INVESTMENT READY?

Get KYC Ready

Risk Profile Assessment

Get a Bank Account

Goal-based Investment

Seek advice from Experts

Get KYC Ready

You cannot invest in a mutual fund if you have not undergone the Know Your Customer (KYC) process yet. KYC is a term used for Customer Identification Process as a part of Account Opening process with any financial entity.

Risk Profile Assessment

Through a Risk Profile Assessment, establishing your appetite for potential risk and return is an essential step before you invest any money. Without doing it, you might find yourself exposed to more risk than you'd like.

Get a Bank Account

To invest in mutual funds, you will need to activate internet banking / UPI on your bank account. Mutual funds also allow investments to be made through debit cards. With ECS mandate you can invest on a monthly or quarterly basis.

Seek advice from Experts

Managing your mutual fund investment portfolio by your own can be a complex and time consuming process. Getting expert advice before investing can result into an excellent returns & a stable investment portfolio.

Goal-based Investment

Goal based investing is a proven investment approach which aims to help you to achieve your personal financial goals, whatever they may be in a straightforward and simple way. A goals-based approach to investing is beneficial to investors because it puts you in the driver's seat as you get determined and do the commitment to achieve those goals.

So if you would like to become a successful mutual fund investor then you must invest through a Goal-based investment approach.

KEY TERMS AND CONCEPTS IN MUTUAL FUNDS

NFO

NFO or New Fund Offer is the term given to a new fund offering for purchasing units of a mutual fund scheme by an AMC. For close-ended schemes, the NFO period is the only period for starting an investment.

SIP

Systematic Investment Plan or SIP is an investment route wherein one can invest a fixed amount in a Mutual Fund scheme at regular intervals– say once a month or once a quarter, instead of making a lump-sum investment.

NAV

NAV or Net Asset Value is the price of each unit of a mutual fund. During the NFO, when the mutual fund scheme is introduced, it is priced at the face value - typically Rs 10. Later it may rise or fall depending on performance of fund.

AUM

Assets Under Management or AUM is the total value of all investments managed by the mutual fund. It can be at a scheme level or plan level. The AUM-value also includes the returns that a mutual fund earns.

STP

STP or Systematic Transfer Plan can be used in volatile markets to gradually transfer or switch small amounts of investments at chosen intervals (days/months/quarter) from one scheme to another scheme of a mutual fund.

SWP

Systematic Withdrawal Plans or SWPs is a way whereby the investor receives a pre-determined amount on a periodic basis from the invested scheme. Investors who need regular income, like retirees, often go for this option.

Switch

An investor also has an option of switching or transferring his or her investment from one scheme to another scheme of the same fund house. This entails shifting a portion of or the entire investment from one scheme to another.

Load

Load is the fee charged (percentage of NAV) by a mutual fund when you buy or sell units of a mutual fund. In India, presently there is no entry load when an investor buys mutual fund units. An Exit load is applicable in some cases.

AMC	**AMC or Asset Management Company** are firms pooling investments from various individual and institutional investors. An AMC is run by professional fund managers who decide where the pooled money is invested.
KYC	**Know Your Customer or KYC** is a mandatory requirement by SEBI for declaring identity and address proof for the purpose of investing. You cannot invest in a mutual fund if you have not undergone KYC process.
CAGR	**Compound Annual Growth Rate or CAGR** shows how much a person's investment grew over a specific period. In other words, it is the average returns an investor has earned on the investments after a given interval say one year.
Redemption	**Redemption** or Repurchase is an act of withdrawing invested money in a mutual fund. In other words, it is the buying back or cancellation of units by a mutual fund. It can happen on maturity or on an on-going basis.

DIRECT PLANS OR REGULAR PLANS?

What is Direct Plan?

- The Securities and Exchange Board of India (SEBI) introduced direct mutual fund plans in January 2013. A Direct plan is what you buy directly from the mutual fund company.

- In Direct Plan investor need to take a own call to invest as there is no intermediary involved to provide financial advice/guidance.

- Direct mutual funds are only suitable for investors who understand the financial market.

What is Regular Plan?

- A Regular plan is what you buy through a financial advisor or a distributor wherein a mutual fund company pays commission to the intermediary.

- In Regular plan investor get an expert advice & guidance throughout the investment which result in excellent returns & stable investment portfolio.

- A good advice could lead to a difference of as much as 4-5% in return over time .

DON’T FALL IN A TRAP OF SAVING 1%

Investing is a Prescription based medicine, it’s not a Do it yourself thing. Do-it-yourself investing in direct mutual funds carries multiple risks for those who aren’t careful.

So, if you are an expert investor with deep knowledge & understanding of financial markets that you can pick & track your own mutual funds, then the direct plan is better otherwise it's better not to fall in a trap of saving 1% commission which you pay for the expert advice just like for doctors.

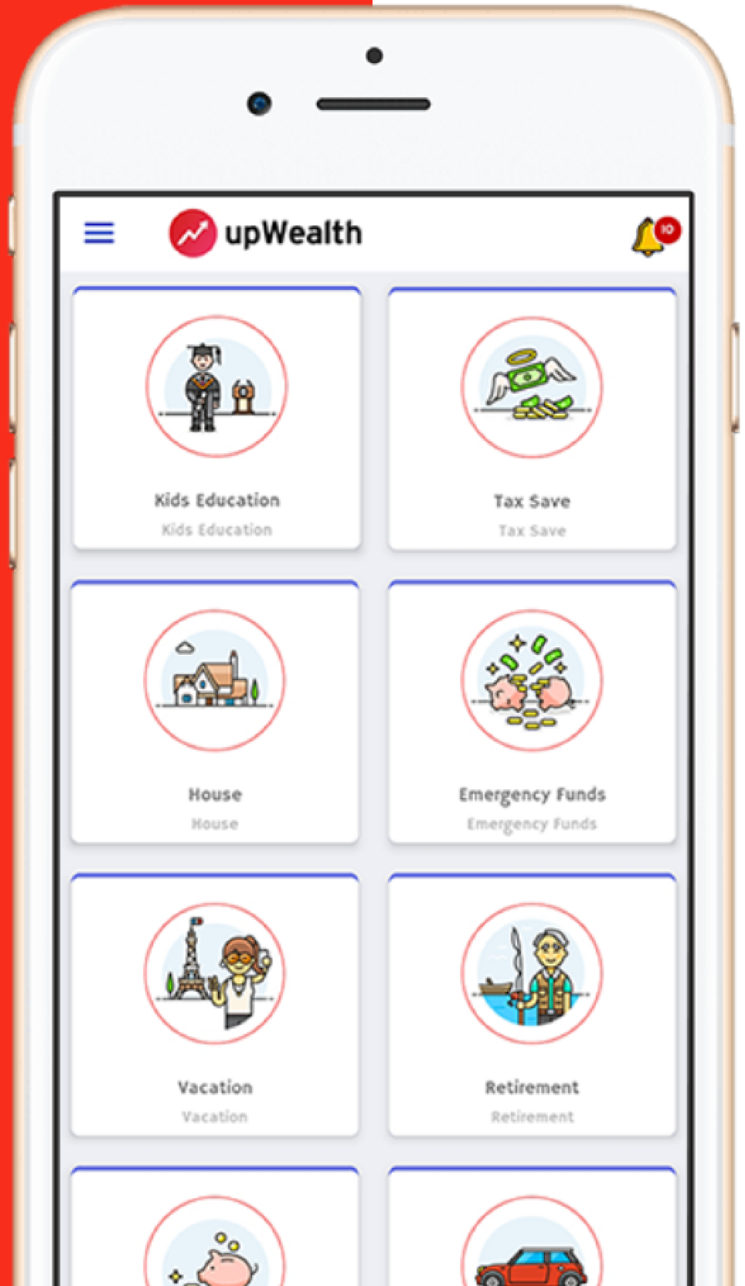
HOW TO INVEST IN MUTUAL FUND

SAVE, INVEST & TRACK ALL IN ONE PLACE WITH GOAL BASED INVESTMENT APPROACH.

UpWealth is Goal-Based financial planning, mutual fund investing & advisory platform built for people to secure their financial future & grow wealth.

You can invest in mutual funds in a paperless and hassle-free manner with UpWealth.

START INVESTING



UpWealth

www.upwealth.in