

News monitored for: Kotak Mutual Fund

OUTLOOK
MONEY
MAKE EVERY RUPEE COUNT

INVESTING
MUTUAL FUNDS SIMPLIFIED

Part 1 of 26

HSBC Mutual Fund
&
OUTLOOK
MONEY
FINANCIAL KNOWLEDGE SERIES

GETTING STARTED

MUTUAL FUNDS ARE BECOMING INCREASINGLY POPULAR. FROM THIS ISSUE, WE START A SERIES TO INITIATE INVESTORS INTO THE WORLD OF MUTUAL FUNDS

A mutual fund (MF) is an investment instrument that allows a group of investors to pool its money together with a predetermined investment objective. This money is invested in the market (stocks or bonds). The investment decision is taken by investment professionals who are known as fund managers. Fund managers help you manage your investments professionally and they get paid a small fraction of the money they manage. (The amount of funds they manage usually runs into several crores of rupees.)

An MF is a cost-efficient product with a variety of offerings having different investment objectives. You can invest in an equity fund or a debt fund, or a hybrid of the two, or in funds that combine other investments such as gold. All of this will be discussed in detail in the coming issues. However, we will now focus on how an MF can help you create wealth.

DOES NOT REQUIRE HUGE INVESTMENTS

One of the biggest advantages that MFs offer is that is that they allow you flexibility of investment. If you get some surplus funds following a windfall gain, say, a bonus or incentives, you can invest in an MF at one go. This is called lump sum investing. However, if you invest a certain amount in a fund on a regular basis, it is called a systematic investment plan, abbreviated and popularly known as SIP. In the lump sum mode of investment, you can invest as little as Rs 5,000, while in case of an SIP, the minimum contribution can be Rs 500 per month. Some fund houses also offer micro SIPs, which allow you to invest as little as Rs 100 per month.

PROVIDES LOW-COST DIVERSIFICATION

MFs help you diversify your portfolio at a very low cost. Let's take an equity fund for example. Usually, equity funds are invested in at least 30-35 stocks across various market sectors. For instance, if you buy mutual funds worth Rs 1,000, you could get diversified in 30-40 stocks, depending on the fund's

holdings. However, investing Rs 1,000 in the stockmarket can only fetch you one share of a good scrip like Reliance Industries. Thus, by investing in an MF, you diversify your portfolio across the market. This reduces the risk associated with the future of a single company.

IT'S EASY TO CASH

One of the features of MFs is that they can be easily cashed within a day to a couple of days, depending on the type of fund you are invested in. If you want to get an equity fund cashed, it takes 2-4 days from the day of request. Cashing your debt fund could take 1-2 days. You can give your withdrawal request any time during the market hours.

OH WELL, IT ALSO COMES WITH TAX BREAKS

Compared with other investments, MFs can offer you higher post-tax returns. Under the current tax laws, if you have remained invested in any equity mutual fund for more than a year, you are not supposed to pay taxes on this investment. That's because such an investment attracts long-term capital gains (LTCG) tax, which is nil. However, selling your MF investments in less than a year will attract short-term capital gains (STCG) tax at a base rate of 15 per cent. For debt MFs, LTCG tax stands at 20 per cent with indexation or flat 10 per cent. STCG is applicable as per your income tax slab, but if you opt for the dividend option, your dividends will be tax free (after paying dividend distribution tax of around 15 per cent).

EVEN HELPS YOU SAVE TAX

Equity-linked saving schemes (ELSS) are like any other equity fund, but they come with a mandatory three-year lock-in. The SIP facility can be availed, too. You can claim tax deduction of up to Rs 1 lakh under Section 80C by investing in an ELSS. ||

NEXT ISSUE: ARE MUTUAL FUNDS SAFE?

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MUTUAL FUNDS ARE NOT HOMOGENEOUS. YOU CAN CHOOSE A FUND THAT MATCHES YOUR RISK PROFILE