

# Funds offer professional money mgmt at low cost

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A common refrain from mutual fund investors is that these investments are risky. Another is that they don't understand how mutual funds work and so do not want to invest in it. My response is usually a counter question: Do you understand how bank FDs work? How the stock markets work? Or how the real estate market works?

In most cases the decision to invest in bank FDs, stock market or real estate is based on their view that these investments are 'safe'. This sense of safety stems more from being a part of the general investing community which is also investing in the same kind of products rather than an understanding of how that investment works. One might argue that as an investor all that he/she needs to understand is the risk and return on an investment, and whether that fits in what he/she is seeking, and not the technicalities of a product. While there are multiple views, here we look at what mutual funds can offer to investors.

**Access to professional fund management:** In India an average investor can invest only a small amount into a mutual fund and gain access to professional fund management. We can boast of several successful mutual fund schemes with qualified and professional fund managers at the helm who have consistently

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Rs 1,000/month from Oct 1999 To Sept 2014				
Sample scheme	Investment Amount (Rs)	Value On Oct 31, 2014 (Rs)	CAGR (%)	Growth (Times)
Equity (Midcap)	1,80,000	17,38,084	24	9.7
Equity (Flexi cap)	1,80,000	14,87,317	23	8.3
Hybrid (Equity oriented)	1,80,000	12,35,225	21	6.9
Equity (Large cap)	1,80,000	10,54,634	19	5.9
Sensex	1,80,000	6,65,003	15	3.7
Nifty	1,80,000	6,37,137	15	3.5

delivered returns in line or better than their benchmarks.

**Diversification of risk:** A lot of investor wealth stagnates or degenerates when investors fail to address the risks associated with investing. The most common among them is the concentration of one's investments to one particular asset class, like equity, fixed income, real estate or gold. Since mutual funds invest in several asset classes and across geographies, investors can choose from a plethora of schemes with varied styles, geographies and asset classes to invest in and diversify their risk.

**Wealth creation:** Regular investments in mutual fund schemes over the long haul have led to large scale wealth generation. A study shows that monthly investment of Rs 1,000 made between October 1999 and September 2014 (a total of Rs 1.8 lakh) has grown to Rs 17.4 lakh, that is approximately 10 times, com-

pared to a 3.7 times growth in sensx. Irrespective of which equity scheme one chose, investments grew between 6 and 10 times. The table below builds a strong case in favour of regular investment in equities via the mutual fund route over the long term.

**Tax efficiency:** Debt funds offer indexation benefits (for holding period > 36 months) as opposed to similar investing avenues such as FDs, which can add a kicker to the expected returns from such schemes and contribute to greater accumulation of wealth. Currently, despite such benefits only about 2% of the country's savings go into mutual funds. Clearly Indian investors, who are underinvested in mutual funds, need to actively seek investment opportunities via this route and avail of the wealth acceleration benefits these funds can provide.

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