REPORT ON VARIOUS INVESTMENT ALTERNATIVES- MUTUAL FUND – IT'S TYPES, SIP, NAV CALCULATIONS – PICK 5 DIFFERENT MUTUAL FUNDS AND THEIR 5-YEAR PERFORMANCE.

What are mutual funds?

A mutual fund is an investment vehicle where many investors pool their money to earn returns on their capital over a period. This corpus of funds is managed by an investment professional known as a fund manager or portfolio manager. It is his/her job to invest the corpus in different securities such as bonds, stocks, gold and other assets and seek to provide potential returns. The gains (or losses) on the investment are shared collectively by the investors in proportion to their contribution to the fund.

Why invest in mutual funds?

1. Professional expertise

   Consider a situation where you purchase a new car. But the catch here is that you don't know how to drive. Now, you have two options:

   i) you can learn how to drive
   ii) you can hire a full-time driver

   In the first scenario, you would have to take driving lessons, pass the driving test and obtain a license. But if you don't have the time for driving classes, it is better to opt for a driver. Same is the case with investments.
   Investing in financial markets requires a certain amount of skill. You need to research the market and analyse the best options available. You need knowledge on matters such as macro economy, sectors, company financials, from an asset class perspective. This requires a significant amount of time and commitment from you.

But if you don't have the skill or the time to delve deep into the market, investing in mutual funds can be an excellent alternative. Here, a professional fund manager takes care of your investments and strives hard to provide reasonable returns. And just as you would pay the driver for his chauffeuring services, you have to pay specific fees for the professional management of your mutual fund investments.

2. Returns

   One of the biggest mutual fund benefits is that you have the opportunity to earn potentially higher returns than traditional investment options offering assured returns. This is because the returns on mutual funds are linked to the market's performance. So, if the market is on a bull run and it does exceedingly well, the impact would be reflected in the value of your fund. However, a poor performance in the market could negatively impact your investments. Unlike traditional investments ,mutual funds do not assure capital protection. So do your research and invest in funds that can help you meet your financial goals at the right time in life.

3. Diversification

   You may have heard the saying: Don't put all your eggs in one basket. This is a famous mantra to remember when you invest your money. When you invest only in a single asset, you could risk a loss if the market crashes. However, you can avoid this problem by investing in different asset classes and diversifying your portfolio.

   If you were investing in stocks and had to diversify, you would have to select at least ten stocks carefully from different sectors. This can be a lengthy, time-consuming process. But when you invest in mutual funds, you achieve diversification instantly. For instance, if you invest in a mutual fund that tracks the BSE Sensex, you would get access to as many as 30 stocks across sectors in a single fund. This could reduce your risk to a large extent.

4. Tax benefits,

   Mutual fund investors can claim a tax deduction of up to Rs. 1.5 lakh by investing in Equity Linked Savings Schemes (ELSS). This tax benefit is eligible under Section 80C of the Income Tax Act. ELSS funds come with a lock-in period of 3 years. Hence, if you invest in ELSS schemes you can only withdraw your money after the lock-in period ends.

Another tax benefit is indexation benefit available on debt funds. In case of traditional products, all interest earned is subject to tax. However, in case of debt mutual funds, only the returns earned over and above the inflation rate (embedded in cost inflation index {CII}) are subject to tax. This could also help investors earn higher post tax returns.

What are the different types of mutual funds?

When you enter a car showroom, you see lots of different cars. There are hatchbacks, sedans, SUVs and maybe even sports cars. Each car in the showroom serves a different purpose. An adventurous person may prefer a sports car while a family man with kids (and a pet) may opt for an SUV. In the same way, there are different types of mutual funds in India

Each fund type aims to achieve specific goals. Here are the most popular ones;

Types of funds based on asset class:

1. *Debt funds-*
   Debt funds (also known as fixed income funds) invest in assets like government securities and corporate bonds. These funds aim to offer reasonable returns to the investor and are considered relatively less risky. These funds are ideal if you aim for a steady income and are averse to risk.
2. *Equity funds-*
   In contrast to debt funds, equity funds invest your money in stocks. Capital appreciation is an important objective for these funds. But since the returns on equity funds are linked to market movements of stocks, these funds have a higher degree of risk. They are a good choice if you want to invest for long term goals such as retirement planning or buying a house as the level of risk comes down over time.
3. *Hybrid funds-*
   What if you want equity as well as debt in your investment? Well, hybrid funds are the answer. Hybrid funds invest in a mix of both equity and fixed income

securities. Based on the allocation between equity and debt (asset allocation), hybrid funds are further classified into various sub-categories.

Types funds based on structure:

1. *Open-ended mutual funds-*
   Open-ended funds are mutual funds where an investor can invest on any business day. These funds are bought and sold at their Net Asset Value (NAV). Open-ended funds are highly liquid because you can redeem your units from the fund on any business day at your convenience.
2. *Close-ended mutual funds-*
   Close-ended funds come with a pre-defined maturity period. Investors can invest in the fund only when it is launched and can withdraw their money from the fund only at the time of maturity. These funds are listed just like shares in the stock market. However, they are not very liquid because trading volumes are very less.

Types of funds based on investment objective:

Mutual funds can also be classified basis investment objectives.

1. *Growth funds-*
   The main objective of growth funds is capital appreciation. These funds put a significant portion of the money in stocks. These funds can be relatively more risky due to high exposure to equity and hence it is good to invest in them for the long-term. But if you are nearing your goal, for example, you may want to avoid these funds.
2. *Income funds-*
   As the name suggests, income funds try to provide investors with a stable income. These are debt funds that invest mostly in bonds, government securities and certificate of deposits, etc. They are suitable for different -term goals and for investors with a lower-risk appetite.
3. Liquid funds-
   Liquid funds put money in short-term money market instruments like treasury bills, Certificate of Deposits (CDs), term deposits, commercial papers and so on. Liquid funds help to park your surplus money for a few days to a few months or create an emergency fund.

4. *Tax saving funds*-

   Tax saving funds offer you tax benefits under Section 80C of the Income Tax Act. When you invest in these funds, you can claim deductions up to Rs 1.5 lakh each year. Equity Linked Saving Scheme (ELSS) are an example of tax saving funds.

What is Systematic Investment Plans (SIP)?

One of the best features about investing in mutual funds is that you don't need a large amount of money to start investing. Most fund houses in the country allow investors to begin investing with as little as Rs. 500 (some start at Rs. 100) per month through Systematic Investment Plans (SIPs). Now, this might seem like a tiny amount to begin your investment journey, but when you invest consistently over a considerable period, you can achieve a substantial sum.

SIP is a method of investing in mutual funds where you invest a specific amount at fixed intervals. This way, you can avoid timing the market and increase your wealth steadily.

Here's an example to illustrate the SIP point:

Let's imagine you invest Rs. 5,000 per month in an equity fund for 15 years. The fund offers an annual return of 12%. At the end of the investment period, you would have amassed a corpus of over Rs. 25 lakh. Now, if you continue investing the same amount for another ten years (total 25 years), you would get a total sum of almost Rs.95 lakh! This is roughly four times the amount in an additional ten years.

This is the power of compounding. The returns you earn in turn begin to make profits for you. So, when you invest for a longer time frame, your gains also rise higher. But to gain the maximum benefit of compounding, you should start investing as early as possible and invest for as long as possible. This can give you an extended investment window to increase your returns.

How to invest in mutual funds

These days, investing in mutual funds has become effortless. You can even do it right from your home. Here are the steps you can follow to begin your investment journey:

1. Sign up for a mutual fund account on franklintempletonindia.com

2. Complete your KYC formalities (if you have not yet done so)
3. Enter the necessary details as required
4. Identify the funds you wish to invest based on your financial goals
5. Select the fund and transfer the required amount
6. You can also create a standing instruction with your bank in case you invest in a SIP each month.

What is NAV and How is it calculated?

NAV or net asset value of a mutual fund scheme is the price that is paid per unit by an investor to purchase units of the scheme. Since the market value of the assets held in the scheme changes every day, the NAV also changes each day and is disclosed by the fund on a daily basis. It is important to know the NAV of the fund mainly to gauge the performance of the scheme over a period of time.

A NAV computation is undertaken once at the end of each trading day based on the closing market prices of the portfolio's securities.

NAV is calculated by **dividing the total value of all the cash and securities in a fund's portfolio, minus any liabilities, by the number of outstanding shares**.

The formula for a mutual fund's NAV calculation is straightforward:

NAV = (Assets - Liabilities) / Total number of outstanding shares

For example, let's say a mutual fund has $45 million invested in securities and $5 million in cash for total assets of $50 million. The fund has liabilities of $10 million. As a result, the fund would have a total value of $40 million.

The total value figure is important to investors because it is from here that the price per unit of a fund can be calculated. By dividing the total value of a fund by the number of outstanding units, you are left with the price per unit—the form of measurement in which NAV is usually quoted. As such, the price of a mutual fund is updated around the same time as the NAVPS.

Now, if the fund had 4 million shares outstanding, the price-per-share value would be $40 million divided by 4 million, which equals a NAV of $10 per share.

The net asset value per share (NAVPS) of a fund is often reported along with its price quote with a broker or online financial portal. This value will often be close to, but slightly different from, the fund's actual market price since NAVPS is calculated once per day, while the assets held by a fund may change in price throughout the day.

Different Mutual Funds with their 5-Year Performance

1) Equity: Large Cap

FUND NAME	5-YEAR RETURN (%)
	17.42
	17.03

2) Equity: Large & Midcap

FUND NAME	5-YEAR RETU
uechip Fund - Regular Plan	25.48
Equities Fund - Regular Plan	24.91

3) Equity: Multi Cap

FUND NAME	5-YEAR RETURN
l	18.72
Fund Regular Plan	18.65

FUND NAME	5-YEAR RETURN

4) Debt: Money Market

FUND NAME	5-YEAR RETURN
d	8.15
oney Manager Fund	7.94

5) Debt: Medium to Long Duration

FUND NAME	5-YEAR RETURN
anagement Fund	9.35
und - Institutional Plan	8.79

In conclusion, investing in mutual funds is one of the simplest ways to achieve your financial goals on time. But before you invest, take an adequate amount of time to go through the different fund options. Don't invest in a fund because your colleague or friend has invested in it. Identify your goals and invest accordingly. If required, you can approach a financial advisor to help you make the right investment decisions and plan your financial journey.

The given project is on investment analysis on different 5 corporate of mutual funds made by Akshat Bajpai.