# Financial Intelligence is the Need of the Hour!

Equities are a higher risk instruments than fixed income instruments like Bonds, but both carry risks. Since mutual funds are vehicles with these underlying assets, they too carry that risk.

While taking a stroll in his neighborhood park one quiet evening, Rohit and I happened to bump into a very old college friend Virat. Rohit, a financial planner working for a reputed mutual fund house, and Virat, a manager at a factory of a reputed FMCG company, used to debate on various regional, national and global issues that got the pair well-known during college debate competitions. After reminiscing the good old days of 'who delivered the best speech', the two old buddies sat down to enjoy the sun-set when Rohit caught the attention of a mutual fund ad placed strategically outside of the park railings. "Mutual funds are a good way to invest your money in!" says Rohit. "No! Never!" said an alarmed Virat. "I would never dream of putting my money into such an investment channel. Do you know that it's all a gamble? A sham? My wife once tried investing in such a scheme but lost all what she invested in after constantly reminding her of the consequences." Virat continued to disagreed and insisted that they were unreliable which surprised Rohit and I a lot. He left in a hurry shortly after.

How can this dear friend think like this? Clearly he seemed to be quite against the idea of investing in mutual funds. Why so? Is there any reason for this kind of dislike towards mutual funds? Rohit and I wondered, and came up with 5 possible reasons for Virat's reaction.

1. **Inadequate awareness: There** are various reasons contributing to his dislike towards mutual funds and why a vast majority of people believe them to be unsafe and unsecure. A huge mistake that anyone would make is to not ask or question the reason behind investing in mutual funds closely followed by believing strongly in what others think about mutual funds. According to popular perception, and added to it by the standard disclaimer ☺ people are led to believe that mutual funds are risky.

The fact is that all investment products carry their own inherent risks, some more than others. Equities are a higher risk instruments than fixed income instruments like Bonds, but both carry risks. Since mutual funds are vehicles with these underlying assets, they too carry that risk. What this means is that while mutual funds are risky, all financial products carry their own level of risk, hence mutual funds are not riskier than others, it is the underlying asset class that carries most of the risk. If people take away that mental block that mutual funds are risky avenues of investing your hard earned money, then they will continue to be hesitant about ever venturing into such instruments. Association of Mutual Funds in India (AMFI), the trade association of mutual funds in India, launched a media and communication campaign - "Mutual Funds Sahi Hai", as a part of the investor awareness outreach program. The campaign aims to position mutual funds as a preferred investment option for potential investors.

2. **Too much of a headache!:** Take for instance the scenario where Virat disagrees with Rohit regarding investing in mutual funds. To educate Virat about investing in mutual funds will be a big daunting task for him. He would find it too complicated and difficult to understand how to go about it and would rather give it a miss. For Virat, investing in other avenues like bank fixed deposits or insurance policies seem to be much simpler and easy to understand. In fact, opening a mutual fund account has become just as simple as any other financial institution by submitting information through an online KYC (Know Your Customer) facility. As a fund house, we pride ourselves on a completely paperless investing process and e-KYC.
3. **No assurance on returns:** Many a times, investors want guaranteed returns when investing in mutual funds. But that is not the case. There is no guarantee in this world but when investors start to invest, they want assured returns without giving importance to achieving their goals.
4. **No faith in the markets:** Investors tend to have very little or no faith in the stock market. As an investor, one needs to understand that mutual funds are not only about stocks but also debt funds like bonds, treasury bills etc. which can be safer avenues than equities.
5. **Once bitten, twice shy:** Investors who have invested heavily in mutual funds tend to back out due to losses attained by market fluctuations, or other investors known to them have faced similar situations. Reasons could be that they might have picked in a mutual fund that didn't perform well or may have chosen a fund that didn't match their risk appetite. This all boils down to the first point i.e. lack of awareness. It is always advisable to consult a financial expert when it comes to making any financial decisions.

To conclude, Virat needs to understand mutual funds a little bit more before arriving at the fact that they are bad avenues. If he invests in a few funds, he would gain some confidence, and then eventually he would be able to choose those funds that match his risk appetite as per the goals he sets along with periodic reviews as and when required. Rohit and I are planning to call him soon and convert him! Let us know when we can call you and make you a mutual fund evangelist by writing to us on CustomerCare@QuantumAMC.com

### Disclaimer, Statutory Details & Risk Factors: