Choose The Type Of Mutual Funds That Suits You

As an investor, you have many investment options like investment in shares, bonds, gold, property etc. When considering investment opportunities, the first challenge that almost every investor faces is a plethora of options. Every option presents its own set of challenges and benefits.

Investment in mutual fund is one of the most preferable options for various reasons. The foremost reason is professionalism. You may receive lot of noise when you are buying other assets mentioned at the start of this article however they may not bring professional advice. In case of investment in mutual fund, investors are provided with the services of an experienced fund manager who handles the financial decisions based on the performance and prospects available in the market to achieve the objectives of the mutual fund scheme, the advice backed by a dedicated research team. Above all, mutual funds are required to register with SEBI (Securities Exchange Board of India) which bring transparency and regulation in investment decisions. There are different types of funds available and investor can choose the best one as per his/her financial goals.

Types of mutual funds

Mutual funds are a one-stop shop for all your investment needs. Needs can range from wanting to purchase a car in the next one or two years or saving towards your child's future education in the next 10 years or saving up for your retirement, or saving tax on your regular income. Investors ideally look for diversification, low costs, ease and flexibility of withdrawal, better tax efficiency etc. Investors can achieve all their short term and long term financial goals through the following types of Mutual Funds.

1 Equity funds: One of the most popular types of mutual fund are equity funds, where the fund manager invests in equity markets. Though it seems like a simple job, it is challenging and difficult. When to buy and sell shares is the most difficult decision which is based on the fund manager’s knowledge and experience.

2 Liquid / Debt funds: Liquid funds are an integral part of the fixed income or debt investments plan, primarily investing your money in money market instruments like certificate of deposits, treasury bills, commercial paper and term deposits having maturity of up to 91 days. The lower maturity period of these underlying assets makes them liquid, which means they can be easily converted to cash at a short notice, with minimal risk on capital loss. Liquid funds are one of the most suitable investment options for investors who prefer liquidity (immediate availability of cash) over returns. While, return on investment is always an important factor, liquidity takes priority in the case of liquid funds. These instruments are not subject to interest rate volatility as against other debt funds with longer maturity periods. However, this does not entirely mean that they are immune to interest rate risks.

3 Fund of Funds: According to Investopedia, a Fund of Funds (FOF) - also referred to as a multi-manager investment - is an investment strategy in which a fund invests in other types of funds. This strategy invests in a portfolio that contains different underlying assets instead of investing directly in bonds, stocks and other types of securities. The versatility offered by this fund is akin to a cricketer who is an all-rounder and is able to bat anywhere in the order. A Fund of Funds helps ease risk to a large extent by distributing investment across different funds. A Fund of Funds lowers the risk level of investments by investing fund in different kind of mutual funds. The taxation treatment of the fund is admittedly less than ideal. Broadly, equity and debt are the two major areas of investments in the mutual fund industry and both of them are taxed differently. All equity funds are in one tax bracket and all non-equity funds are in another tax bracket. Surprisingly, an equity fund of funds even one which has equity funds as a part of its portfolio - is taxed as a non-equity fund!

4 Gold Funds: If you are thinking of making an investment in gold, then Gold ETF is the best option. Gold is also valuable as a bulwark against a falling currency. By investing in a gold fund, a retail or institutional investor can gain exposure to this asset without the hassle of taking delivery of physical gold assets, which is often required in the commodities market. Above all, gold has the highest liquidity after cash in hand.
As discussed in our earlier article, entry and exit from your investments should not depend on the market level. You can start investing in the market at any time and have patience till the time your financial goal is achieved. You need to spend time on selection of the right fund which will be based on your financial goal. Markets will remain volatile however there is no reason to worry if you are a long term investor.
Quantum Mutual Fund has 10 different funds in all categories including equity, gold, debt and fund of the funds. You can click here to know more about funds and click here to start investing in mutual funds.

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Mutual fund investments are subject to market risks read all scheme related documents carefully.