Closed Ended Mutual Fund vs. Open Ended Mutual Funds vs ETF

Mutual Funds can be of different categories, which means their underlying assert and their style of investing can vary. If we choose to look at them from a structural classification, they are either open-ended or closed-ended mutual funds.

Open ended mutual funds are mutual funds where your investments are not subjected to any lock-in. They are liquid and can be redeemed any time. They may be subjected to an exit load depending on which category they belong to. These types of mutual funds may or may not be listed on the exchange. They are more popular among the investors as compared to closed ended mutual funds.

Closed-ended Mutual Fund:

As the name suggests, closed-ended mutual funds are funds that are subjected to a lock-in period or a fixed maturity period.. Closed-ended funds can be bought or sold real-time just like any additional stock on an exchange. However, one key difference between closed-ended mutual fund vs. open-ended mutual fund is that in Closed-ended Fund once you invest, you cannot redeem your money back unless the lock-in period is over.. The lock-in negates the possibility of an impulsive decision during times of unstable market conditions. A steady AUM helps fund managers to take prudent investment decisions. Closed-ended mutual funds are mandatorily required to be listed on the exchange but you can invest without a DEMAT account too.

Investors with a long-term investment horizon who do not need the invested money during that horizon can look at investing in closed-ended funds.

ETFs:

Exchange-traded funds are investment vehicles that invest in a basket of securities. These funds are open-ended. You can buy and sell them on the markets just like stocks. They are not available over-the-counter which means you will need a DEMAT account to invest in them.
ETFs mirror or replicate the performance of a particular index.
ETFs are managed passively & actively. ETFs generally have lower expense ratios than those charged by actively managed funds.

Investing in more than one ETF could lead to duplication or over-diversification. An ETF tracking the NIFTY 50 and an ETF that tracks technology or IT companies may have many overlaps if the underlying stocks are common.