

Myths and Facts about Mutual Funds

Myth 1: Mutual Funds are meant only for experts

Fact:

Mutual funds are designed primarily for investors who may not have the time, expertise, or resources to invest directly in the securities market. Mutual fund schemes are managed by professional fund managers who take investment decisions based on the scheme's stated objectives and extensive research. Mutual funds offer investors an opportunity to participate in the markets through a professionally managed and regulated investment vehicle.

Myth 2: Mutual Funds are suitable only for long-term investments

Fact:

Mutual funds cater to a wide range of investment horizons and financial objectives. Depending on an investor's time horizon and risk profile, there are schemes suitable for short-term, medium-term, and long-term investments.

There are various categories of mutual fund schemes investing in equity, debt, or money market instruments. For example, liquid funds typically invest in money market instruments with very short maturities, while ultra-short-term and short-term debt funds cater to slightly longer horizons. Equity-oriented schemes are generally considered more suitable for longer investment horizons, whereas debt-oriented schemes may be considered for relatively shorter durations, depending on individual needs and risk tolerance.

Myth 3: A mutual fund scheme with a lower NAV is better than one with a higher NAV / Investing in NFOs is preferable

Fact:

The Net Asset Value (NAV) of a mutual fund represents the market value of its underlying investments per unit. The NAV level by itself does not indicate whether a scheme is expensive or inexpensive.

Returns from a mutual fund depend on the performance of the underlying securities and not on the absolute NAV. For instance, if two schemes with different NAVs invest in the same portfolio and the portfolio value increases by the same percentage, the returns for investors would also be the same in percentage terms. Therefore, the NAV should not be the sole criterion for investment decisions.

Myth 4: A large amount of money is required to invest in mutual funds

Fact:

Mutual fund investments can be started with relatively small amounts. Many schemes allow lump-sum investments with modest minimum amounts, while Systematic Investment Plans (SIPs) enable investors to invest small amounts at regular intervals. This makes mutual funds accessible to a wide range of investors, allowing them to invest according to their financial capacity and discipline.

Myth 5: A scheme with a high NAV has already reached its peak

Fact:

A scheme's NAV reflects the cumulative performance of its underlying portfolio over time. A higher NAV does not indicate that the scheme has become expensive or that future performance will necessarily be limited. Fund managers actively manage portfolios based on the scheme's investment strategy and market conditions. A high NAV may simply indicate that the scheme has performed well over a period of time.

Myth 6: Investing in top-rated mutual fund schemes guarantees better returns

Fact:

Mutual fund ratings are based on historical performance and certain quantitative and qualitative parameters. These ratings can change over time due to market movements and changes in fund performance. While ratings may help investors shortlist schemes, they should not be the sole basis for investment decisions. Past performance may or may not be sustained in the future. Investors are advised to periodically review scheme performance against relevant benchmarks and their own financial goals.

Myth 7: Redeem investments from schemes with high NAVs and reinvest in schemes with low NAVs

Fact:

Investment and redemption decisions should not be based solely on the NAV level. NAV is only an indicator of the per-unit market value of the scheme's portfolio. Investors should instead evaluate factors such as consistency of performance, alignment with investment objectives, risk-return characteristics, and performance relative to benchmarks. Long-term investing, aligned with financial goals, is generally considered more effective than frequent switching based on NAV movements.

Myth 8: One needs to time mutual fund investments

Fact:

Asset allocation is important for **every investor**, not just wealthy ones. Even if you invest small amounts regularly, such as through a **monthly SIP**, spreading money across different asset classes like equity, debt, and gold can help **manage risk** and **reduce volatility**. Proper asset allocation helps investors stay invested across market cycles, regardless of the investment amount. Investment decisions should be aligned with individual risk profiles, goals, and time horizons, preferably with guidance from a qualified financial advisor.

Myth 9: Asset allocation is only for wealthy investors

Fact: Asset allocation is vital for all investors, regardless of portfolio size. Even small, regular investments (like a monthly SIP) benefit from diversification across different asset classes to balance risk.

Myth 10 - Investing in more funds automatically gives better diversification.

Fact: Having many funds does not always mean proper diversification. True diversification comes from investing in different asset classes that react differently to market conditions, such as equity, debt, and other assets. Investing in multiple funds from the same category or with similar holdings may not reduce risk effectively.

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