<u>KYA SARE MUTUAL FUNDS SAHI HAI?</u>

Mutual funds have gained immense popularity in India as an investment option, but the question remains: "Kya sare mutual funds sahi hai?" (Are all mutual funds good?).

Let us take the case of Mr. Sharma, a middle-aged salaried employee, who wanted to invest in mutual funds. He visited his bank and was presented with a long list of mutual funds to choose from. Confused, he asked the bank executive which one to select. The executive advised him to invest in the fund that had given the highest returns in the past year. Mr. Sharma invested a significant amount of his savings in the recommended fund.

However, after a year, he found that the fund had not performed as expected, and he had actually lost money. Upon further investigation, he discovered that the fund had a high expense ratio, which ate into his returns. He also realized that he had not considered his own risk appetite and investment goals while selecting the fund.

This case highlights the importance of conducting proper research before investing in mutual funds. Investors must evaluate the expense ratio, which includes the management fees, administrative costs, and other expenses associated with running the fund. Lower expense ratios are generally better, as they leave more money for investment returns.

For example, the SBI Small Cap Fund has an expense ratio of 1.86%, while the Nippon India Small Cap Fund has an expense ratio of 2.26%. While the difference in expense ratios may seem small, over the long term, it can have a significant impact on investment returns.

Moreover, investors must consider their own investment goals, risk tolerance, and time horizon. For instance, if an investor has a short-term goal of one year, they should invest in debt funds, whereas if they have a long-term goal of 10 years, they can consider equity funds.

Investors must also consider other investible options such as index funds, equities, and ETFs, which are alternative investment avenues. Index funds track a specific market index, such as the Nifty 50 or the BSE Sensex, and offer investors exposure to a diversified portfolio of stocks. They also tend to have lower expense ratios compared to actively managed mutual funds.

For example, the HDFC Index Fund – Nifty 50 Plan has an expense ratio of 0.1%, making it a low-cost investment option. Additionally, equities offer investors the opportunity to invest in individual stocks and potentially earn higher returns over the long term. However, this option requires a higher level of knowledge and research compared to mutual funds.

ETFs or exchange-traded funds are a type of investment fund that is traded on stock exchanges like individual stocks. ETFs provide investors with a diversified portfolio of stocks, similar to mutual funds, and have low expense ratios. For example, the Nippon India ETF Nifty BeES has an expense ratio of 0.05%, making it an attractive investment option for investors looking for low-cost investment options.

It is also essential for investors to evaluate the track record of mutual funds before investing. This can be done by analysing the fund's performance over the years, its investment philosophy, and its portfolio composition. For example, the HDFC Balanced Advantage Fund has delivered an average annual return of 12.17% over the past five years, outperforming its benchmark index.

In conclusion, while mutual funds can be an attractive investment option for investors, not all mutual funds are suitable for everyone. Investors must evaluate the expense ratio, consider alternative investment options, evaluate the track record of mutual funds, and understand their investment goals before making investment decisions. By doing so, investors can make informed decisions and achieve their investment objectives over the long term.