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How mutual funds are a good alternative for short-term as well as long-term returns?

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Abstract:
Mutual funds play a major role in the investment trend in the world today. Everyone wants to make investment nowadays. And most people tend to invest in low-risk activities. The reciprocal fund is here. Since mutual funds allow investors to invest in less and less risky amounts. It gives a consistent return much of the time without investors market analysis. The investor needs just a few experts to invest and can relax without worrying about losing money. As professionals typically invest their money in inventories, where a predictable return is expected. Professional experts keep an eye on the competition and know how to do it. Most investors are also attracted to mutual funds because they are less risky. Most Indians choose traditional choices, such as a fixed deposit (FD), Public Provident Fund (PFF) or Gold, when it comes to saving or spending money. These above are also proven ways of maintaining resources and achieving consistent returns. Mutual funds, however, provide both short-term and long-term returns with a respectable option. This paper discusses why mutual funds are a good choice both for short and long-term returns and their benefits to customers.

Keywords:*Mutual Funds, Returns, Risk, Equity, Currency, Investment, Customer, Compounding.*

1. Introduction:

1.1. Mutual Funds and its History:

Mutual investment can be traced back to Scottish and English investors' early pioneering investments in the American West in the 1800s, and subsequently to Japan's early-multinational portfolio investors in the 1960s. The Egyptians and the Phoenicians who sold caravan and ship share to distribute their burden can be traced with reciprocal funds. Established in 1868, London’s Foreign and Colonial Government Trust is regarded as a precursor to a modern concept of mutual funds. On the other hand, the United States is the mecca of modern mutual funds. In the beginning of the 1930s, the United States of America had several closed-end mutual funds in operation. Much later, in 1954, the private sector finance committee agreed to mobilise the savings of the middle-class investors into unit trusts.[1]

The mutual fund industry in India is a rapidly expanding strategy and capital market area. They have grown in importance as a tool for channeling funds for financial market investing, particularly from micro and domestic savers. Mutual funds first appeared in the Indian equity market in 1964, with the aim of providing a variety of risk, regular interest, and competent management to retail investors. Since then, the figures, scale of operations, investor base, and breadth of operations have all increased dramatically. The Government of India has opened the way for the private industry and international players to participate in the economic liberalization, privatization of public, and globalization processes. As a result, today's financial services industry is extremely competitive.

Mutual Funds are a collects money which unites a group of investors to achieve a common financial objective. The collected funds are investing in stocks, debentures, and other instruments of the capital market. Unit holders share the average investor's investment income and the capital gains as they offer a chance to invest in a diverse specialist stock basket at the lowest rate. The concept of mutual funding in India was launched in 1963. From 1963 to 1987, when its monopoly was over, India had only one mutual fund firm - the Indian Trust Unit - with a Rs 67 billion market cap (UTI).

Mutual funds are important financial intermediaries that collect and invest capital in financial market securities from small investors. UTI oversaw all reciprocal fund’s activities until 1986. A new age in Indian mutual fund industry was announced in the next decade. The total AUM industry was Rs 470 billion at the beginning of 1993. Funding from the private sector has started entering the fund. The first Mutual Fund

[1]Daryab Singh- Mutual Funds in India -Rajat Publication (2003)

Regulation was implemented that year, requiring re-registration of all mutual funds outside UTI. The laws were updated again in 1996. In India, Kothari Pioneer joined Franklin Templeton as the first private, reciprocal fund company. The total assets reached Rs 1218,05 billion after 10 years of private sector penetration[2]

In the past 10 years the sector of the Mutual Fund (MF) has grown by 18% annually. Despite the recent economic slump of 2010-2013, investing in India has risen sharply. Until now, a lack of knowledge about financial products has resulted in lower investment flows and the incidence of low financial alphabetization than other BRICK countries, such as China and Brazil. But factors such as a supportive community, higher incomes and current government policies make it one of the most lucrative sectors for the financial services industry. In November 2016, the Prime Minister declared the demonetization of the high-value Indian currency to fight against black money. Debt funds are projected to fuel growth with lower rates in the first half of 2017, while the effect of the value added tax in the second half is clear.

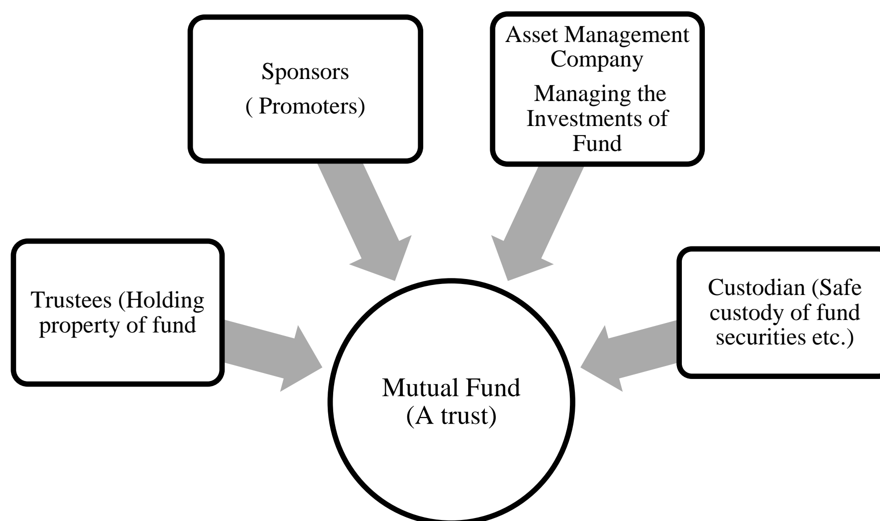

Fig1-Constituents of Mutual Fund Industry

1.2. Types of Mutual Fund Returns:

1.2.1. Absolute Returns –Absolute returns, also called moment in time returns, signify the increase, or decrease in the percent of investing. Time is not deemed to achieve this mission. Tocalculate returns for mutual funds with a time edge of less than one year, the absolute return technique is used. The financier must calculate annualized returns for a period longer than one year. Absolute Terms Return EstimateExample of Absolute Return calculation: Suppose the current market value of the investment is Rs. 4, 00,000 and the amount originally invested was Rs. 2,50,000. In this case, the absolute return would be - [(4, 00,000-2,50,000)/2, 50,000] = 60%.

1.2.2. Annualized Return – Annualized returns periodically decide the value assessment of investor's investment, as the name suggests. If, for example, investors have invested Rs.1 lakh in a scheme of common funds. Investor's investment increased to Rs.1.4 lakh in three years. Because of the aggregating impact, your back and stay is 40%, but your annual return is 11.9% because of compounding.[3]

1.2.3. Total Return – It is real investment returns. It includes dividends as well as capital gains. Assume investors have invested a lakh rupee in a mutual funds scheme for Rs.20. You have invested Rs. 1, and Rs. 20 is the NAV, so that you have purchased 5.000. The MF-Scheme NAV increases to Rs1.1 lakh after a period of one year (5 000 units per unit x Rs22). Your units are increasing in value. If Rs2 dividends were now declared by the scheme over the year, the total value given to the holder would be Rs10,000 (5,000 units x Rs.2 per unit). The overall return is Rs. 10,000+Rs. 10,000 = Rs. 20,000(Dividend + Capital gain) which makes you 20%.

1.2.4. Trailing Return – It is the round return over a certainsubsequenttime which ends today. For example, if the NAV of a MF programat present is Rs.100, and it persisted, let us say, Rs.60 three years before. The

[2]www.amfiindia.com

[3]Narsimhan, M.S. and Vijayalakshmi S., (2001) "Performance Analysis of Mutual funds in India", Finance India, Vol. XV, No.1.

technique to analyzelosingresume in a Microsoft Excel page is (Today's NAV / NAV at the starting of the trailing time) (1/Trailing Period) – 1. Hence, your three-year trailing resume will be 18.6 percent. In case the driver's NAV five years ago was Rs.50, the five-year trailing return will be 14.9 percent.

1.2.5. Point to Point Return – This is the annual return of two times. To calculate points by points, the start and end date of the mutual fund scheme are all relevant.

1.2.6. Annual Return –The word 'annual return' is the return from a program earned in a particular year between 1 January and 31 December. If a system's NAV is Rs.100 for the first day of January and Rs.110 for the last day of the year, the annual return shall amount to 10%.

1.2.7. Rolling Returns – It contains annual growth over a specific device span. During the rollover stage funds can be used each day or on a daily, a weekly basis or within a month, until the last day, for example, mid-cap funds, large cap funds, balanced funds, diversified equity funds. For example, CNX-Midcap funds, CNX-500, Bse-200, Midcap BSE-Midcap funds and more can be used each day.

order to calculate rates over a vesting period of more than one year, the average annual growth rate for investment in mutual funds is used. This reduces short-term fluctuation in net capital assessment to a minimum. Therefore, investment is still expanding. This calculates collective cash returns.[4]
Using the following equation for manual measurement of the compound annual growth rate (CAGR):
CAGR = [(Current Net Asset Value / Beginning Net Asset Value) ^ (1/number of years)]-1

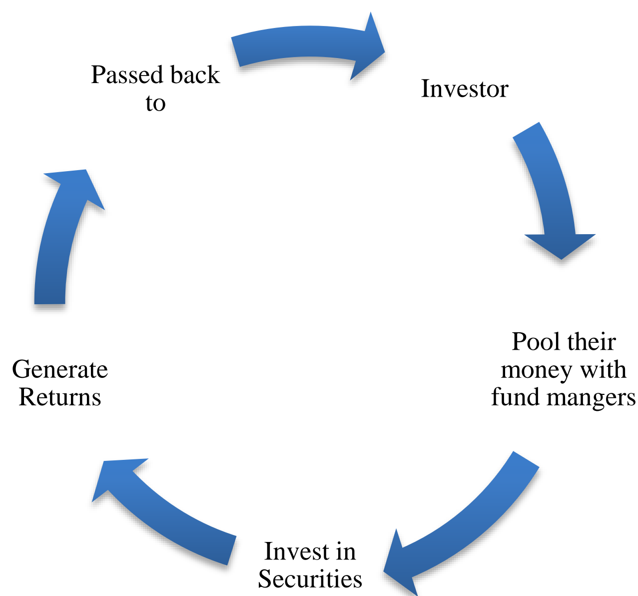

Fig. 2. Mechanics of Mutual Funds

1.3 Comparison between Mutual Funds and other investments:

Most Indians choose traditional choices, such as a fixed deposit (FD), Public Provident Fund (PFF) or gold when it comes to saving or spending money. These are proven ways of maintaining resources and achieving consistent returns. Mutual funds, however, provide both short-term and long-term returns with a respectable option. Let us see how:

1.3.1. Mutual funds vs Fixed deposits:

Most Indians choose traditional choices, such as a fixed deposit (FD)

[4]https://www.fincash.com/l/mutual-fund-ratings

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Fixed Deposits	Debt mutual funds
2 reasons for investing in FDs: 1) Capital preservation 2) Good returns	Debt mutual funds offer similar benefits to investors.
Constant returns	Returns can vary but they help to beat inflation
Less liquid: you cannot exit an FD any time you wish	Highly liquid. You can exit a **debt fund** any time you wish

Two of the most significant factors for people investing in FDs include capital security and predictable returns. The mutual debt funds give investors similar advantages.
They are considered reasonably secure investments, for instance. Although the returns vary, they allow you to overcome inflation. In addition, mutual funds are liquid than FDs. Whenever you like, you can withdraw from a fund. If you have an FD, you could not use the facility.

1.3.2. Mutual funds vs Public Provident Fund

As the year ends, several investors start looking for tax-friendly opportunities for investment, including PPF. Investor's capital savings plans would profit equally (ELSS). The maximum deduction of Rs 1.5 lakh may be requested under Article 80C in the Revenue Tax Act.

Public Provident Fund	ELSS mutual funds
Minimum lock in period is 15 years	ELSS has a 3-year lock in period
Offers low-risk steady returns	Returns linked Equity market: So, market exposure is higher but possible to earn higher returns
Minimum investment: Rs 500 per year	Minimum investment: Rs 500
Maximum investment: Rs 1.5 lakh	Maximum investment: No limit

1.3.3. Mutual funds vs Gold:

Indians were captivated by the allure of gold for thousands of years. Each family buys gold in the form of joys and gold coins and invests in that. The ETF is a good replacement for actual gold. The ETFs are a particularly good replacement.

Gold	Gold ETFs
Pricing is not uniform. It varies from one jeweler to another	Pricing and transaction of gold ETFs are completely transparent
Making charges (20-30%) form a significant expense	Brokerage charges (around 0.5%) and expense ratio (1%) are much lower
Safety issues: loss or theft of physical gold is possible	No danger of theft since they are traded in demat form
Tough to liquidate physical gold for cash in short time	Easy to sell gold ETFs when required

1.3.4. Mutual Funds vs Real Estate:

The choice between mutual funds and real estate is one of the most controversial issues in personal finance. Although mutual funds have recently gained popularity, property has been considered a safe and cautious investment option for a long time.

Parameters	Mutual Funds	Real Estate
Ease of investment	Quite easy. Once you are KYC-compliant, you can invest in mutual funds of your choice.	The emergence of property portals has made investments in real estate easy. However, there are many legal nitty-gritties that you need to take care of.
Liquidity	Highly liquid. You can easily redeem when required.	A non-liquid asset. Money invested in real estate cannot be easily converted into cash.
Risks	Investments in mutual funds are subject to market risks. Returns vary depending on the type of fund and market performance.	You need to ensure that the builder has followed all the compliance and the papers are in place. If not, there could be legal trouble.
Returns	Returns are not fixed and depend on various internal and external factors. However, in the long run, returns are positive and can even be in double digits.	Though returns are not fixed, investment in a property well-researched with all the amenities generally fetches good returns in the long term.

1.3.5. Mutual Funds vs Direct Equity:

Equality as an asset class will generate inflation-indexed returns in the long run. There are two different methods of doing this: by direct inventory or by mutual funds. Our comparisons were focused on factors such as facility investment, required experience, and the risks involved for mutual funds and direct equity investments.

Parameters	Mutual Funds	Direct Equity
Ease of investment	Pretty straightforward. All you need to be is KYC-compliant and you can invest in mutual funds of your choice.	You need a Demat account and need to opt for the services of a stockbroker. The stockbroker can either charge a flat fee or a certain percentage for every transaction.
Knowledge required	If you are opting for direct plans of mutual funds, you need to know about the markets. On the other hand, for regular plans, there are professional fund managers to take care of your investments.	If you are using the services of a traditional broker, you can expect professional guidance. On the other hand, for discount brokers, you need to do your research and analysis.
Risks and returns	Returns are not fixed and being market-linked the quantum of risk is high. However, mutual funds	Involves high levels of risks and unlike mutual funds, your investments are not diversified.

	provide diversification that brings down the overall risks, and with systematic investment plans (SIPs), the risk is further spread out. With a long-term view, you can expect decent returns.	Go for it if you have a high-risk appetite. If you have invested in a fundamentally-sound stock, you can expect good returns from it.

1.3.6. Mutual Funds vs Bank Deposits:

Most investors have long considered bank deposits as a safe investment choice. To help you make an informed decision, we have compared mutual funds, bank deposits on the basis of factors such as returns, risk and liquidity.

Parameters	Mutual Funds	Bank Deposits
Returns	Returns are not fixed. However, returns are higher compared to bank deposits in the long run.	Returns are assured but quite low. Of late, they have plummeted, and there are chances of them going down further.
Risks	Performance of mutual funds is subject to various systematic and unsystematic risks.	They are latent to market risks and the vagaries of the stock market.
Liquidity	You can easily redeem your mutual fund and the money is credited into your bank account the next day.	If you have invested in a tax-saving bank deposit, you cannot withdraw before the tenure ends. For regular deposits, you can withdraw after paying a certain penalty.

1.3.7. Mutual Funds vs Corporate Bonds:

A movement towards corporate bonds has taken place in recent years. The companies aim to raise capital and invest in primarily debt instruments. They are funded by companies. To render comparisons, risks and returns were used.

Parameters	Mutual Funds	Corporate Bonds
Risks	Mutual funds face risks on several fronts including domestic and global events, changes in policy, developments in a specific sector, etc.	There's possibility of bond issuers defaulting on their obligations. The default risk is high for low-rated securities and the quantum of risk goes up with increasing maturities.
Returns	While returns are not fixed, in the long-term you can expect good returns from mutual funds.	As investments are primarily into debt securities, returns are generally stable.

While most Indians are still in favor of traditional avenues for investment, the situation is changing gradually. In recent years, the mutual fund sector has become increasingly common in the country. The reason is simple: a wide range of mutual funds are available on the market to help you achieve your financial goals.[5]

Conclusion:

Consider the service of equity mutual funds as an example to better understand this. Investor X places INR five thousand in a mutual fund. INR 20 is the NAV of the Fund. X been allocated 250 units (5000/20). The value of its investment and vice versa will increase as the NAV increases. X expects to add a new INR 5,000 to the fund after a couple of months. INR 25 is the latest NAV. Currently, she has 200 (5000/25) units. Now she owns 450 units. As the NAV increases, it is allocated fewer units. When the NAV drop, X is however allocated a greater number of units. Therefore, NAV and assigned units are roundabout connections. Investors seeking competent management may invest in mutual funds. These also help small investors save money every day. Investors may begin investing with trust with a deeper understanding of how mutual funds work. Mutual funds investing has its own range of benefits. In fact, mutual funds made it easy and affordable to invest for all.

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