

## A Study on Cost and Benefit Analysis of Investing In Mutual Funds

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### Abstract:

Investment is money parked for crucial face of life, so when an individual thinks about investment he/she has ample of investment options available in the market. No matter whether one chooses to invest in share market (equity, debenture or bonds) or go for traditional form of investment i.e. fixed deposit, time deposit, recurring deposit etc or take up any kind of life insurance policy. But when one is determined to invest and chooses the option of investing in Mutual Funds the first question that strikes in mind is whether it will really fetch wanted returns or benefits. Hence the research talks about what are mutual funds and its derivation. The paper also highlights the advantages and disadvantages of investing in mutual funds. The basic aim of the research work is to analysis the cost and benefit relationship in mutual fund.

Keywords: Mutual Fund, Cost and Benefit, Risk.

### Introduction:

Investor invest with the aim of getting maximum return on his investment, but in this speeding era it's difficult for an individual to keep a keen and constant watch on the investment. Moreover if an individual manages time to review his/her investment then also they may face difficulty of appropriate knowledge regarding what to buy, when to buy, what to sell and when to sell. Therefore here comes in the role of Mutual funds. Mutual funds are a type of investment security that facilitates an investor to pool its money together into well managed structure of investment. Mutual fund can be claimed as a financial drive that comprises of pool of money collected from various willing investor and

invested in stock, bonds, money market instruments or various other options available in the market, diversifying the risk by varied investment. In simple words mutual fund is like a basket that comprises of ample of investment options available in the market and from this vivid options of securities and as per the requirement of an individual investor specific basket of different investment is created leading to mutual fund portfolio.

Mutual funds are generally operated by professional experts in investment or by financial planner who pools the investor money and allocate it to various investment options in order to bring out capital gain i.e. maximum return on capital invested. Mutual Fund is completely market based hence involves risk so it is very important for an individual to go through each and every detailing guideline regarding mutual funds before making a bouquet of funds. Thus mutual funds encompasses of several category of securities option of investment and the risk and return factor associated along with it.

#### Pros and Cons of Mutual Funds:

The reasons to invest in mutual funds are too many as mutual fund includes the vehicles of investment option. So it becomes utmost important to know about its pros and cons stated below:

##### Pros of Mutual Funds

- 1) **Highly Liquid:** Mutual funds are more liquid as compared to stock, time deposit or bonds. Whenever an individual wishes he or she can withdraw its investment as the process of withdrawal is simpler and easy. One can receive its money within less than 12hours. Moreover it has a facility of part withdrawal it means that one can only withdraw the amount he or she needs remaining fund can be remained invested.
- 2) **Diversified:** Mutual fund comprises creation of portfolio i.e. investment are classified into various category it means experts creates such a basket for an individual

wherein it includes investment in various securities where risk and return are balanced off with the aim of capital gains.

- 3) **Managed by Experts:** Mutual Funds are managed by professional experts so once investment is made by an investor the fund manager completely takes care of the investment. It is he who takes decisions regarding whether to invest in equities or debt, whether to buy, hold or sell depending upon the market scenario. Thus mutual funds investment is a professionalized form of investment.
- 4) **Ample of Choice:** Individual has different needs at different stages of life and so mutual funds have schemes as per the need of an individual. Mutual fund offers ample of choice regarding investment they are retirement plans, child education plans etc where individual has to prioritize his need and plan his investment accordingly.
- 5) **Flexibility:** Mutual funds involve high flexibility in term of investment and withdrawal. Once a particular amount is invested in Mutual fund you can add on to your current investment at any point of time similarly you can withdraw apart of your amount at any point of time. Thus this showcases that mutual funds involve flexibility.
- 6) **Tax Efficient:** investment in mutual funds also helps with tax benefits under 80C. Thus this investment gets the benefits of tax indexation.
- 7) **Transparency:** Mutual fund are reviewed and rated by various agencies and publication hence it is easy for an individual to trace its performance and can compare it with one another. Henceforth there are no hidden notes but as it is market based individual has to go through the document wisely.
- 8) **Economical:** Mutual funds have proved bane for small investors. it is not essential that in order to invest in corporation you require large sum of money. Mutual funds investment starts with minimum value of 500 rs per month under systematic investment plan. Thus it is easy to find a mutual fund that suite your income, expenses and risk appetite.

### Cons of Mutual Funds

- 1) Cost involved in managing risk: As mutual funds are managed by the expert professional they charge fees to manage mutual fund. Higher the amount of investment high will be the fees charged. Often it happens that returns on investment mitigate the fees charged so investors lie on nil.
- 2) Lock-in-period: There are mutual funds that involve lock in period ranging from 5 to 10 years. So exiting from this mutual fund before lock in period will be expensive in simple words your investment can't be withdrawn even if needed.
- 3) Weak Profit: As we know that mutual funds leads o diversification of investment it tells that too much of diversification dilutes or weaken your profits.

### Comparative Analysis of Cost and Benefit:

BENEFITS	COST
<ul style="list-style-type: none"><li>• <b>Highly Liquid</b></li><li>• <b>Diversified</b></li><li>• <b>Managed by Experts</b></li><li>• <b>Ample of Choice</b></li><li>• <b>Flexibility</b></li><li>• <b>Tax Efficient</b></li><li>• <b>Transparency</b></li><li>• <b>Economical</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Cost involved in managing risk</b></li><li>• <b>Lock-in-period</b></li><li>• <b>Weak Profit</b></li></ul>

### Interpretation:

The above tabular representation of cost and benefit of mutual funds symbolizes that mutual funds has ample of advantages to be derived in comparison to the basic cost involved. Mutual funds advantages, potential and trending demand can definitely

override the disadvantage associated with it. Mutual funds offer various opportunities to the investors to invest and gain capital growth. The best part of mutual fund is that it diversifies the risk of investment. Taking into consideration the cost involved in mutual fund is completely negligible if one makes wise choice of investment. So we can say that cost does not hover over the benefits of mutual funds. So simply we can say that mutual fund investment are beneficial if one make informed choice of investment and thus making informed choice of investment one can easy take off with the cost involved.

#### Conclusion:

Mutual fund investment is one of the easiest ways to increase your wealth. Mutual fund is such an option of investment through which an individual can build up a diversified portfolio by simply selecting two or three options available from various category that mutual fund offers. Risk involved in mutual fund is also low because it leads to diversification of investment and most importantly it is managed by expert who builds a solid and trustworthy portfolio and advises to stick to it to get more efficient returns. Mutual funds are framed under guidance and regulation of SEBI so it's one of the safest investment options. Thus we can conclude that mutual fund definitely offers more than traditional form of investment if wise choice is made.

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