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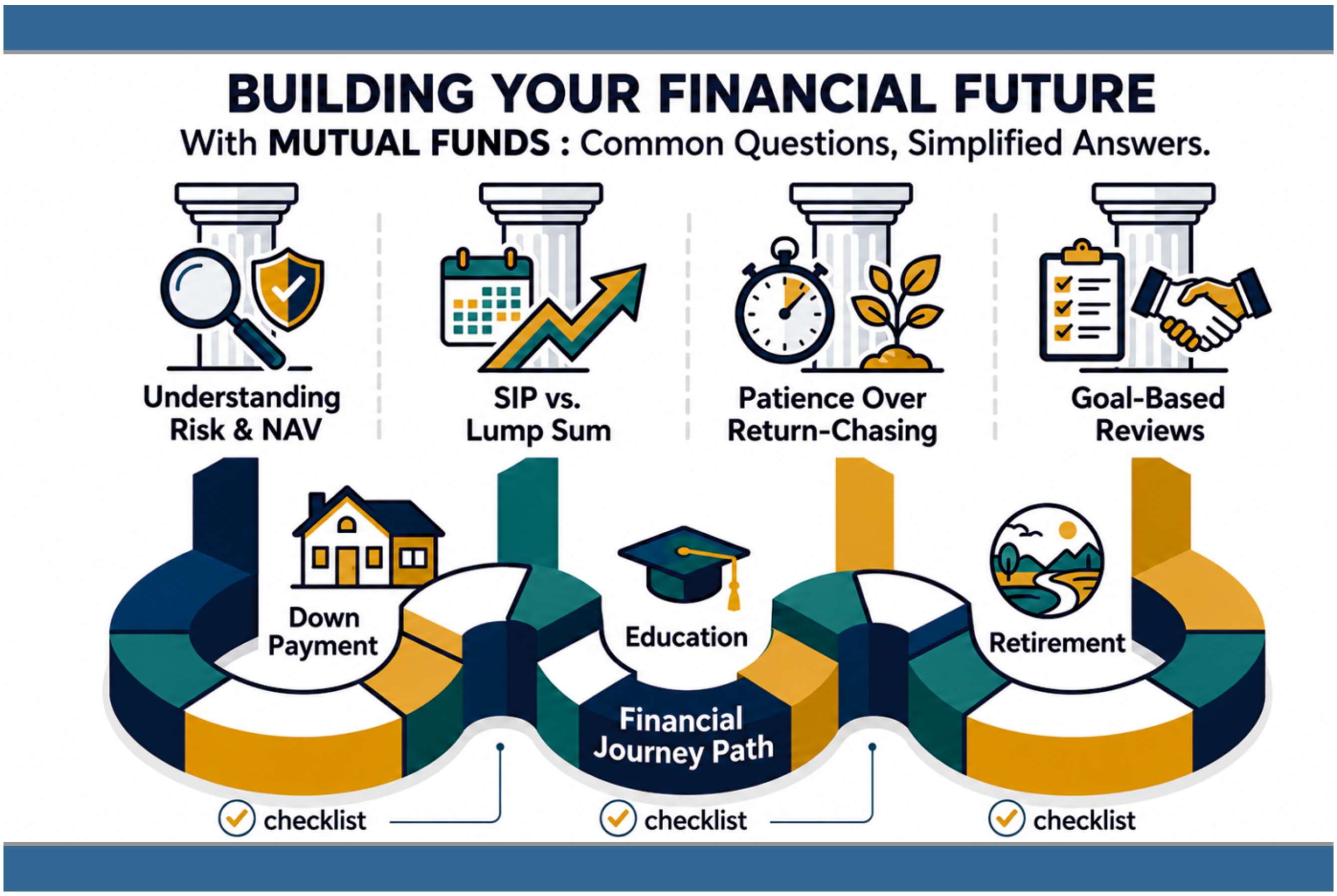

Mutual Funds Simplified

Your Questions-Answered

ABOUT THE COMPANY

Servicing financial communities for over 35 years established in 1990, we are listed in Bombay stock exchange (BSE), a Non-Banking Finance company licensed by Reserve Bank of India (RBI) and AMFI registered Mutual Fund Distributor.

We believe finance should be supportive and rooted in trust. We've dedicated ourselves to being more than just a financial service provider-we aim to be a reliable partner in your journey toward growth and financial well-being. Over three decades later, that mission still guides everything we do.

INTRODUCTION

Over the years, one thing has remained consistent in the world of investing—investors often have the same questions, the same concerns, and, unfortunately, make the same common mistakes.

Whether it is a first-time investor worried about market volatility, a regular SIP investor expecting quick returns, or someone considering redeeming investments during a market downturn, most doubts arise from a lack of understanding rather than a lack of opportunity.

This article brings together the most frequently asked questions about mutual funds and answers them in a simple, practical, and unbiased manner. The goal is to replace confusion with clarity, helping investors make informed decisions and build long-term financial confidence.

Distributor's Tip: Everything in this article is general education, not personal advice. Your ideal fund, allocation and strategy depend on your own goals, income, age and risk appetite — that conversation is best had one-on-one with your advisor.

1. The Basics — What Am I Actually Buying?

Q. What exactly is a mutual fund, and how does my money grow?

Think of a mutual fund as a large, shared basket. Thousands of investors like you put money into that basket, and a professional fund manager uses the pooled money to buy stocks, bonds or other securities on everyone's behalf. When you invest, you don't buy shares directly — you buy 'units' of the fund, and the price of one unit is called the Net Asset Value, or NAV. Your money grows the same way the underlying investments grow. If the fund manager buys a stock at ₹100 and it rises to ₹130, that gain reflects in the NAV, and therefore in the value of your units. You're not betting on a single company — you're getting a slice of a professionally managed, diversified portfolio, which is exactly why mutual funds work well for people who don't have the time, knowledge or inclination to pick individual stocks themselves.

Q. what are the type of mutual funds?

Mutual funds are broadly of four types. Equity funds invest mainly in stocks and suit long-term growth goals, though they carry higher risk (Large Cap, Mid Cap, Small Cap, Flexi Cap, ELSS are common sub-types). Debt funds invest in bonds and money market instruments, offering more stability and lower risk — good for short-term parking or steady income. Hybrid funds blend equity and debt to balance growth with stability. Solution-oriented funds (like retirement or children's funds) come with a lock-in and are built around a specific goal, while Index Funds/ETFs simply track a market index at low cost. The right mix depends on your goal, time horizon, and risk appetite.

Q. Does a lower NAV mean a fund is 'cheaper' and will grow faster? A ₹10 NAV fund seems like a better deal than a ₹500 NAV one.

This is one of the most common — and costly — misunderstandings I encounter, especially around NFOs (New Fund Offers) marketed on their ₹10 NAV. NAV is simply the price of one unit. It tells you nothing about how good the fund is or how much it will grow. Here's the math that settles it: if Fund A has an NAV of ₹10 and grows 20% in a year, it moves to ₹12. If Fund B has an NAV of ₹500 and also grows 20%, it moves to ₹600. Your return in both cases is identical — 20% — even though the NAV numbers look completely different. What decides your gain is the percentage growth of the underlying portfolio, not the sticker price of a unit. Never choose a fund because its NAV looks 'cheap.'

Q. What is expense ratio, and does a slightly higher one really matter?

The expense ratio is the annual fee a fund charges — expressed as a percentage of your investment — to cover fund management, administration and distribution costs.

Over a short horizon, a 0.5–1% difference in expense ratio barely registers. Over 20–30 years, that same gap can meaningfully dent your final corpus, purely through the mathematics of compounding. That said, expense ratio shouldn't be the only lens you look through: a fund charging slightly more but consistently delivering better risk-adjusted, after-fee returns is still the better choice. Use it as a tiebreaker between similar funds, not as the first filter.

2. SIP vs Lump Sum — Getting the Entry Right

Q. Is SIP always better than investing a lump sum?

Not always — but for most people, most of the time, yes. A Systematic Investment Plan (SIP) invests a fixed amount at regular intervals, so you automatically buy more units when the market is down and fewer when it's up. Over time this averages out your purchase cost and removes the impossible task of 'timing the market.'

Lump sum investing can outperform SIP if you invest right before a sustained rally — but nobody can reliably predict that in advance. If you do have a large lump sum, one middle path is a Systematic Transfer Plan (STP): park the money in a liquid or short-duration fund and transfer it into your equity fund in instalments over 6–12 months, capturing some of SIP's averaging benefit without leaving the entire amount idle.

Q. What happens if I miss an SIP instalment, or want to pause it for a few months?

Nothing drastic. Missing one instalment — say, due to insufficient bank balance — doesn't cancel your SIP in most cases; it simply skips that month, though your bank may charge a bounce fee, and doing this repeatedly can eventually lead the AMC or Distributor to stop the mandate. If you know in advance you'll need a break, most AMCs or Distributor now offer an SIP Pause facility for one to three months, or a 'Skip Instalment' option online. Either way, the units you already hold and their growth are untouched — pausing new contributions doesn't affect the money you've already invested.

Q. Should I stop my SIP when the market falls?

This is the single costliest mistake I see, and I've watched it play out with real portfolios more times than I can count. When markets fall, your SIP buys more units at a lower NAV — the same logic as buying your favourite groceries at a discount. If you pause the SIP precisely when prices are low, you miss out on the cheapest units you'll ever get in that fund.

I understand the emotional pull runs exactly opposite to the logical answer — a red portfolio screen makes people want to stop. But unless your goal itself has changed, or you genuinely need that money elsewhere, a market fall is not a reason to stop a long-term SIP. It's usually the reason SIPs work as well as they do.

3. Risk, Returns and Reality

Q. Are mutual funds risky? Can I lose all my money?

Mutual funds are market-linked, so their value moves up and down with the underlying stocks or bonds — yes, there is risk, and your investment can lose value in the short term. But 'losing everything' is a different kind of risk, and it's far lower in a mutual fund than in a single stock, because your money is spread across dozens or even hundreds of securities. A company going bankrupt can wipe out its own shareholders; it's very unlikely to meaningfully dent a well-diversified fund.

Every fund carries a SEBI-mandated 'Riskometer' on its factsheet, ranging from Low to Very High. Reading it — and matching it to your own risk appetite and time horizon — takes less than a minute and tells you more than most return charts do.

4. The Mistakes I See Most Often

1. **Investing without a goal attached** — money invested with no destination in mind is the hardest money to manage well. Without a goal, it's almost impossible to judge the right risk level or the right time horizon for that money.
2. **Comparing mutual fund returns directly to FD rates** — an FD offers a guaranteed, pre-known return; an equity fund does not. Comparing the two without adjusting for risk, volatility and taxation compares two fundamentally different products as if they were the same.
3. **Holding losers out of hope, selling winners too early** — a well-known behavioural bias is selling what's working to 'lock in gains' while holding onto what isn't, hoping it 'comes back' — often the exact opposite of what long-term data suggests.
4. **Return-chasing** — buying whichever fund topped the charts last year. By the time a stellar one-year return makes headlines, that performance is already behind the fund, not ahead of it.
5. **Never reviewing the portfolio** — I've seen SIPs left running on autopilot for eight or ten years with no review at all, some in funds that had merged, changed strategy, or simply drifted from the investor's original goal.
6. **Treating ELSS as only a tax tool** — it carries a 3-year lock-in and behaves exactly like an equity fund, gains and all — it deserves the same scrutiny as any other equity holding, not less.
7. **Ignoring asset allocation for short-term goals** — money needed within one to three years — a wedding, a down payment — sitting entirely in equity funds is a mismatch between the goal and the instrument, not an investment strategy.

5. Choosing and Reviewing the Right Fund

Q. Active funds or index funds — which should I choose?

An actively managed fund employs a manager who researches and picks stocks, aiming to beat a benchmark index — for which you pay a higher expense ratio. An index fund simply mirrors a chosen index, such as the Nifty 50, at a much lower cost, with no attempt to outperform it. In India's large-cap space, the gap between average active fund returns and the index has narrowed noticeably over the years, which has made index funds a genuinely reasonable, low-cost core holding for that category. Many well-built portfolios today use both — an index fund as a stable, low-cost core, and select active funds in categories where skilled management has tended to earn its fee.

Q. How often should I review my portfolio?

At minimum, once a year — ideally alongside a life event such as a salary change, a new goal, or market volatility that's making you uneasy. A review isn't about chasing the latest top performer; it's about checking three things: is the fund still doing what it was chosen to do, is your asset allocation still aligned with your goal and its remaining time horizon and has anything in your life changed enough to change the plan. If none of those things have changed, the best action after a review is often no action at all.

6. Taxation, Made Simple

Tax rules on mutual funds have changed meaningfully since 2023, and this is the area with the most outdated assumptions I run into. Here's where things stand for FY 2026–27 — the rules introduced in Budget 2024 have been carried forward unchanged through Budget 2025 and Budget 2026.

Fund Type	Long-Term Holding	Short-Term Tax	Long-Term Tax
Equity-oriented funds (≥65% Indian equity)	More than 12 months	20%	12.5% above ₹1.25 lakh/year, no indexation
Debt & specified funds (units bought on/after 1 Apr 2023)	Not applicable	Slab rate	Slab rate (Section 50AA)
ELSS (Tax-Saver funds)	Mandatory 3-year lock-in	Not possible (locked in)	12.5% above ₹1.25 lakh/year

Q. What if I sell a fund at a loss — can I use that loss to reduce my tax?

Yes. Short-term losses can be set off against both short-term and long-term gains, while long-term losses can only be set off against long-term gains. Either way, unused losses can typically be carried forward for up to eight assessment years, so it's worth reporting them in your tax filing even in a year you don't need them.

This is general information, not a substitute for advice from a qualified tax professional — always confirm your specific tax position, especially around switches and regime choice, before acting.

7. Exiting the Smart Way

Q. When should I redeem my mutual fund investment?

Ideally, when your goal arrives — not when a news channel says the market looks shaky. If a goal like college admission is two years away, or a down payment is due next year, the honest answer is that this money probably shouldn't have been sitting fully in equity that close to the goal in the first place. A better approach is a 'glide path': starting two to three years before a goal, gradually move money out of equity funds into debt or liquid funds via an STP, so a sudden market fall in the final stretch doesn't derail a plan built over years.

Q. What is a Systematic Withdrawal Plan (SWP), and when does it make sense?

An SWP lets you withdraw a fixed amount from your fund at regular intervals — effectively the reverse of an SIP — and it's commonly used by retirees or anyone needing a regular income stream from a lump sum corpus. One underrated advantage over an FD: with an SWP, only the gains portion of each withdrawal is taxed, not the entire amount, which can make it meaningfully more tax-efficient than interest income for the same monthly cash flow.

Q. I need money urgently. Should I break a Fixed Deposit or redeem a mutual fund?

This depends on the specific FD's remaining tenure and penalty, the fund's exit load and holding period, and which one you can afford to disrupt without derailing a goal. As a rough rule of thumb, redeem from money that was never earmarked for a specific long-term goal before touching money that was — but if both options are goal-linked, this is exactly the kind of decision worth a five-minute call with your advisor rather than a guess made under pressure.

A Quick Checklist Before You Invest

- This investment is linked to a specific goal and time horizon, not just 'extra savings.'
- I've checked the fund's consistency across market cycles, not just last year's return.
- My current portfolio still matches my risk appetite and my goal's remaining time horizon.
- I'm diversified without over-diversifying — a handful of funds, each with a clear role, not fifteen.
- I understand the tax impact of switching or redeeming before I act, not after.
- I've reviewed this portfolio at least once in the last twelve months.

In the true battle of Market Volatility vs. SIP Discipline, Time always declares the disciplined investor as the winner

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