

Advantages and disadvantages of investing in mutual funds assignment

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The Advantages: Diversification: A single mutual fund can hold securities from hundreds or even thousands of issuers. This diversification considerably reduces the risk of a serious monetary loss due to problems in a particular company or industry. **Affordability:** You can begin buying units or shares with a relatively small amount of money (e. g. , \$500 for the initial purchase). Some mutual funds also permits you to buy more units on a regular basis with even smaller installments (e. g. , \$50 per month).

Professional Management: Many investors do not have the time or expertise to manage their personal investments every day, to efficiently reinvest interest or dividend income, or to investigate the thousands of securities available in the financial markets. Mutual funds are managed by professionals who are experienced in investing money and who have the education, skills and resources to research diverse investment opportunities.

Liquidity: Units or shares in a mutual fund can be bought and sold any business day (that the market is open), thus, providing investors with easy access to their money.

Flexibility: Many mutual fund companies manage several different funds (e. g. , money market, fixed-income, growth, balanced, sector, index and global funds) and allow you to switch between these funds at little or no charge. This enables you to change your portfolio balance as and when your personal needs, financial goals or market conditions change. **The Disadvantages:** When you invest in a mutual fund you place your money in the hands of a professional manager. The return on your investment depends heavily on that manager's skill and judgment.

Research has shown that few portfolio managers are able to out-perform the market. Check the fund manager's track record over a period of time when selecting a fund. Fees for fund management services and various administrative and sales costs can reduce the return on your investment. These are charged, in almost all cases, whether the fund performs well or not. Redeeming your mutual fund investment in the short-term could significantly impact your return due to sales commissions and redemption fees