

Mutual funds

Finance



Mutual funds can be classified into two types - Load mutual funds and No-Load mutual funds. Load funds are those funds that charge commission at the time of purchase or redemption. They can be further subdivided into (1) Front-end load funds and (2) Back-end load funds. Front-end load funds charge commission at the time of purchase and back-end load funds charge commission at the time of redemption. Large cap funds

Large cap funds are those mutual funds, which seek capital appreciation by investing primarily in stocks of large blue chip companies with above-average prospects for earnings growth. Generally, companies with a market capitalization in excess of Rs 1000 crore are known large cap companies. Investing in large caps is a lower risk-lower return proposition, because such companies are usually widely researched and information is widely available.

Mid cap funds

Mid cap funds are those mutual funds, which invest in small / medium sized companies. As there is no standard definition classifying companies as small or medium, each mutual fund has its own classification for small and medium sized companies. Generally, companies with a market capitalization of up to Rs 500 crore are classified as small. Those companies that have a market capitalization between Rs 500 crore and Rs 1, 000 crore are classified as medium sized. Equity mutual funds

Equity mutual funds are also known as stock mutual funds. Equity mutual funds invest pooled amounts of money in the stocks of public companies. Stocks represent part ownership, or equity, in companies, and the aim of stock ownership is to see the value of the companies increase over time.

Many mutual funds invest primarily in companies of one of these sizes and are thus classified as large-cap, mid-cap or small-cap funds. Equity fund managers employ different styles of stock picking when they make investment decisions for their portfolios. Some fund managers use a value approach to stocks, searching for stocks that are undervalued when compared to other, similar companies. Debt Funds

Debt funds are those funds which primarily invest large amount (i. e. greater than 75%) in fixed income investments. A debt fund may invest in short-term or long-term bonds, securities products, money market instruments or floating rate debt. Debt funds are comparatively less risky but returns are low. For short term Debt fund are better but people investing for long period having risk appetite should invest in Equity funds or balanced funds. •Debt funds are of three types:

* Income/bonds: Income/bond schemes invest in long- and medium-term instruments like corporate bonds, debentures, fixed deposits. * Liquid/Money market: Invest in instruments having short-term period like treasury bills, commercial paper, call money and repos. * Gilts schemes: Invest in sovereign papers issued by the central government and the state governments. The maturity period in these funds are medium- and long-term depending upon an investor's goals. Balanced Fund

Balanced fund is also known as hybrid fund. It is a type of mutual fund that buys a combination of common stock, preferred stock, bonds, and short-term bonds, to provide both income and capital appreciation while avoiding excessive risk. Balanced funds provide investor with an option of single

mutual fund that combines both growth and income objectives, by investing in both stocks (for growth) and bonds (for income). Growth funds

Growth funds are those mutual funds that aim to achieve capital appreciation by investing in growth stocks. They focus on those companies, which are experiencing significant earnings or revenue growth, rather than companies that pay out dividends. Growth funds tend to look for the fastest-growing companies in the market. Investors those with enough time to make up for short-term market losses, should buy these funds. Exchange traded funds

The investment objective of an ETF is to achieve the same return as a particular market index. Exchange traded funds rely on an arbitrage mechanism to keep the prices at which they trade roughly in line with the net asset values of their underlying portfolios. Money market funds

Money market funds are generally the safest and most secure of mutual fund investments. The goal of a money-market fund is to preserve principal while yielding a modest return. Money-market mutual fund is akin to a high-yield bank account but is not entirely risk free.