Classification of mutual fund schemes:

Schemes according to Maturity Period:
A mutual fund scheme can be classified into open-ended scheme or close-ended scheme depending on its maturity period.

Open-ended Fund/ Scheme:
An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. Investors can conveniently buy and sell units at Net Asset Value (NAV) related prices which are declared on a daily basis. The key feature of open-end schemes is liquidity.

Close-ended Fund/ Scheme:
A close-ended fund or scheme has a stipulated maturity period e.g. 5-7 years. The fund is open for subscription only during a specified period at the time of launch of the scheme. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the stock exchanges where the units are listed. In order to provide an exit route to the investors, some close-ended funds give an option of selling back the units to the mutual fund through periodic repurchase at NAV related prices. SEBI Regulations stipulate that at least one of the two exit routes is provided to the investor i.e. either repurchase facility or through listing on stock exchanges. These mutual funds schemes disclose NAV generally on weekly basis.

Schemes according to Investment Objective:
A scheme can also be classified as growth scheme, income scheme, or balanced scheme considering its investment objective. Such schemes may be open-ended or close-ended schemes as described earlier. Such schemes may be classified mainly as follows:

Growth / Equity Oriented Scheme
The aim of growth funds is to provide capital appreciation over the medium to long-term. Such schemes normally invest a major part of their corpus in equities. Such funds have comparatively high risks. These schemes provide different options to the investors like dividend option, capital appreciation, etc. and the investors may choose an option depending on their preferences. The investors must indicate the option in the application form. The mutual funds also allow the investors to change the options at a later date. Growth schemes are good for investors having a long-term outlook seeking appreciation over a period of time.

Income / Debt Oriented Scheme:
The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures, Government securities and money market instruments. Such funds are less risky compared to equity schemes. These funds are not affected because of fluctuations in equity markets. However, opportunities of capital appreciation are also limited in such funds. The NAVs of such funds are affected because of change in interest rates in the country. If the interest rates fall, NAVs of such funds are likely to increase in the short run and vice versa. However, long term investors may not bother about these fluctuations.

Balanced Fund:
The aim of balanced funds is to provide both growth and regular income as such schemes invest both in equities and fixed income securities in the proportion indicated in their offer documents. These are appropriate for investors looking for moderate growth. They generally invest 40-60% in equity and debt instruments. These funds are also affected because of fluctuations in share prices in the stock markets. However, NAVs of such funds are likely to be less volatile compared to pure equity funds.

Money Market or Liquid Fund:
These funds are also income funds and their aim is to provide easy liquidity, preservation of capital and moderate income. These schemes invest exclusively in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, government securities, etc. Returns on these schemes fluctuate much less compared to other funds. These funds are appropriate for corporate and individual investors as a means to park their surplus funds for short periods.

Gilt Fund:
These funds invest exclusively in government securities. Government securities have no default risk. NAVs of these schemes also fluctuate due to change in interest rates and other economic factors as is the case with income or debt oriented schemes.

Index Funds:
Index Funds replicate the portfolio of a particular index such as the BSE Sensitive index, S&P NSE 50 index (Nifty), etc These schemes invest in the securities in the same weightage comprising of an index. NAVs of such schemes would rise or fall in accordance with the rise or fall in the index, though not exactly by the same percentage due to some factors known as "tracking error" in technical terms. Necessary disclosures in this regard are made in the offer document of the mutual fund scheme.

There are also exchange traded index funds launched by the mutual funds which are traded on the stock exchanges .

Advantages and Disadvantages of Investing in Mutual Funds:

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.

Information is for educational and informational purposes only and is not be interpreted as financial advice. This does not represent a recommendation to buy, sell, or hold any security. Please consult your financial advisor.

Investing in Mutual Fund Resources and Information including Vanguard, Fidelity, American, Janus, Hartford, Aim, American Century, Oppenheimer, Strong, Dreyfus, Abbett Funds, Van Kampen, Smith Barney, Morgan Stanley, American Express, Well Fargo, Columbia, Morning Star, Alliance Bernstein, Cibc, Templeton, Prudential, Merrill Lynch, Rogers, S&P 500, and Barclays.

Recent trends in mutual funds in India:

Indian mutual fund sector has gone a long way since the inception of Unit Trust of India, the first mutual fund of the country set up in 1963. The basic objective of this paper is to highlight the performance of mutual fund sector during the last decade. Data for the research pertains to the period 1999-00 to 2009-10. Descriptive analysis of data has been done using measures like mean, standard deviation and standard error. T-Statistics has been used to test the hypotheses. The study reveals that gross mobilization by mutual fund and redemption are statistically significant which implies that there has been a significant increase in gross mobilization and redemption over the years. Whereas it reveals that increase in net inflows and assets at the end of the year are not statistically significant. Study also finds that turnover of mutual funds (measured as net purchases/sales) in the debt and equity market is statistically not significant which implies that mutual funds were equally active in equity and debt segments. In nutshell, the study finds that mutual fund sector in India has grown significantly during the study period. JEL CLASSIFICATION E440, C120. KEYWORDS mutual fund, gross mobilization, net inflow, redemption.