Mutual Funds for long-term investment

Mutual funds are a pool of money collected from many investors and corporates and then invested by fund managers to buy securities such as stocks and bonds. This requires that the investor studies his needs and aspirations, identifies a goal that he wants to achieve, and then makes an investment decision.

However, this decision cannot be made on the basis of comparing one fund to another, since every Mutual Fund invests based on a particular focus. There are Blue-Chip funds which invest only in big companies with established track records. Besides this, there are Mid Cap Mutual Funds which invest in medium-sized companies. Similarly, there are sector-based Mutual Funds such as Information Technology, infrastructure etc. For long term investors it is advisable-

- Not to put all one’s eggs in one basket, but look for diversification of investment instruments
- To have realistic expectations about a fund’s investment performance
- To review the fund performance at least every three months so that the investor has the fund’s pulse on total return and can make educated exit decisions
- To avoid frequent switching from one fund to another, since this will reduce the fund’s profitability

There are three main advantages to long-term investments-

1. The risk is lower in such investments as funds are allocated to steady and proven performers where the market volatility is reduced
2. You can achieve a long-term capital appreciation with deferred tax implications
3. Investments are spread across sectors to ensure risk diversification

On the downside, your funds are locked-in for a longer period and you do not know what the ‘hidden costs’ work out to – for example, if you want to break the investment before it reaches its maturity.
Thus, in order to invest wisely you will have to take several factors into consideration. You will have to assess how the fund will impact the diversification of your portfolio, in other words, maintaining a diversified and balanced portfolio is key to maintaining an acceptable level of risk. Secondly, you will have to check the types of services offered and fees charged by the fund as this will impact how easily you can buy and sell shares. Thirdly, you will have to find out about any recent changes in the fund’s operations. Questions such as- has the strategy of the fund changed in recent times? Or, has the fund’s investment advisor changed? Even enquire if the fund has merged with another fund in recent times or is proposing a merger in the near future. All these factors will impact your investment decision, especially if you are looking for a long-term investment with the Mutual Fund company. It’s also a good idea to find out the fund's portfolio turnover rate. A fund's portfolio turnover rate measures the frequency with which it buys and sells securities. A fund that rapidly buys and sells securities may generate higher trading costs and capital gains taxes. Also, consider the age and size of the fund. Before investing in a fund, read the prospectus to find out how long the fund has been operating and the asset size of the fund. You can get a better picture of a fund's performance by looking at how the fund has performed over longer periods and how it has weathered the ups and downs of the market.

For long-term investors, they should look out for factors such as infrastructure investment portfolios as these are steady and stable in the long run. Also, they must find out the quantum of returns the fund generated. Combine this with seasoned experience and a solid track record, and presto! you have a winning combination.
(612 words)