CHOOSING THE RIGHT TYPE OF FUND

Mutual funds offer a wide variety of schemes catering to the varied needs of investors. These schemes vary in their underlying asset, investment strategy, nature of returns, etc. It is therefore in your interest that you pick the scheme that best suits your need. Here is a brief guide on how you go about it.

Identification of financial goals

The first step in any journey is to know where and when you have to reach. Investing without knowing your goals is akin to travelling without knowing the destination. Unfortunately, many investment endeavours end up producing bad results precisely because the investor did not know what he/she wants to achieve with his/her money. So setting a Specific, Measurable, Achievable, Relevant and Time bound (SMART) goal should be your first step. These may be purchase of a car or a house, child's education, marriage, saving for retirement etc.

Deriving investment objectives from financial goals

Financial goals give a broad direction to your investment activity. It is like knowing whether to head North or South in your journey. You need to further refine your journey towards your exact destination. The journey needs to be broken down into smaller tasks and segments which cumulatively will take you to your destination. Similarly, financial goals need to be broken down into smaller but potent objectives. At a broad level, your investment objective could be among the following:

i. Capital growth – when your goal is a long time away and you want your investments to grow into a large corpus.

ii. Capital preservation – when your goal is very near and you want to preserve your accumulated money without any erosion till the goal actually fructifies.

iii. Income generation – when you have built a corpus over the years and you now want to generate a steady income or cash flow to meet your financial commitments.

iv. Tax saving – when you want to invest so that you can avail tax exemptions like those under Section 80C. Though tax saving is the primary objective, it cannot be the only objective as it would be sub-optimal use of your capital. The base objective needs to be fulfilment of a life-goal. Examples of investment objectives:

> To achieve 12% compounded investment growth over 10 years to achieve my retirement fund.

> To derive a monthly income of Rs.20,000 from my investment fund for the next 10 years.

List of few Mutual Fund product categories and the objectives that they may suit

Category of Fund	Objective to which suited
Equity/Hybrid Aggressive	Long term capital growth
Liquid/Ultra Short Duration Fund	Capital preservation
Long Term Debt Funds	Capital growth/income generation
Short Term Debt Funds	Income generation for 1 to 3 year period
ELSS	Tax saving/capital growth
Fixed Maturity Plans	Capital preservation
Gold Funds	Asset Allocation/Hedge against inflation

Role of time horizon in fund selection

There is another way of selecting funds if you do not want to go through the elaborate process mentioned above. You may simply pick a fund category based on your investment horizon as below:

Investment horizon	Suitable fund category
Very Short Term (few days to few weeks)	Overnight Liquid/Ultra Short Term Debt
Short Term (less than a year)	Ultra Short Duration Fund
Medium Term	Short Duration Fund
Long Term (above 5 years)	Equity/ Hybrid/ Long Term Debt - Gold

Note: The above indications are for academic purpose only. Please consult your mutual fund Distributor before investing.

Selection of the right fund is the secret of achieving good investment results. Seeking professional help is advisable if you are not confident of taking investment decisions on your own.

We usually have multiple financial goals, spread over varying time-periods. Hence, investments should be made across a spectrum of Mutual Funds schemes, based on their stated investment objectives.

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