
MUTUAL FUNDS AND SHAREMARKET INVESTMENT

MADHAN S

B.COM FINAL YEAR JEPPIAAR UNIVERSITY

DR.S.S ONYX SAMRAJ

Assistant professor, school of Arts Humanities and management, Jeppiaar University

Introduction

Investment is an essential component of financial planning and wealth creation. It helps individuals achieve financial security, meet future needs, and protect themselves against inflation. Among the various investment options available today, mutual funds and share market investments are the most popular due to their potential for generating higher returns. Technological advancements, online trading platforms, and increased financial awareness have encouraged more people to participate in these investment avenues.

Meaning of Mutual Funds

A mutual fund is an investment vehicle that pools money from multiple investors and invests it in a diversified portfolio of securities such as stocks, bonds, and money market instruments. Mutual funds are managed by professional fund managers who make investment decisions on behalf of investors. They offer diversification, professional management, liquidity, and affordability, making them suitable for both beginner and experienced investors.

Features of Mutual Funds

Professional Management

Mutual funds are managed by experienced fund managers who analyse market conditions and select suitable investments.

Diversification

Investments are spread across various sectors and securities, reducing overall risk.

Liquidity

Investors can easily redeem their units and convert them into cash.

Affordability

Investments can be started with small amounts through Systematic Investment Plans (SIPs).

Transparency

Fund performance, portfolio holdings, and NAV are regularly disclosed.

Types of Mutual Funds

1. Equity Funds
2. Debt Funds
3. Hybrid Funds
4. Growth Funds
5. Income Funds
6. Balanced Funds
7. Sectoral Funds

Each type caters to different financial goals and risk preferences.

Meaning of Share Market

The share market is a platform where shares of publicly listed companies are bought and sold. Investors who purchase shares become partial owners of the company. The share market helps companies raise capital while providing investors with opportunities for wealth creation through dividends and capital appreciation.

Types of Shares

Equity Shares

Provide ownership rights and voting rights.

Preference Shares

Offer fixed dividends and repayment priority.

Bonus Shares

Issued free of cost to existing shareholders.

Rights Shares

Offered to existing shareholders at a discounted price.

Functions of Share Market

Capital Formation

Helps companies raise funds for business expansion.

Mobilization of Savings

Encourages individuals to invest their savings productively.

Price Determination

Share prices are determined by demand and supply.

Economic Growth

Supports industrial development and employment generation.

Liquidity

Allows investors to buy and sell securities easily.

Benefits of Mutual Funds

- Professional fund management
- Diversification of risk
- Easy accessibility
- Tax-saving opportunities
- Suitable for small investors
- Flexible investment options

Benefits of Share Market Investment

- Higher return potential
- Dividend income
- Ownership in companies
- Liquidity
- Wealth creation over the long term
- Opportunity to beat inflation.

Risks in Mutual Funds

- Market risk
- Interest rate risk
- Credit risk
- Liquidity risk
- Fund manager risk

Risks in Share Market



Market Risk

Prices fluctuate due to economic and market conditions.

Inflation Risk

Rising prices may reduce real returns.

Interest Rate Risk

Changes in interest rates can affect stock prices.

Liquidity Risk

Difficulty in selling shares at desired prices.

Political and Economic Risk

Government policies and economic events can impact markets.

Importance of Financial Literacy

Financial literacy helps investors understand risk, return, diversification, and investment planning. Educated investors are better equipped to make informed decisions and avoid financial mistakes.

Conclusion

Mutual funds and share market investments are important tools for wealth creation and financial growth. Mutual funds are suitable for investors seeking professional management and diversification, while share market investments are ideal for those willing to take higher risks for potentially greater returns. The choice between the two depends on an individual's financial goals, risk tolerance, investment horizon, and market knowledge. A balanced investment strategy combining both options can help achieve long-term financial security and maximize returns.