Mutual Fund v/s Other Investment Avenues

A. Company Fixed Deposits v/s mutual fund:

A mutual fund invests in a portfolio of assets, i.e. bonds, shares, etc. depending upon the investment objective of the scheme. An investor can buy in to a portfolio of equities, which would otherwise be extremely expensive. Each unit holder thus gets an exposure to such portfolios with an investment as modest as Rs.500/-. This amount today would get you less than quarter of an Infosys share! Thus it would be affordable for an investor to build a portfolio of investments through a mutual fund rather than investing directly in the stock market.

B. Bank Fixed deposits v/s mutual fund:

Bank Fixed deposits are similar to company fixed deposits excepting that the Bank FD's are more safe and chances of default are very less. Banks operate under stringent requirements regarding Statutory Liquidity Ration (SLR) and Cash Reserve Ratio (CRR). Further, Deposit Insurance and Credit Guarantee Corporation (DICGC) protect bank deposits.

C. Bonds and Debentures v/s Mutual fund:

1. Credit rating of a bond is an indication of the inherent default risk in the investment. However unlike fixed deposits, bonds and debentures are transferable securities.
2. If security does not get traded in the market, then the liquidity remains on paper. In this respect an open-end mutual fund scheme offering continuous sale / repurchase option is superior.
3. There could be capital gain / capital loss to investor incase of an early exit, because the investment is subject to market risk. This is normally less in Mutual fund as the investment is made in basket of funds and hence your investment gets diversified.

D. Equity v/s Mutual fund:

1. It is not possible for a common man to lay his hands on all that information needed to make an equity investment. Mutual fund handled by professionals make prudent investment decisions.
2. Mutual fund investment offers diversification irrespective of the size of investment. Individual investor investing in equity scheme may not have this advantage especially if he does not have that sort of investible funds.

E. Life insurance v/s Mutual Fund:

1. Life insurance is hedge against risk – and not really an investment option.

2. But occasionally, on account of mis-pricing of products in India, life insurance products have offered a return that is higher than a comparable “safe” fixed return security – thus, you are effectively paid for getting insured.