

How can I invest in a mutual fund?

There are many ways in which money can be invested in mutual funds. Here are some of them.

Mutual funds are one of the best ways to diversify your portfolio and invest according to your risk profile. Once you have selected the type of mutual fund scheme that suits your requirements, the next logical step is to learn about the various methods in which you can make the investment.

You can choose to invest in mutual funds through a one-time lump sum investment, a systematic investment plan or a systematic transfer plan. Some information regarding each is elaborated below.

One-time investment

Many investors choose to put in a lump sum amount and buy mutual fund units at once. However, over a longer period of time, this method may prove disadvantageous as the performance of the investment depends majorly on the market conditions and NAV of the fund at the time of purchase.

Systematic Investment Plans (SIP)

SIP is fast becoming one of the most popular and simplest ways to put money in mutual funds. Such a system allows you to invest a fixed amount at regular intervals in a particular scheme. Consequently, you buy more units when the stock market is down and fewer units during an upsurge. This method is also known as Rupee Cost Averaging.

Systematic Transfer Plan (STP)

STP is a method wherein you invest a lump sum amount in one scheme and then transfer a small amount at regular intervals to another scheme. This facility not only saves time while redeeming an investment from one scheme and re-investing it in another, but also allows you to adhere to the asset allocation that is suitable for you. In addition, it provides you with an opportunity to earn higher returns from the scheme that performs better.