

GROWING IMPORTANCE OF INVESTING IN EQUITY MUTUAL FUNDS

Mutual funds in India offer superior returns and tax benefits compared to traditional investments like FDs and gold, making them an attractive option to combat inflation and grow wealth effectively

'Do not save what is left after spending, but spend what is left after saving'

By:

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Growing importance of investing in equity mutual funds

High inflation has been a persistent issue in India, eroding the purchasing power of its citizens. When inflation rates are high, the cost of goods and services increases, which means that the same amount of money buys fewer items than before. **This reduction in purchasing power makes it challenging for people to maintain their standard of living and achieve their financial goals.** To counteract the effects of inflation, it is crucial for individuals to seek investment options that offer returns exceeding the inflation rate, thereby preserving and growing their wealth over time.

In recent years, **equity mutual funds have become a popular investment vehicle in India**, offering safety, transparency, and potential for significant returns. With investments starting as low as ₹500, they are accessible to a wide range of investors. Unlike direct stock investments, mutual funds are managed by professional fund managers who diversify portfolios to mitigate risks. Investors can choose from various mutual fund options tailored to different risk appetites, from conservative to aggressive. Regular updates on portfolio holdings and performance enhance their appeal.

Here is a table summarizing the performance of different types of equity mutual funds and other asset classes over the past 10 years:

Asset Class	Bottom Quartile	Average Return	Top Quartile
Large-Cap Funds	6-8%	10-12%	14-16%
Mid-Cap Funds	8-10%	12-15%	18-20%
Small-Cap Funds	10-12%	15-18%	22-25%
Gold	5-7%	7-9%	10-12%
Fixed Deposits	4-5%	5-7%	7-8%
Inflation	4-6%		

Inflation has been a constant thorn in the side of traditional investments like gold and fixed deposits (FDs). Gold, often seen as a safe bet, has offered moderate returns, averaging around 7-9% per annum, just barely outpacing inflation. **FDs have typically provided annual returns of about 5-7%, often just enough to match inflation.** Consequently, the real returns from these traditional investments have been very low, prompting investors to seek alternatives that offer better inflation-adjusted returns, making mutual funds attractive.

Mutual funds have consistently delivered superior returns compared to traditional investments. Large-cap mutual funds, which invest in well-established companies, have provided stable returns with relatively lower risk, averaging around 10-12% annually. Mid-cap funds, focusing on medium-sized companies, offer a balance between risk and return, with average annual returns of approximately 12-15%. Small-cap funds, which invest in smaller companies with high growth potential, come with higher risk but have the potential for the highest returns, averaging 15-18% annually. **In addition to these superior returns, mutual funds offer tax benefits that make them more attractive than fixed income instruments like FDs and bonds.** For instance, long-term capital gains from equity mutual funds are taxed at 12.5% for gains exceeding ₹1 lakh, which is more favorable compared to the interest income from FDs and bonds that is taxed as per the investor's income tax slab.

In conclusion, mutual funds have consistently outperformed other asset classes in India, delivering the highest inflation-adjusted returns. Their diversified investment options, professional management, and transparency make them a compelling choice for investors seeking to grow their wealth. **As India's economic landscape evolves, mutual funds are likely to play an increasingly vital role in helping investors achieve their financial goals.**

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