



PASSIVE FUNDS

How to invest in passive funds in India

Have you found yourself wondering about how to invest in passive funds in India? When you think of investing and growing your wealth for the longer term, there are many questions that come to your mind. These could include anything and everything from why you want to invest, how long you want to invest for, where you should invest and of course, how you should start your journey. While assessing your investor profile and figuring out your risk appetite, investment horizon, return requirements and financial goals will help you answer almost all of these questions, you still have to answer the question of how. Should you invest directly in the equity market or should you look at investing via mutual funds? If you are someone who does not have the time or inclination to research the stock market or track it regularly, it is better to invest in mutual funds and participate in the growth of the market.

Once you decide to go with equity mutual funds, the question arises – should you go with active or passive funds? While active funds have professional fund managers trying to beat the market with their trading calls, passive funds, also known as index funds, track the performance of the underlying market index and offer you returns which are in line with the growth in the market. The biggest difference between the two funds is the fee or commission you have to pay – when you choose the active fund route, you have to pay significantly higher fees as compared to the commission charged by passive funds. This is because passive fund managers need not manage the fund actively, as it is just tracking the movement of the index. If you are fine with market-aligned returns at a lower expense, then passive funds are the best options for you. So, how to invest in passive funds in India?

Passive investing in India

While passive investing has become a major industry across the developed countries in the world, in India, the concept is still catching on. However, given the robust rise in Indian indexes like the Nifty and Sensex, you can be sure that, over the longer term, passive investing will become a major form of investment in the country. In India, you can undertake passive investing by simply choosing the mutual fund house you trust, and picking the index that is best suited to your requirements. Once you do this, you can pick your investment mode – SIP or lumpsum, and start passive investing in India. Through this method, you stand to enjoy various benefits such as low expense and market-linked growth, which has, historically, proved to be an excellent strategy for investing.

Why to invest in passive funds?

Why should you invest in passive funds or more importantly why they should form a part of your investment portfolio? Below we share a list of reasons highlighting the value that passive funds can add to your portfolio.

- The first reason is that you can participate in the growth of the underlying index, and thereby, the overall market, without needing to track the market on a regular basis or undertake active investing methods.
- Secondly, you are required to pay a low fee, which means that most of your investment amount would actually be used in purchasing units in the passive funds. Over the years, this can translate into significant growth.
- The third reason is that you need not worry about the investing acumen or expertise of the fund manager because your money is tracking the performance of the overall index.
- Experts have stated that, over the longer term, passive funds prove to be a good investment option as you end up earning money which beats inflation and tracks the market.
- Another great reason to invest in passive funds is the fact that returns on these funds are taxed in line with other equity funds, making it tax efficient in the long run.

Steps to invest in passive funds

Now that you know why you should invest in passive funds, let us look at how to invest in passive funds in India. Here are the steps you can follow –

1. Decide on your investment profile: Once you figure out your investment profile, you can easily decide on the index you want your investment to track. For instance, if you want stable growth with low risk, you can consider tracking the Nifty50, which has large cap companies with steady growth. Alternatively, if you are fine with slightly higher risk for potentially higher returns, you can pick the Nifty Next 50, which lists companies which are listed from 50 to 100.
2. Choose the fund house: Once you know the index of your choice, pick the mutual fund you trust and then invest in the index fund that is well-aligned with your objectives.
3. Create a profile: You can create a profile and fill in your KYC details on the fund house website or on an investing app. After this, choose the scheme you like and start investing.
4. Start investing: The best part is that you can invest a lumpsum amount or invest via the Systematic Investment Plan (SIP) route that allows you to invest a fixed amount of money in the fund at time intervals that suit you best. If you choose to invest via SIP, then you can also set up an auto-debit facility to ensure easy transactions.

Passive investments have proved themselves to be exceptional instruments enabling participation in stock market growth and helping investors accumulate wealth. If you have been waiting to start investing in passive funds, this is the time for you to take the first step.

An investor education initiative by Edelweiss Mutual Fund

All Mutual Fund Investors have to go through a onetime KYC process. Investor should deal only with Registered Mutual Fund (RMF).

For more info on KYC, RMF and procedure to lodge/redress any complaints, visit - <https://www.edelweissmf.com/kyc-norms>

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.