

# Risk Management In Mutual Funds Investment



# Introduction To Mutual Funds

Mutual Funds in India are established in the form of a Trust under Indian Trust Act, 1882, in accordance with SEBI (Mutual Funds) Regulations, 1996.

A mutual fund is a collective investment vehicle that collects & pools money from a number of investors and invests the same in equities, bonds, government securities, money market instruments.

The money collected in mutual fund scheme is invested by professional fund managers in stocks and bonds etc. in line with a scheme's investment objective. The income / gains generated from this collective investment scheme are distributed proportionately amongst the investors, after deducting applicable expenses and levies, by calculating a scheme's "Net Asset Value" or NAV. In return, mutual fund charges a small fee.

# What is Risk Management in Mutual Funds?

Risk management in mutual funds refers to the process of identifying, assessing, and mitigating potential risks that could impact the performance of a mutual fund. The goal of risk management is to minimize losses and maximize returns while ensuring that the fund's investments are aligned with the investor's risk tolerance and investment objectives.

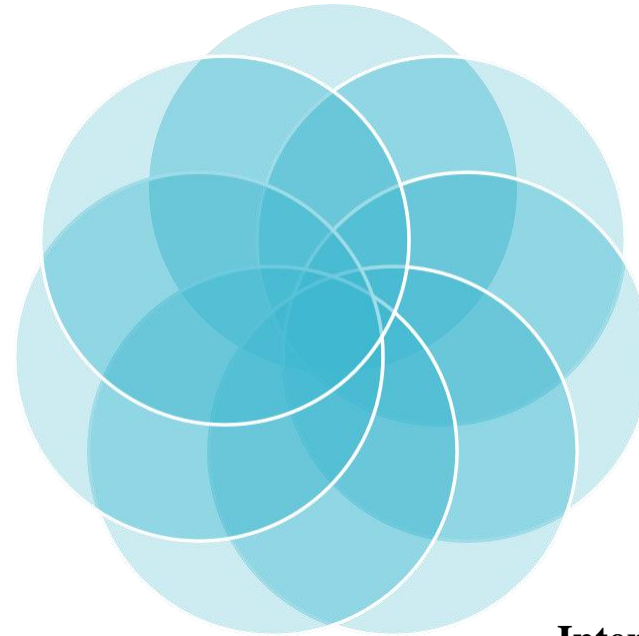
# Types of Risks in Mutual Funds

**Operational Risk:** The risk that the fund's operations will be disrupted due to internal or external factors.

**Currency Risk:** The risk that changes in exchange rates will affect the value of the fund's investments.

**Inflation Risk:** The risk that inflation will erode the purchasing power of the fund's investments.

**Market Risk:** The risk that the value of the fund's investments will fluctuate due to changes in the market.



**Credit Risk:** The risk that the issuer of a security will default on their obligations.

**Liquidity Risk:** The risk that the fund will not be able to sell its investments quickly enough or at a fair price.

**Interest Rate Risk:** The risk that changes in interest rates will affect the value of the fund's investments.

# Risk Management Strategies in Mutual Funds

- **Diversification:** Spreading investments across different asset classes, sectors, and geographies to reduce risk
- **Asset Allocation:** Allocating investments among different asset classes based on the investor's risk tolerance and investment objectives.
- **Hedging:** Using derivatives or other financial instruments to reduce risk.
- **Stop-Loss:** Setting a price at which to sell an investment to limit losses.
- **Dollar-Cost Averaging:** Investing a fixed amount of money at regular intervals to reduce risk.
- **Rebalancing:** Periodically reviewing and adjusting the fund's portfolio to ensure that it remains aligned with the investor's target asset allocation
- **Active Management:** Actively buying and selling investments to try to beat the market.
- **Passive Management:** Tracking a market index to provide broad diversification and potentially lower fees.

# Benefits of Risk Management in Mutual Funds

**Reduced Risk:** By managing risk, mutual funds can reduce the potential for losses and increase the potential for returns.

**Increased Transparency:** Risk management can provide investors with a clearer understanding of the risks associated with their investments

**Improved Performance:** By managing risk, mutual funds can improve their performance and provide investors with better returns.

**Regulatory Compliance:** Risk management can help mutual funds comply with regulatory requirements and avoid potential penalties.





*Thank You*