



Direct vs. Regular Mutual Fund: Which is better for long-term?

Having a choice is a great privilege, whether in workouts, the flavour of *pani puri*, or the many types of mutual fund schemes. When it comes to a long-term investment in mutual funds, there is always some confusion between direct and regular plans. Let's find the better option out of the two, if any, for your long-term goals.

What are direct mutual funds?

Direct mutual funds are those in which you can buy units from the mutual fund company itself. You deal directly with the mutual fund company and bypass intermediaries, such as brokers or financial advisors, to invest directly in the scheme of your choice.

Direct mutual fund plans may offer greater transparency, as you have direct access to information regarding the fund's performance, portfolio holdings, and expenses.

What are regular mutual funds?

Regular mutual funds involve investing through an intermediary such as a financial advisor, broker, or distributor. When investing in regular mutual funds, you need to rely on these intermediaries to facilitate the investment process and provide various services, including investment advice, portfolio evaluation, and other assistance.

In regular mutual funds, you typically purchase fund units through the intermediary, who then receives a commission or fee for their services.

Let's find out some other differences between the two types of mutual fund schemes:

Difference between direct and regular mutual funds

Fee structure: Direct mutual funds typically have lower fees, also known as the Total Expense Ratio (TER), as there are no intermediary commissions or distribution charges involved. On the other hand, regular mutual funds may have higher TERs due to the involvement of intermediaries who charge for their services.

Intermediary involvement: Direct mutual fund plans involve dealing directly with the Asset Management Company (AMC), bypassing the need for financial advisors or brokers. You can make investment decisions independently based on your long-term investment goals, research, and requirements. In contrast, regular mutual funds require the assistance of financial advisors who help you in the investment process. In this case, they help you select suitable funds.

Net Asset Value (NAV): The NAV of a mutual fund represents its per-unit market value and is calculated by dividing the total value of the scheme's assets by the number of outstanding units. Since regular mutual funds have higher expense ratios due to commissions and brokerage, their NAVs tend to be lower compared to direct plans, which have lower expense ratios.

How do you recognise if a mutual fund is regular or direct?

Here are some ways that can help you distinguish between regular or direct long-term mutual funds:

- 1. **Scheme name:** Regular mutual fund schemes typically have the term "Regular", while direct mutual fund schemes may have "Direct" attached to their names. You can simply check the scheme name to understand whether it is a regular or direct plan.
- 2. **TER:** Comparing the expense ratios of different long-term mutual funds in India can also help you distinguish between regular and direct plans. Regular plans tend to have higher expense ratios due to the inclusion of distributor commissions and fees. On the other hand, direct plans have lower expense ratios since no intermediary commissions are involved.
- 3. **NAV:** In general, direct mutual fund schemes tend to have higher NAVs compared to regular schemes. This is because direct plans have lower expense ratios, which do not dilute the NAV as much as regular plans.

Which is better, direct or regular mutual funds?

Deciding between direct and regular mutual funds ultimately depends on your preferences, long-term investment goals, and investment experience.

Since there is no commission or distribution fee involved, the expense ratio of direct mutual fund plans is typically lower compared to regular mutual fund plans. This may potentially result in higher returns over time, especially in the case of a long-term Systematic Investment Plan, as a lower expense ratio helps you ensure that more of your investment is put in the market rather than being paid out in fees. Direct mutual funds also offer greater control over your investments and allow for more active management of your portfolios. If you have a deep understanding of the market, you may find direct plans suitable as you can make investment decisions independently.

However, if you are new to investing or prefer ongoing professional guidance, regular mutual funds through financial intermediaries can be a prudent choice. These funds provide the benefit of intermediary support from financial advisors or brokers, which can be advantageous for less experienced investors.

Conclusion

While both direct and regular mutual funds offer investment opportunities, they differ in their structures. It is essential to assess your knowledge, preferences, and long-term investment objectives before making a decision between direct and regular mutual funds.