How to Choose Best Mutual Funds for SIP

Investing through the Systematic Investment Plan (SIP) route is a beneficial way of building a corpus for your future needs. In case of SIP, you invest a fixed amount periodically (every week, fortnight, month, etc.) over the long term in a fund of your choice. Whatever be your goals, you can achieve them through regular investments in a high-growth fund by following the discipline of regular investing without getting distracted by the noise in the markets. The regularity of investments is as important as the fund that you select for your investments.

Plethora of funds

There are a number of mutual fund houses, who, in turn, offer a number of schemes (also called funds). The performance of various funds within the same category could differ widely. Here are some pointers to How to choose the best mutual funds:

1. Track record

Check out the performance of the fund before investing. Since you would be investing for the long term, it's important to check the fund's performance over the last 5 years, 7 years and 10 years. This information is available on various websites that rank mutual funds.

2. Risk appetite

Assess your risk appetite before selecting suitable funds. Investors with a low risk appetite could opt for debt-oriented funds; investors with a moderate risk appetite could select hybrid funds (which invest in both debt and equity in a pre-determined proportion) while investors with a high risk appetite could opt for equity-oriented funds.

3. Size does matter

It may help to invest in funds with a higher corpus since such funds can diversify across a greater number of securities based on the scheme's investment objective.

4. Expenses

Assess the expenses levied by the fund (see the total expense ratio or TER). Select funds that have a lower expense ratio. Every fund publishes its TER in their monthly factsheet. Lower expenses result in higher returns.

5. Tax benefits

You can get tax deduction under section 80C of the Income tax Act by investing in equity linked saving schemes or ELSS funds up to 1.5 lakh per financial year. You can invest in these funds through the SIP route. This gives you the benefit of regular investing along with the tax benefits. The lock-in period of such funds is only three years. This is lower than other tax savings instruments such as PPF, ULIP, 5-year tax-saving fixed deposits, etc.

Investing for the long term in a well-performing fund through the SIP or Systematic Investment Plan route can not only help you build wealth, but also lower your investment risk.