



NIFTY 50

INDEX VS ETFS

Nifty 50 ETF vs Nifty 50 Index Fund - Which is Better?

In April 2020, amid the uncertainty caused by the pandemic, Rajiv Mehta, a salaried professional from Pune, decided to take charge of his finances. With little experience but high motivation, he began exploring options for long-term wealth creation. Among the many terms he came across, one stuck with him: Nifty 50 investment. However, as he researched further, he found himself confused between two instruments that kept appearing everywhere—**Nifty 50 ETF** and Nifty 50 index fund. The more he read, the more complex it seemed. If you have found yourself in a similar situation, you are not alone.

In recent years, index investing has witnessed tremendous popularity in India. Within this space, investors often wonder which option is more suitable: the Nifty 50 ETF vs Nifty 50 Index Fund.

What is a Nifty 50 ETF?

Let us start by understanding what is Nifty 50 ETF. A Nifty 50 ETF is an Exchange Traded Fund that seeks to mirror the performance of the Nifty 50 index. It is listed and traded on the stock exchange like individual shares. To invest in an ETF, a DEMAT account is required. The price of an ETF fluctuates throughout the trading day based on market supply and demand. One of the most well-known ETFs in this space is the Edelweiss ETF Nifty 50, offering exposure to India's top 50 companies with a relatively low expense ratio.

Investors who are active in the market and have a trading account may prefer this option for real-time execution and marginally better returns due to lower expense ratios and tighter tracking of the underlying index.

What is a Nifty 50 Index Fund?

A Nifty 50 index fund, also referred to as a Nifty 50 index mutual fund, is a type of index fund that passively replicates the Nifty 50 benchmark. Unlike ETFs, these are not traded on stock exchanges and do not require a DEMAT account. Instead, investors can invest through regular mutual fund platforms and even opt for SIPs. The value of a unit in an index fund is calculated once at the end of each trading day and does not fluctuate during market hours.

Index funds are more suited for long-term investors who prefer simplicity, automated investing, and minimal involvement in market timing.

Key Differences Between Nifty 50 ETF vs Nifty 50 Index Fund

To truly understand index fund vs ETF, it is important to explore how they behave in practice. The most fundamental difference lies in

how they are purchased and valued. ETFs are traded in real-time, while index funds are transacted at the day's NAV.

ETFs usually have lower expense ratios. However, the cost of brokerage, transaction charges, and spread in trading prices can reduce the overall returns slightly. Index funds, while marginally more expensive in terms of expense ratio, offer ease of investing, particularly for SIP investors.

A key concept when comparing these two instruments is "tracking error"—the degree to which the fund's returns deviate from the index. Lower tracking error indicates better performance replication.

Pros and Cons of Nifty 50 ETF vs Nifty 50 Index Fund

At first glance, it may seem that ETF investments are superior. However, ETFs may include hidden costs. ETF investors must pay brokerage, SEBI fees, and other charges. More importantly, ETFs can be bought at a price above or below their NAV, affecting realised returns.

Using a mutual fund calculator, we can find out how transaction costs can reduce effective returns in ETFs. Additionally, discrepancies between market price and NAV can work for or against investors, depending on timing.

Which One Should You Choose?

The choice between Nifty 50 ETF vs mutual fund ultimately depends on your investor profile. If you are a hands-on investor with a DEMAT account and are comfortable making trades during market hours, ETFs may provide you with more flexibility and slightly better returns.

On the other hand, if you prefer convenience, automation, and passive investing through SIPs, then the Nifty 50 index fund might be more aligned with your goals. For most retail investors, the index fund route offers ease of access and consistent investing behaviour without the need to monitor intraday price fluctuations.

Liquidity is another concern. While ETFs may seem appealing, they sometimes suffer from low trading volumes. This can create slippage between the expected and actual selling price. In contrast, index funds always process redemptions based on NAV and are less prone to such market inefficiencies.

Conclusion

So, which is better in the Nifty 50 ETF vs Nifty 50 Index Fund debate? There is no one-size-fits-all answer. Both instruments are efficient and cost-effective ways to gain exposure to the Indian equity market's top 50 companies.

If you are an active investor seeking real-time control and are ready to handle the nuances of trading costs and NAV fluctuations, then an ETF Nifty 50 may suit you. However, if you are a passive investor looking for simplicity and discipline in your investments, Nifty 50 mutual funds are likely the better option.

In either case, the important thing is to stay invested and choose the method that aligns with your financial goals, comfort with market instruments, and investment style. Whether you pick an ETF or an index fund, you are still making a smart move by investing in the Nifty 50.

An investor education initiative by Edelweiss Mutual Fund

All Mutual Fund Investors have to go through a one-time KYC process. Investors 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>