STUDY NOTES · BASIC CONCEPT

Differences between Direct vs regular mutual funds

Indian Economy

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What Are Direct Mutual Funds?

Direct mutual funds are investment plans that investors purchase directly from the Asset Management Company (AMC) without involving any intermediary, broker, or distributor. Since there is no middleman involved in the transaction, investors are not required to pay any commission or brokerage fees, which results in a lower expense ratio compared to regular funds.

These funds were introduced by SEBI in January 2013 to provide investors with a cost-effective investment avenue. When you invest in a direct plan, you interact directly with the fund house through their official website, mobile application, or by visiting their office in person. The Net Asset Value (NAV) of direct funds is typically higher than their regular counterparts because the absence of distribution charges means more of your money is actually being invested.

This higher NAV compounds over time, potentially generating significantly better returns over the long term. Direct mutual funds are particularly well-suited for financially literate investors who are comfortable conducting their own research, analyzing fund performance, understanding market dynamics, and making independent investment decisions without needing professional guidance or advisory support from a distributor.

- **No intermediary** is involved in the buying or selling process
- **Lower expense ratio** due to zero commission payments
- **Higher NAV** compared to regular plans of the same scheme
- **Better long-term returns** because of compounding benefits on saved costs
- **Available directly** through AMC websites, apps, and offices
- **Requires self-research** and independent financial decision-making
- **Introduced by SEBI** in 2013 to empower investors

What Are Regular Mutual Funds?

Regular mutual funds are investment plans that investors purchase through intermediaries such as brokers, financial advisors, distributors, or banking platforms. In this arrangement, the intermediary earns a commission from the AMC for facilitating the sale, and this commission is embedded within the fund's expense ratio, making it slightly more expensive for the investor. The distributor or advisor provides valuable services including portfolio recommendations, risk assessment, periodic portfolio reviews, rebalancing suggestions, and overall financial planning guidance. For many investors, especially beginners who may feel overwhelmed by the sheer number of mutual fund schemes available

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