Debunking Common NAV Myths

01 — EXISTING FUND V/S NFO

NFOs are better than existing funds as their NAV's are lower

MYTH	REALITY
A New Fund Offer (NFO) is offered at a NAV of Rs. 10 per unit. Many people compare it with existing funds which have higher NAV and prefer investing in NFOs. But this comparison would be akin to comparing apples and oranges.	NFOs should be availed based on their merit, the theme, fund house, fund manager. NAV should not be a point of comparison at all. On the other hand, existing funds should be compared with other similar funds and respective benchmarks.

02 — LOW NAV V/S HIGH NAV

Low NAVs better than higher NAVs

MYTH	REALITY
Low NAVs are often sought after, as the number of units allocated under a fund with a low NAV will be higher than that of a fund with a higher NAV. People may feel accumulating more units is better than choosing a fund that has the merit to generate good future returns.	Lower NAV has nothing to do with lower valuation, the fund could be new or may not have generated enough returns over the years, hence showing a lower NAV. Buy funds based on their track record and their ability to perform well in the future.

03 — HIGH PERFORMANCE V/S LOW PERFORMANCE

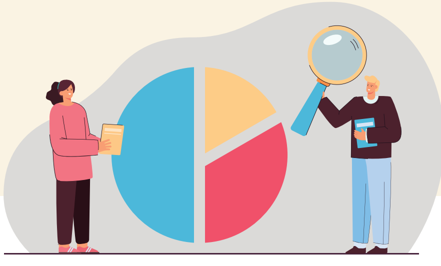
High NAVs = High performance

MYTH	REALITY
While there is a possibility of lower NAV of a fund indicative of lower returns within the category, high NAV of fund indicative of high performance is not always true.	The NAV of the fund could be higher due to its tenure of existence and nothing else. Hence, it is important to look for comparative returns for a common period across funds with similar investment objectives and themes.

04 — REGULAR PLAN V/S DIRECT PLAN

Regular plans better than direct plans

MYTH	REALITY
Both regular plan and direct plan variants are available for all mutual funds. The direct plans always have a NAV higher than that of regular plans. Hence, many prefer to invest in regular plans.	Both these types of plans are identical in all aspects like holdings, fund manager, investment objective etc., The reason for the difference in the NAV is due to the expense ratio. The expense ratio of direct plans does not include commissions paid to brokers/agents etc. and hence, is lower than the regular plan. The lower expense ratio makes direct plans more attractive to some.



05 — IDCW OPTION V/S GROWTH OPTION

Income Distribution cum Capital Withdrawal (IDCW) Option (earlier known as Dividend option) is better than Growth option

MYTH	REALITY
Many people flock to the IDCW option (earlier dividend option), as it offers a regular payout, it is often even confused with interest pay-outs.	The IDCW/dividend option and Growth option are merely two choices in the same fund. The choice of which should depend on your investment objective and tenure. The IDCW/dividend option is suitable for short term and regular income requirements. Growth option is suitable for the long term and wealth creation requirements.

06 — CUT-OFF TIMING V/S REAL TIME

NAVs get priced in real-time

MYTH	REALITY
Many investors are unaware of the cut-off timings applicable in mutual funds, they are of the view that the NAVs are updated on a real-time basis.	Cut-off timings as per the mutual funds' category are applicable for updating NAV. ■ Liquid funds have a NAV cut-off time of 1.30 pm for subscription and 3 pm for redemption. ■ Debt and equity mutual funds have a cut-off time of 3 p.m. If you were to apply before the cut-off time, the same day's NAV is applicable, if you apply post-cut-off time, the next day's NAV is applicable. NAV is dependent on the realisation of funds. For ETFs there are real time NAVs.

Sources:
1. https://www.etmoney.com/blog/top-3-common-myths-about-mutual-fund-scheme-nav/
2. https://www.mymoneysage.in/blog/how-to-interpret-net-asset-value-nav-of-mutual-funds/
3. https://www.amfiindia.com/investor-corner/knowledge-center/cut-off-timings.html