Advantages and Disadvantages of Mutual Funds

Advantages

Professional Management

Professional asset managers carefully select the securities in which they invest. Asset managers also employ a group of analysts and experts that produce detailed information set on which the managers rely in order to select securities. These calls are also based on the investment objective of the fund as well as the risk tolerance. On the other hand, individual investors have limited means and access to the investment universe. It is important to notice that professional management is ruled by a wide range of investment, legal and institutional regulations so as to avoid any conflicts of interest.

Diversification

Mutual fund can hold hundreds or thousands of different securities among different companies, sectors and regions. This diversification allows investors to reduce the risk of a particular stock or sector. The main point here is that by investing in a mutual fund, single investors with small amounts get access to a diversified pool of securities, which they would not be able to do by their own means.

Lower Cost

The cost for a single investor to buy stocks or bonds through a mutual fund is much lower than investing individually so as to create a diversified portfolio. This is due to the fact that the cost of accessing to the detailed information and analysis of professional management stated above is being shared among thousands of investors.

Ease / Transparency

With thousands of UCITS available worldwide, investors have access to a wide range of investment vehicles that meet different investment objectives and cover many markets, sectors and types of securities. This broad range of investment options has resulted in management companies which are continuously competing with each other in order to provide services, such as Systematic Investment Plans, Wealth Asset Allocation models etc. For end investors it becomes easier to make investment decisions in order to meet their investment needs and to monitor the performance of their portfolios.
**Liquidity**

Mutual funds also provide liquidity which means that in the case of an open-end fund someone can liquidate its units on a daily basis. It is important to mention that there is a daily valuation of the underlying securities of the mutual funds, consequently there is a daily valuation of the unit (NAV).

**Regulatory compliance**

UCITS follow a strict regulatory framework under which they are structured, managed and invested. As a result this provides a safety net for the end investors.

**Disadvantages**

**Volatility**

A mutual fund unit price changes due to the fluctuations of the underlying securities. Mutual funds cannot guarantee a certain return or a certain return on capital. In most of the cases investors have to pay management, sales and any other operational fees irrespective to the performance of the fund. If an investor is very risk averse and needs absolute guarantee, it would be better to invest in more traditional banking products.

**Authorization procedures**

If an investor wants to include specific stocks and bonds in their portfolio, the mutual funds are not a suitable solution for them. Mutual Funds are considered to be successful investment vehicles because they spread the management costs to all portfolio investors. Thus, they cannot take into consideration the specific needs of individual investors. Also, they cannot satisfy investors who want to trade specific shares or bonds.

**Limited Flexibility**

If an investor has a high level of capital to invest, it is possible that mutual funds do not provide him with the flexibility that he needs. Many investment banks are able to create specific investment products in order to meet his specialized investment needs. Moreover, for this high net worth individuals many fund managers provide the option of segregated investment accounts according to customer individual needs and requirements. However the wide range and vast array of UCITS today can satisfy the needs of the most demanding investors.