

One Minute Read – IS a LOWER NAV Better? In Mutual Funds

One of the more harmful myths about mutual funds — Many investors believe that a fund with lower NAV is better than a fund with higher NAV.

The idea that a fund with **lower NAV** is better than one with a higher NAV because it is **cheaper is wrong**. It is a harmful idea, arising from a misunderstanding of what a mutual fund is and what NAV is.

Here's a simple way of understanding the underlying principle. The NAV simply reflects how much a fund has gained since it was launched and depends entirely on how well the fund manager has managed the fund's portfolio of investments. For example, if the market has been gaining at 20 per cent a year then a one year old fund will have an NAV of Rs 12 and a two-year old fund with the same portfolio will have an NAV Rs 14.40.

The first one is not cheaper in any sense and its lower NAV has no bearing at all on how much it will gain in the future. Future gains will depend on their portfolios. For example, if they are managed in an identical manner, then your gains will be identical. If the two were to gain 30 per cent over the next two years, then the NAV of the first one will rise from Rs 12 to Rs 15.60 and the second one from Rs 18.72. There is no difference between the two. Rs one lakh invested in both will in each case become Rs 1.3 lakh. The only use of NAV is to compare with the past NAV of the same fund. That's what tells you how much a fund has gained. **Comparing it to the NAV of another fund is useless.**