Creating Wealth Through Mutual Fund Investments

Underlying securities in a mutual fund investment can be one or a combination of the following: stocks (shares), money market instruments, fixed income securities, real estate, and commodities.

Mutual Funds are pools of funds that a professional Fund Manager brings together from various individual investors to invest in selected underlying securities for the benefit of the investors. The underlying securities can be one or a combination of the following: stocks (shares), money market instruments, fixed income securities, real estate, and commodities. The Fund Manager will specify in the investment guidelines which instruments the mutual fund will invest in. The total assets of a mutual fund are divided into units of equal monetary value. If one unit is N5, any person investing N50,000 will receive 10,000 units. The professional parties to a mutual fund who play different roles to ensure the proper management and safety of the investments are: The Fund Manager (manages the investments to ensure good returns for the unit holders/investors); the Trustee (ensures that the Fund is managed in line with approved investment guidelines as contained in the trust deed); the Custodian (holds the Fund assets) and the Registrar (manages the records of the unit holders).

The unit price of a mutual fund is arrived at by dividing the NAV by the total number of units in the fund.

Most mutual funds are open-ended investment schemes. This means that the Fund Manager creates additional units for new investors on demand, based on the Net Asset Value (NAV) per unit and the amount of money the investors are investing. The NAV is calculated as the total assets of the mutual fund less the total liabilities. The unit price of a mutual fund is arrived at by dividing the NAV by the total number of units in the fund. **The mutual Fund Manager stands ready to create new units for new investors and also to redeem (buy) previously created units from existing investors who want to sell units for cash. Thus, the Fund Manager provides active liquidity for the mutual fund.**

The pooling of the funds also permits the Fund Manager to achieve lower transaction costs than would be possible for individual investors.

There are many benefits that accrue to investors in a mutual fund, some of which are highlighted here. **The main benefits relate to the fact that the pooling of a large number of relatively small investment sums enables small investors to gain access to all the benefits of a professional investment adviser.** Aside from the choice of the underlying investment being made by an experienced investment professional, the scale of the investments of the fund provides each unit holder with the benefit of portfolio diversification which (s)he would not have been able to achieve otherwise. The pooling of the funds also permits the Fund Manager to achieve lower transaction costs than would be possible for individual investors. These benefits translate to the achievement of superior returns. The existence of a trustee and custodian ensures the safety of the investments as the assets of the Mutual Fund are held by a custodian and are in no way co-mingled with the assets of the Fund Manager. All these ensure that even small investors have access to wealth creation opportunities that were previously considered to be the preserve of the wealthy. For all investors (large and small), investments in mutual funds ensures that a professional is constantly assessing the fund, making decisions to exit certain investments that may have peaked in value in order to enter new ones where the opportunity for superior returns has been identified. **It is important to emphasize that mutual fund investment is also affordable, even for the low income earners and thus promotes financial inclusion and freedom. Mutual funds are regulated by the Securities and Exchange Commission (SEC) which issues directives from time to time to protect investors.**

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The data from the SEC on the NAV of all registered mutual funds in Nigeria shows that the collective NAV grew between December 2012 and April 2017 by 159% from N102billion to N264billion. However, the relative size of the NAV to the Gross Domestic Product (GDP) remains low and relatively unchanged over the period at 0.2% in 2012 and 0.3% in 2016. **Available data from DataMarket on the ratio of mutual fund assets to GDP for some selected countries between 2012 and 2014 shows that Nigeria recorded the lowest figures as shown in the chart below. This shows that more efforts and incentives are required to develop the mutual fund segment of the Nigerian financial market.**

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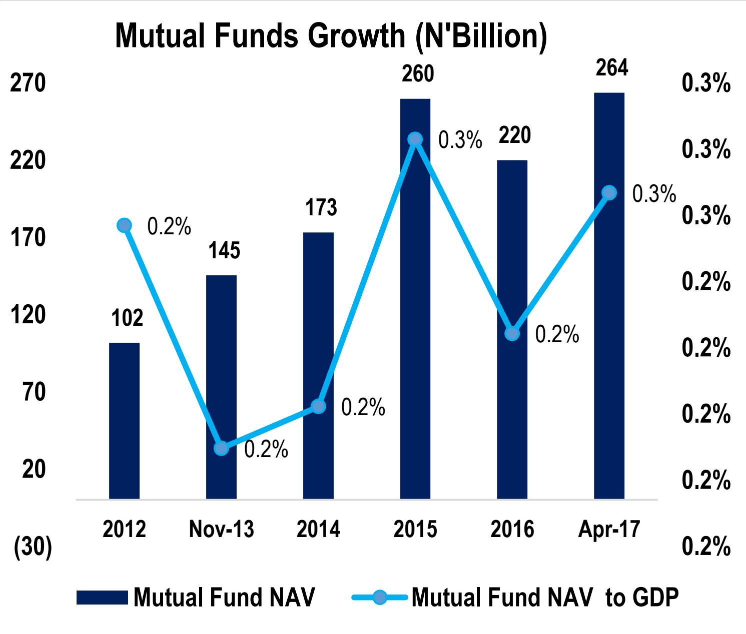
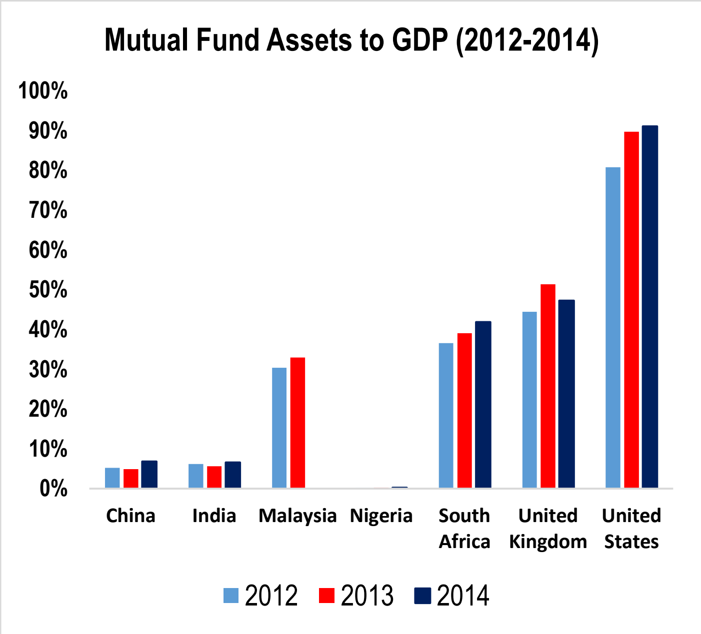


Source: Securities and Exchange Commission (SEC)



Source: DataMarket

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