Value of NAV of a Mutual Fund

A number of people think that the unit price of a mutual fund matters when they purchase; i.e. that a cheaper unit price is better. Why? They say that they will get more units for the same money, and isn't that better? Deepak Shenoy shatters this myth in his blog.

The "Number of units" does not matter at all. It is all about gain percentages. The best funds have gained some 750% in five years. What does that mean? That means if you bought that fund at Rs. 10 in 2001 its NAV will now be Rs.75 .

If you bought it at Rs. 20, NAV will be Rs. 150. There are lots of such funds whose NAV is greater than 100 or 150 because they have performed very well. What's the NAV?

The total NAV, or "Net Asset Value" is a simple concept - First you get the "Net Assets", which is the sum total of all the assets minus any liabilities of the fund. Meaning, add the current market value of all the shares, minus any open redemption requests and any applicable charges (like Daily fund management fee etc.) and you get the Net Assets. Divide the Net Assets figure by the total number of outstanding units and you get the unit price (called the "NAV Unit Price" or simply, the NAV).

Most web sites and newspapers call the unit price "NAV". It's actually the NAV unit price, so the phrase is confusing. Let me not confuse you any further: I will call the total assets as the "Net Assets" and unit price as the "NAV".

Now you might think, if you have a 10,000 rupees, is it better to buy 1,000 units of one fund quoting at Rs. 10 NAV, or 100 or those quoting at hundred? Frankly it's dependent on how the fund performs. If the second fund grows at 20%, your units are worth Rs. 12,000 at an NAV of Rs. 120. If the first one grows at 10%, your units are worth Rs. 11,000 at Rs. 11 NAV.

What is better? Obviously the second one, but over here the NAVs are still Rs 11 vs. Rs. 120! Lesser number of units is like small change

But what if you have a 1000 Rs. NAV? That's a problem, you think; if you want 2,500 rupees, you have to sell three units! That means you take out more than you want, right? Also what if you have 1200 rupees to invest? You can only buy one unit, right?

Wrong. In Mutual funds you also get "fractional" units. So if you invest Rs. 1000 in HDFC Taxsaver, whose nav is Rs. 149.44, you will get 6.692 units. (Some funds even go to fourth decimal) You can then sell fractional units also, like 1.212 units etc! Growth is important, not unit price.

What you care about is how much your money grows, not the number of units you have. It is just as difficult for a Rs. 10 fund to move to Rs. 12, as it is for a Rs. 50 fund to move to Rs. 60.