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# SHOULD PASSIVE FUNDS FEATURE IN YOUR PORTFOLIO?

Investing has become easier than ever with the introduction of new investment instruments such as mutual funds and SIPs.

Traditionally, investing in active stocks and funds was a preferred choice, but investing in passive mutual funds is now becoming the norm.


## WHAT ARE PASSIVE FUNDS?

Passive funds are tracker funds that predominantly focus on generating similar returns as their benchmark or the target market.

In the case of passive funds, the fund manager does not need to pick the investments but is required to replicate the index that it is tracking.

Since there is no active involvement of the fund manager, passive funds cost lower than active funds.

## TYPES OF PASSIVE FUNDS

### Index Funds

These funds track market indices such as S&P 500 and FTSE 100. They essentially mimic the investment portfolio of the benchmark index to generate similar returns.

### ETFs

These funds replicate indices and allow investors to trade passive funds like stocks on different stock exchanges. ETFs are more tax-efficient. Their trading also takes place over like-kind exchanges.

With growing engagement and limited market knowledge, investors are flocking towards passive investments more than ever.

**Here are some of the benefits of investing in passive funds**

- Cost-efficient
- Lower risk
- High liquidity
- Growing returns
- Easily manageable
- Perfect dollar-cost averaging
- No need to time the market

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