Planning to create a college fund? Here is how to do it

Synopsis

"By investing early and for the long term, you can develop sizeable corpus for your child thanks to equity investment's compounding effect," says Karan Doshi, Senior Equity Research Analyst & Fund Manager, LIC Mutual Fund

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The greatest gift a parent can give to her/his child is good education. However, the rising cost of education calls for adequate financial planning to fund the education cost. Be it management, medical, engineering, one must be ready to shell out a huge amount.

This can be dealt with if you plan and invest for it. For starters, one should decide on a target corpus which is sufficient to cover the education cost at a future date. Once you know the amount, you can evaluate the investment options.

One of the options to build a corpus is to go for equity mutual funds. Depending on your risk tolerance, you can invest in schemes such as large cap, multi cap, mid cap, small cap, etc. Equity mutual funds offer you the opportunity to take advantage of growth in established companies, developing industries, and evolving market conditions.

This growth in value helps in accumulating the funds. By investing early and for the long term, you can develop sizeable corpus for your child thanks to equity investment's compounding effect. Investing in SIPs too allow you to schedule investments of fixed amounts on a monthly basis. This method helps you deal with market volatility by averaging the cost of purchasing mutual fund units across time. This systematic manner of investing ensures continuous flow of investment towards the education fund for your child.

Equity mutual funds diversify the risk by spreading your investment across a variety of companies, industries and market areas. This way, the performance of a particular stock or industry won't have a substantial impact on your portfolio. Diversification is a crucial risk management tactic that improves the overall performance of your child's education fund. The primary determinants of the choice of schemes for investors include their investment goal, time horizon, and level of risk tolerance.

Experienced and competent fund managers of equity mutual funds perform extensive study and analysis before making investing decisions. These experts keep a close eye on the market, follow macroeconomic trends, and spot investing opportunities. You can take advantage of fund managers' experience and gain from their ability to make wise investment decisions by investing in equity mutual funds, thus accelerating the expansion of your child's education fund.

A variety of products from mutual funds are available to fit various risk tolerances and investment requirements. While equity funds are the financial tools for longer investment horizons (seven to ten years or more), hybrid funds which invest in both fixed income and equity are better suited for education planning for moderate investment tenures.

The most important aspect in financial planning is to start investing early and selecting the right mutual funds schemes to invest. Financial advisors may assist you in setting up an investment plan to gain returns on investment and reduce tax implications. The conventional financial advice that is freely given by friends and family is based on the old playbook, but parents today may need a financial advisor more than ever. A financial advisor may help parents or parents-to-be diversify your investment so that you can meet all your investment goals.

Investing in mutual funds is a great way to help your child reach their financial goals. By doing your research and choosing the right fund, you may help your child in creating a bright future. One can make wise investing decisions by assessing your financial objectives, determining your risk tolerance, diversifying your portfolio, choosing SIPs, and getting expert advice.