

# Can you be too diversified in mutual funds? : an honors thesis [(HONRS 499)]

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## Abstract:

As the old saying goes, don't put all your eggs in one basket. When it comes to money the reason for this is that individual companies may fail; certain business sectors may thrive because of economic conditions that make others suffer; and different types of investments may react to the same market forces. The question is, can you avoid some if not all of these risks? The answer is yes. Through the use of portfolio diversification many of these risks can be minimized, but not all avoided. A simple way to diversify is to buy mutual funds, where your money is pooled with that of other investors and used to buy a basket of diverse stocks. The next question is what is the right amount of diversification? How many funds should you own? Can you be over-diversified in mutual funds? I will explore these questions in the following paper.

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As you might expect, funds with higher internal costs (trading costs, administrative costs, etc.) typically also have higher expense ratios. Large-cap funds normally have lower expense ratios than both international funds and small-cap funds because the large-cap strategy does not necessarily require extensive teams of in-house analysts to support the investment process. Fund managers in this area can easily rely on outside research—and there is plenty of high-quality research to choose from. In addition, large-cap funds also tend to have lower trading costs compared to small-cap funds. Large-cap stocks are widely traded and normally have much smaller trading spreads. Thesis on Mutual Fund - Free ebook download as PDF File (.pdf) or read book online for free. Work on indian Mutual Fund industry. Anybody with an investible surplus of as little as a few thousand rupees can invest in Mutual Funds. Each Mutual Fund scheme has a defined investment objective and strategy. A mutual fund is the ideal investment vehicle for today's complex and modern financial scenario. Markets for equity shares, bonds and other fixed income instruments, real estate, derivatives and other assets have become mature and information driven. Here too some of them will down their shutters in the near future to come. But this does not mean there is no room for other players. The market will witness a flurry of new players entering the arena.