

Invest in Debt Way

However, analysts advise that as an investor it is pertinent to have a mix of investment instruments in your portfolio so as to avoid any risk. Even if it translates into low-returns when compared to other alluring options available in the market. But sometimes, investors become too risk-averse and lose out on the market gains.

In an environment where investors seek to achieve an asset allocation between debt and equity, that suits their requirements, investing in debt mutual fund schemes as a part of their debt allocation would offer investors many advantages. For starters, debt funds offer a superior risk-adjusted proposition along with tax benefits.

While fixed deposits might appeal to conservative investors, in a growing economy like India, inflation is a fact of life, which eats into the returns earned on investments. From an inflation-adjusted perspective, fixed income mutual funds compare very favorably to fixed deposits.

The fact is that debt funds are viable alternatives to other debt oriented products is not widely understood by the investing populace. Most investors still concentrate on the 'mutual fund' part of the asset and miss the significance of the underlying fixed income nature of the product. While the tax advantages are just one part, the sheer variety of products available for every risk, return and liquidity requirement is in itself a significant advantage.

Basic principle of sound investing postulates a diversified portfolio. Though debt funds often may just be the difference between being able to retain the profits and losing it all in the next round of volatility. The main advantage of debt funds is relatively lower risk and steady income additional to liquidity of investments, professional fund management expertise at low costs besides diversification of portfolio to have a balanced risk return profile.

Debt funds also tend to perform better in periods of economic slowdown. Analysts believe that debt should be looked upon as an effective hedge against equity market volatility, which lends stability in terms of value and income to a portfolio. Some hybrid debt schemes take exposure in equities allowing investors participate in the stock markets as well.

Debt funds have a fairly wide range of schemes offering something for all types of investors. Liquid fund, Liquid plus funds, Short term income funds, GILT funds, income funds and hybrid funds are some of the more popular categories.

For long term investors, income funds provide the best opportunity to gain from interest rate movements. There is also the short term plans for investors looking to invest for periods of one-two years. Liquid funds can be used for very short term surpluses. Fixed maturity plans have been gaining in popularity as they minimize the interest rate risk and offer reasonable returns to debt investors.

Those emphasizing shorter term securities and higher credit quality tend to be more conservative than ones offering longer maturities and lower credit quality.

More conservative funds generally hold out the prospect of reasonable returns and low risk exposure, while aggressive funds seek to offer higher returns in return for accepting higher risk exposure. As the relative risk profile of such securities is higher, investors in such bonds expect higher income streams compared to higher-rated bonds.

As with any mutual fund, investors should look at factors such as performance track record over interest rate cycles, transparency and investment style consistency, before investing in a debt fund. The risks of investing in a debt fund are similar to that of other mutual funds.

However, debt instruments have specific risk such as credit, liquidity and interest rate. Overall investments in debt funds score above other traditional investment avenues in terms of tax-adjusted returns, liquidity and you can invest smartly to get the best of the both worlds.

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Mutual fund investments are subject to market risks. Please read the scheme information document carefully before investing.