# Capital Protection and Growth

In debt mutual funds, one of the least risky options are capital protection-oriented funds. These are close ended schemes and are listed in stock exchanges.

The main aim of a **capital protection-oriented fund** is to protect the principal by investing a part of it in fixed-income instruments such as bonds, T-bills and certificates of deposits (CDs). The rest is invested in equities. The **debt-equity allocation** is usually 80% Debt and 20% Equity.

Imagine a fund of Rs 100 which invests in debt securities with 10 per cent yield. To protect its capital, it will invest Rs 80 in these securities so that this amount becomes Rs 100 (at 10 per cent yield) after 3 years. The rest, Rs 20, will be invested in equity or related instruments.

The Securities and Exchange Board of India has mandated rating of the fund structure by a credit rating agency for assessing the degree of certainty with which the objective of protecting capital can be met. The top rating for capital-protection funds is AAA, indicating the highest degree of certainty regarding timely payment of the principal on maturity.

**SAFETY FIRST**

The tenor of debt securities in which capital-protection oriented funds invest cannot be more than the funds tenor. Because the securities are held till maturity, the risk of a fall in prices during the holding period due to interest rate changes is nil, making these funds less volatile. Capital protection-oriented funds have maturity period of one, three and five years.

**RIGHT TIME TO INVEST**

Though the choice of fund will depend on the investment goals, capital protection-oriented funds work best when markets are falling and the investor wants to preserve capital. Another ideal condition for them is the high yield on debt securities. This ensures that the goal of capital protection is met with a smaller investment and more money is available for investing in equity.

**TAX EDGE**

If the investment in debt funds is held for a year or more, capital gains (long-term) are taxed at 10 per cent without indexation and 20 per cent with indexation. In FDs, the interest earned is included in the income and taxed. Thus, tax treatment and indexation benefit give debt funds an edge over FDs. Short-term capital gains are taxed as per the person's income-tax slab.

**For more information on Capital Protection-Oriented Funds, contact us on mail@netbrokers.co.in**