Five Reasons to invest in Debt Mutual Funds

Though debt funds have got their own advantages, they are mostly ignored by common investors. Debt funds have got a unique place in your portfolio. Here are five simple situations, in which debt funds can be used by prudent investors.

1) To meet short term goal:
If you have a goal, which you are planning to achieve in a short term like one year or 2 year, then debt funds are the ideal place to invest. Debt funds are less volatile when compared to equity funds. Also you will have predictable returns. You also have a choice of different debts funds which can be matched to different short term horizons like 1 month, 6 months, 9 months, 1 year, 18 months and so on.

2) Any time money:
Under some circumstances, you may need the money at short notice. Say situations like the down payment money which you keep it when searching for a property. Debt funds are the ideal place to keep our emergency reserve. Now-a-days liquid funds of a few mutual fund companies come with debit card facility. So you can keep your entire emergency reserves in these kinds of debt funds with far more superior returns than Bank Savings Account.

3) Lesser tax than FDs:
After one year of investment, the income from a debt fund is treated as a long-term capital gain and is taxed at either 10% or at 20% after indexation. In indexation, the cost of investment is raised to account for inflation for the period the investment is held. The longer you hold a debt fund, the bigger is the indexation benefit. There is also no TDS in debt funds. In fixed deposits, if your interest income exceeds Rs 10,000 a year, the bank will deduct 10.3% from this income. If you are not liable to pay tax, you will have to submit either Form 15H or 15G to escape TDS. The other problem is that the income from fixed deposits is taxed on an annual basis. You may get the money after the deposit matures 5-6 years later but the income is taxed every year. In debt funds, the tax is deferred indefinitely till the investor redeems his units.

4) As a launching pad for large equity investments:
If you are planning to invest a lump sum amount in equity funds, then it is generally suggested not to invest at one go. You need to stagger your investments in order to take advantage of the volatile stock market. You can keep the entire money in debt fund and slowly invest them into equity funds in a staggered manner. You can opt for STP – systematic transfer plan where you give a standing instruction to transfer a fixed sum from a debt fund to an equity fund periodically.

5) To generate regular income:
If you would like to generate regular income, then debt fund is one of the ideal investments for you. You can get regular income by way of choosing dividend payout option.
One more way to generate regular income from debt funds is to opt for SWP from debt funds. SWP is systematic withdrawal plan which is the reverse of SIP. From a large sum of investment, you can opt to withdraw the appreciation or a fixed sum on a regular basis.

For more details on Debt Funds, contact us on mail@netbrokers.co.in