

Balanced Funds for Conservative Investors



Conservative investors are boggled by the thought of investing in equities as they are scared of volatility. They have long term goals in their mind such as Children Education and Marriage, Retirement, etc and end up investing in Fixed Deposits, Public Provident Funds and Traditional Insurance Products not realizing that over a period of time education, marriage, medical costs, etc tend to rise more than normal inflation.

This is where balanced funds come into picture. Such funds typically invest 65-75% of their portfolio in equity, and the balance 25-35% in bonds. The equity component would offer growth given the long-term nature of goals and the debt component would make these funds less volatile.

Many conservative investors are turning to balanced funds, which are currently in a sweet spot. This is a good time to invest in these funds because there is opportunity in both equity and debt. Equity is trading at a discount to long-term averages. On the debt side, interest rates appear to have peaked and are likely to fall from these levels. Hence, a hybrid instrument, which gives you access to both equity and debt in a tax-efficient manner, should find many takers at this juncture.

Even from a defensive point of view, balanced funds are well-suited to moderate risk takers. The current environment remains challenging due to macro-economic headwinds. In times of uncertainty, balanced funds are better suited as they offer diversification in different asset classes within a fund. The blend of equity and debt works in such a manner that equity boosts portfolio returns during market upswings, while the debt exposure contains the impact of a major fall in the equity market."

Benefits:

1. **Less Volatile:** The 25-35% allocation to bonds reduces volatility and allows them to cope better with the emotional and behavioral challenges of investing in equity for the first time.
2. **Automatic Rebalancing:** The fund does it on your behalf because it is its mandate to stick to a predetermined mix of minimum 65% into Equity and rest into debt.
3. **Tax Advantage:** As the fund maintains equity above 65%, long term capital gain is nil.

For more details on balanced funds, contact us on mail@netbrokers.co.in