

**Dear Investors,**

Attractive investment avenue in volatile market condition

As stock market is going through a rough phase, equity schemes in mutual funds may not be any longer attractive to the investors. Instead, we may look for the fixed income option of mutual funds which is witnessing huge investments for the last six months. These schemes are almost risk free and we may assure investors return for nearly 9-10% over a period of one year with added advantage of higher post tax return compared to traditional FDs. These schemes are available in time frames of different maturity periods such as 1 month, 3 month, 6 month, 1 year etc. Depending upon your liquidity requirement, you can choose the time frame accordingly. For example if you are willing to keep 75% of the portfolio in Fixed deposit then it is better to opt for more than one year FMP and balance 25% in FMP with one, two, three month maturity for taking the opportunity of falling market. In addition it also gives better liquidity since it can be redeemed at any time with a small exit load.

There are generally two types of fixed income schemes; long term income funds and short term liquid funds. Net asset value (NAV) of income fund fluctuates with the change in bond yields followed by change of bond prices. Therefore we may consider the latest variant of Income Fund namely "Fixed Maturity Plan"(FMP).

Features of Fixed Maturity Plan (FMP)

- 1) Almost 100% secure, comparable with bank deposits. To invest mainly in government securities, treasury bills and corporate bonds.
- 2) Investments are liquid. Any time investors if required can liquidate their full or partial investment after paying some exit load (approx 1%).
- 3) FMP can assure return close to its indicated return as it is to invest in the securities with tenure close to its maturity period. Risk arising out of fluctuation in NAV can be avoided provided one keeps till maturity.
- 4) Post tax returns are better. Investors can avail the long term tax benefits both with and without indexation. Tax liability is quite less compared to other traditional fixed deposits.
- 5) If the maturity period is less than one year, there being no tax benefits for such duration, one should opt for dividend option thereby reducing the tax burden. In such case, the dividend distribution tax (14.16 per cent for individuals and 22.66 per cent for companies) remains less than the maximum tax rate (if investors are in the highest tax bracket).



Tax advantage in growth option more than 1 year

	FMP (Retail Growth Option) 365 day tenure	FMP (Retail Growth Option) 365 day tenure	Other taxable Fixed Deposit /Bank Deposits with 365 day tenure
	Without Indexation	With Indexation	
Amount Invested (Rs)	100000	100000	100000
Assumed rate of return / interest (%)	10	10	10
Return / interest for first 12 months (Rs)	10000	10000	10000
Maturity Proceeds (Rs)	110000	110000	110000
Indexation Benefit	No	Yes	No
Indexed Cost of Investments (assuming 8% rate of inflation index), for indexation	NA	108000	NA
Applicable tax rate (assuming highest tax bracket + 10% surcharge + 3% education cess) (%)	11.33	22.66	33.99
Tax liability (Rs)	1133	453.2	3399
Receipts net of tax (Rs)	108867	109546.8	106601
Post tax return for investment period of 365 days (p.a)	8.87	9.55	6.6

Tax advantage in Dividend option less than 1 year

Dividend option for 1 month period

	Fixed Deposit	For HUF & individuals	For others
Amount Invested (Rs)	100000	100000	100000
Annualised Return (%)	5	10	10
Interest for 30 days	411	822	822
Applicable tax rate (%)	33.99	14.16	22.66
Tax Liability (Rs)	140	102	152
Post tax return (Rs)	271	720	670
Post tax annualised yield (%)	3.3	8.76	8.15

Conclusion

As the current equity market is in a turmoil, it is of foremost importance that safety along with liquidity is maintained for your investment. Investment in the equity market should be done in a phased manner and that too in frontline stocks with strong fundamentals. Since money invested in FMP is highly liquid, you can switch to equity whenever there is any such opportunity. Let us hope that this balanced means of investment will help you to overcome the current situation.



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