

Can Mutual Funds Provide a Savings Solution?

When it comes to investing, we may have all considered mutual funds as one of the most popular instruments in our financial journey. Investments through SIPs (systematic investment plans) have become a chosen method for disciplined long-term wealth creation.

But did you know that mutual funds can also solve for your savings needs? Wondering how? With a savings solution called Liquid Funds.

Understanding Liquid Funds

Liquid funds are mutual fund schemes in which you can park your surplus money for a few weeks to a few months. The yields of liquid funds tend to be higher than traditional savings interest rates.

Investing is usually understood as parking your money for long-term, to earn more than the invested amount while accounting for some market-linked risks, but with the potential of relatively higher returns. Savings, on the other hand, is about having a readily available corpus that is protected from market movements without the expectation of significant returns.

What if you could make your savings work too?

Once you are done allocating for investments and taking care of your essential expenses, you can put the surplus in liquid funds.

Liquid funds, as the name suggests, invest mainly in highly liquid debt securities and money market instruments of very short duration. Their short duration also makes them very liquid in nature (A liquid investment is any investment that can be easily converted into cash without having a significant impact on its value). They invest in short term debt instruments with maturity period of up to 91 days. This also makes them fairly steady through interest rate cycles. The corpus can be redeployed at prevailing market rates as the portfolio matures.

These funds are moderate-risk, easily redeemable and help create an emergency corpus without sacrificing on monthly budgets.

In conditions of higher interest rates and tight liquidity—both of which are prevailing in India, liquid funds may deliver relatively better risk-adjusted returns. Liquid funds have a graded exit load up to six days and none from the seventh day.

Why choose liquid funds for savings?

- Liquid funds are ideal if you have idle cash and are looking for short-term investments that can generate better returns than traditional savings instruments. So, when you get that bonus or have savings parked somewhere, make it work for you by investing in liquid funds.

- With liquid funds many AMCs offer the option of instant redemption. This facility makes sure that you get the money in your bank account in a short span of time.

- Liquid funds can also be used to transfer money into other equity funds if you are investing through a systematic transfer plan (STP).

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