An investor education initiative

Edelweiss MUTUAL FUND

Dynamic Asset Allocation Funds: Packed with the power of two

In life, we are often forced to make choices. Arts or commerce, CA or MBA, corporate job or start up, debt or equity and so on. Now, in most cases, you are forced to choose between the two options. However, when it comes to making investment decisions, you no longer need to choose between debt and equity. You can actually invest in both debt and equity instruments through one fund. Such a fund is called a Dynamic Asset Allocation Fund (DAAF). There are two important features of DAAF. One, these are hybrid funds that invest in both debt and equity investments, and two, they are very flexible in term of their investments. This means that depending on market conditions they can quickly increase or decrease their portfolio holdings and shift between equity and debt investments.

5 reasons why you should invest in DAAFs:

1. One fund with double benefits: A DAAF gives you the best of both the worlds. It gives you growth through equity investments and protection through debt investments. As a matter of fact, what they essentially give you, as an investor, is returns with protection. The equity investments in the fund help you benefit from the long-term growth potential of equities while the debt investments in the fund protect the portfolio downside in case of falling equity markets.

2. No need to time the market: One of the best things about this fund is the way in which investments are made. Equity investments are made based on the fund manager's equity outlook and other pre-determined investment criteria. Thus, when markets are going up, the equity investments increase so that you can reap the maximum benefit of rising equity prices. Now, if the markets start falling, the fund manager can immediately start selling the equity investments in the portfolio and start buying debt investments. This way, the portfolio downside is well-protected and you don't need to worry about finding the right time to invest in equity markets.

3. Tax efficient: Since these funds have an average equity exposure of 65% or more, they are taxed as equity mutual funds. This means that while short-term (less than 1 year) gains are taxed at 15%, long-term gains (investments sold after 1 year) are taxed at 10%. More importantly, only long-term gains in excess of Rs. 1 lakh are taxed at 10%. Thus, if you sell your investment in 2 years and make a profit of Rs. 1,10,000, you would pay 10% tax on Rs. 10,000 (110000 – 100000).

4. It is for every kind of investor: A dynamic asset allocation fund is for every kind of investor.

- If you are a beginner then it gives you an opportunity to invest in equities without taking an equal amount of risk.
- If you are a seasoned investor then it gives you an opportunity to increase your overall equity allocation while lowering the risk.
- If you get highly influenced by your own behavioural biases and are unable to consistently make the right investment decisions.
- If you want to remain at an advantage, irrespective of rising or falling equity markets.

5. Helps in portfolio diversification: It is always good to create a well-diversified portfolio so that sharp movements in any one type of investments do not have a very large impact on the overall health of your portfolio. Diversification primarily means spreading your portfolio investments across low-risk and high-risk investments based on your risk profile, return requirement, and investment time period. Getting the right mix of investments and determining the allocations can be a challenging task. A dynamic asset allocation fund gives you automatic diversification as it not only invests in both equity and debt investments but also keeps shifting between the two based on the market environment.

This is one of those types of funds that is all season and all investor in nature. This means that it can help you stay invested in equities during the ups and downs of equity markets and can provide the necessary downside protection through debt investments. Thus, all types of investors with varying risk and return requirements can potentially invest in a Dynamic Asset Allocation fund.

An investor education initiative by Edelweiss Mutual Fund

All Mutual Fund Investors have to go through a onetime KYC process. Investor should deal only with Registered Mutual Fund (RMF). For more info on KYC, RMF and procedure to lodge/redress any complaints, visit - https://www.edelweissmf.com/kyc-norms