



EDELWEISS  
MUTUAL FUND

# SINKING FUND

## Understanding a sinking fund and its uses

Are you overwhelmed by a long list of desires, from a dream home to a new car or a state-of-the-art home theatre? Achieving these goals may seem challenging, but with strategic planning and disciplined savings, you can make them a reality. One powerful tool to help you reach your financial goals is a sinking fund. Here is a guide to help you understand what a sinking fund is all about.

### What is a sinking fund?

A sinking fund is a dedicated savings strategy designed to help you reach specific financial goals by setting aside money periodically. It is an effective method for planning and saving for fixed expenses or major purchases.

For instance, if you need Rs 50,000 to buy a refrigerator within five months, you can save Rs 10,000 each month. By the end of the five months, you will have the full amount required to make the purchase.

Sinking funds can be applied to a wide range of financial objectives, including:

- Paying off debt
- Down payment for a home
- Vacation expenses
- Home appliances
- Car purchases
- House repairs
- Clothing
- Electronics
- Higher education costs
- Marriage expenses

### Sinking fund types

Sinking funds can be categorised into various types, depending on the purpose. Some common types include:

- **Debt repayment sinking fund:** This can be built to pay off debts like loans and credit card dues.
- **Home downpayment sinking fund:** This is used to save for the downpayment of a house.
- **Higher education sinking fund:** This is used to save for the higher education expenses of a child.

## How do you create a sinking fund?

Here are the steps to create a sinking fund:

- **Evaluate the cost:** You can start by determining the total amount needed for your sinking fund. This involves estimating the future expenses that you need to save for after accounting for inflation. Having a clear cost in mind can provide a clear target for your savings, so be as precise as possible.
- **Set a timeline:** You must establish a realistic timeline for when you want to achieve your financial goal. This can help you effectively calculate how much you need to save each month to reach your target by the specified deadline.
- **Find a monthly contribution as per your income capacity:** Take a look at your monthly budget to determine how much you can comfortably contribute towards the sinking fund. Take into consideration your income as well as other liabilities.
- **Select an instrument:** Choose a savings or investment vehicle for your sinking fund based on the goal and timeline. You can choose options like equity or debt mutual funds, etc., aligned with your risk tolerance and time horizon.
- **Start saving:** Start making regular contributions to your chosen instrument based on the monthly amount you have determined. Make sure to be consistent throughout the tenure to steadily build up the funds needed for your goal. You can consider saving and investing simultaneously through a Systematic Investment Plan (SIP) to ensure regularity in your endeavour.

## Sinking fund vs emergency fund vs savings account?

While sinking funds, emergency funds, and savings accounts all involve saving money, each serves a distinct purpose, as explained below:

- **Sinking fund:** A sinking fund is specifically designed for planned future expenses. It helps you save for anticipated costs, such as buying a car, going on vacation, or purchasing a major appliance. You save a set amount regularly with a clear goal and timeline in mind.
- **Emergency fund:** An emergency fund is reserved for unexpected expenses that arise without planning, such as medical emergencies, car repairs, or sudden job loss. It is a financial safety net that helps you handle unforeseen events.
- **Savings account:** A savings account is a general-purpose account where you store money for various financial goals. Unlike a sinking fund, it is not necessarily earmarked for specific expenses. It serves as a common place for your overall savings and may be used for both short-term and long-term goals.

## Conclusion

A sinking fund can be a valuable tool to manage and meet your obligations. It can help you build savings steadily without straining your finances. However, it is important to be consistent and disciplined to achieve the desired results.

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.edelweisssf.com/kyc-norms>

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.