
# WHY INVESTING IN BALANCED FUNDS IS A GOOD OPTION

Balanced Mutual Funds, also known as hybrid funds, invest in both debt and equity asset classes in varying proportions. The rationale behind these funds is that they provide an element of risk mitigation along with growth to investors.

**How do balanced funds work?**

The equity portion of the investment in a balanced fund facilitates capital appreciation, and the debt allocation provides protection of capital, creating the balance. The balanced allocation allows you to take advantage of diversification in your portfolio without having to invest in multiple asset classes separately.

Balanced funds can be equity or debt oriented. These funds can be categorized as Balanced Hybrid or Aggressive Hybrid. Balanced Hybrid funds invest in equity and debt where the equity allocation can be between 40 to 60% and the balance is invested in debt. In case of Aggressive Hybrid funds, the equity allocation ranges from 65 to 80% and the balance is invested in debt.

**Tax Implication:** Capital gains on balanced funds are taxed based on the orientation of the fund. An equity heavy fund would be taxed like a pure equity fund, i.e., capital gains tax of 15% on holding for less than a year, and 10% on holdings over 12 months (after considering exemption on all equity capital gains earned by the investor up to Rs. 1 lakh p.a.). Similarly, debt heavy balanced funds' capital gains are taxed at the investor's income tax slab if held for less than 3 years, and 20% tax with indexation (adjusting tax payments by employing a price index that factors in inflation) for holdings over 3 years. A balanced fund must hold a minimum of 65% in equity in order to be considered an equity-oriented fund for tax purposes.

**Who should invest in Balanced Funds?**

Once we understand what is a balanced fund, it becomes clear that it is most suited to investors preferring a balance of income, low-to-medium risk and moderate wealth creation. These funds are exposed to both equity and debt asset classes and can change their asset allocation depending on market conditions in a narrow band while retaining the fund's stated orientation. While the equity component of the fund can generate capital growth during bull phases, the debt component provides capital protection.

**Steps to Invest in Balanced Mutual Funds**

Here are some easy steps on how to invest in balanced mutual funds:

1. Create an online account with an AMC, online brokerage or contact your mutual fund distributor
2. Complete your e-KYC (furnish your proof of identity, proof of address, and PAN details)
3. Pick a scheme that is aligned with your financial goals
4. Decide on a periodic investment amount (like a Systematic Investment Plan or SIP)
5. Set up an automatic bank transfer for your SIPs or pay for the units through cheque to your broker or distributor.

Balanced funds are a good option for investors with a medium risk appetite and long-term goals. They can prove useful as standalone investments for beginners or in combination with other investment options for advanced investors.