



# Aggressive Hybrid Funds

## How Aggressive Hybrid Funds Can Help You Build Wealth Over Time?

If you are looking to build wealth, investing is the first step in the right direction. It can potentially help you beat inflation, grow your money for future goals and provide a financial cushion during tough times. But with a myriad of investment options available, choosing the right one can be outright confusing. That is why it is important to understand the different types of funds and how they work. In this article, let's take a closer look at a viable investment option — the aggressive hybrid fund.

### How do aggressive hybrid funds allocate your money?

Aggressive hybrid mutual funds fall under the broader category of hybrid funds. These funds invest in both equity and debt instruments, and give you the benefit of diversification across asset classes. While hybrid funds generally carry a moderate risk profile, aggressive hybrid funds tend to be more equity-oriented which carries high risk.

As per the Securities and Exchange Board of India (SEBI) framework, aggressive hybrid funds allocate 65% to 80% of their portfolio to equity and equity-related instruments, and 20% to 35% to debt instruments. This offers you a relatively higher allocation in equity while still potentially keeping your returns steady with some allocation to debt.

### What are the benefits of combining equity and debt in one fund?

Combining equity and debt in one fund can help you build a well-diversified portfolio. With an equity allocation of up to 80%, an aggressive hybrid fund allows you to participate in market growth. At the same time, because this is not a pure equity fund, the presence of debt helps balance out market volatility and reduce risk. The debt portion, which is up to 35%, acts as a stabiliser. It ensures that even when markets are choppy, your investments remain steady. This mix makes aggressive hybrid funds suitable for those with a moderately high risk appetite. Moreover, you do not have to manually split your money across asset classes. Since this is a mutual fund, the fund manager does it for you.

### How does compounding work in aggressive hybrid funds?

Compounding refers to the process by which your investment earns profits. When the fund yields profits, these earnings are reinvested to generate even more returns. In the case of aggressive hybrid funds, your money is invested in two securities - equity and debt. When these investments generate profits, the gains are reinvested into the same fund.

If you are investing regularly through a Systematic Investment Plan (SIP), each new contribution gets added to your existing corpus. Meanwhile, the returns earned on previous investments also continue to grow. Over time, reinvesting both your initial capital and the returns helps your wealth grow at a faster pace.

However, it is important to note that the real power of compounding can be unlocked only through long-term investing. The longer you remain invested in an aggressive hybrid fund, the greater the potential for your money to grow.

This brings up the next question.

### **What is the ideal investment horizon for wealth creation?**

Since aggressive hybrid funds have a considerable equity allocation, keeping a long-term investment horizon may be generally advised. However, as they also have a debt component, they can help stabilise returns during market fluctuations. Although asset allocation can reduce risk but cannot eliminate the same fully.

Despite this, a time frame of at least five to seven years is typically recommended. This makes aggressive hybrid funds a suitable option for medium- to long-term financial goals. This allows enough time for your investment to potentially grow and also benefit from the compounding effect.

### **Conclusion**

An aggressive hybrid fund is a mutual fund that offers the benefits of both asset classes - equity and debt. While the equity portion helps you potentially outpace inflation and grow your wealth in long term, the debt part adds diversification and stability to the portfolio. You can consider investing in them if you are looking to build wealth while maintaining a moderately high level of risk.

However, it is important to remember that hybrid funds do not guarantee wealth creation. Like all market-linked investments, they carry risk, and aggressive hybrid fund returns can fluctuate based on market conditions.