



# Balanced Fund

## Why Balanced Advantage Funds Are Ideal for Starting Your Mutual Fund Journey

Markets are unpredictable. One day they soar, the next they correct sharply, leaving investors puzzled about whether to enter or exit. Timing the market consistently is difficult, even for professionals. Amid such uncertainty, having an investment vehicle that adjusts itself to changing market conditions can be a great starting point. This is exactly what **Balanced Advantage Funds (BAFs)** aim to provide.

For many first-time investors, the world of mutual funds can seem intimidating. Should one opt for equity funds for higher returns or debt funds for stability? Is there an option that offers the best of both? This is where **balanced mutual funds**, particularly BAFs, offer a compelling choice. With automatic portfolio rebalancing and dynamic allocation, BAFs remove the emotional burden from investing and allow investors to stay on course through both good times and bad.

### How BAFs Work: Dynamic Asset Allocation

To understand **how balanced advantage fund works**, one needs to recognise that these funds do not follow a fixed equity-to-debt ratio. Unlike traditional funds, which might lock in a 70:30 or 60:40 allocation, **balanced advantage mutual fund** schemes dynamically shift between asset classes based on market conditions.

BAFs typically use valuation indicators such as Price-to-Earnings (P/E) and Price-to-Book (P/B) ratios to decide the appropriate mix of equity and debt. When equity markets are expensive, they reduce their stock exposure and move to safer debt instruments. Conversely, when markets appear undervalued, they increase equity exposure. This approach allows investors to automatically follow a buy-low, sell-high strategy without actively managing their portfolios.

Some BAFs also deploy hybrid strategies that combine both pro-cyclical and counter-cyclical methods, providing a blend of momentum and value-based investing. These strategies help ensure the fund remains responsive but not reactive, allowing for a more rational approach to market movements.

### Benefits of BAFs for First-Time Mutual Fund Investors

There are several **benefits of balanced advantage fund** investments, especially for those just beginning their **mutual fund investment** journey. First and foremost, BAFs simplify decision-making. New investors often find it hard to choose between equity and debt. With BAFs, this choice is made for them by experienced fund managers using data-driven models.

Second, BAFs reduce the need for market timing. As the fund adjusts the allocation internally, investors do not need to worry about

entering or exiting at the right time. The dynamic allocation acts as a built-in mechanism for optimising returns.

Third, BAFs offer potentially smoother returns. While equity funds can be volatile and debt funds may offer lower growth, BAFs attempt to balance both. Over time, this may lead to more stable outcomes, even if the equity markets undergo periods of correction. Historically, **balanced advantage fund returns** have shown that they can participate in market rallies while limiting losses during downturns.

Lastly, for those concerned about the tax impact, BAFs have an advantage. Due to their classification as equity-oriented hybrid funds, they qualify for equity taxation rules, provided the equity exposure remains above a certain threshold. As a result, **tax on balanced advantage fund** tends to be more favourable than that on pure debt funds, particularly over the long term. This aspect of **balanced advantage fund taxation** makes them an attractive option for investors looking to optimise post-tax returns.

Accordingly, if you sell your BAF units within the period of a year from the date of purchase, you will attract short-term capital gains tax at 20%, while long-term capital gains tax of 12.5% is levied on gains of over INR 1.25 lakhs.

### **Risk Management and Volatility Buffer for Balanced Advantage Fund**

One of the strongest reasons to consider a **balance advantage fund** is its focus on risk management. Unlike other mutual fund categories that either go all-in on equity or stay cautious with debt, BAFs aim to create a buffer against market volatility. Automatic rebalancing is a powerful feature that makes this possible. The fund's portfolio is adjusted regularly based on prevailing market conditions, keeping it aligned with its risk-return objective. This not only cushions investors during market falls but also enables participation during recoveries.

BAFs also offer downside protection. When the markets hit peak valuations, they lower their equity exposure, thereby reducing the potential impact of a correction. Many BAFs additionally use hedging strategies, such as derivatives, to control risk and limit drawdowns. These features work together to deliver more consistent returns across market cycles.

Compared to traditional **balanced funds**, which maintain a fixed asset allocation, BAFs provide an additional layer of flexibility and responsiveness. This makes them well-suited for investors who may not be comfortable with high levels of volatility.

### **Who Should Start With Balanced Advantage Funds?**

So, who should consider starting their investment journey with a **balanced advantage fund**? The answer is simple: anyone who is looking for a balanced and stress-free entry into the world of mutual funds.

New investors often experience hesitation due to fears of market corrections or lack of knowledge about asset classes. BAFs offer a guided experience with professional fund management, dynamic allocation, and in-built discipline. They are ideal for salaried individuals looking to build wealth slowly and steadily, or for those planning long-term goals such as retirement or education. Moreover, for conservative investors who seek better returns than fixed deposits but fear the risk associated with pure equity, BAFs serve as a middle ground. They also suit investors with medium risk appetite, who appreciate a tactical asset allocation strategy but do not want to manage it themselves.

### **Conclusion**

To summarise, **Balanced Advantage Funds** offer a dynamic and disciplined approach to investing, especially for beginners navigating the complexities of financial markets. By automatically adjusting between equity and debt, they help mitigate risk, stabilise returns, and reduce the need for frequent portfolio intervention.

Their unique structure combines the growth potential of equities with the stability of debt, while also offering favourable taxation. Investors no longer need to stress about rebalancing their portfolios or reacting to market noise. Instead, they can stay focused on their long-term goals while the fund takes care of the rest.

### **An investor education initiative by Edelweiss Mutual Fund**

All Mutual Fund Investors have to go through a one-time KYC process. Investors 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>

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