Is it okay to invest a lumpsum in debt funds?

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Financial advisors typically ask their clients to stagger their investments in mutual funds over a period of time. The advice is primarily meant to rule out the possibility of committing the entire money at one-go at a higher level in the stock market. But does the rule also apply to investments in debt which is relatively less volatile?

"The general advice from us is that don't put all your lumpsum money in equity. If you have Rs 10 lakh or you have Rs 10,000, you should never put it all together in equity," says Maneesh Dangi, Head of Fixed Income, Birla Sun Life Mutual Fund.

Investing in equity is considered risky because of the volatility associated with the stock market. If you invest the whole money at a peak, it would take a lot of time for you to make profits. To rule out this possibility, experts ask investors to stagger their investment. Staggering investment over a long period helps to average the purchase cost.

Sure, one can also make a lot of money in the opposite scenario: you commit the entire money when the market is at its bottom. However, since it is difficult to predict when the market has really hit the bottom, there is always a chance the market may plumb new depths after you had entered it.

This is the basic concept behind tools such as Systematic Investment Plan (SIP) and Systematic Transfer Plan (STP).

"Though there is some volatility in fixed income, if you stay invested for two-three years, it is a stable return profile," adds Dangi.

The point is: bond prices normally do not witness the kind of huge swings associated with stock prices. The long-term bonds prices may see some volatility, but that would be very milder than stock prices. This means you are unlikely to benefit from a lot of volatility and average your purchase cost to maximise returns in debt schemes.

All these factors point to the fact that it is safe to invest a lumpsum in debt schemes.

"In this scenario when interest rates have been falling for the last 21 months, we advise the investors to invest in debt funds and lock-in on this interest rate because, further rate cuts might be infrequent," says Vishal Dhawan, Founder & CEO, Plan Ahead Wealth Advisors.

	Returns			
Fund Category	**1 Month**	**3 Months**	**1 year**	**3 year**
Liquid	0.56	1.71	7.65	8.38
Ultra Short Term	0.59	2.02	8.54	8.89
Short Term	0.59	2.46	9.32	9.36
Credit Opportunities	0.69	2.82	10.17	10.48
Dynamic Bond	0.24	3.07	10.71	10.62
Income	0.36	2.89	10.12	10.26
Gilt Short Term	0.59	2.64	10.55	9.34
Gilt Medium & Long Term	0.14	3.43	12.11	11.83

Data: Value Research