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# Mutual fund advisors ask investors to get out of long-term debt funds

BY [SHIVANI BAZAZ](#), ET ONLINE | UPDATED: FEB 06, 2018, 12.53 PM IST

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The [budget](#) hasn't been music to the bond market. Apart from pushing the 10-year bond [yield](#) up by nine basis points, it has strengthened the case against long-term [debt funds](#). [Mutual fund](#) advisors believe that the higher fiscal-deficit target announced in the budget is the final call for investors to get out of long-term bond funds.

"The benchmark [10-year bonds](#) slumped after the government set a higher-than-expected fiscal deficit target. This definitely had a knee-jerk reaction in the bond market. But, one thing is for sure, that the long-term debt schemes, the income funds, gilt funds, etc, would be a very volatile in the near future. It is only good for investors who can't withstand [volatility](#) to stay away from these schemes," says Lakshmi Iyer, CIO-debt and head-products, Kotak Mutual Fund.

The Finance Minister said that the government's fiscal deficit would be 3.3 per cent of gross domestic product in 2018/19, higher than the previously projected 3.0 per cent. The yield for the benchmark 10-year bond rose 9 basis points to 7.50 per cent after the deficit forecast.



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Mutual fund advisors believe that there is no point waiting for the fortunes of long-term debt funds to turn around. "We have been advising investors to move to shorter-duration funds for a while now but this is the final call," says Vishal Dhawan, Founder, Plan Ahead Wealth Advisors.

Mutual fund experts believe that the long-term debt space is going to be very volatile in the coming time, in absence of rate cuts and with yields marching up. The returns from the gilt fund category have been in the negative category for a while now. The long and medium-term gilt funds returned -0.34 per cent in the last one year.

Mutual fund advisors are asking debt investors to stay away from long-term funds. "Existing investors should move out if they don't want to deal with the volatility in such schemes. It is better to move to short-term funds," says Vishal Dhawan. He adds that the idea is to maintaining the equity to debt ratio. "Moving to short-term funds will not tinker with your debt portfolio, thereby maintaining the asset allocation," says Vishal Dhawan.



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"Investors who have been invested for more than two years in long-term funds should wait and exit after they complete three years," says Lakshmi Iyer. Investments in debt mutual fund qualify for long-term capital gains tax of 20 per cent with indexation benefit. The indexation benefit helps to bring down effective rate of tax on returns.

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